

SECRET

*Paper used
17/2/2015
Hon Duale*



PARLIAMENT
OF KENYA
LIBRARY

REPUBLIC OF KENYA

THE NATIONAL TREASURY

MEDIUM TERM

**BUDGET POLICY
STATEMENT**

**ENHANCING ECONOMIC TRANSFORMATION FOR
A SHARED PROSPERITY IN KENYA**

FEBRUARY 2015

SECRET

SECRET

© Budget Policy Statement (BPS) 2015

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

Foreword

The 2015 Budget Policy Statement (BPS) reaffirms the broad policies and strategies outlined in the 2014 BPS, under a five pillar transformation program covering: (i) creating a conducive business environment; (ii) investing in agricultural transformation and food security; (iii) investing in first-class transport and logistics; (iv) investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households; and (v) supporting devolution for better service delivery and enhanced economic development.

The implementation of programs under these five pillars is expected to raise efficiency and productivity in the economy, and in turn, accelerate and sustain inclusive growth, create opportunities for productive jobs, and secure livelihoods of all Kenyans. This BPS, therefore, reiterates the Jubilee Government's priority programs and structural reform measures to be implemented in the Medium Term Expenditure Framework for 2015/16 – 2017/18.

The resilience we have built over the years on account of sound macroeconomic management has helped to sustain growth and assure macro stability. Growth prospects remain strong. In 2013, the economy grew by 5.7 percent and is now expected to expand by 5.3 percent in 2014, rising to 6.9 percent in 2015 and 7.0 percent over the medium term. As such the basic foundation for economic transformation is now in place.

However, our economy remains vulnerable to external and domestic shocks, in particular, to droughts and other weather-related shocks. At the same time, inadequate investment over the years has also led to a significant decline in productivity in the agricultural and manufacturing sectors, resulting in rising imports and falling exports, compounded by weak transport system, inadequate and expensive power and non-conducive business climate, including insecurity.

Therefore, through the various priority economic policies, structural reforms and sectoral expenditure programs outlined in this 2015 Budget Policy Statement, the Government is taking determined steps to address these challenges, bolster resilience to shock and foster sustained high and inclusive growth as part of the Strategy of achieving economic transformation for a Shared Prosperity. Our agenda focuses on how to lock-in a solid, sustained and balanced growth that opens economic opportunity and provides a better future for all Kenyans. We are, in this regard, focusing on programs to end poverty through job creation, taking economic growth as a means to an end – entrenching human lives, engendering human potential and developing progress so as to secure prosperity for all Kenyans.



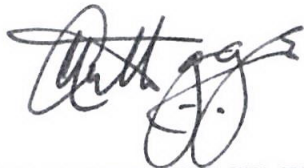
MR. HENRY K. ROTICH
CABINET SECRETARY/THE NATIONAL TREASURY

Acknowledgement

This is the seventh Budget Policy Statement (BPS) to be tabled in Parliament and the third under the Public Finance Management Act, 2012. It outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of Government spending plans, as a basis of 2015/16 budget and the medium-term. 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 2015 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 Hearing of November 2014 on the 2015/16 Budget Review and Outlook Paper (BROP), which provided inputs to this 2015 BPS, in addition to comments from several other stakeholders.

A core team in the National Treasury spent a significant amount of time putting together this Statement. We are particularly grateful to the Director General, Budget, Fiscal and Economic Affairs, Dr. Geoffrey Mwau, and Mr. Ontweka Onderi, Acting. Director, Budget Department (BD), and Mr. Justus Nyamunga, Director, Macro and Fiscal Affairs Department for coordinating the execution of this task. We received substantial inputs from the Directorate of Portfolio Management and Public Debt spearheaded by Ms. Esther Koimet while consolidating this document. Special thanks go to the following members of the task force who met and worked tirelessly to prepare this documents: Mr. Musa Kathanje, Mr. Francis Anyona, Ms. Naomi Matheri, Mr. John Njera, Mr. Samuel Kiiiru, Mr. Richard Gakunya, Mr. Livingstone Bumbe, Mr. Albert Mwenda, Mr. Geoffrey Malombe, Ms. Miriam Musyoki and Mr. Nzomo Mutuku. Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the National Treasury for their dedication, sacrifice and commitment to public service.



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

TABLE OF CONTENTS

Foreword iii

Acknowledgement..... iv

I. ENHANCING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY IN KENYA1

 Overview 1

 Enhancing Economic Transformation for a Shared Prosperity 2

 Outline of the 2015 Budget Policy Statement..... 21

II RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK.....23

 Overview of Recent Economic Performance 23

 Update on Fiscal Performance and Emerging Challenges 30

 2014/15 Revised Estimates 32

 Economic Policy and Outlook..... 34

 Risks to the Outlook..... 37

III FISCAL POLICY AND BUDGET FRAMEWORK.....38

 Overview 38

 Continuing with Prudent Fiscal Policy..... 39

 Observing Fiscal Responsibility Principles..... 40

 Summary 45

IV INTERGOVERNMENTAL FISCAL RELATIONS AND DIVISION OF REVENUE 46

 Introduction 46

 Challenges Encountered by County Governments in Public Finance Management 47

 Transfer of Functions and Budgeting 48

 Division of Revenue between the National and County Governments..... 49

 Sources of Additional Resources for County Governments 60

 Fiscal Discipline 61

 Capacity Building of County Governments 61

V MEDIUM TERM EXPENDITURE FRAMEWORK64

 Resource Envelope 64

 Details of Sector Priorities 68

VI CONCLUSION.....82

Annexes

Annex 1: Statement of Specific Fiscal Risks.....83
Annex Table 1: Main Macroeconomic Indicators, 2012/13-2017/18.....92
Annex Table 2: Government Operations, 2012/13-2017/18 (Ksh bn).....93
Annex Table 3: Government Operations, 2012/13-2017/18 (in percent of GDP)..... 94
Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18(Ksh. M).....95
Annex Table 5: List of Active Public Private Partnership (PPP) Projects – Kenya.....105

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.

I. ENHANCING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY IN KENYA

Overview

1. The 2015 Budget Policy Statement (BPS), the second to be prepared under the Jubilee Government, reaffirms the broad policies and strategies outlined in the 2014 BPS, under a five pillar transformation program covering: (i) creating a conducive business environment; (ii) investing in agricultural transformation and food security; (iii) investing in first-class transport and logistics; (iv) investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households; and (v) supporting devolution for better service delivery and enhanced economic development.

2. The implementation of programs under these five pillars is expected to raise efficiency and productivity in the economy, and in turn, accelerate and sustain inclusive growth, create opportunities for productive jobs, and secure livelihoods of all Kenyans. This BPS, therefore, reiterates the Jubilee Government's priority programs and structural reform measures to be implemented in the Medium Term Expenditure Framework for 2015/16 – 2017/18.

3. The 2015 BPS is framed against a backdrop of uneven and sluggish global recovery. World economic output is expected to strengthen gradually from 3.3 percent in 2014 to 3.5 percent in 2015, driven mainly by growth in advanced economies that are projected to increase from a growth of 1.8 percent in 2014 to 2.4 percent in 2015. Global growth will receive a boost from lower oil prices, which reflect to an important extent higher supply of oil. But this boost is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies.

4. In Sub-Saharan Africa, growth is expected to weaken from 5.2 percent in 2013 to 4.8 percent in 2014 and 4.9 percent in 2015 on account of commodity prices especially oil and sluggish growth in South Africa. Growth is expected to pick up in 2016 at about 5.2 percent driven by sustained infrastructure investment; buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support for the oil producers. In a few countries, economic activities are facing headwinds from the recent ebola outbreak (Guinea, Liberia and Sierra Leon), inappropriate domestic policies (South Africa), and more recently, macroeconomic imbalances (Ghana and Zambia).

5. On the domestic front, growth prospects remain strong, inflation has been contained at single digit, interest rates are trending downwards and exchange rate

is broadly stable, public debt remains sustainable and both fiscal and external buffers have been strengthened, despite the downside risks associated with the sluggish global recovery. The resilience built over the year on account of sound macroeconomic management has helped to sustain growth. As result, the economy rebounded from 0.2 percent in 2008 to 8.4 percent in 2010, before slowing down to 6.1 percent and 4.5 percent in 2011 and 2012, respectively. In 2013, the economy grew by 5.7 percent and is now expected to expand by 5.3 percent in 2014, rising to 6.9 percent in 2015 and 7.0 percent over the medium term.

6. Today, Kenya is considered a “frontier” economy with bright prospects. As such the basic foundation for economic transformation is now in place. However, our economy remains vulnerable to external and domestic shocks, in particular, to droughts and other weather-related shocks, the frequency of which has increased in the recent past, given the prevalence of rain-fed agriculture and high dependency on hydro-power generation. At the same time, the growing integration to global markets, while creating new financing opportunities, exposes our economy to more vulnerability, especially due to changes in global risk sentiments.

7. Inadequate investment and inappropriate incentive structure over the years have also led to a significant decline in productivity in the agricultural and manufacturing sectors, resulting in rising imports and falling exports. These challenges have been compounded by poor conditions of transport and logistic, inadequate and expensive power and non-conducive business climate, including insecurity. In addition, the emerging high and unsustainable recurrent expenditure, weak budget execution and fiscal related challenges surrounding devolution, if not addressed will continue to constrain the economy from achieving its full potential.

Enhancing Economic Transformation for a Shared Prosperity

8. Through various priority economic policies, structural reforms and sectoral expenditure programs outlined in this 2015 Budget Policy Statement, the Government is taking determined steps to address these challenges, bolster resilience to shock and foster sustained high and inclusive growth as part of the Strategy of achieving economic transformation for a shared prosperity. Therefore, our agenda focuses on how to lock- in a solid, sustained and balanced growth that opens economic opportunity and provides a better future for all Kenyans. We are, in this regard, focusing on programs to end poverty through job creation, taking economic growth as a means to an end – entrenching human lives, engendering human potential and developing progress so as to secure prosperity for all Kenyans.

Pillar I: Creating a Conducive Business Environment for Employment

9. As stated in 2014 BPS, the objective of the reforms under Pillar I is to create conducive business environment by maintaining (i) macroeconomic stability, (ii) deepening structural and governance reforms; and (iii) improving security so as to encourage innovation and investment, foster growth and expansion of economic and employment opportunities in Kenya.

Macroeconomic Stability for Sustained Growth and Development

10. Maintaining macroeconomic stability is necessary to create a conducive environment for private sector investments as a basis for sustained broad-based economic growth, and ultimately, expanded economic opportunities and poverty reduction. As such the Government will continue to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

11. To anchor macro stability, fiscal policy strategy recognizes that available resources are scarce and hence the need to efficiently apply them only on priority programs with the highest impact on stated objectives, but within a medium term framework of sustainable debt and strong financial position. As outlined in 2014 BPS, this will be achieved by maintaining 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.

12. However, based on the outcome of the first half FY 2014/15, additional measures will be needed to expand revenue effort, contain and re-orient expenditures towards priority capital and entrench expenditure efficiency. Measurable and time-bound milestones in the program areas will be developed and their implementation by concerned Ministerial Departments and Agencies monitored and regularly reported.

13. Similarly, the monetary policy over the MTEF period aims to maintain a low rate of inflation of around 5 percent, 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 to support productive activities. It also aims to deliver low and stable interest rates and exchange rates in support of growth and employment creation objectives.

Structural Reforms to Facilitate Business and Employment Growth

14. Deepening structural reforms is essential in improving economy-wide efficiency and increasing total factor productivity (TFP) which is needed to accelerate and sustain high inclusive growth. A number of measures have been initiated in the first year of 2014 BPS with the objective of creating a more conducive business environment and improving efficiency and effectiveness of public service delivery so as to facilitate private sector growth.

15. *Governance*: Economic transformation requires institutional renewal and strengthening that spurs efficiency and productivity gains. While progress has been achieved on the governance front, additional measures will be required to further entrench good governance and zero-tolerance to corruption. As such and as was outlined in 2014 BPS, the Ethics and Anti-Corruption Commission, in consultation with the key stakeholders, will in 2015 develop a Medium Term Governance Strategy for a Shared Prosperity.

16. The implementation of this strategy will be underpinned by a measurable time-bound Governance Action Plan, setting specific prioritized governance and anti-corruption interventions in the areas of; (i) corruption prevention; (ii) investigation and recovery of corruptly acquired assets; and (iii) strengthening prosecutorial capacity. This will be developed by end-May 2015 to monitor implementation progress. In addition, EACC will spearhead, by end-May 2015, the development of the Kenya Integrity Program (KIP) proposed in the 2014 BPS, partly to entrench Code of Conduct and vetting of public officers. These measures will enhance effectiveness and accountability in the fight against corruption in Kenya.

17. *PFM Oversight Institutions*: Good progress has been achieved in strengthening the institutional capacity of the public financial management oversight agencies to ensure efficiency, effectiveness, transparency and accountability in the use of public finances. Going forward, the National Treasury, Office of Controller of Budget, Office of the Auditor General and Public Procurement Oversight Authority will develop by end-May 2015 develop a capacity building and system development action plan for implementation starting FY 2015/16. Requirement for timely financial reporting and publication will be enforced fully across National and County Governments to enhance transparency and accountability.

18. *Expenditure Management*: As emphasized in 2014 BPS, transformation entails instituting measures to enhance efficiency and productivity in production and service delivery so as to unleash the economy's full potential. While civil service rationalization is progressing well, more still needs to be accomplished to improve efficiency and effectiveness in public resource utilization and budget execution. To this end, the National Treasury will, in 2015, institute and strictly enforce, among others, the following measures:

- Undertake a rationalization of public expenditures to identify and remove expenditure overlaps and waste;
- Develop asset leasing policy framework that entrenches at least 40 percent local content to spur industrialization, drive growth and create jobs.
- Starting FY 2015/16, the Treasury will establish an effective institutional capacity to rollout asset leasing in all Ministries, Departments and Agencies;

- Develop in the first half of FY 2015/16, a framework for enforcing cost benchmarks for projects and consumables;
- Conduct in 2015 value for money audit for consumables in MDAs over the last three years and implement a corrective action;
- Conduct every year, at least one Public Expenditure Tracking in any sector where there are value for money concerns;
- Entrench program budget and enforce performance benchmarks for execution of the development budget of at least 80 percent by all MDAs;
- Make fully operational the Integrated Financial Information Management System (IFMIS) as an end-to-end transaction platform in all MDAs and County Governments, and in particular, operationalize the Procure-to-Pay module in all MDA before end of 2015; and
- Undertake independent audit of the IFMIS in 2015 to ensure its integrity and operational capability.

19. *Tax and Revenue Reforms:* Much progress has been achieved towards broadening the tax base and improving revenue administration. Some of the measures implemented recently include; enactment of income tax regime for the extractive industry; re-introduction of capital gains tax with effect from January 2015, introduction of VAT withholding of 6 percent out of the 16 percent and rolling out iTax. The Medium Term Strategy, therefore, focuses on further deepening tax reforms in order to broaden the tax base, reduce compliance cost, facilitate private sector growth and enhance revenue yield as part of measures to strengthen revenue effort.

20. The strategy on tax and revenue reforms aims to grow revenue efforts by at least 0.3 percent of GDP by FY 2017/18, with a growth of at least 2 percent of GDP achieved in FY 2015/16. To achieve this, the National Treasury, working with Kenya Revenue Authority, will develop and implement specific measurable tax policies and revenue administration reforms in the following areas:

- Simplification of the tax systems and enactment of modern tax laws for better compliance and ease of doing business. The National Treasury will in 2015 submit to the National Assembly for debate and enactment the Excise Duty Bill, and Tax Procedure Bill. Similarly, the review of the Income Tax Act will be completed by end-2015 and, subsequently submitted to National Assembly in early 2016;
- Further implementation of tax modernization and revenue administration reforms covering digitization of revenue collections, enhanced taxpayer recruitment and education program, strategic tax audit and risk profiling, and a simplified tax regime for the informal sector. These measures are expected to streamline tax administration systems, improve efficiency in tax collection and enhance taxpayer services, thus reducing the cost of compliance.

- Submit for enactment the two Bills on re-organization of Kenya Revenue Authority into two semi-autonomous but inter-dependent agencies – the Inland Revenue Agency and the Customs and Border Protection Agency. Thereafter in 2015, the National Treasury, upon enactment of the two Bills into law, will commence the process for making the agencies operational, including developing a framework for entrenching competency and integrity into the two organizations.

21. The objective of financial sector reforms remains as stated in the 2014 BPS - to create a robust, accessible, efficient, stable and a globally competitive financial sector that promotes mobilization of high levels savings to finance priority development. Building on the progress made thus far, the Government will implement additional measures to further deepen and strengthen the financial sector. In particular, in 2015, the Nairobi International Financial Centre Authority will be made fully operational, the new Central Bank of Kenya Bill and Financial Services Authority Bill (bringing together the four financial regulators), will be submitted to the National Assembly for debate and enactment.

22. Further, to safeguard Kenya's economy against financial instability, CBK will strengthen the prudential oversight framework and effectively manage risks associated with rapid credit growth, rising cross-border operations and expansion of banks activities into holding groups. The Central Bank will prepare an action plan to strengthen its stress testing framework and methodology for both micro and macro-prudential supervision and augment staff capacity. Further, by end-April 2015, the Bank will carry out a survey of banks' risk exposure to mortgages and will take remedial actions to address vulnerabilities. The Bank will also review and strictly implement the Prudential Guidelines on Risk Classification of Assets and Provisioning, and regularly report progress.

23. Equally, starting March 2015, CBK will require banks to provide on monthly basis; (i) detailed information on restructured loans; and (ii) data on loan-loss recovery rates. Furthermore, a strong institutional and supervisory framework – the Financial Stability Council will be established as an apex body to oversee the overall financial stability in the country. As a first step towards this, and to safeguard our financial system from external risks, the Bank will by March 2015, develop an assessment framework of the supervisory and regulatory framework of host supervisors in order to improve cross-border banking oversight.

24. To strengthen market conduct of financial players and protect consumers, an institutional framework for financial sector market conduct including consumer protection will be put in place. In addition, to create a financially literate society, a national strategy for financial education will be developed in 2015 and enforced. In addition, necessary reforms will be put in place to promote regional financial services integration with the objective to facilitate trade, enable cross-border operations and movement of capital

25. *Further Public Sector Reforms:* As part of the strategy to enhance efficiency and productivity for our economic transformation agenda, the Government will overhaul, by end of 2015, the legal and regulatory framework governing the parastatal sector so as to strengthen governance, improve accountability, reduce budgetary transfers for current spending.

26. The envisaged reforms in this area include: (i) separating the commercial activities from regulatory and policymaking functions to improve service delivery; (ii) establishing a modern governance framework to increase efficiency and accountability (including transparent rules for the appointment of boards and management team, as well as Codes of Conduct, professional ethics and performance management); and (iii) rationalization of the number of state corporations to eliminate duplication and overlaps and make them more effective in service delivery, and (iv) the establishment of Government Investment Corporation (GIC) as a holding company for the commercial parastatals.

27. *Further Business Regulatory Reforms:* Reducing cost of doing business and encouraging private sector innovation, entrepreneurship and business expansion is a key prerequisite to a strong and sustained high growth and poverty reduction. As such the Government will develop and implement, starting March 2015, a Business Regulatory Reform Strategy to raise Kenya's global ranking under the World Bank Doing Business Indicators to not more than 50 by end of 2016. This strategy will focus on measures to improve Kenya's ranking under specific indicators of interest to small businesses and ordinary Kenyans. In particular, the Government will;

- Reduce procedures, time and cost of starting business, getting electricity and registering for property by at least 80 percent in 2015;
- Reduce procedures, time and cost of getting construction permit and paying taxes by 50 percent and 60 percent, respectively in 2015; and
- Make accessing credit and trading across counties and borders.

28. Building on the progress achieved thus far, the Government will, by end-September, 2015, further simplify and modernize business regulatory regimes, rationalize all regulatory fees and other charges and establish an institutional and legal framework for the management of regulatory charges, including those imposed by county governments. Equally, key public services will be automated end-to-end and at least 500 inbound payment service transactions digitalized by end of 2015 in order to hasten service delivery, reduce transaction cost and safeguard revenue. Among others: eRegistry, land transaction services, business registration, motor vehicle and drivers license services and services under the registration of persons, including passport, work permits and visa application, will be digitized and made operational online.

29. Besides the virtual service delivery portal, adequate resources will be provided in FY 2015/16 to make operational a state of the art one-stop-investment-shop and expand the one-stop public service centres (Huduma

Centres) to reach all counties. At the same time, the two bills – the company bill and insolvency bill, currently before Parliament, will be passed into law before end-September 2015; a policy on preferential debtors and creditors will be developed to facilitate the implementation of the new insolvency framework. The Government will also make fully operational, by June 2015, the declaration module under the Single Window to provide one-stop-shop for faster import clearance of cargo.

Enhancing Security for Sustained Growth and Employment

30. The strategy on security recognizes that without security the economy will not grow on a sustainable basis and the objective for creating jobs for Kenyans will not be realized. Therefore, our security strategy for the medium term lays emphasis on strengthening coordination among security agencies, scaling up investments towards modernization, enhancing security operations and investigations, building professional capacity of the force and strengthening partnership with communities.

31. As outlined in 2014 BPS, among others, the following reforms and modernization programs will be implemented over the medium to enhance security in Kenya:

- Continued investment in security infrastructure covering housing, offices, security installations and training facilities, despite slow progress in FY2014/15. Building on the program implementation experience so far, it is now apparent that alternative practical and faster ways of delivering key priority projects will need to be adopted so as to deliver on the Government's transformative agenda.
- The on-going slum upgrading and youth empowerment projects present practical lessons for police housing. In this respect, an Inter-Agency Framework will be developed by the Ministry of Land, Housing and Urban Development and incorporating the National Youth Service that is under the Ministry of Devolution among others, to construct, using affordable and faster panelling technology, at least 15,000 green housing units (with water harvesting, natural light, solar lighting and bio-digester systems) for the National Police Service in FY 2015/16. Thereafter, the Government will, under a similar arrangements, construct at least 20,000 green housing units annually over the medium term to cover the outstanding housing needs of police and other disciplined officers;
- Establish by April 2015 a "Security Housing Infrastructure Development Fund" to hold and disburse all mobilized resources (budgeted allocation, finances from bilateral and multilateral partners and revenue generated from subsidized rents payables) to finance the housing, office blocks and installation of infrastructure for the National Police Service and other uniformed officers.

- Lease another 800 motor vehicles in FY 2015/16 (over and above the 2,700 expected to be leased by end of FY 2014/15) and thereafter 500 motor vehicles annually over the medium term to facilitate mobility and enhance security operations.
- To entrench the anticipated efficiency and economy gains in government transportation, an effective institutional framework for motor vehicles fleet management will be established by the National Treasury to cover both leased and all other government motor vehicle throughout the country;
- Further invest in acquisition and upgrading of contemporary, modern and state-of-the-art security equipment and systems, including technology-based border and park surveillance and control systems, to enhance the capabilities of our security forces;
- An institutional and legal framework for border security will be established and made operational in 2015;
- Invest in expanded modern and functional command and control system as well as establish and make operational a system-wide forensic laboratory through a private finance initiative (PFI) to enhance crime investigation;
- Fast-track completion and deployment of security surveillance system for urban centres and neighbourhoods to detect, deter and to avail digital information for purposes of keeping criminals out of our communities and neighbourhoods. The Government will also develop by end-May 2015, in partnership with county governments, standards and guidelines for installation of integrated closed-circuit television (CCTV) systems in all urban building;
- Strengthening of the partnership with County Governments, communities and neighbourhoods will be a central pillar in the strategy to secure lives and property. As part of this initiative, the two levels of governments will prioritize in their budgets the expansion of street lighting and rehabilitation of alcohol and drug addicts throughout 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, recruit of professionals to help drive critical reforms in the security Sector.

SECRET

Reducing the cost of doing business through ICT

32. The Government has been promoting the use of ICT as a means of reducing the cost of doing business through laying of the Optic Fibre Backbone Infrastructure. Last Financial year a total of 2,100km have been laid and by the end of 2014/15 financial year, a total of 4,300km will be in place. Moreover the Government has identified use of ICT as one way to promote transparency and accountability by adopting E-procurement. To provide these services, NOFBI, County Connectivity and KTCIP Projects have played a great role. ICT has improved the delivery of Government Services like in Huduma Kenya. It is therefore important that the Government continues to provide funding to access ICT infrastructure and services in all sub counties across the country.

33. Kenya has identified Konza Techno City as one of the key projects to help the country become the ICT Hub in the region. The project is being implemented in phases, with phase one covering four hundred (400) acres. To facilitate the creation of the City, the Government has already hired an International Consulting firm. Phase one of this project was launched on 15th December, 2014. The Government will therefore continue to provide funds to facilitate provision of infrastructure that will attract investors to this important investment project.

Pillar II: Agricultural Transformation and Food Security

34. The economic transformation for a shared prosperity agenda will not be achieved without substantive investment in agricultural reforms and productivity enhancement. Majority of the population live in rural areas, mostly dependent on agriculture and therefore increasing agricultural productivity would thus be a powerful way to raise incomes and make lasting inroads into poverty reduction. It would also facilitate overall industrialization, export and in turn, economic transformation.

35. Investing in agricultural transformation will spur an inclusive economic growth with knock-on effects on 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. Expanded agricultural output will also increase food supply, reduce food related prices and bring down the cost of living, create employment and promote overall rural development.

36. The Government through the Ministry of Agriculture will develop a comprehensive transformation strategy and a time-bound measurable action plan focusing on unlocking agricultural productivity among smallholder and livestock farmers as well as commercial farmers before end-May 2015. A key pillar of this strategy will be the securing of markets/forward contracts and sustaining production and supply of quality and standardized agricultural products. .

37. The strategy will also prioritize investments in; research and extension services (soil management, high yielding seeds and technology application), agro-ecological zoning and re-organization of farmers into viable cluster groups

SECRET

to reach economies of scale. It will also align resources in other sectors towards key infrastructure upgrade, including training facilities, produce handling, storage, agro-processing and value addition facilities as well as access roads and affordable energy and water. A framework for agricultural fertilizer and seeds subsidy digitization, including introduction of evoucher system will be developed and deployed to electronically register and effectively target deserving farmers nationally so as to ensure accountability in the subsidy program.

38. The Government will also, in partnership with financial sector players as well as multilateral and bilateral partners, structure financial instruments (Agri-Business Fund) to support alternative agricultural initiatives amongst smallholder farmers, expand agri-business ventures and support crop-specific value addition initiatives. Given the challenges of climate change, the Government will, initiate, in 2015/16, a program on smart and organic agriculture (conservation agriculture), starting with some specific regions, in order to drive and sustain agricultural output and create more employment, especially for the youth in rural areas.

39. The further recognizes the important role of youth in sustaining food security and raising agricultural productivity throughout the country. As such, a comprehensive green agri-business initiative involving provision of farmers' irrigation kits, fish ponds, water harvesting and tree planting will be rolled out through an inter-Agency Framework by the Ministry of Agriculture and incorporating the National Youth Service under the Ministry of Devolution and Planning and the Ministry of Education. This project will be initiated in all secondary schools in FY 2015/16 and expanding it to cover at least 5,000 primary schools annually, over the medium term. This project is expected to improve nutrition, provide income generation to schools and develop future agri-business farmers in our society.

40. 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. The development of the pilot phase of 10,000 care irrigation has commenced, although behind schedule. Its completion will provide lessons on the performance of various crops in the Galana ecosystem and help establish hydrological conditions for water supply going forward.

41. As we rollout the Galana/Kulalu Irrigation Project and bring on board additional schemes and new areas under a similar development framework, a critical success factor will be an institutionalized coordination framework to plan, develop infrastructure and establish a sustainable business model for the project. Therefore, the Government will, in 2015 establish, key among others; (i) an Inter-Ministerial Committee for Galana/Kulalu and any other designated scheme; (ii) an Integrated Agricultural Agency - bringing together the National Irrigation Board, Agricultural Development Corporation and Agricultural Finance

Corporation; and (iii) establishment of Kenya Integrated Agricultural Irrigation Fund to receive, disburse, manage and account for irrigation funds.

42. This institutional framework will be expected to effectively coordinate the planning and execution of the Galana/Kulalau project and any other scheme that may be designated. In addition to setting realistic time-bound targets, the new institutional framework will develop targets, in partnership with key stakeholders, for specific crops to assure food security, initiate programs along the value chain to create jobs, spur industrialization and grow exports. These initiatives will be complemented by policy and legal requirement for at least 40 percent local content in irrigation and other plant and technology investment along the agricultural value chain within the irrigation project ecosystem.

Supporting Growth of Manufacturing for Employment Creation

43. As already noted, increased agricultural productivity spurs growth of industries and exports, which are essential for structural transformation of our economy. It is for this reason that the Government has identified manufacturing sector as catalyst for moving our economy up the value chain and in particular adding value to agriculture so as to grow and diversify export for job creation. To this end, the Government will develop a two-pronged strategy focusing on both the large modern technology industries and small cottage industries that produce for the local and regional markets.

44. As part of this strategy, the Government will prioritize and facilitate the establishment of modern and technology-based 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. These will provide cheaper and faster transport and logistic, access to near free steam and water, cheaper geothermal power and leverage other by-products for industrial, livestock and agricultural development. More specifically, priority will be given to establishment of modern industrial parks at Voi, Athi River, Naivasha (geothermal) and Menengai in Nakuru under phase I. The second phase will cover strategic locations within common borders, especially at the shores of L. Victoria, Lokichogio and Marsabit so as position Kenya as a manufacturing hub for the region.

45. The Government will, therefore in 2015 make operational Special Economic Zones to attract foreign direct investment with new industrial technologies. This will help to expand and diversify industrial outputs, grow economy and create productive jobs for our youth. In addition, a framework for applied technology and artisanry training will be developed and implemented to equip our labour force with technical skills and turn them into productive factor of production. 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.

46. Over the medium term, the Government will facilitate the modernization and establishment of labour-intensive export-based industries, such as textile, leather, agro-processing, beef and fish processing, among others, as key drivers of agricultural transformation, value addition and industrialization. To achieve objective, the Ministry responsible for industries will, among other initiatives:

- Develop an industrial transformation strategy by end-April, 2015;
- Initiate and finalize industrial park cluster designs and incentive structure by end-July 2015;
- Undertake a modernization program for all Kenya Industrial Estate Shades and Constituency Industrial Centres;
- Reform the standards and quality enforcement framework to assure strict adherence to standard mark of quality by all manufacturers, importers and traders; and
- Further entrench Buy-Kenya-Build-Kenya policy in all public procurement and most of the local purchases.

47. The Buy-Kenya Build-Kenya policy will focus on developing and manufacturing locally quality product lines that can compete with imports, such as furniture, office supplies, construction materials, consumer and electronic products, without any subsidies or protection by the Government. Further, a policy and legislation requiring leasing of motor vehicles by Government agencies to have local content of at least 40 percent will be introduced in 2015. This measure is expected to encourage motor vehicle assembling, support growth of backward and forward industries, boost secondary market of vehicles and generate additional employment opportunities

Empowering the Youth and Women for Employment Creation

48. The Government is cognisant of the fact that unless we invest in the potential of the youth and women, we will not achieve a real demographic and gender dividends in the future. The medium term strategy for youth and women empowerment, therefore, builds on the on-going initiatives (UWEZO Fund, Youth and Women Enterprise Development Funds) and expands into new program areas aimed skills development and access to credit to enable this group be the dynamic drivers of growth and employment creation. .

