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MEDIUM TERM

**2018 BUDGET POLICY  
STATEMENT**

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

February 2018

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© Budget Policy Statement (BPS) 2018

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## Foreword

The 2018 Budget Policy Statement (BPS), sets out the Jubilee Administration priority programs and reforms to be implemented over the next five years (2018 – 2022). The programs and policies herein reflect the concerns of Kenyans and are anchored under the Medium Term Plan III of the Kenya Vision 2030. These priority programs will build on the achievements realised under the Economic Transformation Agenda, which has been under implementation since 2014.

This BPS is framed against a backdrop of improving global and regional economic prospects. Global growth is projected to improve to 3.9 percent in 2018 up from 3.7 percent in 2017. The positive global outlook reflects recovery in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. Similarly, growth in sub-Saharan Africa is projected to pick up, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption. On the domestic front, our economy has remained resilient, with growth supported by a stable macroeconomic environment, resilient domestic demand and ongoing public infrastructural investments.

By implementing the programs and policies under the Economic Transformation Agenda, we have strengthened the resilience of our economy and laid a solid foundation for Kenya's industrialisation as envisaged in the Vision 2030. Building on the progress made thus far and to accelerate industrialization, we aim to address the remaining bottlenecks that continue to hold our economy from achieving its full potential by focusing on "The Big Four" Plan over the next five years. As such, "The Big Four" Plan targets to:

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

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The global and regional developments together with Kenya's investments in the "The Big Four" sectors, sustained ongoing infrastructural investments, and continued recovery in tourism, increased consumer confidence, supported by a conducive business environment will accelerate economic growth prospects through industrialization and consequently job creation. In addition, the Government will continue to provide an enabling environment for the private

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sector to thrive by preserving macroeconomic stability; expanding infrastructure; improving security; implementing business regulatory reforms; expanding access to finance and instituting governance reforms so as to achieve “The Big Four” Plan. The Government will also support higher levels of value addition in domestically produced goods, strengthen the fight against corruption and counterfeits, enhance the use of public procurement to promote Buy Kenya Build Kenya initiative and support Micro, Small and Medium Enterprises (MSME) sector.

As we embark on “The Big Four” Plan, we are clearly conscious of our limited fiscal space and will therefore leverage on the private sector in partnership with the Government. In this respect, we shall be creating a High Speed Public Private Partnership (PPP) Unit to attract and engage the private sector on implementation of most of the projects under “The Big Four” Plan. The Government remains committed to a sustainable fiscal policy path that will aim to grow revenues progressively and gradually reduce non priority expenditures. Through this process, we shall narrow the primary fiscal deficit and consequently the overall fiscal deficit from the projected 7.2 percent of GDP in the FY 2017/18 to 3.0 percent of GDP over the medium term.

The expenditure priorities in the sector ceilings in this BPS have been realigned to “The Big Four” Plan. In this regard, the targeted expenditures will prioritize employment creation, youth empowerment, supporting manufacturing activities, enhancing health coverage, improving food security and enhancing living conditions through affordable housing. The allocations to other critical sectors such as education, infrastructure, energy and social protection will remain protected so as to achieve the targeted objectives.

In finalising this BPS, we benefitted from the wise counsel and guidance of HE The President and HE The Deputy President. Equally, we received support and contributions from my Cabinet colleagues, staff of the National Treasury and other Government officials. We also consulted a wide range of stakeholders and the general public in line with the requirements of the Public Finance Management (PFM) Act and the Constitution. We greatly value their support and I would like to extend my appreciation to all.



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

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## Acknowledgement

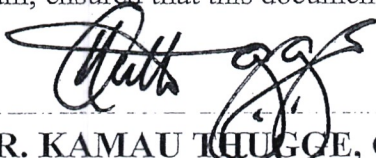
The 2018 Budget Policy Statement (BPS) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012. It outlines the current state of the economy and outlook over the medium term, broad macroeconomic issues and the medium term fiscal framework; the key strategic priorities and policy goals; and a summary of the Government's spending plans as a basis for the FY 2018/19 budget. The BPS is expected to improve the public's understanding of Kenya's public finances, shape public debate on economic and development matters, and guide development and implementation of government programs.

Overall, Kenya's economy remains resilient, growing robustly despite the emerging challenges. During 2017, some economic sectors including tourism, wholesale and retail were adversely affected by the wait and see attitude of investors owing to the prolonged electioneering period. Nevertheless, macroeconomic stability has been preserved as a result of prudent fiscal and monetary policies that remain supportive of growth.