49. It is for this reason, that we will continue to use a multi-faceted approach aimed at equipping the youth and women with the requisite skills and competencies; building their entrepreneurial capacities; investing in labour intensive sectors to generate jobs; engaging them in national service and building community and public assets. The National Youth Service will continue to be positioned as the premiere institution for this national youth transformation and re-socialisation agenda. More specifically, the Government will, among others:

SECRET

- Reform and expand, under Biashara Kenya, youth and women access to credit, acquisition of requisite skills and competencies and entrepreneurial capacities;
- Entrench a catalytic and sustainable youth and women skill development, enterprise and cottage industry program under the NYS slum upgrading initiative;
- Recruit at least 20,000 annually over the medium term as part of the national youth transformation and re-socialisation agenda. The youth will be engaged in community development and building public assets under a strong sense of discipline, integrity, purpose and civic duty;
- Organize youth into groups through NYS program to focus on construction, agri-business (rural and urban), cottage industries, water harvesting, and environmental conservation initiatives, among others, to create jobs and sustain livelihoods;
- Strictly enforce, in policy and law (create awareness among beneficiary and publicise reports of compliance) the requirement for at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability;
- The Buy-Kenya Build-Kenya policy will be a training ground for Kenyan enterprises to expand local production for local and export market, and encourage formation of viable enterprises, and
- Create youth employment through a wide agency framework under the Government Digital Payment Platform (register over 200,000 agents countrywide).

Tourism, Sports, Culture, and Arts

50. Sports, culture and heritage remains the cornerstone of our tourism strategy. Therefore, tourism transformation and its integration with promotion of commerce, sports, culture and arts will be positioned as a key driver of inclusive growth and employment creation. Going forward and building on the progress made thus far, the Government working, in partnership with key stakeholders, will, among other measures:

- Align investments in education, health and energy towards promotion of tourism attraction, particularly by developing and making operational regional centres of excellence in training (tourism, technical and vocational, university, medical training, geothermal, etc.);
- Leverage commerce tourism by facilitating establishment of large free trade area (free port) at strategic locations around Nairobi and along the Kenya borders (for instance, shore of L. Victoria, Lokichogio, Marsabit and Taveta, among others);
- Facilitate increased investments in large conference and accommodation facilities in Nairobi, Coast and Western Kenya to position Kenya as

SECRET

premier conference destination. As part of this, Government will facilitate hosting of at least 10 large conferences annually, including Trade Expo;

- Re-organize and develop an all-inclusive niche beach tourism at the Coast integrated with medical, safari, cultural, commerce and conference tourism;
- Invest, in partnership with private sector, on sports development, including expansion and modernization of sports facilities and hosting of regional and international sports annually with a target of at least 150,000 guests;
- Develop, preserve and protect our culture to encourage growth of youth talents in sports and arts and nurture them as catalyst for growth and development; and
- The ministry responsible for sports, culture and arts will develop and implement a comprehensive strategy to position Kenya as a regional hub for sports, arts and culture.

Transport and Logistics – Railway, Port, Airport and Pipeline Expansion

51. As envisaged in 2014 BPS, construction of standard gauge railway has been prioritized over the medium term to reduce transport cost by about 70 percent, facilitate faster and cheaper movement of freight and passengers and enhance competitiveness of our economy. Accordingly, construction work on the standard gauge railway from Mombasa to Nairobi commenced in November, 2014 and is expected to be completed by mid2017 for immediate commencement of train operations. At the same time, the construction of Phase II of the standard gauge railway line from Nairobi to the shore of Lake Victoria (at the port with the shortest access to EAC) will commence in FY 2015/16 under design and build framework. Phase III, which entails upgrading of existing railway lines (Nairobi to Malaba, Nakuru to Kisumu, Nairobi to Nanyuki, Voi to Taveta, among others) will also commence in the course of FY 2015/16 and be completed within three years.

52. Similarly, to make transport affordable and faster for economic efficiency, a program for upgrade and modernization of urban commuter mass transit system will be implemented starting FY 2015/16 through Private Public Partnership. New strategic railway lines will also be opened up in order to decongest urban traffic and ease urban public transport. An effective cost, integrated design and delivery framework will be developed by end-April 2015 to guide the urban infrastructure development program. And in order to ensure that the local economy benefits from the railway, the government put in place measures to entrench at least 40 percent local content in the construction and other auxiliary services.

53. We have 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 a cargo. A

framework has been developed to encourage private investments and participation in port expansion and port operations. 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.

54. In addition, the construction of terminal buildings and three berths under the Lamu Port and Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Project at Lamu is nearing completion. Implementation of other infrastructure facilities covering railways, roads, and port operations, including construction of container terminal will commence in the course of MTEF period under a Private Public partnership arrangements. With the on-going exploration for petroleum and gas, regional petroleum and oil potentials 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 in order to position itself as a preferred regional petroleum transporter of choice.

55. Kenya has the potential to position itself as undisputable regional aviation hub. As such, the Government will scale up the on-going airports expansion and modernization, and shortly fully commission the new terminal 4 and commence work on the Greenfield before end-June 2015 for completion by end 2017. In addition, and as part of the airport modernization, a modern JKIA commuter rail transit system will be constructed and commission by 2017 to hasten movement of passenger to and from the airport. These investments are expected to make Nairobi the most convenient, comfortable, secure and attractive aviation hub in Africa and the world at large.

Access to Adequate, Affordable and Reliable Energy Supply

56. Sustaining economic transformation, underpinned by efficiency and productivity, requires substantial investments in expansion and access to affordable and reliable energy supply. Over the medium term, 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 2016. Significant progress has already been attained in this endeavour. The government recently launched 280 MW into the National Grid, reducing the cost of power by 30percent. Going forward, there will be modest reduction in cost of energy as new sources of power come on board.

57. To complement these efforts and ensure no power losses are incurred through transmission and distribution, the Government, working with KETRACO and Kenya Power, will invest in improving transmission and distribution capacities, including digitizing 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. The coming on-stream of these additional

SECRET

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.

58. To sustain demand, Kenya Power will implement a program to connect at least one million Kenyans in 2015 and subsequently reduce the connection cost and time by at least 60 percent thereafter into the medium term. Further, the Government will roll out a program to install solar and bio-digester systems and water harvesting in all public buildings over the medium term. At the same time and partly to conserve the environment and encourage value addition, 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.

59. The establishment of industrial parks and special economic zones, cottage industries spread throughout the country, freight and passenger railway system and urban mass transit rail system will all be designed as green project to use generated electricity.

Further Expanding Road Network to Facilitate Economic Transformation

60. Much progress has been achieved in the implementation of road rehabilitation and construction program. To date, the Government has constructed 140 km of new roads, rehabilitated and maintained 115 km and 24,770 km of existing road, respectively and placed 312 km of road under periodic maintenance. Despite the progress, construction and rehabilitation works of our road network has experienced numerous challenges, including cost overruns, delayed completion, poor workmanship, inadequate budgetary allocations, pending bills, poor supervisory and management and poor governance, among others. In effect, we would have rehabilitated and constructed higher road network mileage and at higher quality with the same budget and a stronger supervisory framework.

61. Over the medium, the Government will continue to invest in expansion of road network to open up rural areas, ease movements of goods and passengers and encourage growth of commerce and employment throughout the country. However, to achieve this and sustain a coordinated timely delivery of new roads and ensure economy, quality and longevity, the Government will, among other measures:

- In partnership with the County Governments and Constituency Development Fund Board, by end 2015, develop and implement a policy framework to align all infrastructure related budgetary resources at the devolved levels towards infrastructure upgrade program over the next five years, covering schools, health facilities and roads.

SECRET

- Introduce alternative methods and technology of road construction to reduce time and cost, while enhancing the longevity of our road network.
- Develop and strictly enforce, starting FY 2015/16 project cost benchmarks for the road rehabilitation and construction;
- Establish, in FY 2015/16 an independent project management framework under the Treasury to supervise and manage delivery of roads on a timely and cost effective manner.
- Introduce on a pilot basis, in FY 2015/16, a program using the Annuity method of construction (privately financing initiative) to pave road network and subsequently roll it out, after review and drawing lessons, to fast track delivery of roads throughout the country.

Environmental Conservation and Making Water Accessible

62. Environmental conservation, underpinned by effective climate change mitigation and adaptation, is central to our efforts to sustain access to clean water, clean environment and a healthy productive population. Indeed, safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of labour. For this reason, Government has invested significantly over the years to conserve our environment and enhance access to sustainable water supplies, thus connecting over one million additional Kenyans to safe drinking water. In addition, the Government increased investment towards expansion of irrigation infrastructure in various schemes throughout the country to facilitate smart agriculture, improve crop yields and sustain rural livelihoods.

63. Over the medium term, the Government will prioritize the implementation of programs under a Growth Initiative, which includes; tree planting and afforestation, water harvesting, smart agriculture, investments in green energy (micro-hydro, solar, biomass) construction of mini dams, water pans and rehabilitation of existing dams and water pans. As part of this process, the Government will construct and rehabilitate at least 3,000 water pans of 50,000 cubic metres capacity every year, 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.

Pillar IV: Access to Quality Social Services

64. To sustain economic transformation, Kenyans must be healthy, educated and equipped with competencies and appropriate lifelong skills, and that they are able to participate fully and share more equitably in the growing prosperity.

Building a Healthier Kenya

65. The Government medium term strategy is to develop a lasting healthy Kenya with higher productivity for sustained economic transformation. It builds on notable progress achieved thus far, especially in controlling communicable

diseases and attaining marked decrease in child mortality. Notably, the Government has rolled out free maternity program in 2,288 health facilities; free primary health care in 3,313 health facilities and expanded free polio immunization to about 17 million children under the age of 5 years, in the 1st and 2nd rounds.

66. However, outstanding and emerging health challenges, including diseases associated with affluence and accidents, inefficiency in our health care system, skewed distribution of resources, absenteeism by health workers, knowledge practice gaps as well as stock outs of drugs and medical supplies - putting pressure on our health care system. Without these challenges, Kenya can, therefore, achieve better health outcomes with the current level of spending.

67. At the top of health transformation agenda is the finalization of the health policy and institutional and legal framework for enforcement of health care standards, as well as introduction of clear operational guidelines for health care delivery. As part of this process, a strategy involving; recruitment of more health workers, expansion of training facilities, an institutional framework for supervision and quality assurance, and development of systems to support and expand health care services and sanitation at the community level, will be implemented starting FY 2015/16.

68. The National Government, working with Country Governments and CDF Board will also develop and implement a medium term program for health care infrastructure upgrade and equipment modernization. In particular, a program of leasing of key and essential medical equipment and assets will be rolled out in referral hospitals and Level 5 hospitals countrywide under a clear policy and operational framework. In addition an efficient, effective and accountable framework for the management of public resources and medical supplies at the facility levels will be put in place in 2015.

Towards Quality and Relevant Education for all Kenyans

69. Tremendous progress has been achieved, over the recent past, on educational access, largely due to increased enrolment following the introduction of free primary education in 2003 and free tuition in secondary schools in 2006. A new basic education law is now in force, more national schools established to enhance transition, more technical training institutions established and equipped and over 400 youth polytechnics admitting over 80,000 students. As a result, Kenya has now nearly achieved universal access to education, and is on the way to expanding technical and entrepreneurial training capacity – but there are still concerns on the quality and relevance of education and high number of pupils dropping out along the educational ladder with no clear alternative access to acquisition of lifelong skills to enable them find jobs.

70. The strategy going forward, therefore, focuses on; upgrading school infrastructure facilities, enhancing and upholding quality, and building lifelong competencies and skills, among others:

- Undertaking public school infrastructure upgrade and modernization program (covering class rooms, other learning facilities and teachers housing) under a green housing scheme (with water harvesting, solar power, bio mass energy, and natural light) throughout the country over the medium term;
- Investing in expanding and modernizing technical, vocational and village polytechnics, in partnership with Development partners and private sector to equip the youth with appropriate learning equipment and skills;
- Fully finance the universal free primary education and free tuition in secondary schools with effect from 2015. To address relevance and technical skill gaps, the Government will roll out free tuition under the tertiary program in FY 2016/17 throughout the country
- Developing educational delivery standards and strengthening quality control and educational inspectorate services in order to enforce and uphold quality education;
- Rationalizing teacher deployment and strengthening teachers supervision and management to reduce absenteeism, which is estimated at about 45 percent of teaching hour; and
Investing in continuous capacity building program for teachers to improve quality of teachings in schools; and
- Fully implementing the e-learning program in all primary schools in 2014/15.

Scaling up Social Protection

71. The Government remains fully committed to scaling up social protection program so as to cushion those sections of our society who may suffer welfare shocks, during the implementation of our economic transformation agenda. As the investment for expanded irrigated agricultural production and urban farming take root and a sustained low price regime is realized, the Government will build on the current momentum of more than doubling those covered in less than years, to scale-up budgetary allocation toward the National Safety Net Program covering: (i) Cash Transfer to Orphans and Vulnerable Children; (ii) Cash Transfer to Older Persons; and (iii) Cash Transfer to persons with severe disabilities.

72. As was committed in the 2014 BPS, all older persons and persons with disabilities will be covered by 2016 under cash transfer programs and a graduation scheme developed to enable them exit into life-long ventures. A framework for efficient and fast delivery of safety nets has been developed under the Integrated Management Information System (Single Register) to harmonize the information from different management systems for cash transfer programs currently operational. Similarly, a framework for better targeting, financial transparency and accountability, including deployment of evoucher system and electronic registration of all beneficiaries put in place to entrench confidence and

value for money. 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.

Pillar V: Further Entrenching Devolution for Better Service Delivery

73. The strategy to further entrench devolution for better service delivery aims at strengthening institutions and capacity to link inter-governmental fiscal transfers with revenue raising capacity of the county government in order to enhance political and financial accountability necessary for efficiency and effectiveness in service delivery, alleviation of poverty and convergence in county development. The increased allocation of shareable revenues to the devolved system of Government must also ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030. For this to be achieved accountability and fiscal discipline in the use of devolved resources must be entrenched and macroeconomic environment remains stable.

74. The National Government will, therefore, continue to support to county governments as the centres for service delivery and economic expansion, especially in the areas of public financial management, good governance practices and supporting the counties to be fully operational. As part of the reforms, the national government, in partnership with some development partners, design an incentive-based framework to entrench fiscal discipline and enhancing service delivery standards in the counties. This framework will involve conditional grants to counties which adhere to fiscal responsibility principles and meet minimum conditions and key service delivery standards – conditional grant for results. Close collaboration between the two levels of government in terms of implementing the national development agenda, and critical policy initiatives will also be encouraged. This will include moderating the zeal by counties to raise additional revenues and safe guarding a thriving business environment supportive of the private sector.

Outline of the 2015 Budget Policy Statement

Recent Economic Developments and Policy Outlook

75. Section II outlines the economic context in which the 2015/16 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic scene.

Fiscal Policy and Budget Framework

76. Section III outlines the fiscal framework that is supportive of growth over the medium-term, while continuing to provide adequate resources to facilitate

devolution, the policy priorities of the Jubilee Government while at the same time ensuring that the public debt is sustainable.

Intergovernmental Fiscal Relations and Division of Revenue

77. Section IV provides a framework of managing the decentralised county governments, the proposed division of revenue between National and County Governments as well as among counties.

Medium-Term Expenditure Framework

78. Section V presents the resource envelope and spending priorities for the proposed 2015/16 MTEF Budget and the Medium Term. Sector achievements and priorities are also reviewed for the 2015/16 MTEF period.

79. Section VI concludes.

II RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

Overview of Recent Economic Performance

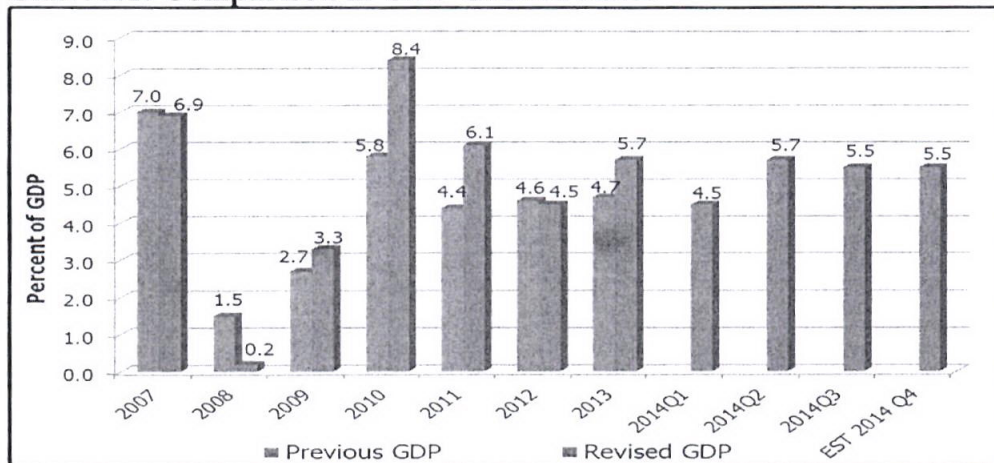
80. Kenya rebased its real GDP estimates based on 2010 National Accounts Statistics (NAS) in September 2014. This rebasing increased the size of the economy in 2013 by 25 percent, equivalent to Ksh 4,757.5 billion or USD 55.2 billion – translating to USD 1,269 in GDP per capita, placing Kenya at lower middle income economy. Kenya's economy is now ranked as the 9th largest in Africa and 4th largest in SSA.

Growth Update

81. The economy grew by 5.7 percent in 2013, up from 4.5 percent growth in 2012 (**Chart 2.1**). This growth was supported by improved activities in agriculture, forestry and fishing (5.1 percent), manufacturing (5.9 percent), wholesale and retail trade (9.2 percent), financial and insurance activities (9.3 percent) and information and communication (13.5 percent).

82. The economy expanded by 5.5 percent in the third quarter of 2014 compared to 6.2 percent in the same period of 2013. The growth was mainly supported by robust growths in; construction (11.0 percent), finance and insurance (9.9 percent), wholesale and retail trade (7.2 percent); information and communication (6.6 per cent); and agriculture and forestry (6.2 per cent).). On account of performance during the first three quarters, we now project growth of 5.5 percent in the fourth quarter of 2014, implying an overall projected growth of 5.3 percent for 2014.

Chart 2.1: Comparison in GDP Growth Rates



Source: KNBS

83. Going forward, the growth prospects are strong, largely on account of continued implementation of bold economic policies and structural reform. The economy is projected to grow by 5.3 percent, 6.9 percent in 2014 and 2015, respectively, and 7.0 percent over the medium term. This level of growth will be underpinned by the continued good performance in agriculture, forestry and fishing, manufacturing, real estate, wholesale and retail trade, financial and insurance activities and information and communication.

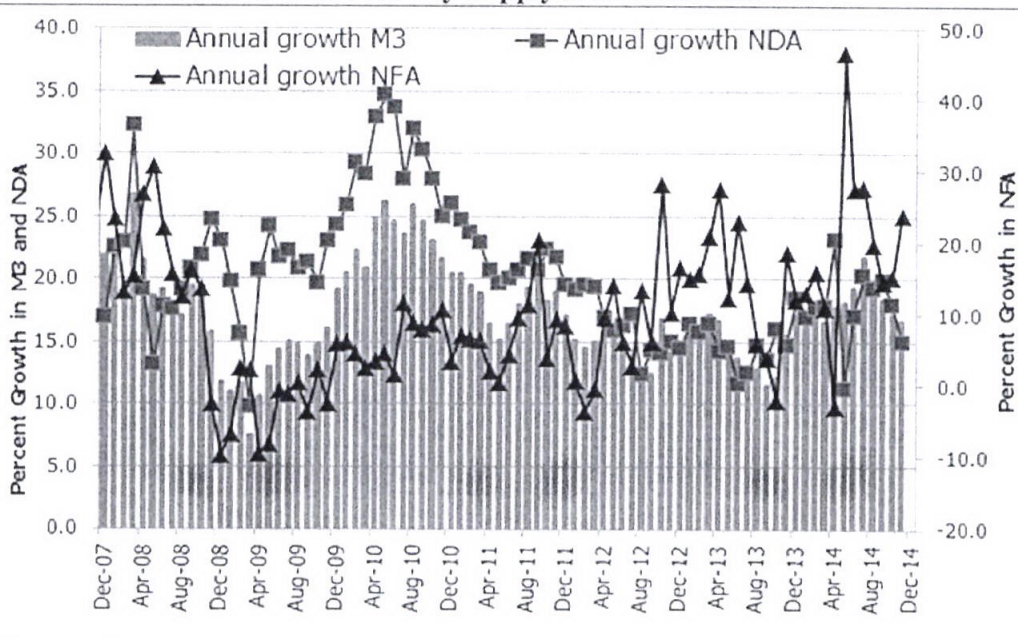
Broad Money Supply, M3 within target

84. Growth in broad money supply, M3, increased to 16.7 percent in the year to December 2014 up from 15.5 percent in the same period in 2013 (Chart 2.2). The improvement in M3 was attributed to an increased growth in both the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system.

85. Growth of the NDA of the banking system increased to 15.0 percent in the year to December 2014 up from 14.8 percent in the same period in 2013. The improved growth in NDA in 2014 was due to the increase in both the domestic credit and other assets net of the banking system.

86. Annual growth of the NFA of the banking system increased by 23.8 percent in the year to December 2014 from a growth of 18.8 percent over a similar period in 2013 mainly due to the improvement in the official foreign assets of the Central Bank by Ksh 156.8 billion that more than offset the decline in the foreign assets of the banking institutions.

Chart 2.2: Growth in Broad Money Supply and Its Sources

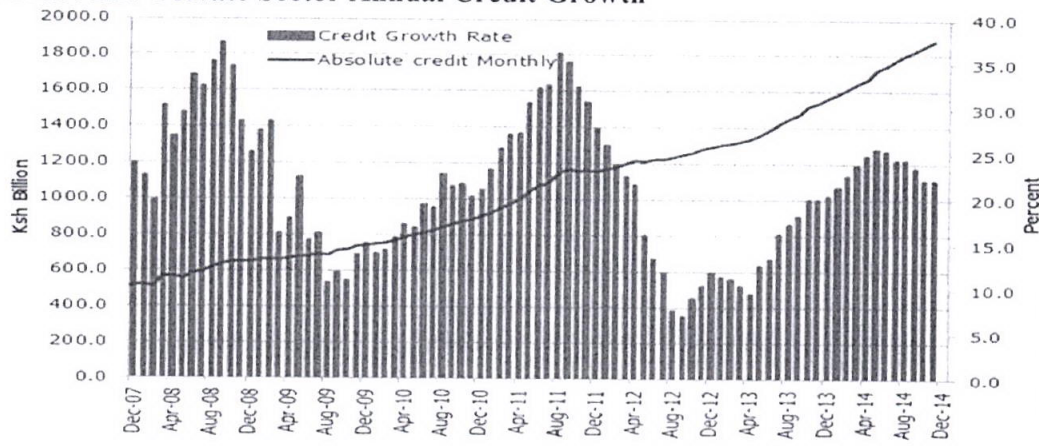


Source: CBK

Private Sector Credit stabilizes

87. Net credit to Government contracted by 48.6 percent in the year to December 2014 compared with a growth of 7.7 percent in a corresponding period in 2013. Bank credit to the private sector however, expanded by 22.2 percent, up from 20.1 percent, which amounted to Ksh 1,884.5 billion in December 2014 from Ksh 1,541.7 billion in December 2013(Chart 2.3). The private sector credit flow was mainly to productive sectors.

Chart 2.3: Private Sector Annual Credit Growth

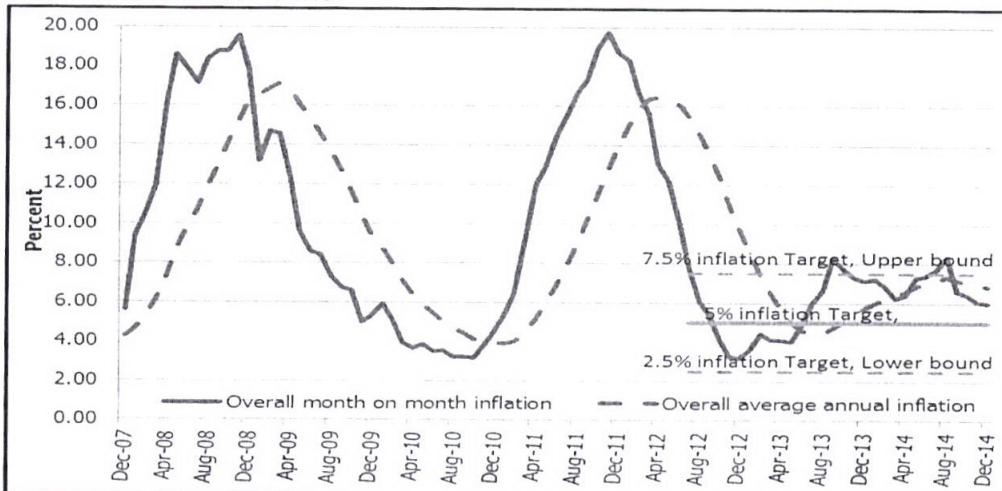


Source: CBK

Inflation within single digit

88. Overall month on month inflation declined further to 6.0 percent in December 2014 from 6.1 percent in November 2014 and 6.4 percent in October 2014 (Chart 2.4). On average, the annual inflation rate stood at 6.9 percent in December 2014 compared to 5.7 percent in December 2013.

Chart 2.4: Inflation Rate



Source: KNBS and CBK

89. The decline in overall month on month inflation in December 2014 was largely attributed to lower fuel inflation. Fuel inflation eased from 6.4 percent in November 2014 to 6.0 percent in December 2014 reflecting a fall in the retail price of kerosene, diesel and petrol. Non-food non-fuel inflation also eased from 3.8 percent in November 2014 to 3.7 percent in December 2014.

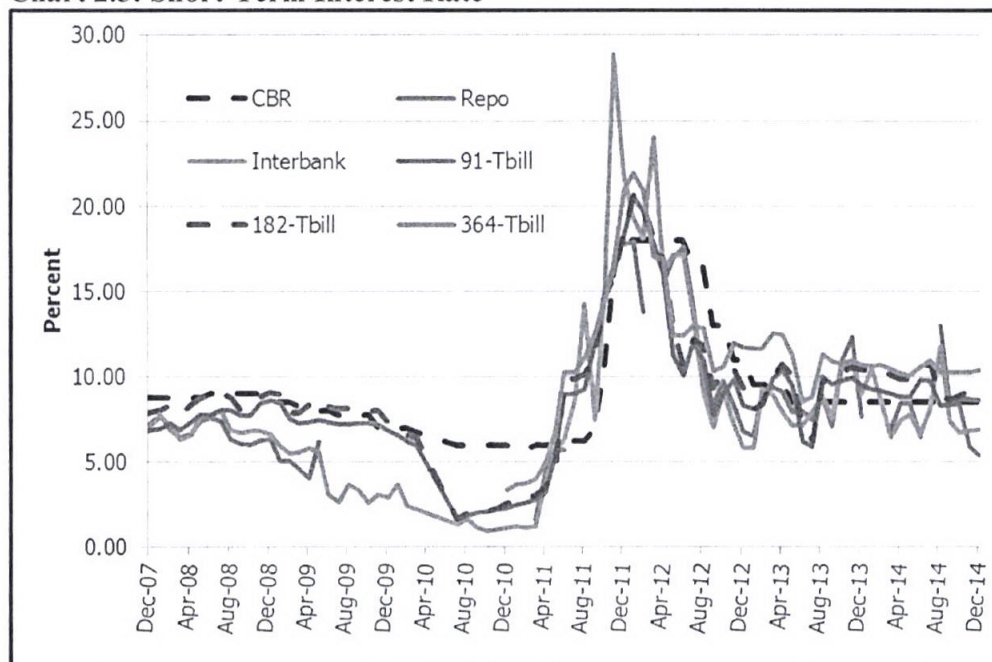
90. Food inflation however, rose from 7.4 percent in November 2014 to 7.5 percent in December 2014. This reflects the 12-month change in the 'food and non-alcoholic beverages' index, which rose from 7.5 percent in November 2014 to 7.7 percent in December 2014.

Interest Rates have eased progressively

91. The Central Bank Rate remained at 8.5 percent in December 2014 and the short term interest rates oscillated around the CBR (**Chart 2.5**). The average interbank rate averaged 6.9 percent in December and November 2014 from 6.8 percent in October 2014.

92. The 91-day Treasury bill rate declined marginally to 8.6 percent in December 2014 and November 2014 from 8.7 percent in October 2014. The 182 day Treasury bill however, increased to 9.5 percent in December 2014 from 9.2 percent in November 2014 and 8.9 percent in October 2014 while the 364 day Treasury bill rate averaged at 10.4 percent in December from 10.2 percent in November 2014 and 10.3 percent in October 2014.

Chart 2.5: Short-Term Interest Rate

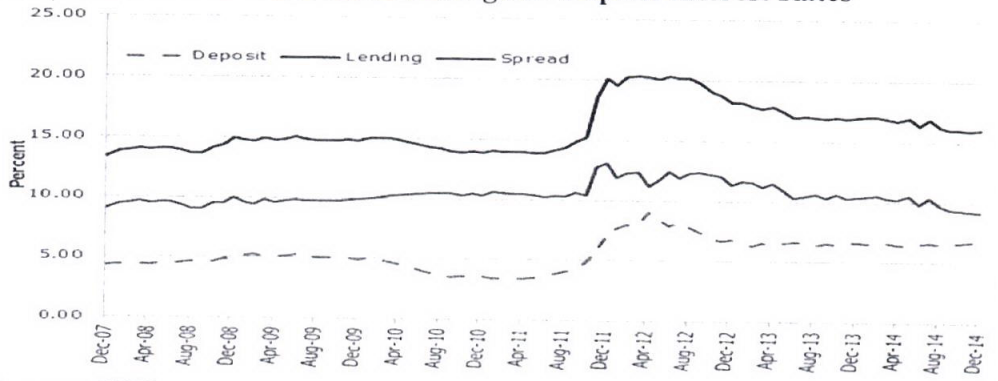


Source: CBK

93. The Kenya Bank's Reference Rate (KBRR) computed as an average of the Central Bank Rate (CBR) and the average 91- Day Treasury bill rate that had been computed and set at 9.13 percent in July 2014 was revised downwards to 8.54 percent in January 2015.

94. Commercial banks average lending rates declined to 16.0 percent in December 2014 from 17.0 percent in December 2013 while the deposit rate increased marginally to 6.8 percent from 6.7 percent over the same period (**Chart 2.6**). This narrowed interest rate spread³ to 9.2 percent in December 2014 from 10.3 percent in December 2013 is largely due to decline in the lending rate.

Chart 2.6: Commercial Banks Lending and Deposit Interest Rates

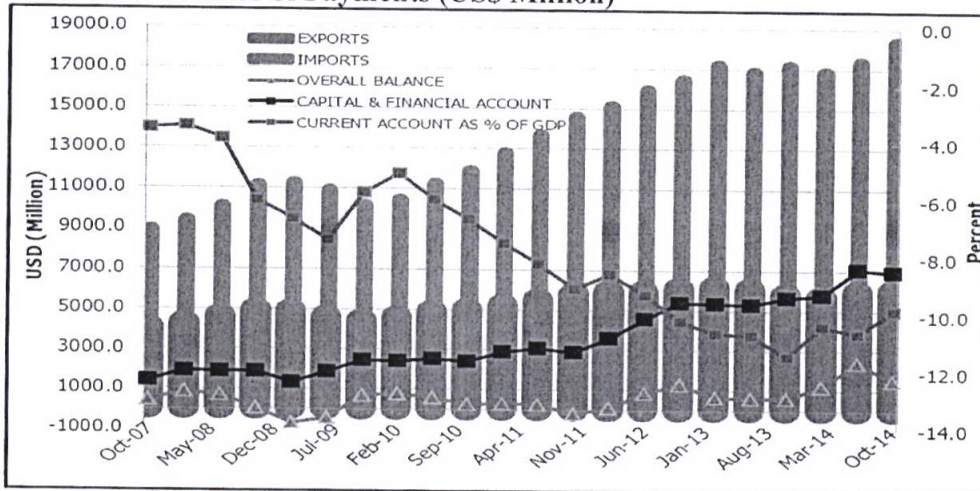


Source: CBK

BOP in Surplus as the Current Account improves

95. Overall balance of payments position recorded a surplus of US\$ 1,507 million in the year to October 2014 from a surplus of US\$ 607 million in the year to October 2013 (**Chart 2.7**). The improved surplus reflected an increase in the capital and financial account that more than offset the increase in deficit in the current account.

Chart 2.7: Balance of Payments (US\$ Million)



Source: CBK

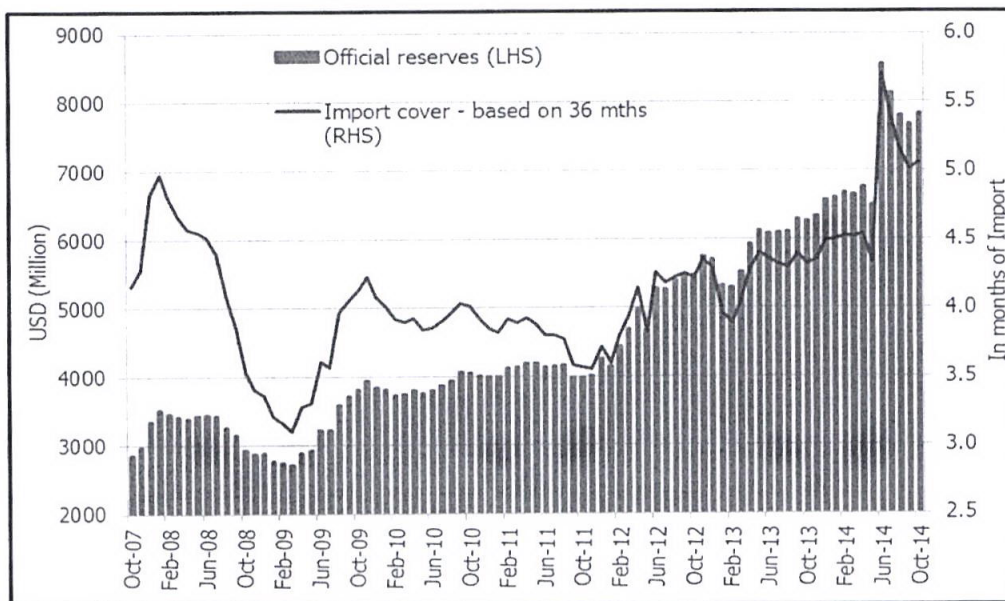
96. The current account deficit increased by 7.6 percent to US\$ 5,422 million (or 9.8 percent of GDP) in the year to October 2014 from US\$ 5,041 million (or 10 percent of GDP) in the year to October 2013. This was largely attributed to the widening of the merchandise account by US\$ 980 million to US\$ 12,272 million in the year to October 2014 that more than offset the improvement in the value of service account by 9.6 percent. The widening of the merchandise account was as a result of the increasing imports as the exports remained fairly stable.

97. The surplus in the capital and financial accounts improved to US\$ 6,929 million in the year to October 2014 from US\$ 5,647 million in the year to October 2013. The improved surplus was recorded in both the financial account and the Capital account. The financial account increased by US\$ 1,223.7 million in October 2014 following increased short term flows including errors and omissions in recorded transactions, and a drawdown on commercial banks deposits held abroad.

Improved Foreign Exchange Reserves

98. The gross foreign exchange holdings of the banking system increased by 19.6 percent from US\$ 7,859 million in October 2013 to US\$ 9,400 million in October 2014 (Chart 2.8). Gross Official reserves held by the Central Bank increased to US\$ 7,839 million (5.06 months of import cover) in October 2014, up from US\$ 6,263 million (4.32 months of import cover) in October 2013, due to purchases from the interbank money market and receipt of proceeds from the sovereign bond issuance.

Chart 2.8: Official Foreign Reserves ((US\$ million)



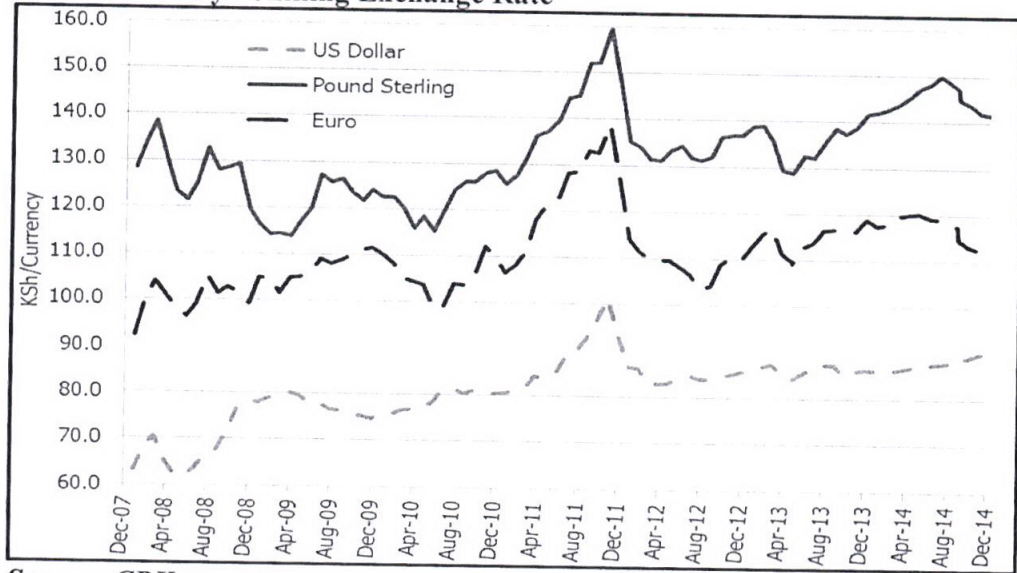
Source: CBK

The shilling Exchange rate demonstrates mixed performance

99. The Kenya Shilling exchange rate experienced mixed performance against major international currencies. The currency depreciated against the US dollar to Ksh 90.5 in December 2014 from Ksh 90.0 in November 2014 and Ksh 89.2 in October 2014 (**Chart 2.9**).

100. Against the sterling pound, the shilling appreciated to Ksh 141.4 in December 2014 from Ksh 142.0 in November 2014 and Ksh 143.7 in October 2014, while against the Euro, it appreciated to Ksh 111.5 in December 2014 from Ksh 112.3 in November 2014 and Ksh 113.2 in October 2014. Diaspora remittances and enhanced confidence following successful issuance of the sovereign bond continues to support the Kenya shilling exchange.

Chart 2.9: Kenya Shilling Exchange Rate



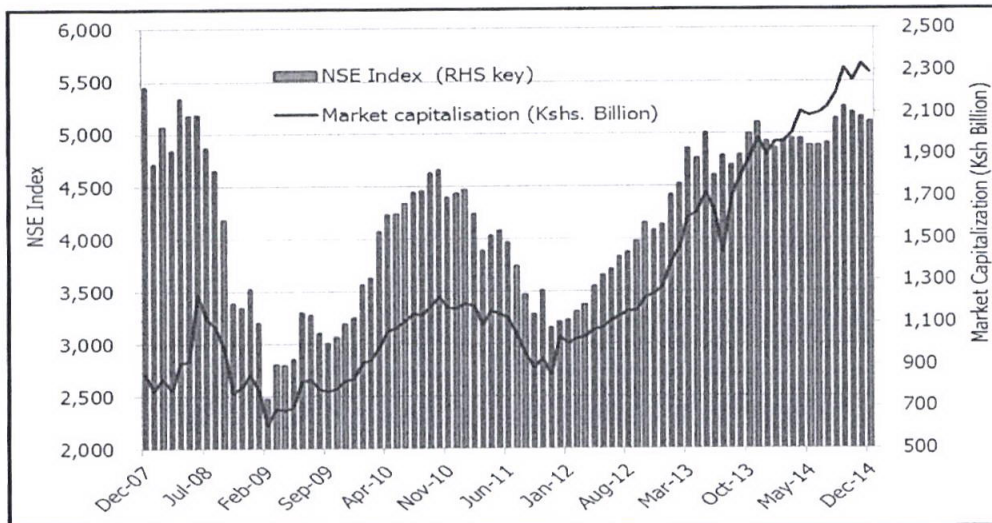
Source: CBK

Stock market remains vibrant

101. Activity in the stock market remained vibrant in the year to December 2014. The NSE 20 share index improved marginally to 5,113 points in December 2014 from 4,927 points in December 2013, representing an increase of 3.8 percent (**Chart 2.10**). Market capitalization that measures shareholders' wealth improved from Ksh 1,901 billion in December 2013 to Ksh 2,300 billion in December 2014 representing an increase of 21.0 percent.

102. Equity Market turnover for the month of December 2014 rose by 67.3 percent to stand at Ksh 28.6 billion from Ksh 17.1 billion in November 2014. The bond turnover for December 2014 stood at Ksh 40.7 billion, 22.6 percent lower than the Ksh 52.6 billion recorded in November 2014.

Chart 2.10: Performance of the NSE



Source: NSE

Update on Fiscal Performance and Emerging Challenges

103. The FY 2014/15 fiscal framework assumed a stable macroeconomic environment and continuation of the Government’s policy of containing non-priority and unproductive expenditures. After taking into account adjustments made by the National Assembly, total expenditures were projected at Ksh 1,597.8 billion and total expected revenues of Ksh 1,240.0 billion (including and grants), the overall budget deficit (including grants) in 2014/15 is projected at about Ksh 357.8 billion.

104. However, after taking into account net external financing of Ksh 165.8 billion (2.9 percent of GDP and domestic loan repayment receipts of Ksh 2.0 billion, this leaves a deficit of Ksh 190.1 billion (equivalent to 3.4 percent of GDP), which would be financed by net borrowing from the domestic market. The detailed macro-fiscal framework underpinning the FY 2014/15 budget is articulated in the BPS 2014

Implementation Progress and Emerging Fiscal Challenges

105. Implementation of the FY 2014/15 budget is progressing well despite initial challenges encountered at the start of the financial year. Adequate measures have been taken to ensure priority programmes are fully implemented. Implementation of priority programmes will be tracked and feedback provided periodically.

106. Fiscal performance (revenue collection and expenditure disbursements) as at end of December 2014 is lagging behind target, though the underlying macroeconomic assumptions (growth and inflation) remain largely within

program. Expenditure uptake is slower, while at the same time, ordinary revenue collection recorded shortfall. Despite ordinary revenues (inclusive of the Railway Development Levy) recording a slight shortfall against the target, it grew by 12.7 percent compared to the same period in the previous financial year. Excluding the levy ordinary revenues grew by 12.9 percent.

107. Total cumulative revenue collection including A-I-A by the end of December 2014 amounted to Ksh 517.2 billion which was below the target of Ksh 560.4 billion by Ksh 43.3 billion (**Table 2.1**). Ordinary revenue amounted to Ksh 491.3 billion against a target of Ksh 513.2 billion (Ksh 21.9 billion below the target). This shortfall was as a result of the underperformance of all the broad categories of ordinary revenues except Other revenues which recorded a surplus of Ksh 1.6 billion; Income tax recorded the highest shortfall of Ksh 12.3 billion followed by VAT (Ksh 6.2 billion), Import Duty (Ksh 4.0 billion) and Excise duty (Ksh 1.0 billion. Cumulative ministerial A-I-A (inclusive of Railway Development levy) recorded an under performance of Ksh 21.4 billion.

108. Total expenditures and net lending amounted to Ksh 614.0 billion against a target of Ksh 765.2 billion (or Ksh 151.2 billion below target) at the end of December 2014. The shortfall was as a result of underperformance in both the recurrent and development expenditures by Ksh 44.3 billion and Ksh 82.5 billion respectively. The total County transfers by December 2014 amounted to Ksh 83.6 billion against a target of Ksh 105.5 billion. The underperformance in development expenditures is due in part to the slow take off in domestically funded development programmes (inclusive of Equalization Fund) by Ksh 36.7 billion and foreign financed programmes by Ksh 46.0 billion.

109. Taking into account the performance of revenues and expenditures by the end of December 2014, the overall fiscal balance (on a commitment basis and excluding grants), amounted to a deficit of Ksh 96.8 billion (equivalent to 1.4 percent of GDP) against a targeted deficit of Ksh 204.8 billion (equivalent to 3.4 percent of GDP). Including grants, the fiscal balance (on a commitment basis) recorded a deficit of 1.3 percent of GDP against a targeted deficit of 3.0 percent of GDP. The deficit incurred at the end of December 2014 was financed through net foreign financing of Ksh 27.9 billion and net domestic repayments of Ksh 62.5 billion.

Table 2.1 Cumulative Budget Out-Turn, July – December 2014 (Ksh Million)

	Dec-13 Actual	Dec-14			% Growth
		Prog.	Prel.	Deviation	
A. Total Revenue and External Grants	469,485	589,888	524,986	(64,902)	11.8
Total Revenue (1+2)	460,602	560,438	517,159	(43,279)	12.3
1. Ordinary Revenue	435,077	513,240	491,323	(21,916)	12.9
Import Duty	34,484	39,099	35,092	(4,007)	1.8
Excise Duty	48,050	57,540	56,506	(1,034)	17.6
Income Tax	210,699	251,473	239,202	(12,271)	13.5
VAT	110,723	129,083	122,888	(6,195)	11.0
Other Revenue	31,120	36,045	37,636	1,591	20.9
2. Ministerial Appropriation in Aid	25,526	47,198	25,836	(21,362)	1.2
RDL	10,052	11,602	10,119	(1,484)	0.7
Recurrent	14,594	30,852	14,812	(16,040)	1.5
Development	880	4,744	905	(3,838)	2.9
Grants	8,882	29,450	7,827	(21,623)	(11.9)
AMISOM Receipts	2,591	4,040	-	(4,040)	(100.0)
Projects Grants (Revenue)	3,292	4,630	2,460	(2,170)	(25.3)
Projects Grants (AIA)	2,486	19,990	4,839	(15,151)	94.7
Italian Debt Swap	514	240	527	287	2.6
B. TOTAL EXPENDITURE AND NET LENDING	572,050	765,206	613,965	(151,241)	7.3
1. Recurrent Expenditure	394,707	428,170	383,853	(44,317)	-2.7
Domestic Interest	59,896	53,570	56,110	2,540	-6.3
Foreign Interest	5,020	11,375	11,375	-	126.6
Pensions & other CFS	15,510	17,939	15,996	(1,943)	3.1
Net Issues/Net Expenditure	299,688	313,327	285,559	(27,767)	-4.7
Wages & Salaries	136,465	150,435	150,000	(435)	9.9
Others	110,720	162,892	135,559	(27,332)	22.4
Ministerial Recurrent AIA	14,594	27,689	14,812	(12,877)	1.5
2. Development	110,801	229,045	146,496	(82,549)	32.2
Domestically Financed (Gross)	81,149	133,545	98,853	(34,692)	21.8
o/w Domestically Financed (Net)	80,269	126,160	87,829	(38,331)	9.4
Ministerial Development AIA	880	7,385	11,024	3,639	1153.2
Foreign Financed	29,437	92,560	46,547	(46,013)	58.1
Net Lending	216	1,095	1,095	-	407.8
Equalization Fund	-	1,845	-	(1,845)	-
3. County Allocation	66,542	105,491	83,616	(21,874)	25.7
C. BALANCE EXCLUSIVE OF GRANTS (commitment basis)	(111,448)	(204,768)	(96,805)	107,963	(13.1)
D. BALANCE INCLUSIVE OF GRANTS (commitment basis)	(102,566)	(175,318)	(88,978)	86,339	(13.2)
E. Adjustments to cash basis	-	-	-	-	-
F. BALANCE INCLUSIVE OF GRANTS (CASH BASIS)	(102,566)	(175,318)	(88,978)	86,339	(13.2)
G. TOTAL FINANCING	74,560	175,120	121,053	(54,067)	62.4
1. NET FOREIGN FINANCING	7,192	57,197	48,252	(8,945)	570.9
Disbursements	23,659	70,331	114,520	44,189	384.0
Commercial Financing	-	-	75,272	75,272	-
Project Loans AIA	11,327	50,410	25,595	(24,815)	126.0
Project Loans Revenue	12,332	17,530	13,653	(3,877)	10.7
Programme Loans	-	2,391	-	(2,391)	-
Debt repayment - Principal	(16,467)	(13,134)	(66,268)	(53,134)	302.4
Domestic Load Redemptions (receipts)	-	-	1,182	1,182	-
Euro Bond Deposits	-	-	142,674	142,674	-
2. NET DOMESTIC FINANCING	67,368	117,923	(71,055)	(188,978)	(205.5)
Nominal GDP (Fiscal Year)	5,049,156	5,719,100	5,719,100		

Source: National treasury

2014/15 Revised Estimates

110. Since the beginning of the FY 2014/15 national government agencies have made requests for additional funding for consideration by the National Treasury amounting to about Ksh 136.9 billion. The National Treasury has recommended for funding additional expenditures amounting to Ksh 48.0 billion of which Ksh 24.1 billion has been funded through rationalization and Ksh 23.1 billion through additional resource.

111. Revenues projections for the fiscal year have been reviewed taking into account the cumulative revenue performance to December 2014 as well as

estimated effects of the newly introduced capital gains tax and the VAT withholding mechanism whose implementation came into effect on 1st January 2015. The overall ordinary revenues are expected to reduce by Ksh 17.1 billion below the budget estimates. Significant downward revisions are expected in Income tax (Ksh 14.9 billion) largely on account of PAYE and Import duty (Ksh 3.0 billion).

112. The overall impacts of these developments are reflected in Table 2.2 below. In summary, the fiscal framework assumes reduced revenues of Ksh 17.1 billion, additional expenditures of Ksh 71.2 billion, sovereign bond tapping of Ksh 75.3 billion (US \$750 million). The combined implication is that borrowing from the domestic market has been revised downwards by Ksh 71.3 billion from Ksh 190.1 billion to KSh 118.8 billion.

Table 2.2: Proposed Revised Fiscal Framework (Ksh Million)

	FY 2013/14		FY 2014/15		Deviation	FY 2013/14		FY 2014/15	
	Prel	Budget	Revised Proj			Prel	Budget	Revised Proj	
TOTAL REVENUE	974.4	1,181.2	1,164.1	(17.1)		19.3	21.0	20.4	
Ordinary Revenue	919.0	1,087.1	1,070.0	(17.1)		18.2	19.3	18.7	
Income Tax	449.6	541.9	527.0	(14.9)		8.9	9.6	9.2	
Import Duty	67.6	77.7	74.7	(3.0)		1.3	1.4	1.3	
Excise Duty	102.0	119.8	119.8	-		2.0	2.1	2.1	
VAT	232.6	267.1	268.0	0.9		4.6	4.7	4.7	
Investment Income	10.2	17.4	16.4	(1.0)		0.2	0.3	0.3	
Other	57.0	63.2	64.0	0.8		1.1	1.1	1.1	
AIA	55.4	94.1	94.1	-		1.1	1.7	1.6	
GRANTS	27.0	58.7	48.7	(10.0)		0.5	1.0	0.9	
EXPENDITURES	1,300.6	1,597.8	1,669.0	71.2		25.8	28.4	29.2	
Recurrent	787.9	871.5	900.2	28.6		15.6	15.5	15.7	
Interest payments	134.8	147.4	147.2	(0.2)		2.7	2.6	2.6	
Pensions & Other CFS	30.2	46.1	41.6	(4.5)		0.6	0.8	0.7	
Wages & Salaries	281.2	303.3	306.0	2.7		5.6	5.4	5.4	
Defense & NIS	93.8	90.7	113.6	22.9		1.9	1.6	2.0	
Other	248.0	284.0	291.7	7.8		4.9	5.0	5.1	
Development	319.3	492.0	534.6	42.6		6.3	8.7	9.3	
Domestically Financed	198.5	302.1	297.3	(4.8)		3.9	5.4	5.2	
Foreign Financed	118.6	187.8	235.1	47.3		2.3	3.3	4.1	
Net lending	2.2	2.1	2.1	-		0.0	0.0	0.0	
County Transfer	193.4	229.3	229.3	-		3.8	4.1	4.0	
CF	-	5.0	5.0	-		-	0.1	0.1	
OVERAL BALANCE	(299.2)	(357.8)	(456.1)	(98.3)		(5.9)	(6.4)	(8.0)	
Discrepancy	8.5	-	-	-		0.2	-	-	
FINANCING	307.7	357.8	456.1	98.3		6.1	6.4	8.0	
Net Foreign Financing	104.7	165.8	193.8	28.1		2.1	2.9	3.4	
Commercial Loans	35.4	51.5	75.3	23.8		0.7	0.9	1.3	
Project Loans	96.9	136.4	193.7	57.3		1.9	2.4	3.4	
Program Loans	-	5.4	5.4	-		-	0.1	0.1	
Debt Repayments	(27.5)	(27.5)	(80.5)	(53.0)		(0.5)	(0.5)	(1.4)	
Domestic Debt Red. Receipts	1.3	2.0	2.1	0.1		0.0	0.0	0.0	
Euro Bond Balance	-	-	141.4	141.4		-	-	2.5	
Net Domestic Financing	201.7	190.1	118.8	(71.3)		4.0	3.4	2.1	
Nominal GDP	5,049.2	5,628.5	5,719.1			100.0	100.0	100.0	

Source: National Treasury

Economic Policy and Outlook

External Environment

113. The world growth in the first half of 2014 was slower than expected, and projections indicate uneven and sluggish global recovery. The IMF in their January 2015 World Economic Outlook indicates that the world economic output is expected to gradually strengthen from 3.3 percent growth in 2014 to 3.5 percent in 2015 and 3.7 percent in 2016 (**Table 2.3**), driven mainly by growth in advanced economies that are projected to increase from a growth of 1.8 percent in 2014 to 2.4 percent in 2015. Global growth will receive a boost from lower oil prices, which reflect to an important extent higher supply. But this boost is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies.

Table 2.3: Growth Projections for Selected Regions/Countries

REGION/COUNTRY	Oct-14						Jan-15				
	GDP ACTUAL		GDP PROG				GDP ACTUAL		GDP PROG		
	2011	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
World	4.1	3.4	3.3	3.3	3.8	4.0	3.4	3.3	3.3	3.5	3.7
Advanced Economies	1.7	1.2	1.4	1.8	2.3	2.4	1.2	1.3	1.8	2.4	2.4
USA	1.6	2.3	2.2	2.2	3.1	3.0	2.3	2.2	2.4	3.6	3.3
Euro Area	1.6	-0.7	-0.4	0.8	1.4	1.7	-0.7	-0.5	0.8	1.2	1.4
Japan	-0.5	1.5	1.5	0.9	0.8	0.9	1.5	1.6	0.1	0.6	0.8
UK	1.1	0.3	1.7	3.2	2.7	2.5	0.3	1.7	2.6	2.7	2.4
Canada	2.5	1.7	2.0	2.3	2.4	2.4	1.7	2.0	2.4	2.3	2.1
Emerging and Developing Economies	6.2	5.1	4.7	4.4	4.9	5.2	5.1	4.7	4.4	4.3	4.7
Emerging and Developing Asia	7.7	6.7	6.6	6.5	6.6	6.5	6.7	6.6	6.5	6.4	6.2
China	9.3	7.7	7.7	7.4	7.1	6.8	7.7	7.8	7.4	6.8	6.3
India	6.6	4.7	5.0	5.6	6.4	6.5	4.7	5.0	5.8	6.3	6.5
MENA	4.4	4.8	2.5	2.7	3.9	4.4	4.8	2.2	2.8	3.3	3.9
Sub-Saharan Africa	5.1	4.4	5.1	5.1	5.8	6.0	4.4	5.2	4.8	4.9	5.2
South Africa	3.6	2.5	1.9	1.4	2.3	2.8	2.5	2.2	1.4	2.1	2.5
Nigeria	4.9	4.3	5.4	7.0	7.3	7.2	4.3	5.4	6.1	4.8	5.2
Kenya***	7.6	4.6	4.6	5.3	6.2	6.6	4.6	4.6	5.3	6.2	6.6
Tanzania	6.4	6.9	7.0	7.2	7.0	6.9	6.9	7.0	7.2	7.0	6.9
Uganda	6.2	2.8	5.8	5.9	6.3	7.0	2.8	5.8	5.9	6.3	7.0
Ethiopia	11.4	8.8	9.7	8.2	8.5	7.5	8.8	9.7	8.2	8.5	7.5
Rwanda	7.5	8.8	4.7	6.0	6.7	7.5	8.8	4.7	6.0	6.7	7.5

Source IMF World Economic Outlook

114. Among major advanced economies, growth in the United States rebounded ahead of expectations after the contraction in the first quarter of 2014, and unemployment declined further, while inflation pressure stayed more muted, also reflecting the dollar appreciation and the decline in oil prices. In the euro area, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, as inflation and inflation expectations continued to decline. Activity is projected to be supported by lower oil prices, further monetary policy easing (already broadly anticipated in financial markets

and reflected in interest rates), a more neutral fiscal policy stance, and the recent euro depreciation.

115. In emerging market economies, the downside risks relate to shifts in sentiment and volatility in global financial markets, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. In many emerging and developing commodity exporters, there is a weaker projected rebound in growth as the impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on medium-term growth.

116. Growth in Sub-Saharan Africa is expected to weaken from 5.2 percent in 2013 to 4.8 percent in 2014 and 4.9 percent in 2015 on account of lower oil and commodity prices that will weaken activities in major oil exporters (Nigeria and South Africa). In 2016, growth is expected to pick up to 5.2 percent driven by sustained infrastructure investment; buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support.

117. These projections are predicated on the assumption that key drivers supporting the recovery in advanced economies—including moderating fiscal consolidation (Japan being one exception) and highly accommodative monetary policy—remain in place. Projections also assume a decline in geopolitical tensions, supporting some recovery in stressed economies.

118. Downside risks remain a major concern. Global growth could be weaker for longer, given the lack of robust momentum in advanced economies despite very low interest rates and the easing of other brakes to the recovery. In some major emerging market economies, the negative growth effects of supply-side constraints and the tightening of financial conditions over the past year could be more protracted.

Kenya's Growth Prospects

119. The Macroeconomic Framework underpinning the 2015 BPS and MTEF 2015/16 to 2017/18 takes into account, the Government's national strategic objectives as outlined in the second Medium Term Plan (MTP) for the period 2013-2017 of Vision 2030 and the broad development policies of the Jubilee Government.

120. Real GDP is estimated to expand by 5.3 percent in 2014, 6.9 percent in 2015 and reach 7.0 percent by 2018. In terms of fiscal years, the projections translate to 5.5 percent in 2013/14, 6.1 percent in 2014/15 and 7.0 percent in 2015/16 and 2017/18 (**Table 2.4 and Annex Table 1**).

121. This robust broad based growth will be underpinned by the activities generated in the construction of Standard Gauge Railway, increased production in agriculture following implementation of strategic interventions to revamp the sector together with other measures specified in section I of this report, continued investment in infrastructure projects, expansion of activities in other sectors of

the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the on-going initiatives to deepen regional integration.

122. Further, the lower international oil prices will result in lower production costs and consumer prices, and elevate demand that will benefit growth.

123. The projected growth assumes normal weather pattern in 2015 and the medium term. Inflation is expected to be maintained at a single digit level and near the 5 percent target reflecting implementation of a prudent monetary policy and easing of both food and oil prices, and stability of the shilling exchange rate to the major international currencies.

Table 2.4: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework, FY 2014/15-2017/18

	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18
	Act.	Act.	Prel.	Budget	Rev. Proj	Projections		
	Annual percentage change							
National Account and Prices								
Real GDP	5.3	5.1	5.5	6.1	6.1	7.0	7.1	7.0
GDP Deflator	10.1	7.5	6.2	7.2	6.7	6.5	6.4	6.2
CPI Index (eop)	10.1	6.0	5.8	5.3	5.3	5.0	5.0	5.0
CPI Index (avg)	16.1	5.9	6.0	5.7	5.7	5.0	5.0	5.0
Terms of Trade (-deterioration)	-2.2	2.0	1.5	5.1	0.2	0.3	0.2	0.2
	In percentage of GDP							
Investment and saving								
Investment	20.8	20.8	21.2	22.4	24.6	26.9	25.2	25.6
Gross National Saving	11.4	12.3	12.7	15.3	16.6	19.7	18.0	18.2
Central government budget								
Total revenue	18.7	18.8	19.3	21.0	20.4	20.7	21.5	21.8
Total expenditure and net lending	23.8	24.6	25.7	28.4	29.2	28.8	27.6	26.6
Overall balance (commitment basis) excl. grants	-5.0	-5.8	-6.5	-7.4	-8.8	-8.2	-6.2	-4.8
Overall balance (commitment basis) incl. grants	-4.5	-5.3	-5.9	-6.4	-8.0	-7.4	-5.4	-4.0
Nominal public debt, net	36.9	38.5	44.1	43.8	43.9	43.7	42.6	41.3
External sector								
Current external balance, including official transfers	-9.4	-8.5	-8.5	-7.1	-8.0	-7.2	-7.2	-7.4
Gross international reserve coverage in months of imports	3.7	3.8	4.1	4.8	4.6	4.8	5.1	5.3

Source: National Treasury

124. The policy in 2015, is to continue with the implementation of the Medium Term five pillar thematic economic transformative strategies enumerated in the 2014 BPS. This will accelerate economic growth and transformation in the fiscal year ahead and the medium term. The policies referred to above will accelerate the pace of economic growth and will enable the country achieve the growth rates envisaged in the Vision 2030.

Risks to the Outlook

125. The risks to the economic outlook for 2015/16 and the medium-term includes continued uneven and sluggish growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

126. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and the inefficiencies in devolved services may limit continued funding for development expenditure.

127. The impact of insecurity on tourism and depressed rainfall which could affect exports and agricultural production respectively remains a risk to the growth outlook.