Significant progress has been achieved over the past five years in terms of Kenya's social economic development. However, much more remains to be done to further boost sustainable and shared economic growth, employment opportunities and wealth creation. Accordingly, the pivotal policy thrust of the 2018 BPS, is to achieve a better quality of life for all Kenyans by implementing "The Big Four" strategic areas namely: raise the share of manufacturing sector to 15 percent of GDP; ensure that all citizens enjoy food security and improved nutrition by 2022; achieve universal health coverage; and deliver at least five hundred thousand (500,000) affordable housing units. These policy objectives will be achieved through sustaining economic growth, macroeconomic stability and implementing reforms aimed at providing an enabling environment for all stakeholders to play their role towards achieving the "The Big Four" Plan.

The preparation of the 2018 BPS was a collaborative effort. Much of the information in this document was obtained from the various Government Ministries, Departments and Agencies (MDAs) including Departments and Directorates within the National Treasury. We also received valuable inputs from the Macro Working Group, Public Sector Hearings and the public during budget consultation process.

Finally, we are grateful to the core team in the National Treasury which spent a significant amount of time putting together this BPS. The tireless effort of the core team, ensured that this document was produced in time and is of high quality.



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

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## *About the Budget Policy Statement*

The budget policy statement (BPS) is a Government policy document that sets out the broad strategic priorities and policy goals that will guide the national government and the County Governments in preparing their budgets both for the following financial year and over the medium term.

In the document, adherence to the fiscal responsibility principles demonstrates prudent and transparent management of public resources in line with the Constitution and the Public Finance Management (PFM) Act, 2012.

Section 25 of the PFM Act, 2012, provides that the National Treasury shall prepare and submit to Cabinet the BPS for approval. Subsequently, the approved BPS is submitted to Parliament, by the 15<sup>th</sup> of February each year. Parliament shall, not later than 14 days after the BPS is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the FY 2018/19.

The Budget Policy Statement contains:

- (a) an assessment of the current state of the economy including macroeconomic forecasts;
- (b) the financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;
- (c) the proposed expenditure ceilings for the national government, including those of Parliament and the Judiciary and indicative transfers to County Governments ;
- (d) the fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt; and
- (e) Statement of Specific Risks.

The preparation of the BPS is a consultative process that involves seeking and taking into account the views of: the Commission on Revenue Allocation; County Governments; Controller of Budget; Parliamentary Service Commission; Judicial Service Commission; Ministries, Departments and Agencies, the public and any other interested persons or groups.

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## **I. RECENT ECONOMIC DEVELOPMENTS AND THE MEDIUM TERM OUTLOOK**

### **1.1 Overview**

1. Kenya's economy remained resilient in 2017 despite adverse weather conditions, a prolonged electioneering period as well as subdued credit growth to the private sector which combined to weaken growth in the first half of the year. Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018. The resilience in growth in 2017 was supported by the ongoing public sector infrastructure investments, recovery in the tourism sector and continued stable macroeconomic environment.

2. The overall month on month inflation declined to 4.8 percent in January 2018 from 7.0 percent in January 2017. The decline in inflation was a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favourable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

3. The foreign exchange market has remained relatively stable supported by increased tea and horticultural exports, strong diaspora remittances, and a continued recovery in tourism. The 12-month current account deficit stabilized at 7.0 percent of GDP in December 2017 and is expected to narrow to below 6.0 percent of GDP in 2018 due to lower imports of food and lower imports in the second phase of SGR project.

4. Over the medium term, growth is projected to average around 7.0 percent due to investments in strategic areas under "The Big Four" Plan, namely: increasing the share of manufacturing sector to GDP; ensuring all citizens enjoy food security and improved nutrition by 2022; expanding universal health coverage; and constructing at least five hundred thousand (500,000) affordable housing units. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

5. Kenya is ranked favourably in the ease of doing business and as a top investment destination. In 2017, the World Bank's Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poors Global Ratings affirmed Kenya's short and long term foreign and local currency sovereign credit rating at B+/B citing Kenya's strong growth prospects which will facilitate fiscal consolidation.

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## 1.2 Recent Economic Developments and Outlook

### *Global and Regional Economic Developments*

6. The pickup in global activity that started in 2016 gathered steam in 2017 and is expected to continue in 2018 supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. As such global growth is projected to increase to 3.9 percent in 2018 from 3.7 percent in 2017 and 3.2 percent in 2016 (**Table 1.1**) primarily driven by improving domestic demand in advanced economies and China and improved performance in other emerging market economies.