128. The government will undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

III FISCAL POLICY AND BUDGET FRAMEWORK

Overview

129. The 2015 Medium-Term Fiscal Policy aims at supporting rapid economic inclusive growth and ensuring the debt position remains sustainable while at the same time supporting the devolved system of Government for effective delivery of services. Specifically, the Fiscal policy underpinning the FY 2015/16 Budget and MTEF aims at revenue effort of 21.8 percent of GDP over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth. Specifically,

- Over the medium term, a minimum of 30 percent of the national budget shall be allocated to development expenditure. The Government is committed to a reduction in the recurrent expenditure to devote more resources to development.
- 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. On wages and benefits, the share to National Government revenues was 36.0 percent in FY 2013/14, and is projected at 32.7 percent in FY 2014/15, declining to 25.9 percent by FY 2017/18. Once the share is prescribed in the regulations, the National Government will ensure that this principle is strictly adhered to.
- Over the medium term, the National Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. It is the Government's policy to procure external financing only for development projects a practice which is in line with this principle. In addition, the sum of domestic borrowing and additional external financing is consistently less than the allocation to domestically financed development projects in line with the stated principle.
- Public debt obligations shall be maintained at a sustainable level as approved by National Assembly (NA) and County Assembly (CA). External financing will be largely on concessional terms. The Government continues to 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.
- Fiscal risks shall be managed prudently (**See Annex I on Statement of Specific Fiscal Risks**). The Government has improved its macroeconomic

forecasts and regularly review the impact of macroeconomic projections and its implications for the budget. The Government also takes into account the fiscal risks arising from contingent liabilities, impact of the Public Private Partnership and Financial Sector Stability.

Continuing with Prudent Fiscal Policy

130. Fiscal policy will continue to support economic activity within a context of sustainable public financing. Over the recent years, the Government has reoriented expenditure towards priority programmes in education, health, agriculture and infrastructure under the medium-term expenditure framework (MTEF). The overall fiscal balance (after grants) is projected to decline from 8.0 percent of GDP in 2014/15 to a sustainable level of about 4.0 percent of GDP over the medium term. This will allow public debt to decline gradually from about 43.8 percent of GDP in FY 2014/15 to about 41.3 percent of GDP by 2017/18 (Table 3.1 and Annex Tables 2 and 3).

Table 3.1: Central Government Fiscal Projections, FY 2012/13-2017/18

	2012/13	2013/14	2014/15	2015/16		2016/17		2017/18	
	<i>Act.</i>	<i>Prel.</i>	<i>Rev. Proj</i>	<i>BROP'14</i>	<i>BPS'15</i>	<i>BROP'14</i>	<i>BPS'15</i>	<i>BROP'14</i>	<i>BPS'15</i>
Total Revenue	847.2	974.4	1,164.1	1,352.2	1,347.7	1,558.9	1,594.6	1,752.9	1,845.3
% of GDP	18.8%	19.3%	20.4%	21.8%	20.7%	22.3%	21.5%	22.1%	21.8%
Ordinary Revenue	779.4	919.0	1,070.0	1,249.9	1,249.9	1,447.8	1,490.2	1,632.6	1,730.2
% of GDP	17.3%	18.2%	18.7%	20.8%	19.2%	21.3%	20.1%	21.2%	20.5%
Tax Revenue	701.2	851.8	989.6	1,161.7	1,157.8	1,350.6	1,386.9	1,522.8	1,616.3
Non-Tax Revenue	78.3	67.2	80.4	88.1	92.0	97.2	103.3	109.8	113.9
AIA	67.8	55.4	94.1	102.3	97.8	111.0	104.4	120.3	115.1
Expenditure	1,107.3	1,300.6	1,669.0	1,800.5	1,880.8	1,987.6	2,052.6	2,216.4	2,251.4
% of GDP	24.6%	25.7%	29.2%	27.8%	28.8%	27.1%	27.6%	26.7%	26.6%
Recurrent	808.3	787.9	900.2	916.7	987.0	990.0	1,104.4	1,136.7	1,244.3
Development	298.9	319.3	534.6	633.4	627.1	729.8	654.5	793.2	683.4
Contingencies	-	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Transfer	-	193.4	229.3	245.5	261.7	262.9	288.8	281.5	318.7
Equalization Fund	-	-	3.4	6.0	6.0	6.9	6.0	7.7	5.5
Budget Balance (Deficit (-), Surplus(+)) excl. Grants	(260.0)	(326.2)	(504.9)	(448.4)	(533.2)	(428.8)	(458.0)	(463.5)	(406.1)
% of GDP	-5.8%	-6.5%	-8.8%	-7.1%	-8.2%	-6.0%	-6.2%	-5.8%	-4.8%
Grants	20.9	26.9	48.7	64.7	53.5	71.5	59.8	79.2	64.9
Budget Balance (Deficit (-), Surplus(+)) incl. Grants	(239.1)	(299.2)	(456.1)	(383.7)	(479.7)	(357.3)	(398.2)	(384.4)	(341.2)
% of GDP	-5.3%	-5.9%	-8.0%	-6.1%	-7.4%	-5.0%	-5.4%	-4.8%	-4.0%
Net Foreign Financing	62.7	106.4	193.8	241.0	269.3	193.6	219.7	212.1	171.9
Domestic Loan Repayments (Receipts)	-	1.3	2.1	2.0	2.2	2.0	2.4	2.0	2.6
Sovereign Bond Proceeds	-	-	141.4	-	-	-	-	-	-
Domestic borrowing	169.8	201.7	118.8	140.7	208.3	161.6	176.1	170.3	166.7
% of GDP	3.8%	4.0%	2.1%	2.2%	3.2%	2.3%	2.4%	2.1%	2.0%
Public Debt to GDP (Gross)		48.0%	45.8%	46.1%	46.6%	46.0%	45.2%	45.3%	43.6%
Public Debt to GDP (net of deposits)	38.5%	44.1%	43.8%	43.1%	43.7%	43.3%	42.6%	43.0%	41.3%
Nominal GDP (Ksh billion)	4,506.2	5,051.6	5,719.1	6,290.4	6,520.5	7,113.1	7,430.2	8,029.7	8,448.2

Source: National Treasury

Observing Fiscal Responsibility Principles

131. 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 of at least 30:70 over the medium term, as set out in the law. Once the PFM regulations are finalized it is expected that the National and County Governments will respect ratios guiding the wage levels in general and expenditure management on items such as office goods and their pricing that should as much as possible reflect actual market prices.

132. Timelines on paying goods should be minimized to enable GoK get competitive prices in the market.

133. 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.

134. In this regard, the Government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline. Observance of the Fiscal Rules has been as follows:

Fiscal Responsibility Principles

135. In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, and in keeping with the prudence and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statutes as follows:

- a. *Over the medium term, a minimum of 30 percent of the National Budget shall be allocated to development expenditure*

The National Government's development budget allocation over the medium term is above 30 percent, the minimum set out in law. In FY 2013/14 the National Government allocated 36.0 percent to development, however as shown in **Table 3.2**, the preliminary outcome indicates that development expenditure stood at 28.8 percent of total National Government expenditure due to the low uptake of external resources by MDAs. Over the medium term development expenditure is budgeted to expand to 36.9 percent in FY 2014/15 and around 35.1 percent in FY 2017/18.

Table 3.2: Revenues and Expenditures, (Ksh billion)

FY	2013/14	2014/15	2015/16	2016/17	2017/18
1.0 Total Expenditures & Net Lending	1,300.6	1,669.0	1,877.9	2,049.5	2,248.0
1.1 Total National Govt Expenses	1,107.2	1,439.7	1,619.9	1,764.6	1,933.4
Total Recurrent	787.9	900.2	980.9	1,104.4	1,244.3
CFS (Interest & Pensions)	165.0	183.8	221.0	248.8	290.4
Total ministerial Recurrent	622.9	716.3	759.9	855.6	953.9
wages	281.2	306.0	329.1	360.8	396.9
<i>As % of National Government Revenues</i>	36.0%	32.7%	30.1%	27.5%	25.9%
Development	319.3	531.2	621.1	648.5	677.9
<i>As % of NG Expenditures</i>	28.8%	36.9%	38.3%	36.8%	35.1%
Domestic	200.7	296.1	316.7	368.1	437.5
External	118.6	235.1	304.4	280.4	240.4
Contingencies	-	5.0	5.0	5.0	5.0
1.2 County Allocation	193.4	229.3	258.0	284.9	314.5
2.0 Total Recurrent Revenues	974.4	1,166.2	1,349.8	1,594.6	1,845.3
3.0 Total National Govt - Revenues (Incl. A-I-A)	781.0	937.0	1,091.8	1,309.7	1,530.8
4.0 National Govt Domestic Borrowing	201.7	118.8	208.3	176.1	166.7

Source: National Treasury

- b. *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*

On wages and benefits, the share to National Government revenues was 36.0 percent in FY 2013/14, and is projected at 32.7 percent in FY 2014/15, declining to 25.9 percent by FY 2017/18. Once the share is prescribed in the regulations, the National Government will ensure that this principle is strictly adhered to.

- c. *Over the medium term, the National Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure*

It is the Government's policy to procure external financing only for development projects a practice which is in line with this principle. In addition, domestic borrowing is consistently less than the allocation to domestically financed development projects in line with the stated principle.

- d. *Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NA) and County Assembly (CA)*

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 envisages continued borrowing from domestic and external sources. External financing will be largely on concessional terms. The Government continues to 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.

Similarly, a cautious approach is adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities. With the increased appetite for funding of heavy capital projects, the levels of debt accumulation will be maintained at a sustainable level. 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 3.3).

Table 3.3: 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. Fiscal risks shall be managed prudently

The Government has improved its macroeconomic forecasts and regularly review the impact of macroeconomic projections and its implications for 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. 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

On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government has simplified and modernized the VAT and Tax Appeals Tribunal legislations. Going forward, a modern and simplified Excise Duty Bill and Tax Procedure Bill will be enacted shortly. At the same time, 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.

Deficit Financing Policy

136. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy paper. The Government also remains committed to accessing international capital markets. In the FY 2013/14 the Government raised US dollar 2.0 billion through the issuance of a first debut sovereign bond. The bond was at lower than expected yields - the largest transaction by a first-time African issuer and was oversubscribed - a strong indicator of international investors' confidence on Kenya.

137. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The strategy envisages continued borrowing from domestic and external sources. While external financing will be largely on concessional terms we shall continue to diversify our financing sources by continuing to access commercial sources of financing. 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.

138. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by leaning towards borrowing more on concessional terms. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities. With the increased appetite for funding of heavy capital projects, the levels of debt accumulation will be maintained at a sustainable level.

2015/16 Budget Framework

139. The medium term fiscal framework for FY 2015/16 is set based on macro-fiscal framework set out in Chapter II. Real GDP is expected to increase by 7.0 percent in FY 2015/16 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as stable exchange rate.

Revenue Projections

140. The FY 2015/16 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,347.7 billion (20.7 percent of GDP) from Ksh 1,164.1 billion (20.4 percent of GDP) in FY 2014/15 (**Annex Tables 2 and 3**). As noted in this document, this performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount

to Ksh 1,249.9 billion (19.2 percent of GDP) in FY 2015/16 up from the projected Ksh 1,070.0 billion (18.7 percent of GDP) in FY 2014/15.

Expenditure Projections

141. In FY 2015/16, overall expenditure and net lending are projected at Ksh 1,880.8 billion or 28.8 percent of GDP) from the estimated Ksh 1,669.0 billion (29.2 percent of GDP) in the FY 2014/15 budget. Recurrent expenditures will amount to Ksh 987.0 billion (15.1 percent of GDP) compared with Ksh 900.2 billion (15.7 percent of GDP) in FY 2014/15. In the FY 2015/16, more resources will be earmarked for development as required by the PFM Act 2012. Development expenditure is therefore projected at Ksh 627.1 billion (9.6 percent of GDP). Domestic interest payments are expected to reduce relative to GDP to 2.0 percent in FY 2015/16 from the projected 2.1 percent in FY 2014/15, while pension expenditures are projected at 0.9 percent in FY 2015/16.

142. In terms of percentage to GDP, the wage bill for the National Government (excluding MDAs whose budget is captured as current grants/transfer) in FY 2015/16 is projected at 5.0 percent of GDP in FY 2015/16.

143. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2014/15 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2014/15 and then an adjustment factor is applied to take into account the general increase in prices.

144. The ceiling for development expenditures including foreign financed projects (excluding net lending) in nominal terms amounts to Ksh 629.9 billion in the FY 2015/16. 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.

145. A contingency of Ksh 5.0 billion is provided for in FY 2015/16. In addition, Ksh 6.0 billion is provided for as conditional grants to marginal areas, up from Ksh 3.4 billion in 2014/15.

Overall Deficit and Financing

146. Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected at Ksh 533.2 billion (equivalent to 8.2 percent of GDP) in FY 2015/16 against the estimated overall fiscal balance of Ksh 504.9 billion (8.8 percent of GDP) in FY 2014/15. Including grants, the overall fiscal balance (on a commitment basis) is projected at Ksh 479.7 billion (7.4 percent of GDP) in FY 2015/16 against the estimated overall fiscal balance of Ksh 456.1 billion (8.0 percent of GDP) in FY 2014/15.

147. The fiscal deficit in FY 2015/16, will be financed by net external financing of Ksh 269.3 billion (4.1 percent of GDP) and Ksh 208.3 billion (3.2 percent of GDP) net domestic borrowing.

Summary

148. Fiscal policy outlined in this BPS aims at improving revenue efforts as well as containing total expenditures. This will be achieved through administrative and legislative reforms aimed at enhancing resource mobilization, improving efficiency in government expenditure and reducing wastage. The fiscal space created will avail resources to scale up investments in human capital, including on health and education, and physical infrastructure, while at the same time providing sufficient resources to ensure the success of devolution. The Fiscal policy will also endeavour to adhere to medium-term debt targets as provided in the medium term debt management strategy that aims at ensuring public debt sustainability.

IV INTERGOVERNMENTAL FISCAL RELATIONS AND DIVISION OF REVENUE

Introduction

149. The 2015 Budget Policy Statement is the second to be prepared under the Devolved Government. This is being done at a time when the National Government has made significant progress towards the establishment of a sound legal framework for the effective and efficient operation of County Governments. This comprises of the Public Finance Management Act, 2012, which among other things, defines the powers and functions of key National and County institutions in financial management and control. The law also provides for accountability mechanisms by entrenching public participation and disclosure of budgetary information as well as mechanisms for enforcing compliance of PFM laws. Other laws that have been enacted include the County Government Act, 2011; the Intergovernmental Relations Act, 2011; The Urban Areas and Cities Act, 2011; the Transition to Devolved Government Act, 2011; the Commission on Revenue Allocation Act, 2011 and the Independent Offices Act, 2011.

150. The National Government has also drafted and submitted to Parliament two key Public Finance Bills required under the Fifth Schedule of Constitution – that is – the Public Audit Bill, 2014 and the Public Procurement and Asset Disposal Bill, 2014. In addition, the PFM Regulations, 2014 are to be submitted to Parliament for consideration and approval. It is expected that the two Bills and the PFM Regulations will be passed by Parliament in 2015. These pieces of legislations if enacted will go a long way in further strengthening the legal framework for public finance management.

151. The National Government has also rolled out the Integrated Financial Management Information System (IFMIS) to all the 47 County Governments. In addition, National Government seconded the requisite staff to support County Governments in service delivery during the transition phase. The County Governments have also recruited additional staff.

152. In addition, many counties have put in place County legislations to govern operations of County Governments.

153. With these measures in place, the National Government has laid the foundation for County Governments and the country at large to reap the full

benefits of devolution. Notable improvements in 2014/15 financial year compared to financial year 2013/14 include the timely preparation and approval of County budgets by County Governments.

Challenges Encountered by County Governments in Public Finance Management

154. This progress notwithstanding, evidence suggests that County Governments continue to face a number of challenges that could hinder accountability and delay the realisation of the full benefits of devolution.

155. First, County Governments have experienced challenges in working relationship between County Executives and County assemblies which has disrupted the process of county planning and budgeting as well as the execution and reporting on budgets. This rivalry and disputes have been primarily centred around the budget ceilings for county assemblies issued by the Commission on Revenue Allocation. These disputes have ended up in courts of law and are pending court determination, creating uncertainty over the implementation of plans and budgets of the affected County Governments.

156. Second, concerns have also been raised regarding revenue raising measures of County Governments set out in their respective county Finance Bills for financial year 2014/15. This is primarily because they are seen to be unfriendly to businesses. In line with a resolution of the Intergovernmental Budget and Economic Council, a framework for preparation and approval of the County Finance Bills will be developed in 2015 in order to ensure compliance with Article 209 (5) of the Constitution and Section 161 of the Public Finance Management Act, 2012.

157. Third, the format in which budget estimates of some County Governments are presented does not comply with the PFM Act, 2012 and the Constitution, such as, the requirement under Article 220 of the Constitution that budgets must clearly differentiate between recurrent and development expenditure. In addition, some county budgets do not break down their expenditures by departments or programmes. It should be noted that both good practice in budgeting, and the PFM Act, 2012 require that County Governments disaggregate their budgets and break down their budgets into recurrent and development expenditure.

158. In addition, budgets of a few County Governments do not contain a multi-year framework (3 years), even though it is a requirement of the PFM Act, 2012.

159. Fourth, it is not easy to tell from many County budgets on what basis they estimate their revenues and whether these are realistic. As a result, budgets of

some County Governments have tended to overstate the revenue estimates, in the end resulting in huge budget deficits where the ambitious revenue targets are not realised.

160. Fifth, budget estimates of a number of County Governments do not strictly adhere to coding prescribed in the Standard Chart of Accounts. This, besides complicating cross County comparison, means that county budgets may not reflect the true picture of County finances.

161. Sixth, some County budgets have not complied with the fiscal rule set out under Section 107 of the PFM Act, 2012 that limits the development spending to at least 30 percent of County Government's budgets. In addition, most County Governments do not submit reports on how their budgets comply with the fiscal responsibility principals set in the PFM Act, 2011.

162. Seventh, many Counties have budget lines that are unclear. The lack of appropriate narrative and notes explaining these budget lines can lead to confusion about Government priorities.

163. To put an end to this trend, the National Treasury will embark on the following strategies. First, the National Treasury shall accelerate the structured training of the relevant County Governments staff involved in public finance management, including County Treasury Officials on various aspects of public finance management. The training to be rolled-out by the National Treasury in partnership with other key stakeholders shall cover the following areas: Budget Preparation; Cash and Treasury Management; Financial Accounting, Recording and Reporting; Integrated Financial Management Information System (IFMIS); Public Procurement; Revenue Management; and Internal Audit, among others. Development of training manuals covering the various aspect of PFM is underway.

164. Secondly, the National Treasury will come up with performance based grants to incentivise better financial management by county governments.

165. Thirdly, the National Treasury shall seek to resolve the above challenges through the intergovernmental forums such as the Intergovernmental Budget and Economic Council and the Intergovernmental Relations Summit.

Transfer of Functions and Budgeting

166. The Constitution has assigned functions to both levels of Government while the Transition to Devolved Government Act, 2012 (TDGA) prescribes how the functions are to be transferred from the National Government to the County Governments during the transition period. The Transition Authority has

transferred functions to County Governments through three gazette notices dated February, 2013, August, 2013 and March, 2014. The quantum of resources to be transferred to County Governments is determined by the costing of functions thus far transferred to County Governments. This is consistent with the provisions of Article 187(2) of the Constitution which entrenches the principle '*finance should follow functions*' which requires that once a function is transferred, the necessary resources should also be transferred to the Government that is assigned that function in order to enable such Government to perform the functions transferred.

167. Section 191 of the PFMA requires the Cabinet Secretary responsible for finance to prepare and submit the Division of Revenue Bill and the County Allocation of Revenue Bill to Parliament for approval to authorise the division of revenue raised nationally between the National and County Governments and among County Governments. In preparing the Revenue Bills, the Cabinet Secretary is required to take into account the recommendations of the Commission on Revenue Allocation on the Division of Revenue between the national and County Governments and across County Governments. National and County Governments' budgets are then prepared only after the two Bills are approved.

Division of Revenue between the National and County Governments

Baseline Cost of Devolved Functions

168. In estimating the County Governments' equitable share of revenue raised nationally to be allocated to counties in the financial year 2015/16, the baseline cost of devolved functions is derived from the Division of Revenue Act, 2014 and comprises of the equitable share of Ksh 226.66 billion. The equitable share of revenue is an unconditional allocation to the County Governments and therefore County Governments are expected to plan, budget, spend and account on the funds allocated independently. This baseline cost of devolved functions takes into account the functions gazetted for transfer by the Transition Authority vide gazette notices dated February 2013 and August 2013.

169. To this baseline the following adjustments have been made:

- Adjustment to reflect allocations held at the national level for functions gazetted for transfer to County Governments. These include:
 - (1) Adding an allocation for Personnel Emoluments for staff transferred to County Governments from the State Department of Livestock Development amounting to Ksh. 1,466 million; and

(2) Adding an allocation of Ksh 935 million for village polytechnics previously under the Ministry of Education

(3) Adding an allocation of Ksh 545 million for functions transferred to County Governments vide TA gazette notice of March 2014. The functions were gazetted for transfer after the Division of Revenue Act, 2014 was passed by the National Assembly and therefore related resources could not be transferred in financial year 2014/15. This allocation relate to Agricultural Training Centres/Agricultural Mechanisation Stations.

County Governments' Equitable Share of Revenue for Financial Year 2015/16

170. According to Article 203(2) of the Constitution, in dividing the shareable revenue between the two levels of government each financial year, County Governments must be allocated an equitable share of revenue that is not less than 15% of most recent audited revenue received as approved by the National Assembly.

171. In order to arrive at the County Governments' equitable share of revenue for the financial year 2015/16, the adjusted baseline of the estimated cost of devolved functions (FY 2014/15) was increased by an agreed rate of County revenue growth of 10.41 percent. In addition, an allocation of Ksh. 4.5 billion was added to cater for the salary and allowances awarded to State and other public officers of the county governments in the financial year 2014/15. After making the adjustment the County Governments equitable share of revenue in the financial year 2015/16 is estimated to be Ksh 258.0 billion (**Table 4.1**). This allocation is more than twice the constitutional minimum of 15 percent (equivalent to Ksh 116.5 billion) of the latest audited revenues of Ksh 776.9 billion for FY 2012/13.

Table 4.1: Equitable Revenue Share Allocation to County Governments, FY 2015/16

Budget Item	Amount in Ksh. Million
Baseline (Allocation for FY 2014/15)	226,660
Baseline Adjustments	
Add:	
1. Allocations for Personnel Emoluments for staff transferred to CGs from the State Department of Livestock Development	1,466
2. Allocation for village polytechnics currently under the Ministry of Education	935
3. Transfer of Funds relating to a county function transferred to county governments in 2014 (Agricultural Training Centres/Agricultural Mechanisation Stations) vide TA gazette notice dated March 2014	545
Adjusted Baseline	229,606
Additional Revenue Measures	
Add:	
1. Adjustment for Revenue Growth (Agreed Revenue growth factor = 10.41%)	23,902
2. Adjustment for increases in salaries and allowance awarded by the Salaries and Remuneration Commission (SRC) in 2014/15	4,500
Equitable Revenue Share allocation for FY 2015/16	258,008

Source: National Treasury

Additional Conditional Allocations to County Governments

172. Article 202(2) of the Constitution provides for additional allocations to County Governments from the National Government's share of revenue, either conditionally or unconditionally. Pursuant to this Article, the National Government proposes to allocate the following additional conditional allocations to support specific national policy objectives to be implemented by County Governments:

- **Conditional Grant in support of Free Maternal Health Care of Ksh 4.298 billion.** This grant is to be transferred to County Governments on a reimbursement basis, upon confirmation that the County Government s provided maternal health care services in their health facilities in accordance

with agreed specifications. This grant is intended to facilitate access to free maternal health care in order to reduce the high maternal and child mortality rates in Kenya. It should, however, be noted that the Ministry of Health is currently working on modalities of replacing this arrangement of 'cash transfers' to county health facilities with an insurance scheme that will guarantee mothers access to free maternal health care in the county health facilities.

- **Conditional Grant to facilitate the leasing of medical equipment of Ksh 4.5 billion.** This grant is intended to facilitate the purchase of modern specialised medical equipment in at least two health facilities in each County Government over the medium term. This will facilitate easy access to specialised health care services and significantly reduce the distance that Kenyans travel in search of such services.
- **Conditional Grant for Level-5 hospitals of Ksh 2.064 billion.** Level-5 hospitals continue to play a significant role in providing specialised health care services to Kenyans. These hospitals provide specialised health care services to citizens residing outside their host County Governments, usually for complicated cases referred from lower level health facilities. In order to compensate them for the costs incurred in rendering services to neighbouring County Governments, the National Government proposes to allocate Ksh 2.064 billion to be transferred to County Governments as a conditional grant.
- **Conditional Grant of Ksh 900 million to compensate County Health facilities for forgone user fees.** It is the intention of Government to sustain the Government policy of not charging user fees in public health facilities. In this regard, the National Government has allocated Ksh 900 million to compensate County governments for revenue forgone by not charging user fees in the County health facilities.
- **Conditional Grant from the Road Maintenance Fuel Levy Fund of Ksh 3.3 billion.** In order to enhance County Governments capacity to repair and maintain county roads the National Government proposes to transfer 15 percent of the Road Maintenance Fuel Levy Fund to the County Governments.

Proposed Vertical Division of Revenue for FY 2015/16

173. In the Financial Year 2015/16, the proposed estimated vertical allocation to National and County Governments is as shown in **Table 4.2**.

Table 4.2: Allocation of Revenue raised Nationally between the National and County Governments for FY 2015/16

Type/Level of Allocation	Amount in Ksh.	Percentage (%) of 2012/13 Audited Revenue(i.e. Ksh. 776.9 billion)
National Government	991,892,000,000	
Of which:		
<i>Free Maternal Health Care</i>	4,298,000,000	
<i>Leasing of Medical Equipment</i>	4,500,000,000	
<i>Level-5 Hospitals</i>	2,064,480,000	
<i>Healthcare facilities compensation for forgone user fees</i>	900,000,000	
Equalisation Fund	6,000,000,000	0.8%
County Equitable Share	258,008,000,000	33%
Total Shareable Revenue	1,249,900,000,000	

MEMO ITEMS

County Equitable Share	258,008,000,000	
Conditional Allocations (<i>of which</i>):	25,733,685,204	
1. <i>Free Maternal Health Care</i>	4,298,000,000	
2. <i>Leasing of Medical Equipment</i>	4,500,000,000	
3. <i>Level-5 Hospitals</i>	2,064,480,000	
4. <i>Allocation from Fuel Levy Fund (15%)</i>	3,300,000,000	
5. <i>Healthcare facilities compensation for forgone user fees</i>	900,000,000	
6. <i>Conditional Allocations - loans and grants</i>	10,671,205,204	
Total County Allocations	283,741,685,204	37%

Source: National Treasury

174. In the financial year 2015/16, the funds allocated to County Governments are estimated at about Ksh 283.7 billion. This represents 37 percent of the most recent audited revenues approved by the National Assembly (i.e. Ksh 776.9 billion for the financial year 2012/13), about 2.5 times the constitutional minimum of 15 percent. This comprises of:

- **County Governments' Equitable Share of Ksh 258 billion.** This is an unconditional allocation to County Governments in accordance with the

formula for sharing revenue approved by Parliament under Article 217 of the Constitution.

- Conditional grant for Free Maternal Health Care of Ksh 4.298 billion.
- Conditional grant for Leasing medical equipment of Ksh 4.5 billion
- Conditional grant for level-5 hospitals of Ksh 2.064 billion
- Conditional grant amounting to Ksh 900 million to compensate county health facilities for user fees forgone.
- Conditional grant from the Road Maintenance Fuel Levy Fund of Ksh 3.3 billion.
- Conditional allocations from donor loans and grants estimated at Ksh 10.7 billion.

175. Of the balance of the shareable revenue left after allocating Ksh 273.1 billion to County Governments, it is estimated that Ksh 6.0 billion or 0.8 percent of the most recent audited revenue will be allocated to the Equalisation Fund in the financial year 2015/16. Allocation to the Equalization Fund in 2015/16 has been scaled up above the minimum Constitutional requirement of 0.5 per cent of the last audited revenue in order to compensate for the years when the Fund has not been in operation.

Evaluation of the Vertical Division of Revenue in Relation to Article 203(1) of the Constitution

176. Although the Constitution does not explicitly prescribe the upper limit of the equitable share of revenue to be allocated to either level of Government, it does provide some principles that could inform the decision on how high up the equitable allocation to either level of Government can be set.

177. First, the Constitution requires the equitable division of revenue to take into account the functions assigned to each level of Government. This calls for accurate costing of the functions assigned to each level of Government. In this regard, the costing of the functions assigned to County Governments was undertaken through a consultative process during the preparation of the MTEF Budget for 2013/14. This costing forms the baseline for purposes of determining the division of the equitable share of revenue for each level of Government in subsequent financial years.

178. Second, Article 218(2) of the Constitution requires division of revenue between the two levels of government and across County Governments to take into account the criteria set out in Article 203(1) of the Constitution. The criteria include factors such as: national interest, public debt and other national obligations, needs of the disadvantaged groups and areas etc.

179. **Table 4.3** provides an assessment of the extent to which the requirements of Article 203 (1) have been incorporated in estimating the division of revenue between the National and County levels of Government in the financial year 2015/16.

Table 4.3: Evaluation of Revenue Allocation in Relation to Article 203 (1) of the Constitution

	ITEM DESCRIPTION	2014/15	2015/16
		Ksh. Millions	Ksh. Millions
A	Ordinary Revenue (excluding AIA)	1,087,116	1,249,900
B	National Interest [Article 203 (1)(a)]	73,942	72,533
	1. Enhancement of Security Operations (police vehicles, helicopters, defence etc.)	20,150	18,067
	2. National Irrigation & Fertilizer Clearance	11,626	12,500
	3. NYS Re-engineering	11,755	11,555
	4. National Social safety net - (for older persons, OVC, Child Welfare, severe disability, urban food subsidy)	12,831	12,831
	5. Laptops	17,580	17,580
C	Public Debt (Article 203 [1][b])	378,010	362,391
D	Other National Obligations (Article 203 [1][b])	282,439	304,503
	1. Pensions, constitutional salaries & other	37,569	54,617
	3. Constitutional Commissions (Art. 248(2)) - i.e. CRA, CIC, SRC, NLC, NPSC, IEBC, TSC	173,557	179,589
	3. Independent Offices (Art. 248(3)) - i.e. AG & CoB	3,446	3,566
	4. Parliament	23,104	22,947
	5. Other Constitutional Institutions- AG's office and DPP	6,110	6,578
	6. Other Statutory Bodies (e.g. EACC, RPP, WPA, CAJ, IPOA, NGEC)	3,410	3,934
	7. Other Statutory Allocations (earmarked funds e.g. Constituency Development Fund, Uwezo Fund)	35,243	33,273
E	Emergencies [Article 203 (1)(k)]	7,700	7,913
	Contingencies	5,000	5,000
	Strategic Grain Reserve	2,700	2,913
F	Equalisation Fund [Article 203 (1) (g) and (h)]	3,400	6,000
G	Balance to be shared between the National and County Government	341,625	496,560
H	County Government Allocation from Revenue Raised Nationally	228,530	273,070
I	Balance Available for National Government Needs	113,095	223,490

180. The analysis in **Table 4.3** shows that after taking into account the criteria set out in Article 203(1) of the Constitution approximately Ksh 223.5 billion is left to fund other National Government needs, compared with Ksh 273.1 billion for County Governments.

Horizontal Division of Revenue among Counties

181. Section 190 of the Public Finance Management Act, 2012 requires the Cabinet Secretary for finance to prepare and submit to Parliament a County Allocation of Revenue Bill, setting out the division of County Governments' share of revenue among counties. County Governments will also get additional conditional allocations from the loans and grants.

182. **Table 4.4** provides estimates of revenue allocation among Counties in the financial year 2015/16. The allocations comprise of the equitable share of Ksh 258 billion.

183. Section 16 of the Sixth Schedule of the Constitution provides that the first and the second basis for the division of revenue approved under Article 217 of the Constitution shall have terms of three years each. The first basis of division of revenue was approved in November 2012 and therefore it is expected to lapse in the financial year 2014/15. It is expected that Parliament will approve another formula for sharing revenue among County Governments in 2015. In this regard, the CRA submitted the recommendation on the second basis for sharing revenue among County Governments to Parliament in November 2014. In that recommendation, the CRA has proposed that the equitable share of revenue be allocated among County Governments as follows:

- 45 percent to be shared on the basis of the ratio of County population to national population;
- 25 percent be shared equally among the County Governments;
- 18 percent be shared on the basis of poverty prevalence;
- 8 percent to be shared on the basis of the ratio of County land area to the country's land area;
- 1 percent to be shared on the basis of fiscal responsibility factor
- 1 percent to be shared on the basis of a factor that measures the level of County development; and
- 2 percent to be shared on the basis of personnel emolument factor.

184. Parliament however, has not approved the second basis for sharing of revenue among County Governments.

185. Section 191 of the Public Finance Management Act, 2012 requires the National Treasury to submit the County Allocation of Revenue Bill by 15th February each year. In order to fulfil that requirement the National Treasury has proposed the division of equitable share of revenue (Ksh 258 billion) among County Governments on the basis of the first formula for sharing revenue among County Governments pending the approval of the second formula for sharing revenue. It should, however, be noted that the proposed revenue allocations to county government set out in the County Allocation of Revenue Bill, 2015 are, therefore, subject to the decision of Parliament on the second revenue sharing formula and therefore may be revised to accord with the approved formula.

186. In addition, County Governments will also get the following additional conditional allocations from the National Governments share of revenue raised nationally:

- Allocation for Free Maternal Health Care of Ksh 4.298 billion. This will be distributed among County Governments on the basis of percentage contribution to total number of maternity deliveries during the financial year 2013/14.
- Allocation for leasing of medical equipment of Ksh 4.5 billion. This is to be allocated to County Governments equally.
- Allocation for level-5 hospitals of Ksh 2.064 billion. This is to be shared among County Governments on the basis of percentage bed occupancy per hospital in 2014.
- Allocation of Ksh. 900 million to compensate County Government for user fees revenue forgone. This is to be allocated among County Governments on the basis of the annual consolidated facility outpatient attendance workload as reported in the Health Information System.
- Allocation from the Road Maintenance Fuel Levy Fund of Ksh 3.3 billion. This is to be shared among County Governments on the basis of the revenue sharing formula approved by Parliament in accordance with Article 217 of the Constitution.

187. In addition, County Governments will be allocated Ksh 844.7 million from the proceeds of a grant from the Government of Denmark and Ksh 508.2 million from a World Bank loan. These funds are intended to support the delivery of health services in county health facilities with a view to increase access to health care services by Kenyans and in particular the poor. The funds are to be allocated to County Governments on the basis of the criteria specified in the

financing agreement between the Government of Kenya and the development partners.

188. County Governments will also be allocated additional conditional allocations of Ksh 9.3 billion from the other loans and grants received from development partners and the Government counterpart funding derived from the National Government's share. The conditional allocations from proceeds of loans and grants, however, will not be transferred to County Governments in the financial year 2015/16 due to the following reasons:

- There exists financing agreements guiding the structures and management framework of all the programmes/projects, the alteration of which would take long and delay implementation of programmes/projects;
- Loans and grants earmarked for devolved functions are tied to on-going contracts with suppliers, the alteration of which may have legal and cost implications;
- Some of the programmes/projects funded by loans and grants have agreed implementation structures transcending more than one County and therefore it may not be possible to place the responsibility for their management in one County Government; and
- The financing agreements also specify the funds flow modalities which may not be consistent with what is contemplated under the intergovernmental arrangement.

189. It is therefore expected that the loans and grants under the existing financing agreement will be managed by the National Government but with involvement of County Governments in the Project Steering Committees and Project Implementation Units for each programme/project. In addition, reporting arrangements as well as the conditions attached to the implementation of the programme/project will be clearly spelt out in Project Implementation Frameworks to be agreed with County Governments prior to the release of the funds and implementation of the projects.

Table 4.4: Revenue Allocation for Each County Government for FY 2015/16

County	FY 2014/15				FY 2015/16							
	Allocation Ratio	Total County Allocations (Ksh.)	Allocation Ratio	Equitable Share	Conditional Allocations - Level-5 Hospitals	Conditional allocation to compensate counties for forgone user fees	Conditional Allocations - Free Maternal Health Care	Conditional Allocations - Leasing of Medical Equipment	Conditional Allocations from Road Maintenance Fuel Levy Fund	Conditional Allocations - loans and grants	Total County Allocations	Per capita Allocations (Ksh.)
	Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J	Column K	Column L
1 Baringo	1.71%	4,057,394,164	1.71%	4,410,379,538	-	12,950,107	65,759,400	95,744,681	56,410,082	43,194,300	4,684,438,109	8,432
2 Bomet	1.81%	4,257,656,202	1.81%	4,674,885,819	-	16,880,750	58,452,800	95,744,681	59,793,197	14,950,000	4,920,707,247	6,795
3 Bungoma	3.25%	8,084,627,110	3.25%	8,392,955,021	-	38,017,014	170,630,600	95,744,681	107,348,422	196,750,000	9,001,445,737	5,519
4 Busia	1.80%	4,731,953,006	1.80%	4,633,829,570	-	11,377,011	99,713,600	95,744,681	59,268,075	46,240,000	4,946,172,938	10,134
5 Elgeyo/Marakwet	1.26%	2,992,906,918	1.26%	3,248,201,312	-	8,624,640	43,409,800	95,744,681	41,545,473	40,979,116	3,478,505,022	9,401
6 Embu	1.48%	3,960,971,745	1.48%	3,811,841,355	110,597,143	12,032,884	57,593,200	95,744,681	48,754,599	113,750,000	4,250,313,861	8,234
7 Garissa	2.22%	5,239,680,285	2.22%	5,732,441,178	206,448,000	14,523,507	50,286,600	95,744,681	73,319,649	33,028,268	6,205,791,882	9,960
8 Homa Bay	2.17%	5,132,111,440	2.17%	5,596,641,582	-	22,466,004	131,089,000	95,744,681	71,582,731	24,770,000	5,942,293,997	6,166
9 Isiolo	1.18%	2,758,735,254	1.18%	3,035,780,495	-	3,340,178	23,209,200	95,744,681	38,828,547	16,698,052	3,213,601,153	22,427
10 Kajiado	1.70%	4,064,285,065	1.70%	4,382,619,377	-	16,021,218	49,856,800	95,744,681	56,055,021	89,533,654	4,689,830,752	6,823
11 Kakamega	3.43%	8,934,694,689	3.43%	8,847,652,413	196,617,143	38,709,716	214,900,000	95,744,681	113,164,138	278,500,000	9,785,288,091	5,892
12 Kericho	1.73%	4,051,612,829	1.73%	4,474,429,023	-	17,676,855	98,854,000	95,744,681	57,229,294	22,600,000	4,766,533,853	6,285
13 Kiambu	2.87%	6,748,191,710	2.87%	7,412,788,746	189,244,000	37,838,646	224,785,400	95,744,681	94,811,800	556,200,000	8,611,413,272	5,305
14 Kilifi	2.86%	6,635,257,258	2.86%	7,390,615,415	-	25,867,884	177,077,600	95,744,681	94,528,196	82,306,764	7,866,140,540	7,088
15 Kirinyaga	1.36%	3,364,763,091	1.36%	3,514,157,291	-	12,308,920	50,716,400	95,744,681	44,947,130	336,770,000	4,054,644,422	7,678
16 Kisii	2.73%	6,428,632,090	2.73%	7,045,389,935	194,159,429	26,859,653	194,699,400	95,744,681	90,112,658	22,950,000	7,669,915,756	6,656
17 Kisumu	2.19%	5,416,087,048	2.19%	5,642,632,232	194,159,429	22,585,235	123,782,400	95,744,681	72,170,965	64,580,000	6,215,654,942	6,415
18 Kitui	2.80%	6,640,601,064	2.80%	7,217,854,672	-	23,606,211	63,610,400	95,744,681	92,318,534	83,985,266	7,577,119,764	7,482
19 Kwale	1.97%	4,640,786,703	1.97%	5,090,842,160	-	15,149,869	104,441,400	95,744,681	65,113,404	59,379,322	5,430,670,836	8,356
20 Laikipia	1.33%	3,165,045,544	1.33%	3,426,091,517	-	9,305,967	63,610,400	95,744,681	43,820,742	236,375,096	3,874,948,403	9,706
21 Lamu	0.79%	1,882,124,293	0.79%	2,037,930,673	-	2,366,871	16,762,200	95,744,681	26,065,747	14,772,526	2,193,642,697	21,604
22 Machakos	2.61%	6,365,722,976	2.61%	6,722,625,754	174,497,714	25,607,954	97,134,800	95,744,681	85,984,407	206,700,000	7,408,295,310	6,743
23 Makeni	2.30%	5,517,826,712	2.30%	5,929,076,848	-	20,618,293	80,802,400	95,744,681	75,834,678	244,130,000	6,446,206,901	7,288
24 Mandera	3.45%	7,905,886,654	3.45%	8,894,803,871	-	23,910,336	46,418,400	95,744,681	113,767,220	28,306,168	9,202,950,676	8,972
25 Marsabit	2.00%	4,619,742,773	2.00%	5,154,172,924	-	6,787,069	19,341,000	95,744,681	65,923,423	25,436,676	5,367,405,774	18,434
26 Meru	2.50%	7,314,154,186	2.50%	6,449,445,451	140,089,714	31,615,328	123,782,400	95,744,681	82,490,349	220,590,000	7,143,757,923	5,267
27 Migori	2.25%	5,309,291,735	2.25%	5,797,160,782	-	21,379,200	165,043,200	95,744,681	74,147,432	87,452,156	6,240,927,451	6,805
28 Mombasa	2.00%	4,876,632,249	2.00%	5,162,547,630	231,025,143	21,896,682	136,246,600	95,744,681	66,030,539	22,300,000	5,735,791,274	6,106
29 Muranga	2.06%	5,007,259,582	2.06%	5,319,575,838	-	21,971,530	80,802,400	95,744,681	68,038,977	124,810,000	5,710,943,426	6,059
30 Nairobi	5.00%	12,945,218,812	5.00%	12,908,230,346	-	73,155,271	302,579,200	95,744,681	165,100,152	6,227,800,000	19,772,609,650	6,300
31 Nakuru	3.12%	7,537,764,319	3.12%	8,061,138,849	216,278,857	37,373,449	219,627,800	95,744,681	103,104,393	25,260,000	8,758,528,029	5,463
32 Nandi	1.83%	4,269,752,922	1.83%	4,722,770,537	-	17,551,588	67,048,800	95,744,681	60,405,657	18,310,000	4,981,831,263	6,616
33 Narok	2.04%	4,819,247,736	2.04%	5,251,942,730	-	19,834,915	56,303,800	95,744,681	67,173,929	56,027,350	5,547,027,405	6,519
34 Nyamira	1.60%	3,778,844,772	1.60%	4,126,286,627	-	13,945,233	79,942,800	95,744,681	52,776,448	23,920,000	4,392,615,789	7,342
35 Nyandarua	1.66%	3,903,805,713	1.66%	4,277,782,196	-	13,898,986	50,716,400	95,744,681	54,714,122	91,860,000	4,584,716,385	7,689
36 Nyeri	1.71%	4,396,502,969	1.71%	4,418,964,381	211,363,429	16,166,813	82,091,800	95,744,681	56,519,885	182,930,000	5,063,780,988	7,301
37 Samburu	1.37%	3,191,260,695	1.37%	3,528,125,964	-	5,220,197	14,183,400	95,744,681	45,125,793	19,659,898	3,708,059,933	16,558
38 Siaya	1.92%	5,012,134,620	1.92%	4,961,330,048	-	19,634,077	128,080,400	95,744,681	63,456,905	119,030,000	5,387,276,111	6,396
39 Taita	1.27%	2,979,486,645	1.27%	3,287,062,702	-	6,635,345	42,120,400	95,744,681	42,042,522	32,052,898	3,505,658,547	12,315
40 Tana River	1.53%	3,600,438,234	1.53%	3,957,474,383	-	5,596,140	19,341,000	95,744,681	50,617,289	17,771,988	4,146,545,481	17,272
41 Tharaka Nithi	1.21%	3,436,431,667	1.21%	3,116,230,810	-	8,515,829	35,243,600	95,744,681	39,857,530	326,229,808	3,621,822,258	9,914
42 Transoia	1.96%	4,541,346,984	1.96%	5,064,934,679	-	19,085,197	67,908,400	95,744,681	64,782,039	11,330,000	5,323,784,996	6,502
43 Turkana	4.03%	9,235,031,320	4.03%	10,407,774,652	-	19,939,321	23,209,200	95,744,681	133,118,571	32,556,700	10,712,343,124	12,523
44 Usin Gishu	2.00%	4,625,610,045	2.00%	5,155,581,317	-	20,843,281	117,335,400	95,744,681	65,941,437	17,320,000	5,472,766,116	6,120
45 Vihiga	1.49%	3,788,364,319	1.49%	3,845,085,861	-	12,928,219	67,908,400	95,744,681	49,179,806	66,670,000	4,137,516,967	7,460
46 Wajir	2.78%	6,402,556,247	2.78%	7,183,556,754	-	15,429,821	50,286,600	95,744,681	91,879,854	36,459,300	7,473,357,010	11,290
47 West Pokot	1.66%	3,860,241,107	1.66%	4,284,358,741	-	11,950,786	41,260,800	95,744,681	54,798,238	27,979,898	4,516,093,144	8,809
GRAND TOTAL	100.00%	242,428,673,499	100.00%	258,008,000,000	2,064,480,000	900,000,000	4,298,000,000	4,500,000,000	3,300,000,000	10,671,205,204	283,741,685,204	7,349

Source: National Treasury

SECRET

Sources of Additional Resources for County Governments

190. In addition to the resources obtained from the National Government as equitable share or additional conditional or unconditional allocations County Governments can raise additional resources from the following sources:

- *Own revenues* from specific County Government revenue raising measures through imposition of property taxes, entertainment taxes, as well as any other tax they are authorised to impose by an Act of Parliament as well as user fees and charges authorised by county laws.
- *Borrowing*, provided the National Government guarantee is obtained as well as the approval of the respective County Assembly. In readiness for borrowing by County Governments the PFM Regulations that are to be submitted to Parliament for approval have further clarified the framework for County borrowing. The framework provides for among other things:
 - **Sources/Types of debt** which are available to County Governments
 - **Purposes** for which debt may be contracted;
 - **Procedures of borrowing**, which includes the process of approval (including issuance of guarantee) and guarantee eligibility criteria;
 - **Borrowing limits**. It has been proposed that the debt stock of a county government should not exceed 20 percent of that County Government last audited revenue while the debt service costs are to be capped at 15 percent of the County Government last audited revenue; and
 - Mechanisms to enforce compliance with law as well as reporting requirements.
- *Grants and donations* from development partners in accordance with section 138 and 139 of the Public Finance Management Act, 2012.
- *Equalization Fund* established under Article 204 of the Constitution for purposes of providing basic services including water, roads, health facilities and electricity to marginalised areas in order to bring these services in the marginalised areas to national standards.

SECRET

Fiscal Discipline

191. County Governments must ensure that county resources are used in a prudent and responsible way as required under Article 201(d) of the Constitution. In addition, County Governments must comply with the fiscal responsibility principles set out in the PFM Act and County Treasuries are also responsible for ensuring compliance with the set fiscal targets. In this regard, County Treasuries must ensure each County Government's recurrent expenditure does not exceed their annual revenue. In addition, County Treasuries should ensure County Governments' development budgets do not fall below 30 percent of their total budget over the medium term and that the wage bill and ceilings for County Assemblies are in line with the PFM regulations.

192. A key factor that may limit the capacity of County Governments to adhere to the set fiscal responsibility principles is the tendency to recruit additional staff without due regard to the County fiscal capacity. It is also the responsibility of each County Treasury to guard against the growth of the wage bill to unsustainable levels that may be detrimental to economic development. It should be noted that a wage bill limit will be set in the PFM Regulations that will soon be tabled in Parliament for approval and County Governments will be required to comply with the set limits when regulations are approved by Parliament. County Treasuries should therefore be conservative in terms of the budgetary provisions for salaries and allowances.

193. In the past some counties have tended to overstate their revenue projections. This increases the risk of having a huge unfunded budget deficit at the end of the financial year. County Governments are therefore expected to be conservative in projecting their revenue collections and to ensure that deficits are not included in their budget for financial year 2015/16 without a clear and realistic plan of how the deficit will be funded.

194. The National Government is committed to supporting County Governments to enhance their own source revenue. Towards this end, the National Government will work closely with the County Governments to come up with mechanisms and work plans for doing so.

Capacity Building of County Governments

195. Evidence shows that some counties are still experiencing challenges in fully implementing the PFM Act 2012. The national government will therefore continue providing the necessary support in order to build the capacity of County Governments in public finance management. In this regard, towards the end of the year 2014, the National Government embarked on a structured training

SECRET

programme guided by the County Public Finance Management Training Curriculum prepared by the National Treasury. For each of the training module identified in the curriculum, a Trainers and User's Manual are to be prepared. Manuals for two modules have been finalised and published. Preparation of manuals for other modules identified in the curriculum are underway. The National Treasury will also provide standby teams to respond to requests for support from the County Governments.

196. In addition, the National Government in collaboration with development partners will over the medium term design a framework for managing a performance grant which will involve transfer of conditional grants to counties which adhere to fiscal responsibility principles set out in the Act and its regulations as well as meet minimum conditions and key service delivery standards. Once the framework is in place, the government will reach out to development partners to provide their support to county governments through the framework and thus coalesce around common results. This approach will (i) increase the share of donor support through government systems and (ii) ensure improved service delivery through the achievement of key results and (iii) ultimately encourage county governments to achieve better fiscal performance. This will go a long way in incentivising county governments to improve their capacity to manage their finances in order to attain better fiscal performance.

SECRET

Summary

197. Immediately after the promulgation of the Constitution, the Government embarked on the process of establishing the necessary legal and institutional framework for successful rollout of devolution. This is now in place including the requisite human and financial resources to facilitate operationalization of the devolved system of Government. Indeed, the share of revenue raised nationally allocated to County Governments has grown steadily from Ksh 193.4 billion in financial year 2013/14 to Ksh 228.5 billion in 2014/15 and is expected to increase further to Ksh 273.1 billion in the 2015/16 financial year. Additional conditional allocations of Ksh 10.7 billion from proceeds of loans and grants from development partners will also be spent at the county level, bringing the total allocation to County Governments in 2015/16 to Ksh 283.7 billion. From a fiscal management viewpoint, what remains to be done in order to ensure the full benefits of devolution are achieved is to put in place measures that will enhance the efficiency and effectiveness of County Governments in the delivery of services. This will require training of the county staff as well as design of innovative methods to incentivise good fiscal performance and efficient and effective service delivery. Such methods will include introduction of intergovernmental grants aimed at incentivising the desired result.

V MEDIUM TERM EXPENDITURE FRAMEWORK

Resource Envelope

198. The resource envelope available for allocation among the spending agencies is based on the updated medium term fiscal framework which is outlined in Section III.

199. Domestically mobilized budget resources will finance about 80 percent of the expenditure priorities in the budget. Out of this, tax revenue (income tax, customs duties, value added taxes, and excise taxes) will accounts for over 85.8 percent of total budget resources. Revenues are expected to reach 21.5 percent of the rebased GDP in 2015/16. Committed total external support in the form of grants and concessional borrowing tied to specific programmes/projects are expected to be about 4.1 percent of GDP in 2015/16.

200. Domestic borrowing at 2.8 percent of GDP is expected to finance about 65 percent of the deficit in 2014/15, and thereafter is expected decline to 1.7 percent of GDP by 2017/18 in line with the objective of gradually reducing the debt stock as a percentage of GDP

201. Ordinary revenue is projected to broadly cover funding required for recurrent expenditure, County allocation and part of the development expenditure, leaving the rest of the development budget to be financed mainly through external project grants and loans, as well as domestic borrowing. This approach bodes well for long-term sustainability of our public finances.

202. The summary of the budgetary allocations for the 2015/16 – 2017/18 is provided in **Table 5.1**.

Table 5.1: Summary of the Allocations to the 2015/16 - 2017/18 MTEF Budget, Ksh Million

Details	2015/16	2016/17	2017/18
1 National Government	1,354,950	1,470,192	1,594,178
2 Parliament	22,947	23,656	24,702
3 The Judiciary	17,962	18,955	20,759
4 County Government*	261,700	288,800	318,700
Total	1,657,559	1,801,603	1,958,339
<i>* of which County Sharable:</i>	<i>258,008</i>	<i>284,900</i>	<i>314,500</i>

Key Priorities for the 2015/16 Medium Term Budget

203. The MTEF budget will critically be reviewed with a view to remove non-priority expenditures and shift the savings to the priority programmes. The Second MTP (2013-2017), together with the priorities of the Jubilee Administration will guide resource allocation.

204. The Constitution and the PFM Act, 2012 require both the National and County Governments to promote budgetary transparency, accountability and effective management of the economy. In line with this, the Government will aim at eliminating inefficient and wasteful public spending at all levels in order to promote public trust in public spending.

205. As we finalize the FY2015/16 Budget within the MTEF, we will critically review expenditures to ensure that expenditures are geared towards identified priority programmes of the Government. Taken as a whole, the budget for FY2015/16 will focus on the following:

- The critical social areas will continue to receive the bulk of budgetary resources. With a combined allocation of 27.2 percent of total discretionary expenditures, education and health sectors will receiving a significant share of resources.
- The budget will also reflect significantly increase in capital investments in the areas of Energy, Infrastructure, ICT and development expenditure in general. This reflects the priority we assign to the development in contributing to our growth objectives. The sector will receive 27.6 percent of total discretionary expenditures. This reflects Government's commitment in improving infrastructure countrywide, such as roads, energy and rail. The allocation to the sector will continue to rise over the medium term.

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

Medium-Term Expenditure Estimates

207. Table 5.2 provides the projected baseline ceilings for the 2014 MTEF, classified by sector.

Table 5.2: Medium Term Sector Ceilings, 2014/15 - 2017/18 (Ksh Million)

SECTOR		% SHARE OF TOTAL EXPENDITURE							
		ESTIMATES 2014/15	CEILING 2015/16	PROJECTIONS		ESTIMATES 2014/15	BPS 2015/16	PROJECTIONS	
				2016/17	2017/18			2016/17	2017/18
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	60,224	65,237	70,124	71,608	5.1%	4.7%	4.6%	4.4%
	Rec. Gross	15,957	16,430	16,889	17,974	1.3%	1.2%	1.1%	1.1%
	Dev. Gross	44,266	48,807	53,235	53,634	3.7%	3.5%	3.5%	3.3%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	256,894	385,411	383,581	399,964	21.7%	27.6%	25.4%	24.4%
	Rec. Gross	35,593	36,216	36,333	36,492	3.0%	2.6%	2.4%	2.2%
	Dev. Gross	221,301	349,196	347,248	363,472	18.7%	25.0%	23.0%	22.2%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	16,248	14,795	15,216	15,546	1.4%	1.1%	1.0%	0.9%
	Rec. Gross	6,654	6,841	7,062	7,292	0.6%	0.5%	0.5%	0.4%
	Dev. Gross	9,594	7,954	8,154	8,254	0.8%	0.6%	0.5%	0.5%
HEALTH	SUB-TOTAL	47,362	51,407	53,341	54,627	4.0%	3.7%	3.5%	3.3%
	Rec. Gross	26,061	28,011	28,758	29,576	2.2%	2.0%	1.9%	1.8%
	Dev. Gross	21,301	23,396	24,583	25,051	1.8%	1.7%	1.6%	1.5%
EDUCATION	SUB-TOTAL	308,351	327,359	361,928	395,572	26.1%	23.5%	23.9%	24.1%
	Rec. Gross	273,380	291,373	324,047	354,457	23.1%	20.9%	21.4%	21.6%
	Dev. Gross	34,971	35,986	37,881	41,115	3.0%	2.6%	2.5%	2.5%
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	130,855	143,220	170,810	201,859	11.1%	10.3%	11.3%	12.3%
	Rec. Gross	119,157	125,663	139,886	171,495	10.1%	9.0%	9.2%	10.5%
	Dev. Gross	11,697	17,557	30,924	30,364	1.0%	1.3%	2.0%	1.9%
						0.0%	0.0%	0.0%	0.0%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	196,948	217,699	245,240	269,015	16.7%	15.6%	16.2%	16.4%
	Rec. Gross	94,228	123,423	142,573	160,375	8.0%	8.8%	9.4%	9.8%
	Dev. Gross	102,720	94,276	102,667	108,640	8.7%	6.8%	6.8%	6.6%
NATIONAL SECURITY	SUB-TOTAL	90,721	114,072	131,224	149,356	7.7%	8.2%	8.7%	9.1%
	Rec. Gross	90,721	114,072	131,224	149,356	7.7%	8.2%	8.7%	9.1%
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	24,053	25,680	28,287	27,708	2.0%	1.8%	1.9%	1.7%
	Rec. Gross	11,085	11,234	11,479	11,750	0.9%	0.8%	0.8%	0.7%
	Dev. Gross	12,968	14,446	16,808	15,958	1.1%	1.0%	1.1%	1.0%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	50,807	50,977	53,073	54,381	4.3%	3.7%	3.5%	3.3%
	Rec. Gross	14,704	14,826	14,950	15,111	1.2%	1.1%	1.0%	0.9%
	Dev. Gross	36,103	36,152	38,123	39,271	3.1%	2.6%	2.5%	2.4%
TOTAL	TOTAL	1,182,463	1,395,859	1,512,823	1,639,636	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	687,541	768,089	853,200	953,878	58.1%	55.0%	56.4%	58.2%
	Dev. Gross	494,922	627,769	659,623	685,758	41.9%	45.0%	43.6%	41.8%

Baseline Ceilings

208. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures takes first charge and includes payment of statutory obligations such as interest payments, salaries for Constitutional offices and pension that are financed by the National Government included in the consolidated fund services. These expenditures are projected to account for about 17.3 percent of the expected ordinary revenue receipts.

209. Compensation of employees covering those staff in the line ministries providing services for National Government functions accounts for about 27.7 percent of the ordinary revenues. Expenditure on operations and maintenance accounts for 36.6 percent of the projected ordinary revenue, of which Defense and NSIS account for 10.3 percent

210. Overall, recurrent expenditure on non-discretionary, compensation of employees, operations and maintenance, and county allocation account for 95.9 percent of projected ordinary revenue. The balance of 4.1 percent from total ordinary revenue is the resources available to fund planned development projects/programmes for the National Government (excluding the Railway Development Programme which is financed through the Railway Development Levy) and loan redemptions.

211. As already indicated, it is only 4.1 percent of the ordinary revenue that will be available to finance part of the planned development expenditure in an ordinary year. The rest of the development expenditure is funded through borrowing from the domestic and foreign sources, as well as grants tied to projects.

212. Development expenditures are shared out on the basis of the Vision 2030 and MTP priorities as well as other strategic interventions to deal with unemployment and remove constraints to faster growth as outlined by the manifesto of the current Administration. The following guidelines are used:

- *On-going projects:* emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
- *Counterpart funds:* priority is also given to adequate allocations for donor counterpart funds. This is the portion the Government must fund in support of the projects financed by development partners. Usually it accounts for between a quarter to a third of the cost of the project.
- *Strategic policy interventions:* priority is also given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation and priorities of the Government.

Finalization of Spending Plans

213. 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 policy priority and programmes. As detailed budgets are scrutinized and the resource envelope firmed up, it is likely that additional resources may become available. Government will utilize these resources to accommodate key strategic priorities. Specifically, the following will receive priority:

Priority Areas of Consideration for Additional Resources	
1.	Intervention identified during the stakeholders consultation for 2015 MTEF budget.
2.	Implementation of any outstanding areas under the new Constitution covering proposals not accommodated within the baseline ceilings issued to Ministries.
3.	Strategic intervention in the areas of education (To achieve complete free primary education and free day secondary education by 2016/17); health (Through leasing of medical equipments and enhanced clinics for slum dwellings and other areas in the country); infrastructure (improve efficiency of roads and subsequently construct roads under the Roads Annuity Programme); tourism; security(Support for intensification of Police Modernisation and Military Modernisation); Energy (Expand street lighting in urban areas and connection of electricity in the rural areas) and agriculture (especially irrigation programmes and other food security enhancing programmes that will enhance productivity and modernization of the sector), 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. (This will include intensification of Youth programmes, completion of empowerment Centres under the ESP, reform and expand Biashara Kenya for the youth and women to access credit and gain requisite skills, expansion and modernization of stadia across the country to enable the youth fully develop their talents). In addition under Land Titling there will be enhanced land survey and provision of titles for all land to empower youth and women.

Details of Sector Priorities

214. The medium term expenditure framework for 2015/16 – 2017/18 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030 and strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty

SECRET

reduction. The recent achievements and key priority targets for each sector are based on the reports from the Sector Working Groups (SWG).

Agriculture, Rural and Urban Development (ARUD) Sector

215. The goal of the sector is to attain food security, sustainable land management, affordable housing and sustainable urban infrastructure development. The Constitution, under Article 43 on the Bills of Rights, provides for accessibility of adequate food of acceptable quality and accessible and adequate housing which is consistent with the aspirations of Second MTP (2013-2017) of Vision 2030 and the Jubilee Manifesto. The key policy objectives of the sector include: raising agricultural productivity through value addition, increasing market access and adoption of technologies; exploiting irrigation potential; increased commercialization of the sector activities; exploiting the potential of Exclusive Economic Zone (EEZ); creating an enabling policy and legal framework, improving efficiency and effectiveness of sector institutions; effective administration and management of land and land based resources; enhancing urban development; development of decent and affordable housing, and sustainable management of resources in the sector.

216. The sector has undergone major transition in terms of functions execution during the past MTEF period. A number of functions have been devolved to Counties as stipulated in Schedule Four of the Constitution. Therefore, the resource requirement for the sector will only cater for National Government functions. In terms of contribution to GDP, the Agricultural sector directly contributes 25.3 percent of the GDP valued at Ksh 961 billion. The sector also contributes approximately 27 percent to GDP through linkages with manufacturing, distribution and other service related sectors. It further accounts for about 65 percent of Kenya's total exports, 18 percent and 60 percent of the formal and total employment respectively (Economic Survey 2014). ARUD sector has been identified as one of the six sectors aimed at delivering the 10 percent economic growth rate under the Vision 2030.