**Table 1.1: Global Economic Growth, Percent**

	Actual	Estimated	Projected
	2016	2017	2018
World output	3.2	3.7	3.9
Advanced Economies	1.7	2.3	2.3
Of which: USA	1.5	2.3	2.7
Emerging and Developing Economies	4.4	4.7	4.9
Of which: China	6.7	6.8	6.6
India	7.1	6.7	7.4
Sub-Saharan Africa	1.4	2.7	3.3
Of which: South Africa	0.3	0.9	0.9
Nigeria	-1.6	0.8	2.1
Kenya	5.8	4.8*	5.6*

*Source: January 2018 WEO; \* Projections by the National Treasury*

7. In the advanced economies, growth is expected to pick up to 2.3 percent in 2018 and 2017, up from 1.7 percent in 2016. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment with a noticeable impact on growth in economies with large exports. In addition, the U.S. tax reform and associated fiscal stimulus are expected to temporarily raise U.S. growth, with favorable demand spillovers for U.S. trading partners especially Canada and Mexico.

8. Among emerging market and developing economies, higher domestic demand in China and continued recovery in key emerging market economies supported growth in 2017. Growth in emerging and developing economies is projected to increase from 4.4 percent in 2016 to 4.7 percent in 2017 and 4.9 percent in 2018. The projected growth is driven primarily by the strengthening of growth in commodity exporters; a gradual increase in India's growth rate and a lower but still high trend growth rate in China.

9. The broad-based slowdown in sub-Saharan Africa is easing and growth is expected to improve from 1.4 percent in 2016 to 2.7 percent in 2017 and further to 3.3 percent in 2018, partly supported by a recovery in growth of larger commodity exporters such as Nigeria and South Africa. In addition, the easing of drought conditions in the Eastern and Southern Africa have contributed to the positive

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outlook. However, downside risks have increased following policy uncertainties and delays in the implementation of policy adjustments in Nigeria and South Africa. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

10. In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1 percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan. In 2018, economic growth is projected to increase to 5.9 percent supported by a stable macroeconomic environment, ongoing infrastructure investments, and strong private consumption.

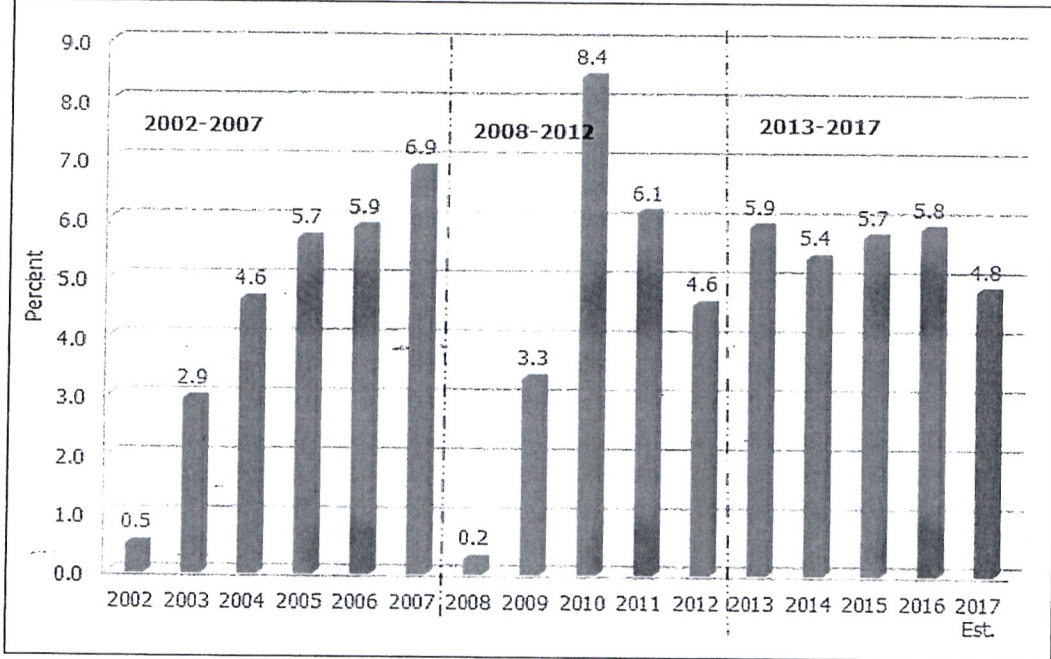
## *Domestic Economic Developments*

11. Growth of the Kenyan economy remained resilient, broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies (**Chart 1.1a**). The economy, specifically, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012.

12. However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy is estimated to grow by 4.8 percent in 2017, which is a slowdown from the estimated growth of 5.1 percent in the 2017 Budget Review and Outlook Paper (BROP).

13. In 2017, the economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate; and information and communication. The growth was somewhat constrained by subdued performances in agriculture, forestry and fishing; manufacturing; electricity; and financial intermediation sectors.