217. During the 2012/13 - 2014/15 MTEF Period, the Sector implemented 12 programmes which realized the following key achievements:

- (i) In the Agriculture, Livestock and Fisheries sub sector, over 89,000 acres of land were put under irrigation, over 363,163 metric tones of subsidized fertilizer was procured and distributed; 2,100,000 Metric tones of strategic grain reserves was purchased, over 485,071 Metric tones of fish was produced in the country; over 50 percent of Disease Free Zones was completed; and 1,754,768 Doses of semen produced.
- (ii) In the Lands, Housing and Urban Development sub sector, over 963,153 deeds were registered, 485,000 Registry Index Maps were updated; Modernized land registries through: construction of 7 modern land registries and rehabilitation of 19 land registries; and establishment and equipping of a National bulk titling centre; 1,657 housing units were

SECRET

SECRET

constructed; 21 stalled government building projects were completed; 3 jetties were completed; 3,405 street lights within Nairobi Metropolitan region were installed

(iii) The National Land Commission established and operationalised 42 County Land Management Boards; Addressed 200 land conflicts between warring parties including placing restrictions on lands involved until the disputed issues are cleared; Recovered public land (City Park in Parklands, Nairobi; Kisite Mpunguti island in Kwale; recovered public land in Embakasi Ranching scheme, Fedha Estate, South 'C', Kasarani, and Dagoretti)

218. During the 2015/16-2017/18 MTEF period, focus will be directed to the following priority areas: increasing agricultural production and productivity through input subsidy programme, mechanized agriculture, irrigated agriculture, improved animal genetics and vaccine production and exploitation of deep sea fisheries; enhancing national food security through increasing and expanding strategic food reserves, establishing agriculture and livestock insurance scheme and undertaking agricultural, livestock and fisheries research.

219. The Sector will also seek to improve market access through the completion of Livestock Disease Free Export Zones (DFZ) and improvement of marketing infrastructure; entrenching institutional reforms, Land reforms and issuance of Title Deeds, establishment of National Land Information Management System (NLIMs), addressing land based conflicts, establishment of national spatial data infrastructure, development of more affordable and quality houses for lower income Kenyans, Installation of physical and social infrastructure in slums and informal settlements in urban areas and development of social and physical urban infrastructural facilities.

220. To achieve the above, the sector will require Ksh 87.5 billion for the FY 2015/16. During the FY 2015/16, the Sector has been allocated Ksh 65.2 billion, out of which Ksh 16.4 billion is for Recurrent and Ksh 48.8 billion for Development programmes. The allocation for FY 2016/17 and FY 2017/18 is Ksh 70.1 billion and Ksh 71.6 billion, respectively.

Energy, Infrastructure and Information, Communication and Technology Sector

221. Energy, Infrastructure and Information, Communication and Technology (EII) is a key sector for sustained economic growth and social development. The sector aims at expanding and sustaining physical infrastructure to support growth and development of the economy.

222. During the 2012/13 - 2014/15 MTEF Period, the Sector implemented thirteen programs. The key notable achievements in the sector include:

SECRET

- SECRET
- i) Energy & Petroleum Sub-Sector: 198.5MW of electricity generated from geothermal wells, 474.5Km of electricity transmission lines completed; 34,568Km of new distribution lines completed; and 1,020,868 new customers connected, including 27,443 public institutions which were electrified by June 2014; 6,000 domestic biogas digesters installed; 1.25 million Compact Fluorescent lamps distributed to 400,000 customers; Kenya Pipeline Company recorded increase in throughput by 22 percent from 4,536,097 cubic meters in 2011/2 and to 5,545,280 cubic metres in 2013/14.
 - ii) Transport & Infrastructure Sub-Sector: 1,067km of roads were reconstructed and rehabilitated; 3,045.8km were periodically maintained; and 931.9km of new roads constructed. In addition, the National Transport and Safety Authority was operationalized in 2012; Makandara, Imara Daima and Syokimau railway line stations were completed and commissioned; dredging of Mombasa Port was completed and commissioned; Works at Kisumu Airport are over 90 percent complete; Isiolo Airport runway was completed and the construction of passenger terminal is on-going; and Terminal 1A of JKIA is partly operational.
 - iii) ICT Sub-Sector: Cost of broadband/internet dropped from \$3500 per MB per month to current \$ 650 per MB per month; and Installation and Commissioning of a National Private Virtual Network for Kenya Education Networks (KENET) Member Institutions completed

223. During the 2015/16 – 2017/18 MTEF period, air transport facilities will be expanded to strengthen Kenya's position as the air transport hub in our region. Priority will also be given to improving the efficiency of air and sea ports, and the implementation of the single window clearance system. With the construction of the standard gauge railway line from Mombasa to Malaba, rail transport will be expected to handle 50 percent of the freight cargo throughput, thus easing the pressure on the roads, lowering the cost of doing business, and enhancing trade and regional integration in Eastern Africa. The new Lamu Port and the LAPSET corridor will be implemented as part of upgrading of the national transport framework in collaboration with other countries in Eastern Africa. To relieve congestion in the main urban areas, planned mass rapid transit systems will be constructed.

224. With regard to the Infrastructure and Transport sub-sectors, there are plans to construct/rehabilitate 5,500km of roads through the conventional financing methods. In addition, 10,000km of road network will be developed and rehabilitated with financing sourced under a new innovative initiative of annuity financing mechanism. The 10,000km will as practically as possible include 20km of new roads in every constituency by 2017.

225. With regard to energy, a strategy is in place for modernizing energy infrastructure network, increasing the share of energy generated from renewable

energy sources, and providing energy that is affordable and reliable to businesses and households. This will ensure that energy supply is adequate and efficient in order to contribute to the lowering of the cost of doing business in Kenya. The Plan aims at increasing installed capacity for electricity generation by 5,538 MW in 2017.

226. Development in the ICT sector will build on achievements realized under the First Medium Term Plan for Vision 2030. A new ICT policy to provide for more utilization of digital technology in all goods and service sectors will be developed. The Government, will promote the use of ICT in the learning institutions starting with schools, and improve cyber security in order to facilitate more use of ICT in business transactions. The New policy will also aim at facilitating usage of ICT in research and development, and to drive learning and innovation in the economy.

227. During the period, the Sector has been allocated Ksh 385.4 billion, out of which Ksh 36.2 billion is for recurrent and Ksh 349.2 billion for development programmes. The shortfall will be addressed through public private partnerships and the annuity arrangements in road construction. The allocation for FY 2016/17 and FY 2017/18 is projected at Ksh 383.6 billion and Ksh 400.0 billion respectively.

228. The sector faces numerous challenges which include vandalism of infrastructural facilities; high turnover of trained and skilled technical personnel; encroachment of infrastructure way-leaves; inadequate financial resources; lengthy procurement processes; slow disbursement of development partners' counterpart funds, land litigation; lengthy stakeholder and bureaucratic procedures and among others. To mitigate these challenges, the sector will; seek alternative financing models, continuously build capacity, enforce existing legislation, develop/review appropriate policies and legislations, align the sector's policies and legislations to the Constitution of Kenya, among others.

Social Protection, Culture and Recreation Sector

229. 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.

230. During the 2011/12 – 2013/14 MTEF Period, the sector organized sports programmes for vulnerable groups and facilitated teams to successfully

participate at international competitions; hosted 10 international competitions; developed sports facilities including Moi International Sports Centre and 30 other community sports facilities. Other achievements include, rehabilitation works at Kipchoge Keino Stadium; Stadium Hotel Kasarani, Nyayo Stadium and Moi International Sports Centre Housing Estate; conservation of heritage; digitization of documents and microfilmed records; upgrading and automation of library services. In addition, labour market institutions were established and made operational; the National Policy on Occupational Safety and Health was developed and launched, the Industrial Training (Amendment) Act, 2011 was enacted; National Employment Policy and Strategy for Kenya was developed in collaboration with key stakeholders; rehabilitation of children in custody, child protection centres were established and implementation National Safety Net programme.

231. During the 2015/16 – 2017/18 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 Sport Academy will be operationalized to nurture top level skills development of sportsmen and women from grassroots level countrywide. The Kenya National Library Services will increasingly improve access to information and knowledge resources to all communities and regions. The sector will focus on creating an efficient, skilled and motivated human resource base whose safety and health at work is guaranteed, principles of decent work observed, fundamental rights at work including fair remuneration adhered to and tenets of social security practiced. In addition, the sector will continue to empower vulnerable groups specifically the orphans and vulnerable children, the elderly, and persons with disability and improving their livelihoods through the National Safety Net Programme.

232. The sector has identified eight (8) priority programmes for implementation during the 2015/16 to 2017/18 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. To implement these programmes, the sector has been allocated Ksh 81.7 billion over the medium term. The sector has been allocated Ksh 25.7 billion for the FY 2015/16 this comprises of Ksh 11.2 billion and Ksh 14.4 billion for recurrent and development programmes respectively. This is an increase of 6.8 percent from the allocation in FY 2014/15. During the FY 2016/17 and 2017/18, it is projected that resources allocated to the sector will increase to Ksh 28.3 billion and Ksh 27.7 billion respectively.

233. The key challenges facing the sector include inadequate funding; inadequate human resource capacity; inadequate policy, legal, regulatory and institutional framework; inadequate infrastructure; limited linkage between industry, training institutions and research institutions; inadequate market and labour information; and limited capital investments in sports, film and music

industries. To address the above challenges a number of interventions and strategies will be implemented. These include, supporting the development and marketing of cultural products and industries; research and promotion of national heritage; upgrading technology use in records archives management; supporting sports and creative Arts industry; upgrading and digitization of the national library services; building capacity for development, regulation and marketing of film services; promotion of harmonious industrial relations; strengthening linkages between industry and training; and promotion of productivity for competitiveness. Further, to address the challenge of inadequate Market Labour information, there will be interventions that includes among others, development of a functional labour market information system (LMIS), integrated human resource development strategy (IHRDS) and development of a national skills inventory.

Education Sector

234. 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.

235. During the 2011/12 – 2013/14 MTEF Period, Early Childhood Development and Education (ECDE) enrolment increased from 1.9 million in 2009 to 2.4 million in 2013. Free Primary Education programme enrolment increased from 8.8 million (4.5 million male; 4.3 million female) in 2011 to 10.1 million (5.1 million male and 5 million female) in 2013. The pupil completion rate remained above 75 percent and transition from primary to secondary education increased from 66.9 percent in 2012 to 73.3 per cent in 2013. During the FY 2013/14, 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. Sanitary pads were provided to 675,000 girls in 9,000 primary and 167 special needs primary and secondary schools. The number of university students that benefitted from loans increased from 105,850 in 2011/2012 to 144,785 in 2013/14 with the number of postgraduate students receiving loans increasing from 2,132 in 2011/12 to 2,740 in 2012/13 and to 3,191 in 2013/14. Bursaries were also awarded to 10,711 poor students in 2013/2014.

236. The sector priority programmes to be implemented during the 2015/16 to 2017/18 MTEF Period are: 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. The sector has been allocated Ksh 327.4 billion for the FY 2015/16 which is an increase of 6.2 percent from the FY 2014/15. The allocation comprises of Ksh 291.4 billion for recurrent and Ksh 36 billion for development expenditure. The

allocations for outer years are Ksh 361.9 billion and Ksh 395.6 billion for the FY 2016/17 and FY 2017/18 respectively.

237. The sector faced a number of challenges during the implementation of its programmes. These include shortfalls in funding of crucial programmes, shortage of manpower (teachers and instructors in primary, secondary and tertiary training institutions), poor and inadequate facilities, slow pace of ICT integration, and low level of investment in Science and technology as well as inadequacies of legal, policy and institutional frameworks. The sector has undergone significant legal, policy and institutional reforms which have resulted in establishment of new institutions. Operationalization of these institutions will require considerable resources if they are to deliver on their mandates as expected.

Health Sector

238. The mandate of the sector is to build a progressive, responsive and sustainable technologically-driven, evidence-based and client-centred health system for accelerated attainment of the highest standard of health to all Kenyans.

239. Kenya epidemiological profile shows that, disease burden is still high. Top five causes of outpatient morbidity are malaria, diseases of the respiratory system, skin diseases, diarrhoea, and accidents accounting for about 70 per cent of morbidity. However, achievements have been realized in a number of indicators including reduction of under five mortality from 115 per 1,000 live births in 2003 to 74 per 1,000 live births in 2008/09; and infant mortality from 77 per 1000 live births to 52 per 1000 live births in the same period. Despite a decline from 590 per 100,000 in 1998, maternal mortality ratio for Kenya is still very high at 488 per 100,000 live births in 2008/09.

240. In order to sustain the gains made and improve on the sector performance, the National and County Governments will require investing substantial resources in this Sector during the 2015/16 – 2017/18 MTEF period. Most of the public health programmes are dependent on donors for financing. As more government funds become available to the health sector, efforts will be made to increase the allocations to health programmes which are currently relying on donor financing with the overall goal of full financing in the long run. In the recent past, the country has witnessed potential disease threats like Ebola and acts of terrorism. Additional resources will be provided to prepare, respond and contain such situations. The National Government will also undertake comprehensive capacity analysis with a view to developing a comprehensive capacity building plan to facilitate realization of health sector objectives. Efforts will also be made to upgrade and equip cancer units at KNH and Moi Teaching and Referral Hospitals. During the 2015/16 - 2017/18 MTEF period, the sector requires Ksh 88.983 billion. In FY 2015/16, Ksh 51.4 billion has been allocated to the Sector. This comprise of Ksh 28.0 billion and Ksh 23.4 billion for recurrent and development programmes, respectively. This is in addition to the allocations to the Health Sector under the devolved units. The allocations for FY 2016/17 and FY 2017/18 are Ksh 53.3 billion and Ksh 54.6 billion, respectively.

241. Although HIV and AIDS has come under control through several interventions including provision of ARVs, several 'old' infectious diseases, including tuberculosis and malaria have proven problematic, because of increased antimicrobial resistance and activation of infectious agents (e.g. tuberculosis) in people whose immune system is weakened by AIDS. Further, deteriorating security concerns pose a significant and growing threat to national security with serious implications for public health. Threats from Ebola and acts of terrorism have the potential of affecting health and loss of lives.

242. Although significant progress towards containing the threat of communicable diseases such as HIV and AIDS, Malaria, Pneumonia, TB and Cholera have been made, the burden to the sector is still significant. This is at the backdrop of rising non-communicable diseases like cancer, hypertension, heart diseases and diabetes due to changes in life styles. Injuries (road traffic accidents) are also significant causes of death and disability. This combined double burden is projected to further increase, posing new challenges and pressure on the health care delivery system. Other challenges facing the Sector include:

- (i) Health workers to population ratio. - The numbers of health workers has not kept pace with population growth
- (ii) Over-reliance on external funding which form a significant share to development budget
- (iii) The high child nutrition status (stunting) has the potential to cause future declines in health status.

General Economic and Commerce Affairs Sector

243. The Sector contributes significantly to the country's GDP and is approximated to be around 35 percent. It is still among the key areas with potential of accelerating the economic growth and development for the achievement of the development blue print Vision 2030.

244. In the 2011/12 – 2013 MTEF Period, the sector implemented seven programmes which contributed to coordinating regional integration programmes, promotion of Kenya as a tourist destination intensified, spearheaded the development resort cities, improved the supply chain efficiency in wholesale and retail trade, enhanced industrial investments and mobilized additional savings through co-operatives and enforced good corporate governance of the co-operative movement. Notable achievements for the sector during the period include:

- (i) East African Affairs, Commerce & Tourism sub-sector: The signing of the Monetary Union Protocol by the five Partner States on 30th November 2013, As part of the implementation of the Customs Union, three EAC Partner States; The EAC Common Market Protocol which became effective on 1st July 2010 provides for free movement of goods, services, persons, labour and capital; Kenya was declared the World's Leading Safari

Destination at the 20th World Travel Awards (WTA) grand finale; the sector also spearheaded the development of proposed three resort cities in Isiolo, Lake Turkana and Lamu.

- (ii) Industrialization and Enterprise Development sub-sector: 135, 32 and 20 acres of land have been identified in Eldoret Juja and Taita Taveta respectively for development of SME parks; Ethics Commission for Co-operative Societies was established to enforce good governance in Co-operatives.

245. During the 2015/16 – 2017/18 MTEF Period the sector will focus on deepening integration programmes by implementation of the already concluded Customs Union, the Common Market, Monetary Union protocols. Promoting Kenya as a tourist attraction destination and a Business and Conference Tourism Initiative, development of proposed three resort cities in Isiolo, Lake Turkana and Lamu; development of a model pilot wholesale hub in Maragua and Tier 1 retail market in Athi River; Development of Industrial Technology & SME parks in Eldoret, Juja and Taita Taveta Master planning and development of Mombasa SEZ together with Dongo Kundu FTZ, Infrastructural development for leather and textile hubs and enforcement of good governance in the cooperative societies.

246. For 2015/16 – 2017/18 MTEF period, the programmes prioritized for funding are; Industrial development and Investment; Cooperative Development and Management; Co-ordination of East African Community matters; Trade Development and Promotion; Tourism Development and Promotion; and General Administration, Planning & support services. To implement these programmes, the sector requires Ksh 38.8 billion against the actual allocation of Ksh 14.8 billion during the FY 2015/16. This comprises of Ksh 6.8 billion and Ksh 8.0 billion for recurrent and development programmes respectively.

247. The sector is faced with numerous challenges and emerging issues which need to be addressed to enable the sector realize its targets. These include, travel advisories which hinder the international tourists and potential investors from visiting the country; insecurity cumbersome regulatory and administrative business environment; poor infrastructure; unreliable and high cost of energy; influx of sub-standard, counterfeits and contra-band goods; low access to credit facilities and financial services; high interest rates and insufficient long term financing; poaching and illegal trade in wildlife products; multiple trade regulations; and low level of awareness on regional integration opportunities/benefits.

Governance, Justice, Law and Order Sector (GJLOS)

248. The sector is premised within the political pillar of the Kenya Vision 2030 and plays an important role in providing an enabling environment for social-economic development of the Country as outlined in the Second Medium Term Plan (MTP II 2013-2017). The Sector has the responsibility of providing

effective policing services; Coordination of National Government, peace building and conflict management; reforming of laws; promotion and protection of human rights; registration services, administration and access to justice, prosecution and legal advice to Government agencies; promotion of integrity and the fight against corruption; management of electoral process; regulation of gaming industry; management of custodial and noncustodial offenders; spearheading implementation of the Constitution; providing population management services; eradication of drugs and substance abuse; promotion of gender equality and freedom from discrimination; witness protection; crime research; government printing services; and regulation of political parties.

249. In realizing the sector objectives, the budget allocations is aligned to the sub-sectors' strategic plans, mandates, Jubilee manifesto priorities and MTP II. Some of the priority areas that have been identified as key in the sector and thus require adequate funding in the current MTEF period include: ongoing police and prison reforms, continued implementation of the constitution, prosecutorial capacity, ongoing judicial reforms, strengthening newly created sub-sectors, promotion and mainstreaming of human rights, anticorruption programmes, funding of political parties, preparation for 2017 General elections and decentralizing sub-sectors' services across all the counties.

250. During the FY 2015/16, the GJLO sector requires Ksh 226.7 billion to fund its programmes, projects and activities up from Ksh 130.9 billion allocated in current FY 2014/15. The resource requirement is projected to increase to Ksh 242.1 billion and Ksh 259.0 billion in FY 2016/17 and FY 2017/18 respectively. The Sector's resources allocation for FY 2015/16 is Ksh 143.2 billion, and comprise of Ksh 125.7 billion for recurrent and Ksh 17.6 billion for development. The allocation is projected to increase to Ksh 170.8 billion and Ksh 201.9 billion in FY 2016/17 and FY 2017/18 respectively.

251. The challenges being faced by the sector in the implementation of its mandate include capacity constraints in the adoption and use of technology; porous borders leading to influx of illegal firearms and refugees; vetting of public officers resulting to legal redress; inadequate resources due to newly created agencies such as Asset Recovery Agency, Nairobi Centre for International Arbitration, numerous legal suits against the Government; cross border legal practice due to lack of harmonized accreditation criterion; decentralization of operations due to limited financial and technical resources; and weak collaboration across the sectors.

252. Despite the numerous challenges encountered during the period, the sector made remarkable strides towards the realization of development aspirations of the country. The sector will continue to implement its mandate, streamline its functions and work closely with other sectors and the Government for the benefit of the Kenyan people. Some of the emerging issues which will be taken into account during the implementation of the sector priorities include complex and sophisticated crime (including cyber-crime); drug abuse, human trafficking; emerging forms of terrorism including youth radicalization; County

border conflicts resulting to poor service delivery; continuous voter registration and registration of voters in Diaspora; and the ongoing referendum debate.

Judiciary

253. The Judiciary's key objective is to dispense justice to all irrespective of status, provide justice expeditiously, promote alternative dispute mechanisms, administer justice without undue regard to procedural technicalities and promote the purpose and principles of the Constitution. The GJLOS sector proposal includes the MTEF expenditure limits for the Judiciary. The estimates of expenditure for the Judiciary will be submitted directly to the National Assembly in line with the Constitution.

254. The challenges facing the Judiciary include case backlog, case delay and inaccessibility to justice in many parts of the country. This is attributed to lack of adequate facilities in most of the existing court stations in the country; inadequate numbers of judicial officers and other support staff; and slow adaptation and institutionalization of ICT technology and other facilities, slow pace of reform by other justice sector bodies.

255. The Judiciary resource requirement for the FY 2015/16 is Ksh 28.7 billion which will be utilized for construction of new court buildings to accommodate more Judicial Officers, automating of the court processes, networking of court stations and hiring of more Judicial Officers and Staff. During the 2015/16 MTEF period, the Judiciary will prioritize the implementation of the Constitution and continue to implement strategies that will lead to reduced case backlog, improved access to justice and modernize the court systems. The proposed allocation for the FY 2015/16 is Ksh 18.0 billion, Ksh 18.9 billion for FY 2016/17 and Ksh 20.8 billion for FY 2017/18 respectively.

Public Administration and International Relations Sector (PAIRS)

256. The sector plays a key role in enhancing public service delivery, organization and coordination of Government business through planning, mobilization of financial and human resources in the public sector. In addition, the sector links all other sectors with the rest of the world on matters of international treaties, agreements, cooperation and resource mobilization.

257. During the MTEF period 2011/12 - 2013/14, the Sector implemented twenty six (26) programmes with the overall absorption rate standing at 87.8 percent. The expending of the resources enabled realization of a wide range of key outputs which included, creation and operationalization of a new government framework in 2013; commencement and institutionalization of devolution; development and launch of the MTP II of the Kenya Vision 2030; successful lobbying and the upgrading and placement of the Nairobi based UN offices in under the Secretary General hence secured predictable funding from the UN Budget; successful floating of the USD 2 billion international Sovereign Bond; establishment and operationalization of 13 One Stop Shops, commonly known as

Huduma Centres; establishment and operationalization of Uwezo Fund; resettlement of 8,989 Internally Displaced Persons and forest evictees; 159,248 women accessed Women Enterprise Fund (WEF); and upgraded the Public Service Commission's online Recruitment and Selection Database System for expanded service delivery and resolved 12,642 cases on maladministration in the public service.

258. The programs that will be financed during 2015/16 - 2017/18 MTEF period include implementation of the Second Medium Term Plan, 2013 – 2017 (MTPII) of the Kenya Vision 2030, and its flagship projects, the Constitution, Jubilee Manifesto priorities, and many other sub-sectors' specific priorities. In implementing its programmes, the Sector will be guided by thirteen (13) strategic objectives which are anchored on the Sector Mission which is "To provide overall policy, leadership and oversight in economic and devolution management, public service delivery, resource mobilization and implementation of Kenya's foreign policy". During the 2015-16 – 2017/18 MTEF period, the Sector will implement thirty two (32) programs which have been allocated Ksh 217.7 billion, Ksh 245.2 billion and Ksh 269.0 billion for the FY 2015/16, FY 2016/17 and FY 2017/18 respectively. Budget shortfalls are thus expected in the MTEF period necessitating reprioritization of programmes.

Parliament

259. This sector proposal includes the MTEF expenditure limits for the Parliament that is expected to be submitted directly to the National Assembly in line with the Constitution. Parliament plays a crucial role in strengthening the democratic space and good governance in the country. The allocation for Parliament is Ksh 22.95 billion for FY 2015/16, Ksh 23.7 billion for FY 2016/17, and Ksh 24.7 billion for the FY 2017/18.

260. The allocation for Parliament for FY 2015/16 includes Ksh 12.7 billion for the National Assembly under the Legislation, Representation and Oversight Programme and Ksh 5.2 billion for the Senate under the Senate Affairs Programme. In addition Ksh 5.1 billion is proposed to cater for the General Administration and Planning Programme which is a jointly shared function by both the National Assembly and the Senate.

Environment Protection, Water and Natural Resources Sector

261. The Environment Protection, Water and Natural Resources sector comprises three sub-sectors namely: Environment and Natural Resources, Water and Regional Authorities and Mining, corresponding to the State Department for Environment and Natural Resources, State Department for Water and Regional Authorities and Ministry of Mining respectively. There are twenty eight (24 operational and 4 proposed) Semi-Autonomous Government Agencies (SAGAs) and three (3) other institutions. The proposed institutions are: Wildlife Research and Training Institute under the Wildlife Act of 2013, Mining Institute, National Mining Corporation and Mineral Rights Advisory Board under Mining Bill

before Parliament. The National Environment Tribunal has been an institution under the sector but has since been transferred to The Judiciary. Proposals to merge some state corporations for operational efficiencies are under consideration, but not concluded.

262. The performance of the sector was constrained by both internal and external factors that included low tourist arrivals due to travel advisories; poaching, insecurity including terrorism, invasive alien species, environmental challenges like climate change and limited value addition.

263. The sector will take leadership in the review and harmonization of sector's Acts, statutes, policies, rules and regulations in the sector, increase tree cover, explore the country's minerals, rehabilitate degraded areas, recovery of illegally acquired forest land, increased access to clean water, reduce poaching incidences and human-wildlife conflict, provision of enhanced meteorological information and services, waste management and pollution control, integrated regional development and natural resources mapping.

264. The medium term priorities and financial plan for the MTEF period 2015/16-2017/18 will finance a total of nine (9) programmes and nineteen (19) sub-programmes. The total resource requirement is estimated at Ksh 174.4 billion in the FY 2015/16 of which Ksh 145.91 billion is for development vote and Ksh 28.52 billion is for recurrent vote. This is against the set budgetary ceiling of Ksh 51.0 billion available for the sector in terms of both GoK and Donor funding. This allocation is projected to increase to Ksh 53.1 billion, and Ksh 54.4 billion in the FY 2016/17 and FY 2017/18 respectively.

National Security

265. The 2015/16 – 2017/18 MTEF estimates for the sector amounts to Ksh 275.1 billion of which Ksh 114.1 billion has been set aside for the FY 2015/16, rising to Ksh 131.1 billion in the FY 2016/17 and Ksh 149.3 billion in FY 2017/18.

Programme Performance Information for 2015/16 - 2017/18 MTEF Period

266. Information on the programmes outputs, key performance indicators, and the set targets for the 2015/1016 – 2017/2018 MTEF period is contained in **Annex Table 6**, annexed separately to this 2015 BPS.

VI CONCLUSION

267. The overall expenditure in this BPS as outlined MTEF has grown moderately taking into account the envisaged moderate economic growth. However, the critical social areas will continue to receive a significant share of resources as well as capital investments as contribution to the growth objectives.

268. The budget framework has also provided huge allocations to the counties, way above the constitutional requirements of 15 percent of recent audited and approved revenues. This not only shows commitment of the National Government in supporting devolution but also ensuring that adequate resources are availed to uplift lives of the citizenry.

269. The policies outlined in this BPS largely re-emphasises the economic transformative agenda outlined in 2014 BPS, reflecting the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. These strategic objectives are provided in the Second Medium Term Plan as well as the Jubilee Administration priorities.

270. The preparation of this 2015 BPS, was through a consultative process as required by the Public Finance Management Act, 2012.

271. We shared for comments the Draft 2015 BPS with institutions listed in the PFM Act, 2012 and uploaded the documents in the Treasury website for wide outreach. We received useful comments that have been considered and incorporated where necessary while finalizing the document. We thank all the institutions and persons who shared their comments with us for enriching this Budget Policy Statement.

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISKS

I. Overview

1. The Kenyan economy is highly susceptible to various domestic and exogenous shocks, such as droughts, volatility in commodity prices, as well as insecurity and terrorism threats. More recently, the slowdown in global growth and external security threats have posed challenges to attainment of projected expansion in 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.

2. As part of requirement under the Public Finance Management Act, 2012 for prudent management of risk, this Annexure presents the **Statement of Specific Fiscal Risks (SSFR)**. 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 drought.

3. Overall, the Statement highlights the following:

- Macroeconomic assumptions have been broadly accurate, although economic growth, VAT collection mechanism, and under-spending by line ministries remains a key concern;
- Kenya's debt sustainability analysis indicates that our public debt is projected to remain sustainable;
- Contingent liabilities from key State Corporations present minimal fiscal risks.
- The financial sector remains sound and is adequately capitalized.
- Steps are being taken to ensure food security with on-going irrigation programmes and robust early warning systems, but significant investment is required to meaningfully reduce the country's vulnerability to drought.

II. Specific Macroeconomic and Fiscal Risks

Changes in Underlying Macroeconomic Assumptions

4. 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 in this BPS and the budget estimates and expenditure being submitted to Parliament for approval.

SECRET

5. In particular, the projected budget balance is sensitive to expected reduction in output (lowers tax collection, especially from income taxes and VAT and lowers consumption expenditure), inflation increase (increases tax revenues through increases in the base for income taxes and VAT) and depreciation in exchange rate (improves revenues, mostly through customs and VAT on imported goods and expenditures especially foreign interest rate repayments and foreign expenditure-related maintenance and operating expenditures). A growth in merchandise imports (excluding government imports and oil imports) positively impacts revenues given the higher tax base for import duties. All the four shocks combined will result to a higher increase in revenue than expenditure that will lead to a budget surplus.

Table A1.1 presents the magnitude of first round impacts of various macroeconomic variables on fiscal aggregates.

Table A1.1 Fiscal Sensitivity to Key Macroeconomic Variables, 2013/14 (Ksh billion per year)

	Revenue	Expenditure	Budget Balance
One percentage point reduction in real GDP (%)	-6.0	-3.9	-2.1
One percentage point increase in inflation rate (%)	5.7	4.1	1.6
10% depreciation in exchange rate (Ksh/US\$)	3.4	4.7	-1.2
10 percentage increase in US\$ value of goods imports (%)	6.9	0.0	6.9
All shocks Combined	10.3	4.8	5.5

Source: Estimates from National Treasury

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

6. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in Table A.1.2. Over the period 2011/12-2014/15, the average deviation between the assumed and provisional actual real GDP growth rates was only 0.3 percentage point. With respect to inflation assumption, the large deviation in FY 2011/12 reflect 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 increased the average deviation to 1.9 percentage point. Meanwhile, the average deviation on export and import growth was minimal.

SECRET

Annex A1.2: Deviations in Macroeconomic Assumptions/Fiscal Aggregates Projections and Actual

(In percentage points; unless specified)	2011/12			2012/13			2013/14			2014/15			2011/12-2014/15 Average Deviation
	Proj.	Act.	Dev.	Proj.	Act.	Dev.	Proj.	PreL	Dev.	Proj.	Prov.	Dev.	
I. Key Macroeconomic Assumptions													
Real GDP	5.5%	5.3%	-0.2%	5.5%	5.1%	-0.8%	5.9%	5.5%	-0.3%	6.1%	6.1%	0.0%	-0.3%
Inflation rate (avg)	5.1%	16.1%	11.0%	9.8%	5.9%	-3.9%	6.7%	6.0%	-0.6%	5.7%	5.7%	0.0%	1.6%
Domestic borrowing (average rate)	9.9%	9.6%	-0.3%	6.4%	6.4%	0.0%	9.7%	0.1	0.0%	9.3%	9.3%	0.0%	-0.1%
Exchange rate (Ksh/USD), Avg	81.1	88.8	7.7	85.3	85.3	0.0	87.0	87.0	0.0	88.4	88.4	0.0%	1.9
Export growth	11.8%	7.7%	-4.1%	0.7%	0.7%	0.0%	4.4%	4.4%	0.0%	15.1%	15.1%	0.0%	4.0%
Import growth	14.2%	15.1%	0.9%	5.8%	5.8%	0.0%	8.1%	8.1%	0.0%	10.0%	10.0%	0.0%	6.2%
II. Fiscal Aggregates (in Ksh billion)													
Total Revenue	823.2	763.5	-59.7	942.2	868.2	-74.0	1013.8	981.1	-32.6	1215.1	1188.7	-26.4	-48.2
Tax and non-tax	774.4	748.2	-26.2	866.8	847.2	-19.6	987.3	954.7	-32.6	1157.6	1141.2	-16.4	-23.7
Ordinary, incl. LATF	703.0	703.6	0.6	797.2	797.5	0.4	920.4	919.0	-1.4	1086.4	1070.0	-16.4	-4.2
AiA	71.4	44.6	-26.8	69.6	49.7	-19.9	67.0	35.7	-31.3	71.2	71.2	0.0	-19.5
Grants	48.8	15.3	-33.5	75.4	20.9	-54.4	26.4	26.4	0.0	57.5	47.5	-10.0	-24.5
Total Expenditure	975.7	947.8	-27.9	1178.6	1107.3	-71.3	1239.8	1107.2	-132.6	1360.1	1431.3	71.2	-40.2
Recurrent	644.6	647.1	2.5	863.8	808.3	-55.5	854.6	787.9	-66.7	871.5	900.2	28.6	-22.7
Development	331.1	300.7	-30.4	314.8	298.9	-15.9	385.2	319.3	-65.9	488.6	531.2	42.6	-17.4
Domestic	206.5	211.8	5.3	218.8	201.8	-16.9	249.7	198.5	-51.2	298.7	293.9	-4.8	-16.9
External	121.9	86.0	-35.9	93.5	94.7	1.2	133.1	118.6	-14.5	187.8	235.1	47.3	-0.5
Net Lending	2.7	2.8	0.1	2.6	2.4	-0.2	2.4	2.2	-0.2	2.1	2.1	0.0	-0.1
Balance	-152.5	-184.3	-31.8	-236.4	-239.1	-2.7	-226.0	-126.1	99.9	-145.0	-242.6	-97.6	-8.0
Financing ^{1/}	152.6	167.3	14.7	186.3	232.5	46.2	197.5	308.1	110.7	356.6	312.6	-43.9	31.9
Net Foreign	47.4	98.5	51.1	17.1	62.7	45.6	90.8	106.4	15.7	165.8	193.8	28.1	35.1
Net Domestic	105.2	68.8	-36.4	169.2	169.8	0.6	106.7	201.7	95.0	190.8	118.8	-72.0	-3.2
Other	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:													
Nominal GDP (Ksh billion)	2767.2	3,990.4	1223.2	4,506.2	4,506.2	0.0	5,042.4	5,051.6	9.3	5,633.2	5,719.1	85.9	329.6

Source: National Treasury

7. 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.

8. Total expenditure and net lending in FY 2013/14 had an under spending of Ksh 132.6 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.

9. 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.

10. 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.

11. Overall, the actual fiscal deficit turned out lower than budgeted over the period in 2013/14. While this may indicate a somewhat strong fiscal position, it happened against a backdrop of lower execution of the budget which does not bode well for growth and poverty reduction.

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

Public Debt Sustainability

13. The PFM Act 2012 provides for a new institutional and legal framework for managing public debt in a devolved system of Government. The Act provides for a Debt Management Office that will be responsible for formulating debt strategy and ensure prudent management of debt. Under the current arrangement, the Debt Management Department of the National Treasury oversees this function and has contracted the Central Bank of Kenya as agent for the domestic debt.

14. The September 2014 debt sustainability analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

15. The Present Value of public (PV) debt-to-GDP increases from 36.8 percent in 2013 to 40.7 percent in 2014 and 40.8 percent in 2015. In the long term, the PV of public debt-to-GDP is expected to decline to about 36.1 percent by 2023. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue remains well below the threshold of 250 percent throughout the period of analysis. The debt service-to-revenue ratio consistently remains below the 30 percent threshold. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

Debt Sustainability Risks

16. The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing policy. Recourse to significant uptake of domestic debt financing could further increase the domestic interest rates, and put pressure on the debt sustainability position. In addition, non-concessional external financing carries an inherent foreign exchange risk, worsens the PV of debt and therefore increases the risk of debt distress.

17. With the increased appetite for funding of heavy capital projects there is need of being cautious on the levels of debt accumulation and hence the need to maintain the net present value of public debt to GDP ratio at 45 percent.

Deficit Financing Policy

18. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy paper. The Government also remains committed to accessing international capital markets. In the FY 2014/15 the Government raised US dollar 750 million through the Tap issuance as a result of the first debut sovereign bond in 2013/14. The Tap was oversubscribed by US dollar 3 billion and at lower yields than the debut sovereign bond. This demonstrates a continued stronger indicator of international investors' confidence on Kenya. It is also anticipated that Kenya will still venture into the in the international capital market but now targeting either the Sukuk bond which is a sharia compliant bond or Samurai bond from the Japanese market as well as the diaspora bond targeting Kenyans in the diaspora.

19. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The strategy envisages continued borrowing from domestic and external sources. While external financing will be largely on concessional terms we shall continue to diversify our financing sources by continuing to access to commercial sources of financing. The Government will ensure that the level of domestic borrowing declines and does not crowd out the private sector given the need to increase private investment to accelerate economic expansion and also lengthening the maturity profile as well as targeting a domestic infrastructure bond.

20. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by leaning towards borrowing more on concessional terms. A cautious approach will be adopted in the issuance of external Government loan guarantees once the Public Financial Management Act regulations are gazetted to mitigate on the exposure of the level of contingent liabilities. With the increased appetite for funding of heavy capital projects to fasten economic growth, the levels of debt accumulation will be maintained at a sustainable level.

Contingent Liabilities

21. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, they are currently not a major cause of concern. A study that was conducted four years ago of 25 state corporations that the Government perceived to account for the majority of the contingent liabilities 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, Kenya Broadcasting Corporation and the County Of Nairobi 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.

22. Given that the causes of contingent liabilities are fairly generic, the broad policy recommendations emerging from the study of 25 state corporations are relevant to other state corporations. Thus, the Government will continue to: (i) closely monitor and evaluate state corporations based on performance contracting as well as strengthen their governance; (ii) continue with conversion of state corporations' pension schemes from defined benefit to defined contribution schemes to limit Government exposure to unfunded liabilities; (iii) review the mandates of some state corporations and conclusively vest assets and liabilities; (iv) and speed up the privatization programme. On the civil service pension system, the Government is undertaking reforms (under the new Pension law) so as to contain escalation of pension liability, estimated at Ksh 991 billion as at June 30th 2013.

23. Overall, following reforms in sectors such as telecommunication, transportation, and energy, the fiscal risks have reduced. Privatization and the off-loading of some operations to private entities through various forms such as concession arrangement have, to a large extent, transferred various risks of state corporations in these sectors to the private sector. However, there are some risks relating to shareholder's role/obligation in the operations of the corporations with Government still remaining as strategic partners in some of key institutions.

Public Private Partnership – Summary of Active Public Private Partnership (PPP) Projects in Kenya

24. 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 totaling to the current thirteen (13) active IPPs as indicated in **Annex Table 5**.

25. To increase investor confidence and accelerate the financial closure of these private sector investment deals, the Government of Kenya (GOK) has in the past used multiple instruments of support, and in particular, binding Letters of Support (LOS). This form of government support to PPPs has undoubtedly created Fiscal Commitments and Contingent Liabilities (FCCL) for the GOK. While the PPP Act, 2013 aspires to a fiscally responsible implementation of the Public Private Partnership (PPP) program, a sound FCCL management framework is yet to be established. In this regard, the National Treasury has, from discussions with the World Bank (WB) and the International Monetary Fund (IMF), committed to having this FCCL framework established within the first quarter of 2015.

26. Presented in the Annex Table 5 are the initial efforts towards the assessment, monitoring, management, reporting and disclosing of fiscal risks associated with PPPs. The approved projects are published for accountability and transparency purposes. 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.

Financial Sector Stability

27. Kenya's entry into the international bond markets through the debut USD 2.0 billion Eurobond issued in June 2014 which was significantly oversubscribed has further integrated the country into the global financial system. Consequently, shocks in the global markets are likely to spillover to domestic markets through assets prices movements, capital flows and exchange rate markets.

28. In addition, foreign investors' participation at the NSE account for more than 50 percent of active trading and stock holdings, and therefore developments in global markets especially flight to quality, would make these portfolio investors review their activity, in some cases causing capital reversals.

29. Some of the actions that the financial regulators take/have taken to mitigate risks include:

- Ensuring full compliance to the set regulatory standards to avoid litigations or judicial rulings targeting financial institutions on violations of international standards, sanctions or even contracts with implications to Kenya's financial system.
- The CBK conducts monthly stress tests on individual banks (micro-stress testing) to establish sources of vulnerabilities in event of excessive shocks or risk factors.

- Roll out of full credit information sharing (CIS) that includes reporting both positive and negative credit information to credit reference bureaus by banks. This will support efforts towards inculcating financial discipline and bringing the benefits of lower interest rates on loans to good borrowers closer to realization as well as extending credit facilities to borrowers based on good track record instead of reliance on physical collateral.
- Strengthening the Deposit Protection Fund to offer protection or insurance of customer deposits in the member institutions. Its presence and level of coverage signify how well the financial system is cushioned against potential risks and therefore overall stability of the system.
- The Capital Markets (Amendment) Act, 2013 was enacted in December 2013. The Act provides for regulation of; derivative markets; securitization/asset backed securities; and public offer of securities. It also strengthens CMA's supervision, investigation, intervention and licensing powers; prohibition of insider trading and other market abuses; and facilitates implementation of the EAC Common Market Protocol as well as harmonization of EAC capital markets legal and regulatory frameworks.
- Establishment of Settlement Guarantee Fund (SGF) administered by CDSC and adoption of Risk Based Capital Adequacy framework for market intermediaries aimed to mitigate risk.
- Introduction of settlement caps for Central Depository Agents (CDA's), negotiation of a Line of Credit of an equivalent amount to the SGF and increased CDA annual contribution to the SGF.
- The IRA successfully migrated to full Risk Based Supervision (RBS) model in 2013. The shift to RBS has hastened industry surveillance through timely preventive and corrective interventions to promote a safe, sound and stable insurance industry.
- IRA also embarked on process of fully automating the supervisory function by deploying the Electronic Regulatory System (ERS). This process has enabled timely submission of periodic returns by licensees via an online platform. It has also aided effective risk analysis, profiling and reporting.
- RBA undertakes various initiatives and programmes to widen pension coverage and adequacy of retirement benefits. NSSF Act, 2013 was enacted with the need to improve the adequacy of benefits as well as provide basic social security for its members and their dependents. RBA also continues to implement the Risk-Based Supervision and conducting Trustee Development Programme to train and certify retirement benefits schemes' trustees as well as deepen trustees' understanding of their responsibilities and legal implications of their trusteeship.

Drought Mitigation and Management

30. Kenya is a drought-prone country due to its location in the Horn of Africa and recent climate changes. Financing of drought intervention measures have consumed significant budgetary resources, far much more than the Ksh 1 billion set aside for drought relief and another Ksh 5.0 billion for civil contingency fund.

31. Due to the risks posed by drought, the Government has invested in various water and irrigation programmes and initiatives to reduce the country's vulnerability to repeated droughts, including strengthening the capacity to respond to the disaster. Some of these initiatives include early warning systems managed by the Kenya Food Security Steering Group (KFSSG), and upgrading the infrastructure used for providing timely weather forecasting.

32. Since drought risk management is so closely entwined with sustainable development, it is inevitably a shared function of both the national and the county governments, the creation of devolved county governments and the establishment of the National Drought Management Authority (NDMA) will manage this efficiently and effectively. NDMA is in the process of preparing an investment plan on Ending Drought Emergencies (EDE), which has drawn support from development partners.

33. Looking ahead, significant investments will be required to reduce the country's vulnerability to repeated droughts. This includes stepped up support of improving domestic agricultural productivity in a sustainable manner, in line with the Government's action to ensure food security by investing in irrigation and agribusiness activities.

Annex Table 1: Main Macroeconomic Indicators, 2012/13-2017/18

	2012/13	2013/14	2014/15			2015/16			2016/17			2017/18	
	Act	Prel	Budget	BROP'14	Rev. Proj	BPS'14	BROP'14	BPS'15	BPS'14	BROP'14	BPS'15	BROP'14	BPS'15
<i>Annual percentage change, unless otherwise indicated</i>													
National Account and Prices													
Real GDP	5.1	5.5	6.1	5.8	6.1	6.3	6.3	7.0	6.5	6.5	7.1	6.7	7.0
GDP deflator	7.5	6.2	7.2	5.4	6.7	6.8	6.4	6.5	6.3	6.2	6.4	5.8	6.2
CPI Index (eop)	6.0	5.8	5.3	5.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	5.9	6.0	5.7	5.7	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	2.0	1.5	5.1	5.0	0.2	6.6	6.5	0.3	3.5	3.4	0.2	0.9	0.2
Exchange Rate (Ksh/US\$, average)	...	...	...	...	...	...	...	...	...	...	...	...	...
Money and Credit (end of period)													
Net domestic assets	15.6	11.1	7.5	5.8	8.5	10.1	9.2	10.1	8.0	7.8	8.1	8.2	8.9
Net domestic credit to the Government	27.4	-25.4	19.4	17.3	20.2	0.1	20.5	29.5	0.1	19.5	19.3	18.0	15.3
Credit to the rest of the economy	12.9	25.8	9.1	13.5	15.6	16.7	11.8	11.0	16.0	12.2	12.5	12.3	13.6
Broad Money, M3 (percent change)	14.2	18.2	14.4	11.5	13.2	13.9	13.2	14.0	13.1	13.1	14.0	12.9	13.7
Reserve money (percent change)	11.7	12.6	14.4	11.5	14.2	13.9	10.4	11.8	13.1	10.4	11.7	11.8	12.6
<i>In percentage of GDP, unless otherwise indicated</i>													
Investment and Saving													
Investment	20.8	21.2	22.4	27.5	24.6	22.7	26.5	26.9	23.0	27.1	25.2	27.5	25.6
Central Government	6.9	6.3	10.3	12.0	9.3	11.7	9.9	9.5	12.3	10.1	8.7	9.8	8.0
Other	13.9	13.5	12.1	16.0	15.8	11.1	16.6	17.4	10.7	17.0	16.5	17.7	17.6
Gross National Saving	12.3	12.7	15.3	18.4	16.6	16.9	18.4	19.7	17.8	19.5	18.0	20.0	18.2
Central Government	0.2	3.8	7.0	5.8	4.7	9.0	7.1	5.8	10.2	8.2	6.8	6.1	5.1
Other	12.2	9.0	8.3	12.7	11.9	7.9	11.3	13.9	7.6	11.3	11.2	13.9	13.1
Central Government Budget													
Total revenue	18.8	19.3	21.0	21.2	20.4	22.0	21.5	20.7	22.2	21.9	21.5	21.8	21.8
Total expenditure and net lending	24.6	25.7	28.4	32.0	29.2	28.4	28.6	28.8	28.2	27.9	27.6	27.7	26.6
Overall balance (commitment basis) excl. grants	-5.8	-6.5	-7.4	-10.8	-8.8	-6.4	-7.1	-8.2	-6.0	-6.0	-6.2	-5.9	-4.8
Overall balance (commitment basis) incl. grants	-5.3	-5.9	-6.4	-9.7	-8.0	-5.0	-6.1	-7.4	-4.5	-5.0	-5.4	-4.9	-4.0
Primary budget balance	-2.5	-3.3	-3.7	-7.1	-5.4	-2.5	-3.6	-4.9	-2.1	-2.5	-2.9	-2.4	-1.6
Net domestic borrowing	3.8	4.0	3.4	1.8	2.1	3.1	2.2	3.2	2.9	2.3	2.4	2.2	2.0
Total external support (grant & loans)	2.2	2.4	3.5	6.9	4.2	3.8	4.5	4.8	3.8	3.8	3.9	3.8	2.9
External Sector													
Exports value, goods and services	20.5	19.8	20.4	20.7	20.1	21.1	21.1	20.5	21.4	21.4	20.5	21.5	20.5
Imports value, goods and services	33.6	32.9	31.8	34.3	32.4	31.3	33.4	31.5	30.9	32.9	31.3	32.7	31.2
Current external balance, including official transfers	-8.5	-8.5	-7.1	-9.1	-8.0	-5.8	-8.1	-7.2	-5.3	-7.6	-7.2	-7.6	-7.4
Current external balance, excluding official transfers	-8.5	-8.4	-7.0	-9.0	-7.9	-5.8	-8.1	-7.2	-5.3	-7.6	-7.2	-7.6	-7.4
Gross international reserve coverage in months of next year imports (end of period)	3.6	3.8	4.4	4.2	4.2	4.5	4.3	4.3	4.8	4.6	4.6	4.8	4.8
Gross international reserve coverage in months of this year's imports (end of period)	3.8	4.1	4.8	4.6	4.6	5.0	4.8	4.8	5.3	5.1	5.1	5.3	5.3
Public debt													
Nominal central government debt (eop), gross	42.0	48.0	45.8	47.9	47.3	46.5	47.5	46.6	54.3	47.1	45.2	46.6	43.6
Nominal central government debt (eop), net of deposits	38.5	44.1	43.8	44.4	43.9	43.4	44.4	43.7	51.6	44.3	42.6	44.2	41.3
Domestic (gross)	23.3	25.4	24.6	24.9	24.5	24.1	24.3	24.7	22.8	23.7	24.1	23.3	23.1
Domestic (net)	19.7	21.6	21.2	21.5	21.2	21.1	21.2	21.7	20.0	21.0	21.5	20.9	20.8
External	18.7	22.5	22.6	22.9	22.8	22.4	23.2	21.9	21.9	23.3	21.1	23.3	20.5
Memorandum Items:													
Nominal GDP (in Ksh Billions)	4,506	5,052	5,633	5,559	5,719	6,294	6,290	6,521	7,104	7,113	7,430	8,030	8,448
Nominal GDP (in US\$ Millions)	52,830	58,046	63,756	62,852	64,728	70,559	70,440	73,096	78,876	78,895	82,501	88,213	92,910

Source: National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper

Annex Table 2: Government Operations 2012/13 - 2017/18 (in billions of Kenya Shillings)

	2012/13	2013/14	2014/15			2015/16			2016/17			2017/18	
	Act.	Prel.	Budget	BROP14	Rev. Proj	BPS14	BROP14	BPS15	BPS14	BROP14	BPS15	BROP14	BPS15
TOTAL REVENUE	847.2	974.4	1,180.5	1,181.2	1,164.1	1,382.6	1,352.2	1,347.7	1,578.3	1,558.9	1,594.6	1,752.9	1,845.3
Ordinary Revenue (excl. L ATF)	779.4	919.0	1,086.4	1,087.1	1,070.0	1,270.6	1,249.9	1,249.9	1,456.9	1,447.8	1,490.2	1,632.6	1,730.2
Income tax	373.4	449.6	541.9	541.9	527.0	632.2	626.5	623.2	735.9	738.5	753.7	833.7	883.2
Import duty (net)	57.6	67.6	77.7	77.7	74.7	89.1	90.6	82.2	101.1	102.6	92.9	115.7	98.5
Excise duty	85.5	102.0	119.8	119.8	119.8	135.0	125.0	142.1	153.2	141.3	162.0	159.0	185.1
Value Added Tax	184.6	232.6	267.1	267.1	268.0	318.2	319.5	310.3	365.1	368.2	378.4	414.4	449.7
Investment income	15.3	10.2	17.4	17.4	16.4	25.3	18.2	18.4	21.3	18.1	20.0	20.5	21.8
Other	63.0	57.0	62.5	63.2	64.0	70.9	69.9	73.7	80.2	79.1	83.2	89.3	92.1
Railway Development Levy	0.0	19.7	22.9	22.9	22.9	26.1	26.1	25.7	29.6	29.6	28.8	33.4	32.2
Ministerial and Departmental fees (AiA)	49.7	35.7	71.2	71.2	71.2	85.9	76.2	72.1	91.8	81.4	75.6	86.9	82.9
EXPENDITURE AND NET LENDING	1,107.3	1,300.6	1,597.8	1,780.3	1,669.0	1,786.6	1,800.5	1,880.8	2,003.7	1,987.6	2,052.6	2,216.4	2,251.4
Recurrent expenditure	808.3	787.9	871.5	871.5	900.2	920.0	916.7	987.0	985.2	990.0	1,104.4	1,136.7	1,244.3
Interest payments	121.2	134.8	147.4	147.4	147.2	154.8	158.1	163.5	176.4	182.6	182.6	201.3	206.3
Domestic interest	110.2	119.2	122.9	122.9	122.7	132.3	133.6	133.6	145.6	145.6	145.6	160.1	155.1
Foreign interest	11.1	15.6	24.5	24.5	24.5	22.4	24.4	29.9	30.9	37.1	37.1	41.2	51.2
Wages and benefits (civil service)	274.4	281.2	303.3	303.3	306.0	323.8	317.1	329.1	351.1	356.7	360.8	400.9	396.9
Contribution to civil service pension fund	0.0	0.0	9.5	9.5	5.0	17.4	10.9	10.2	18.8	13.8	14.8	19.3	17.7
Civil service Reform	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.5	1.0	1.0	1.5	1.0	1.0
Pensions etc	27.0	30.2	36.6	36.6	36.6	50.5	40.2	57.5	55.6	44.2	66.2	48.7	84.1
Other	294.4	248.0	283.0	283.0	290.7	288.5	299.3	311.1	293.0	296.0	347.3	363.4	389.0
Defense and NSIS	91.2	93.8	90.7	90.7	113.6	84.1	90.1	114.1	89.3	95.7	131.2	102.1	149.3
Development and Net lending	298.9	319.3	492.0	674.5	534.6	622.3	633.4	627.1	742.5	729.8	654.5	793.2	683.4
Domestically financed	201.8	198.5	298.7	298.7	293.9	374.1	347.3	314.5	463.8	398.7	365.7	459.3	435.0
Foreign financed	94.7	118.6	187.8	370.3	235.1	239.6	277.9	304.4	269.1	321.9	280.4	331.5	240.4
Net lending	2.4	2.2	2.1	2.1	2.1	2.6	2.2	2.2	2.7	2.3	2.4	2.4	2.6
Contingencies	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
County Allocation	0.0	193.4	229.3	229.3	229.3	239.3	245.5	261.7	271.0	262.9	288.8	281.5	318.7
Of which: sharable		190.0	226.7	226.7	226.7	239.3	245.5	258.0			284.9		314.5
Conditional Level Five Hospitals		3.4	1.9	1.9	1.9			2.1			2.3		2.5
County Health Facilities - DANIDA		16.6	0.7	0.7	0.7	0.0	0.7	0.7	0.0	0.0	0.7	0.0	0.7
Health Care Facilities Compensation			1.4	1.4				0.9			0.9		0.9
Conditional grants to marginal areas ("Equalization Fund")	0.0	0.0	3.4	3.4	3.4	6.0	6.0	6.0	6.9	6.9	6.0	7.7	5.5
Balance (commitment basis excl. grants)	-260.0	-326.2	-417.3	-599.1	-504.9	-404.0	-448.4	-533.2	-425.4	-428.8	-458.0	-463.5	-406.1
Adjustment to cash basis	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	15.1	21.7	51.4	51.4	41.4	91.1	57.4	46.1	102.0	64.2	52.5	71.8	57.5
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
Programme grants	5.8	4.7	6.1	6.1	6.1	0.0	6.1	6.1	0.0	6.1	6.1	6.1	6.1
County Health Facilities - DANIDA			0.7	0.7	0.7			0.7			0.7		0.7
Balance (cash basis including grants)	-239.3	-299.2	-358.6	-540.3	-456.1	-312.8	-383.7	-479.7	-323.0	-357.3	-398.2	-384.4	-341.2
Statistical discrepancy	-6.8	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	232.5	309.4	358.6	540.3	456.1	312.8	383.7	479.7	323.0	357.3	398.2	384.4	341.2
Net foreign financing/1	62.7	106.4	165.8	295.4	193.8	117.0	241.0	269.3	113.1	193.6	219.7	212.1	171.9
Project loans	79.6	96.9	141.8	324.2	193.7	147.7	220.6	258.4	166.4	199.2	227.9	224.8	182.8
Commercial Financing	6.6	35.4	51.5	51.5	75.3	0.0	51.7	51.7	0.0	52.2	52.2	52.7	52.7
Repayments due	-24.0	-25.8	-27.5	-81.5	-80.5	-31.2	-31.2	-40.8	-53.3	-57.8	-60.4	-65.5	-63.7
Domestic Loan Repayments (Receipts)		1.3	2.0	2.0	2.1	2.0	2.0	2.2	2.0	2.0	2.4	2.0	2.6
Sovereign Bond Proceeds			0.0	141.2	141.4								
Net Domestic Borrowing	169.8	201.7	190.8	101.7	118.8	193.9	140.7	208.3	207.9	161.6	176.1	170.3	166.7
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
Memo items													
External Debt	962.3	1,138.5	1,158.8	1,275.8	1,303.9	1,262.8	1,459.0	1,430.0	1,379.0	1,658.1	1,571.4	1,873.8	1,729.6
Domestic Debt (gross)	1,097.0	1,284.3	1,443.5	1,386.1	1,403.1	1,637.4	1,527.2	1,611.4	1,845.8	1,689.4	1,787.5	1,867.9	1,954.2
Domestic Debt (net)	945.1	1,090.8	1,282.1	1,192.6	1,209.6	1,475.9	1,333.7	1,417.9	1,684.3	1,495.9	1,594.0	1,674.4	1,760.7
Primary budget balance	-111.2	-164.4	-209.2	-392.9	-308.9	-158.1	-226.1	-316.3	-147.0	-175.1	-215.5	-191.2	-134.9
Overall fiscal Balance (including grants) less Mega Projects				-357.8	-375.8		-339.8	-340.9		-299.2	-309.9	-357.8	-321.5
Nominal GDP	4,506.2	5,051.6	5,633.2	5,559.3	5,719.1	6,294.2	6,290.4	6,520.5	7,103.8	7,113.1	7,430.2	8,029.7	8,448.2

Source: The National Treasury
Notes: BPS = Budget Policy Statement, BROP = Budget Review & Outlook Paper

Annex Table 3: Government Operations, 2012/13 - 2017/18 (in percent of GDP)

	2012/13	2013/14	2014/15			2015/16			2016/17			2017/18	
	Act.	Prel.	Budget	BROP'14	Rev. Proj	BPS'14	BROP'14	BPS'15	BPS'14	BROP'14	BPS'15	BROP'14	BPS'15
TOTAL REVENUE	18.8%	19.3%	21.0%	21.2%	20.4%	22.0%	21.5%	20.7%	22.2%	21.9%	21.5%	21.8%	21.8%
Ordinary Revenue (excl. LATF)	17.3%	18.2%	19.3%	19.6%	18.7%	20.2%	19.9%	19.2%	20.5%	20.4%	20.1%	20.3%	20.5%
Income tax	8.3%	8.9%	9.6%	9.7%	9.2%	10.0%	10.0%	9.6%	10.4%	10.4%	10.1%	10.4%	10.5%
Import duty (net)	1.3%	1.3%	1.4%	1.4%	1.3%	1.4%	1.4%	1.3%	1.4%	1.4%	1.3%	1.4%	1.2%
Excise duty	1.9%	2.0%	2.1%	2.2%	2.1%	2.1%	2.0%	2.2%	2.2%	2.0%	2.2%	2.0%	2.2%
Value Added Tax	4.1%	4.6%	4.7%	4.8%	4.7%	5.1%	5.1%	4.8%	5.1%	5.2%	5.1%	5.2%	5.3%
Investment income	0.3%	0.2%	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Other	1.4%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Railway Development Levy	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Ministerial and Departmental fees (AtA)	1.1%	0.7%	1.3%	1.3%	1.2%	1.4%	1.2%	1.1%	1.3%	1.1%	1.0%	1.1%	1.0%
EXPENDITURE AND NET LENDING	24.6%	25.7%	28.4%	32.0%	29.2%	28.4%	28.6%	28.8%	28.2%	27.9%	27.6%	27.7%	26.6%
Recurrent expenditure	17.9%	15.6%	15.5%	15.7%	15.7%	14.6%	14.6%	15.1%	13.9%	13.9%	14.9%	14.2%	14.7%
Interest payments	2.7%	2.7%	2.6%	2.7%	2.6%	2.5%	2.5%	2.5%	2.5%	2.6%	2.5%	2.5%	2.4%
Domestic interest	2.4%	2.4%	2.2%	2.2%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	1.8%
Foreign interest	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%	0.5%	0.5%	0.5%	0.6%
Wages and benefits (civil service)	6.1%	5.6%	5.4%	5.5%	5.4%	5.1%	5.0%	5.0%	4.9%	5.0%	4.9%	5.0%	4.7%
Contribution to civil service pension fund	0.0%	0.0%	0.2%	0.2%	0.1%	0.3%	0.2%	0.2%	0.3%	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%
Pensions etc	0.6%	0.6%	0.6%	0.7%	0.6%	0.8%	0.6%	0.9%	0.8%	0.6%	0.9%	0.6%	1.0%
Other	6.5%	4.9%	5.0%	5.1%	5.1%	4.6%	4.8%	4.8%	4.1%	4.2%	4.7%	4.5%	4.6%
Defense and NSIS	2.0%	1.9%	1.6%	1.6%	2.0%	1.3%	1.4%	1.7%	1.3%	1.3%	1.8%	1.3%	1.8%
Development and Net lending	6.6%	6.3%	8.7%	12.1%	9.3%	9.9%	10.1%	9.6%	10.5%	10.3%	8.8%	9.9%	8.1%
Domestically financed	4.5%	3.9%	5.3%	5.4%	5.1%	5.9%	5.5%	4.8%	6.5%	5.6%	4.9%	5.7%	5.1%
Foreign financed	2.1%	2.3%	3.3%	6.7%	4.1%	3.8%	4.4%	4.7%	3.8%	4.5%	3.8%	4.1%	2.8%
Net lending	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	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%
Constitution Reform	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Allocation		3.8%	4.1%	4.1%	4.0%	3.8%	3.9%	4.0%	3.8%	3.7%	3.9%	3.5%	3.8%
Of which: sharable		3.8%	4.0%	4.1%	4.0%	3.8%	3.9%	4.0%	0.0%	0.0%	3.8%	0.0%	3.7%
Conditional Level Five Hospitals		0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Health Facilities - DANIDA		0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health Care Facilities Compensation		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Conditional grants to marginal areas ("Equalization Fund")	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%
Balance (commitment basis excl. grants)	-5.8%	-6.5%	-7.4%	-10.8%	-8.8%	-6.4%	-7.1%	-8.2%	-6.0%	-6.0%	-6.2%	-5.9%	-4.8%
Adjustment to cash basis	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%
Project grants	0.3%	0.4%	0.9%	0.9%	0.7%	1.4%	0.9%	0.7%	1.4%	0.9%	0.7%	0.9%	0.7%
Programme grants*	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Balance (cash basis including grants)	-5.3%	-5.9%	-6.4%	-9.7%	-8.0%	-5.0%	-6.1%	-7.4%	-4.5%	-5.0%	-5.4%	-4.9%	-4.0%
Statistical discrepancy	-0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	5.2%	6.1%	6.4%	9.7%	8.0%	5.0%	6.1%	7.4%	4.5%	5.0%	5.4%	4.9%	4.0%
Net foreign financing	1.4%	2.1%	2.9%	5.3%	3.4%	1.9%	3.8%	4.1%	1.6%	2.7%	3.0%	2.6%	2.0%
Project loans	1.8%	1.9%	2.5%	5.8%	3.4%	2.3%	3.5%	4.0%	2.3%	2.8%	3.1%	2.8%	2.2%
Commercial Financing	0.1%	0.7%	0.9%	0.9%	1.3%	0.0%	0.8%	0.8%	0.0%	0.7%	0.7%	0.7%	0.6%
Repayments due	-0.5%	-0.5%	-0.5%	-1.5%	-1.4%	-0.5%	-0.5%	-0.6%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Net domestic borrowing	3.8%	4.0%	3.4%	1.8%	2.1%	3.1%	2.2%	3.2%	2.9%	2.3%	2.4%	2.2%	2.0%
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%
Memo items													
Total public debt (net)	45.9%	44.1%	43.3%	44.4%	43.9%	43.5%	44.4%	43.7%	43.1%	44.3%	42.6%	44.2%	41.3%
External Debt		22.5%	20.6%	22.9%	22.8%	20.1%	23.2%	21.9%	19.4%	23.3%	21.1%	23.3%	20.5%
Domestic Debt (gross)	24.3%	25.4%	25.6%	24.9%	24.5%	26.0%	24.3%	24.7%	26.0%	23.7%	24.1%	23.3%	23.1%
Domestic Debt (net)	21.0%	21.6%	22.8%	21.5%	21.2%	23.4%	21.2%	21.7%	23.7%	21.0%	21.5%	20.9%	20.8%
Primary budget balance	-2.5%	-3.3%	-3.7%	-7.1%	-5.4%	-2.5%	-3.6%	-4.9%	-2.1%	-2.5%	-2.9%	-2.4%	-1.6%
Overall fiscal Balance (including grants) less Mega Projects				-6.4%	-7.4%		-5.4%	-5.2%		-4.2%	-4.2%	-4.5%	-3.8%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The National Treasury

Notes: BPS = Budget Policy Statement, BROP = Budget Review & Outlook Paper

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
010	AGRICULTURE, RURAL & URBAN DEVELOPMENT	15,957	44,266	60,223	16,430	48,807	65,237	16,889	53,235	70,124	17,974	53,634	71,608
	152. STATE DEPARTMENT FOR AGRICULTURE	7,906	21,409	29,315	6,845	21,649	28,494	7,932	21,676	29,608	8,091	21,290	29,381
	010700 P 1: General Administration, Planning and Support Services	1,494	790	2,284	1,509	790	2,299	1,500	792	2,292	1,706	793	2,499
	010800 P 2: Crop Development and Market Access Services	5,649	9,529	15,178	4,574	9,771	14,345	5,664	9,590	15,254	5,615	9,297	14,912
	011000 P 3: Irrigation, Drainage and Mechanization Infrastructure	763	11,090	11,853	762	11,088	11,850	768	11,294	12,062	770	11,200	11,970
	154. STATE DEPARTMENT OF FISHERIES	971	1,163	2,134	1,045	1,265	2,310	1,216	1,300	2,516	1,462	790	2,252
	011100 P 4: Fisheries Development and Management	971	1,163	2,134	1,045	1,265	2,310	1,216	1,300	2,516	1,462	790	2,252
	153. STATE DEPARTMENT FOR LIVESTOCK	1,838	3,694	5,532	1,855	3,804	5,659	1,910	4,001	5,911	2,117	3,490	5,607
	011200 P 5: Livestock Resources Management and Development	1,838	3,694	5,532	1,855	3,804	5,659	1,910	4,001	5,911	2,117	3,490	5,607
	111. MINISTRY OF LAND, HOUSING & URBAN DEVELOPMENT	4,086	17,458	21,544	5,459	21,547	27,006	4,568	25,700	30,268	4,854	27,490	32,344
	010100 P 1: Land Policy and Planning	1,605	3,609	5,214	1,643	4,609	6,252	1,818	4,448	6,266	2,014	3,586	5,600
	010200 P 2: Housing Development and Human Settlement	1,156	3,931	5,087	1,106	6,933	8,039	1,169	10,990	12,159	1,197	13,840	15,037
	010300 P 3: Government Buildings	353	1,443	1,796	1,443	1,530	2,973	397	1,530	1,927	417	1,330	1,747
	010400 P 4: Coastline Infrastructure and Pedestrian Access	56	411	467	56	411	467	70	509	579	74	511	585
	010500 P 5: Urban and Metropolitan Development	151	7,859	8,010	151	7,859	8,010	160	8,000	8,160	166	8,000	8,166
	010600 P 6: General Administration and Support Services	765	205	970	1,060	205	1,265	954	223	1,177	986	223	1,209
	201. NATIONAL LAND COMMISSION	1,156	542	1,698	1,226	542	1,768	1,263	558	1,821	1,450	574	2,024
	011300 P 1: Land Administration and Management	1,156	542	1,698	1,226	542	1,768	1,263	558	1,821	1,450	574	2,024

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
020	ENERGY INFRASTRUCTURE AND ICT	35,593	221,302	256,895	36,216	349,194	385,410	36,333	347,248	383,581	36,492	363,472	399,964
	115. MINISTRY OF ENERGY AND PETROLEUM	2,004	74,284	76,288	2,029	79,412	81,441	3,179	86,459	89,638	3,585	100,594	104,179
	021100 P 1: General Administration and Planning Support Services	301	150	451	320	150	470	370	117	487	493	15	508
	021200 P 2: Power Generation	733	24,358	25,091	739	24,486	25,225	761	25,558	26,319	1,040	27,954	28,994
	021300 P 3: Power Transmission and Distribution	839	47,760	48,599	839	52,760	53,599	1,337	58,659	59,996	1,306	70,599	71,905
	021400 P 4: Alternative Energy Technologies	107	372	479	107	372	479	682	671	1,353	715	668	1,383
	021500 P 5: Petroleum Exploration And Distribution.	24	1,644	1,668	24	1,644	1,668	29	1,454	1,483	31	1,358	1,389
	143. STATE DEPARTMENT OF INFRASTRUCTURE	25,804	99,029	124,833	26,312	102,211	128,523	25,011	112,839	137,850	24,343	150,014	174,357
	020100 P 1: Road Transport	25,804	99,029	124,833	26,312	102,211	128,523	25,011	112,839	137,850	24,343	150,014	174,357
	144. STATE DEPARTMENT OF TRANSPORT	5,764	39,798	45,561	5,819	159,279	165,098	5,837	139,057	144,894	5,862	102,843	108,705
	020100 P 1: General Administration, Planning and Support Services	331	139	470	297	218	515	314	217	531	331	216	547
	020200 P 2: Road Transport Safety and Regulation	382	127	509	405	-	405	405	-	405	405	-	405
	020300 P 3: Rail Transport	-	26,222	26,222	-	144,448	144,448	-	123,225	123,225	-	86,012	86,012
	020400 P 4: Marine Transport	530	5,600	6,130	536	5,700	6,236	536	7,702	8,238	543	8,701	9,244
	020500 P 5: Air Transport	4,389	7,690	12,079	4,449	8,893	13,342	4,449	7,893	12,342	4,449	7,894	12,343
	020600 P 6: Government Clearance Services	132	20	152	132	20	152	133	20	153	134	20	154
	112. INFORMATION COMMUNICATIONS AND TECHNOLOGY	2,022	8,191	10,213	2,056	8,292	10,348	2,306	8,892	11,198	2,702	10,021	12,723
	020700 P1: General Administration, Planning and Support Services	413	29	442	426	100	527	441	1,516	1,957	455	801	1,256
	020800 P2: Information and Communication Services	748	948	1,696	761	958	1,719	997	1,149	2,146	1,375	1,464	2,839
	020900 P 3: ICT and Mass Media Skills Development	191	145	336	195	168	363	198	240	438	202	337	538
	021000 P 4: ICT Infrastructure Development	669	7,069	7,739	674	7,065	7,739	670	5,987	6,657	670	7,419	8,090

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
030	GENERAL ECONOMICS AND COMMERCIAL AFFAIRS	6,654	9,594	16,247	6,841	7,954	14,795	7,062	8,154	15,216	7,292	8,254	15,546
	117. MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT	2,284	7,445	9,728	2,361	5,612	7,973	2,413	5,762	8,175	2,490	5,812	8,302
	030200 P 1: Industrial Development and Investments	1,671	7,388	9,059	1,453	5,427	6,880	1,497	5,527	7,024	1,542	5,527	7,069
	030400 P 2: Cooperative Development and Management	303	30	333	275	30	305	284	30	314	284	30	314
	030100 P 6: General Administration, Planning and Support Services - (Industrialisation and Enterprise Development)	310	26	337	632	155	787	632	205	837	664	255	919
	156. STATE DEPARTMENT FOR EAST AFRICAN AFFAIRS	1,619	65	1,684	1,688	50	1,738	1,805	50	1,855	1,931	100	2,031
	030500 P1: East African Affairs and Regional Integration	1,430	65	1,495	1,364	50	1,414	1,432	50	1,482	1,475	100	1,575
	030800 P2: General Administration, Planning and Support Services - (East African Affairs)	189	-	189	324	-	324	373	-	373	456	-	456
	157. STATE DEPARTMENT FOR COMMERCE AND TOURISM	2,751	2,084	4,835	2,792	2,292	5,084	2,843	2,342	5,185	2,871	2,342	5,213
	030700 P1: Trade Development and Promotion	1,058	380	1,438	1,080	212	1,292	1,080	212	1,292	1,080	212	1,292
	030600 P2: Tourism Development & Promotion	1,138	1,298	2,435	1,171	1,680	2,851	1,206	1,730	2,936	1,206	1,730	2,936
	030800 P 3: General Administration, Planning and Support Services - (Commerce and Tourism)	555	406	961	541	400	941	558	400	958	586	400	986
040	HEALTH	26,061	21,301	47,362	28,009	23,398	51,407	28,758	24,583	53,321	29,576	25,051	54,627
	108. MINISTRY OF HEALTH	26,061	21,301	47,362	28,009	23,398	51,407	28,758	24,583	53,321	29,576	25,051	54,627
	040100 P1. Preventive and Promotive Health Services	2,922	7,341	10,263	1,744	8,600	10,344	1,714	9,346	11,060	1,859	8,973	10,832
	040500 P2. Family Health	35	6,300	6,335	134	8,309	8,443	138	8,556	8,727	143	9,155	9,298
	040200 p3. Curative Health Care services	15,279	5,901	21,180	16,704	4,980	21,684	17,201	5,127	22,297	17,519	5,313	22,832
	040300 P4. Research Development and Training	4,841	410	5,251	5,354	301	5,655	5,512	310	5,808	5,710	321	6,031
	040400 P5. General Administration, planning and support services	2,984	1,349	4,333	4,073	1,208	5,281	4,193	1,244	5,429	4,345	1,289	5,634

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
050	EDUCATION	273,380	34,971	308,351	291,373	35,986	327,359	324,047	37,881	361,928	354,457	41,114	395,572
	139. STATE DEPARTMENT OF EDUCATION	54,118	22,138	76,256	112,037	28,364	140,402	125,426	30,070	155,495	143,125	32,636	175,761
	050100 P 1: Primary Education	17,354	19,126	36,481	18,246	19,251	37,498	20,187	20,267	40,454	23,432	21,996	45,429
	050200 P 2: Secondary Education (SEPU), Post pri schs,	28,667	974	29,641	34,263	999	35,262	39,589	1,051	40,640	49,847	1,141	50,989
	050300 P 3: Quality Assurance & Standards	4,950	724	5,674	5,311	824	6,135	5,876	867	6,743	6,252	941	7,193
	050400 P 4: University Education	-	-	-	50,909	5,925	56,835	56,114	6,447	62,562	59,700	6,998	66,697
	050800 P 5: Administration (DFOS, policy&coord, planning, Admin, Unesco, sch audit, DPP&EAC, NEB, KEMI,	3,147	1,314	4,460	3,308	1,365	4,673	3,660	1,437	5,097	3,894	1,559	5,453
	140. STATE DEPARTMENT OF SCIENCE & TECHNOLOGY	53,783	12,698	66,481	8,295	7,421	15,716	9,178	7,811	16,989	9,766	8,478	18,244
	050800 P 1: General Administration Planning and Support Services	459	1,317	1,777	1,091	1,317	2,409	1,164	1,387	2,550	1,201	1,398	2,599
	050500 P 2: Technical Vocational Education and Training	1,160	4,068	5,228	5,054	4,604	9,658	5,749	4,873	10,621	6,207	5,482	11,689
	050600 P 3: Research Science Technology and Innovation	592	180	772	912	380	1,292	979	421	1,400	1,032	447	1,479
	050400 P 4: University Education	50,613	6,013	56,627	-	-	-	-	-	-	-	-	-
	050700 P 4: Youth Training and Development	958	1,120	2,078	1,238	1,120	2,357	1,286	1,131	2,417	1,325	1,151	2,476
	209. TEACHERS SERVICE COMMISSION	165,479	135	165,614	171,041	200	171,241	189,444	-	189,444	201,567	-	201,567
	050900 P 1 Teacher Reasource Management	161,133	-	161,133	166,067	-	166,067	183,858	-	183,858	195,565	-	195,565
	051000 P 2 Teaching Standards and Governance	53	-	53	153	-	153	165	-	165	177	-	177
	051100 P 3 General Administration, Planning and Support Services	4,293	135	4,428	4,821	200	5,021	5,421	-	5,421	5,825	-	5,825

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
060	GOVERNANCE, JUSTICE, LAW, AND ORDER	119,158	11,697	130,854	125,664	17,557	143,221	139,886	30,924	170,811	171,496	30,364	201,860
	133. STATE DEPARTMENT FOR INTERIOR	79,287	4,393	83,680	84,634	9,912	94,546	88,832	22,409	111,241	105,287	22,311	127,598
	060100 P.1.Policing Services	63,162	3,222	66,384	68,082	8,242	76,324	70,556	20,517	91,073	84,379	18,754	103,133
	060200 P 2 : National government Administration and field services	11,654	392	12,046	11,985	550	12,535	13,247	623	13,870	15,236	727	15,963
	060300 P 3: Government Printing Services	558	80	638	566	150	716	611	170	781	703	1,549	2,252
	060500 P 4: Population Management services	3,913	699	4,612	4,001	970	4,971	4,418	1,099	5,517	4,969	1,281	6,250
	134. STATE DEPARTMENT FOR COORDINATION OF NATIONAL GOVERNMENT	15,411	657	16,068	15,795	611	16,406	16,486	1,289	17,774	17,542	337	17,879
	060200 P.1 Planning, Policy Coordination and support services	50	-	50	53	-	53	56	-	56	61	-	61
	060400 P. 2.0 Correctional Services	15,361	657	16,018	15,742	611	16,353	16,430	1,289	17,718	17,481	337	17,818
	120. OFFICE OF THE ATTORNEY GENERAL	3,724	534	4,258	3,790	646	4,436	4,145	732	4,877	4,601	853	5,454
	060600 P1: Legal services	1,290	40	1,330	1,351	56	1,407	1,419	63	1,482	1,518	74	1,592
	060700 P 2: Governance, Legal Training and Constitutional Affairs	1,814	423	2,237	1,797	550	2,347	2,046	623	2,669	2,342	727	3,069
	060900 P 3: General Administration, Planning and Support Services	620	71	691	643	40	683	680	45	726	740	53	793
	121. THE JUDICIARY	11,867	5,625	17,492	12,124	5,366	17,490	13,124	5,322	18,446	14,648	5,525	20,173
	061000 P1: Dispensation of Justice	11,867	5,625	17,492	12,124	5,366	17,490	13,124	5,322	18,446	14,648	5,525	20,173
	122. ETHICS AND ANTI- CORRUPTION COMMISSION	1,546	278	1,824	1,562	600	2,162	1,796	700	2,496	2,019	793	2,811
	061100 P1: Ethics and Anti-corruption	1,546	278	1,824	1,562	600	2,162	1,796	700	2,496	2,019	793	2,811
	124. OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS	1,732	119	1,851	1,805	337	2,142	1,910	387	2,297	2,035	445	2,480
	061200 P1. Public Prosecution Services	1,732	119	1,851	1,805	337	2,142	1,910	387	2,297	2,035	445	2,480

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
060	GOVERNANCE, JUSTICE, LAW, AND ORDER	119,158	11,697	130,854	125,664	17,557	143,221	139,886	30,924	170,811	171,496	30,364	201,860
	125. COMMISSION FOR THE IMPLEMENTATION OF THE CONSTITUTION	306	-	306	312	-	312	-	-	-	-	-	-
	061300 P1: Implementation of the constitution	306	-	306	312	-	312	-	-	-	-	-	-
	126. REGISTRAR OF POLITICAL PARTIES	467	-	467	511	-	511	594	-	594	654	-	654
	061400 P1: Registration, Regulation and Funding of Political Parties	467	-	467	511	-	511	594	-	594	654	-	654
	127. WITNESS PROTECTION AGENCY	250	-	250	287	-	287	310	-	310	357	-	357
	061500 P1: Witness Protection Services	250	-	250	287	-	287	310	-	310	357	-	357
	201. KENYA NATIONAL COMMISSION OF HUMAN RIGHTS	357	-	357	392	-	392	483	-	483	525	-	525
	061600 P1: Promotion and Protection of Human Rights	357	-	357	392	-	392	483	-	483	525	-	525
	203. INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION	3,000	91	3,091	3,092	85	3,177	10,740	86	10,826	22,178	100	22,279
	061700 P1: Management of Electoral Process in Kenya	3,000	91	3,091	3,092	85	3,177	10,740	86	10,826	22,178	100	22,279
	205. JUDICIAL SERVICE COMMISSION	438	-	437	472	-	472	509	-	509	586	-	586
	061900 P1: Administration and Judicial Services	438	-	437	472	-	472	509	-	509	586	-	586
	210. NATIONAL POLICE SERVICE COMMISSION	278	-	278	319	-	319	346	-	346	376	-	376
	062000 P1: National police Service Human Resource Management	278	-	278	319	-	319	346	-	346	376	-	376
	214. NATIONAL GENDER AND EQUALITY COMMISSION	290	-	290	325	-	325	354	-	354	408	-	408
	062100 P1: Promotion of Gender Equality and freedom from discrimination	290	-	290	325	-	325	354	-	354	408	-	408
	215. INDEPENDENT POLICE OVERSIGHT AUTHORITY	205	-	205	244	-	244	257	-	257	280	-	280
	062200 P1: Police Oversight Services	205	-	205	244	-	244	257	-	257	280	-	280

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	94,228	102,690	196,918	123,424	94,276	217,700	142,573	102,667	245,240	160,375	108,640	269,015
	101. THE PRESIDENCY	3,520	787	4,307	4,121	781	4,902	4,137	821	4,959	4,243	965	5,208
	0702000 P 1. Cabinet Affairs	369	115	484	391	115	506	390	115	505	420	198	617
	0704000 P 2. State House Affairs	1,384	566	1,950	1,449	561	2,009	1,444	562	2,006	1,459	612	2,071
	P 3. Deputy President Services	1,416	106	1,522	1,930	106	2,035	1,943	144	2,088	1,991	156	2,147
	0703000 P 4. Government Advisory Services	351	-	351	351	-	351	360	-	360	373	-	373
	135. STATE DEPARTMENT OF PLANNING	14,847	53,427	68,274	22,730	51,209	73,940	29,037	56,513	85,550	35,232	61,606	96,837
	070600 P 1. Economic Policy and National Planning	1,162	37,942	39,103	1,182	35,500	36,682	1,188	42,112	43,300	1,194	44,229	45,423
	070700 P 2 National Statistical Information Services	749	98	847	788	98	886	788	98	886	788	98	886
	070900 P 4 General Administration and Support Services for Planning	378	144	521	433	144	577	464	148	612	473	148	621
	071000 P 5 Public Service Transformation	6,148	616	6,764	13,917	716	14,633	20,126	1,016	21,142	26,245	1,316	27,561
	070800 P6 Monitoring and Evaluation	51	103	155	51	103	155	52	103	155	53	103	156
	071100 P6 Gender and Youth Empowerment	6,360	14,524	20,884	6,360	14,648	21,008	6,419	13,036	19,455	6,480	15,711	22,190
	136. STATE DEPARTMENT OF DEVOLUTION	2,173	5,097	7,270	2,267	5,090	7,357	2,342	5,142	7,485	2,403	5,329	7,732
	P 1 General Administration Services	-	-	-	170	-	170	171	-	171	181	-	181
	071200 P 2 Devolution Services	1,331	10	1,341	956	-	956	966	-	966	970	-	970
	P 3 Coordination of Humanitarian Service	390	2,708	3,098	663	2,711	3,373	666	2,687	3,353	665	2,779	3,444
	P 4 Accelerated ASAL Development	452	2,380	2,831	479	2,380	2,858	540	2,455	2,995	586	2,549	3,136
	105. MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE	10,893	1,560	12,454	11,215	1,549	12,764	11,530	1,629	13,159	11,838	1,915	13,752
	071400 P 1 General Administration, Planning and Support Services	2,635	400	3,035	2,714	389	3,103	2,777	389	3,166	2,848	450	3,297
	071500 P 2 Foreign Relations Diplomacy	8,038	1,160	9,198	8,185	1,160	9,345	8,376	1,240	9,616	8,613	1,465	10,078
	071600 P 3 International Trade and Investment Promotion	220	-	220	316	-	316	377	-	377	377	-	377

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	94,228	102,690	196,918	123,424	94,276	217,700	142,573	102,667	245,240	160,375	108,640	269,015
	107. THE NATIONAL TREASURY	37,796	38,117	75,913	57,441	32,470	89,911	69,163	35,221	104,383	79,586	34,900	114,486
	071700 P 1 General Administration, Planning and Support Services	33,208	7,411	40,618	24,283	2,867	27,150	24,918	2,947	27,865	25,699	3,791	29,490
	071800 P 2 Public Financial Management	3,317	29,603	32,920	31,796	28,444	60,239	42,867	31,054	73,921	52,499	29,822	82,321
	071900 P 3 Economic and Financial Policy Formulation and Management	982	1,104	2,085	1,069	1,159	2,229	1,073	1,220	2,293	1,077	1,288	2,364
	072000 P 4 Market Competition and Creation of an Enabling Business Environment	290	-	290	293	-	293	304	-	304	311	-	311
	204. PARLIAMENTARY SERVICE COMMISSION	19,975	3,129	23,104	20,340	2,607	22,947	20,914	2,742	23,656	21,480	3,222	24,702
	072100 P 1. Legislation Representation and Oversight	12,732	-	12,732	12,662	-	12,662	12,854	-	12,854	13,041	-	13,041
	P2 Senate Affairs	1,450	-	1,450	2,591	2,607	5,198	2,783	2,742	5,525	2,972	3,222	6,194
	072300 P 3 General Administration And Planning	5,792	3,129	8,921	5,087	-	5,087	5,277	-	5,277	5,467	-	5,467
	206. COMMISSION ON REVENUE ALLOCATION	285	-	285	344	-	344	353	-	353	362	-	362
	072400 P 1 Intergovernmental Revenue and Financial Matters	285	-	285	344	-	344	353	-	353	362	-	362
	207. PUBLIC SERVICE COMMISSION	882	168	1,050	921	167	1,088	946	175	1,121	970	206	1,177
	072500 P 1 General Administration Planning and Support Services	594	168	762	547	167	714	548	175	724	532	206	738
	072600 P 2 Human Resource Management and Development	213	-	213	279	-	279	296	-	296	328	-	328
	072700 P3 Governance and National Values	75	-	75	96	-	96	101	-	101	110	-	110
	208. SALARIES & REMUNERATION COMMISSION	441	-	441	476	-	476	488	-	488	500	-	500
	072800 P 1 Salaries and Remuneration Management in the Public Service	441	-	441	476	-	476	488	-	488	500	-	500
	211. OFFICE OF AUDITOR GENERAL	2,611	405	3,016	2,712	402	3,114	2,785	423	3,208	2,860	497	3,357
	072900 P 1 Audit Services	2,611	405	3,016	2,712	402	3,114	2,785	423	3,208	2,860	497	3,357
	212. OFFICE OF CONTROLLER OF BUDGET	430	-	430	452	-	452	464	-	464	476	-	476
	073000 P 1 Control and Management of Public finances	430	-	430	452	-	452	464	-	464	476	-	476
	213. COMMISSION ON ADMINISTRATIVE JUSTICE	374	-	374	405	-	405	415	-	415	425	-	425
	073100 P 1. Promotion of Administrative Justice	374	-	374	405	-	405	415	-	415	425	-	425

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
080	NATIONAL SECURITY	90,721	-	90,721	114,072	-	114,072	131,224	-	131,224	149,356	-	149,356
	104. MINISTRY OF DEFENCE	73,281	-	73,281	93,930	-	93,930	106,002	-	106,002	121,384	-	121,384
	080100 P 1. National Defence	71,867	-	71,867	92,412	-	92,412	104,457	-	104,457	119,811	-	119,811
	080200 P 2. Civil Aid	450	-	450	450	-	450	450	-	450	450	-	450
	080300 P3. General Administration Planning and Support services	964	-	964	1,068	-	1,068	1,095	-	1,095	1,123	-	1,123
	123. NATIONAL INTELLIGENCE SERVICE	17,440	-	17,440	20,142	-	20,142	25,222	-	25,222	27,972	-	27,972
	080400 P 1. National Security Intelligence	17,440	-	17,440	20,142	-	20,142	25,222	-	25,222	27,972	-	27,972
090	SOCIAL PROTECTION, CULTURE AND RECREATION	11,085	12,968	24,053	11,234	14,446	25,680	11,479	16,808	28,287	11,750	15,958	27,709
	113. MINISTRY OF SPORTS, CULTURE AND ARTS	2,588	1,368	3,956	2,658	2,619	5,277	2,822	4,719	7,540	2,921	2,779	5,700
	090100 P 1.Sports	546	700	1,246	523	1,700	2,223	555	3,743	4,298	574	1,769	2,344
	090200 P2. Culture and The Arts	1,157	138	1,295	1,208	276	1,484	1,282	293	1,575	1,327	303	1,631
	090400 P3.Library Services and Archives Management	699	520	1,219	706	620	1,326	750	658	1,408	776	681	1,457
	090500 P4.General Administration, Planning and Support Services	187	10	197	221	23	244	235	24	260	243	25	269
	114. MINISTRY OF LABOUR SOCIAL SECURITY & SERVICES	8,497	11,600	20,097	8,576	11,827	20,403	8,657	12,089	20,747	8,829	13,179	22,008
	090600 P1.Promotion of the Best Labor Practices	457	221	678	471	381	852	480	203	682	489	253	741
	090700 P2 Manpower Development, Employment and Productivity Management	585	433	1,018	606	473	1,079	642	573	1,215	681	573	1,254
	090800 P3.Social Development and Children Services	2,577	871	3,447	2,617	898	3,515	2,552	1,238	3,790	2,671	1,166	3,837
	090900 P4. National Safety Net	4,299	10,072	14,371	4,299	10,072	14,371	4,392	10,072	14,464	4,375	11,184	15,559
	09100 P5.General Administration, Planning and Support Services	580	2	582	583	2	585	592	2	594	614	2	616

Annex Table 4: Summary of Expenditure by Programmes, 2014/15 - 2017/18 (Ksh Million)

SECTORS CODE	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT ESTIMATES 2014/15			BPS CEILINGS 2015/16			PROJECTIONS 2016/17			PROJECTION 2017/18		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
100	ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	14,704	36,103	50,807	14,826	36,152	50,978	14,950	38,123	53,073	15,111	39,271	54,382
	145. STATE DEPARTMENT FOR ENVIRONMENT AND NATURAL RESOURCES	9,740	7,823	17,563	9,809	7,472	17,281	9,880	8,027	17,907	9,978	8,350	18,328
	100100 P 1: General Administration, Planning and Support services	561	22	583	567	23	590	573	24	597	584	25	609
	100200 P 2: Environment and Natural Resources Management and Protection	8,112	6,752	14,864	8,140	6,250	14,390	8,165	6,722	14,887	8,218	6,993	15,211
	100600 P 3: Meteorological Services	1,067	1,049	2,116	1,102	1,199	2,301	1,142	1,281	2,423	1,176	1,332	2,508
	146. STATE DEPARTMENT FOR WATER AND REGIONAL AUTHORITIES	4,242	27,038	31,280	4,282	27,088	31,370	4,318	28,318	32,636	4,363	29,034	33,397
	100100 P 1: General administration, Planning and Support Services	760	175	935	799	224	1,023	835	224	1,059	880	223	1,103
	100400 P 2: Water Resources management	2,858	23,518	26,376	2,858	23,318	26,176	2,858	24,548	27,406	2,858	25,465	28,323
	100500 P 3: Integrated Regional Development	624	3,345	3,969	625	3,546	4,171	625	3,546	4,171	625	3,346	3,971
	119. MINISTRY OF MINING	722	1,242	1,964	735	1,592	2,327	752	1,778	2,530	770	1,887	2,657
	100700 P 1: General Administration, Planning and Support Services	227	5	232	230	5	235	235	5	240	247	5	252
	100800 P 2: Resources Surveys and Remote Sensing	248	387	635	250	737	987	252	923	1,175	255	1,032	1,287
	100900 P 3: Mineral Resources Management	247	850	1,097	255	850	1,105	265	850	1,115	268	850	1,118
	TOTAL	687,540	494,892	1,182,431	768,089	627,769	1,395,859	853,201	659,622	1,512,803	953,880	685,758	1,639,639

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	<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\$ 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	<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 	Deemed Generated Energy Payments Euros 110.4Mn	NO

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments(Annual)	Call on Guarantee (Y/N)
				construction	LC to be replaced with Escrow Account	of 5 Years profits 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

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

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 construct	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 at 	Deemed Energy Payment US\$ 26.8Mn	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)
				ion		10% discount rate.		
7.	Orpower Olkaria 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

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	1. Net Present Value of Non-escalable 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. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis		Operating	None	None	None	NO

THE NATIONAL TREASURY