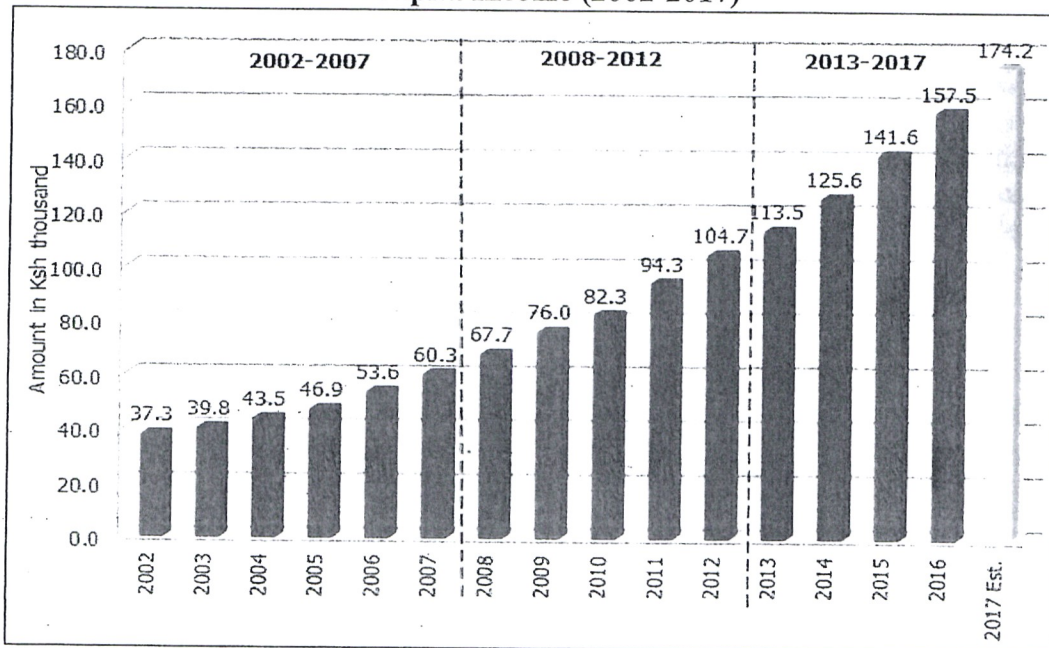
**Chart 1.1a: Trends in Kenya's Economic Growth Rates**



Source of data: Kenya National Bureau of Statistics

14. The value of goods and services produced therefore raised the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017, a 66 percent increase. The economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012 (Chart 1.1b and Chart 1.1c).

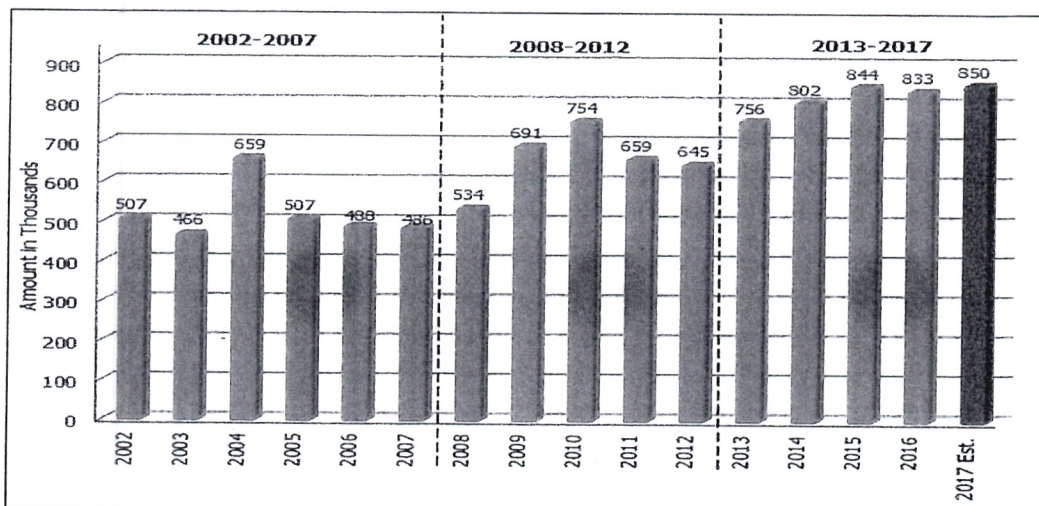
**Chart 1.1b: Trends in Per Capita Income (2002-2017)**



Source of data: Kenya National Bureau of Statistics

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**Chart 1.1c: Number of Jobs Created (2002-2017)**



*Source of data: Kenya National Bureau of Statistics*

15. The resilient strong growth of the economy over the past five years reflects the broad based nature of our economy that has been largely driven by growth in the non-agriculture sectors (**Table 1.2, Chart 1.2a and Chart 1.2b**). The non-agricultural sector has remained vibrant growing at 6.7 percent in 2016 from 5.4 percent in 2013 and continues to be the main source of growth.

**Table 1.2: Sectoral Real GDP Growth rates, percent**

	2013	2014	2015	2016	2017 Q1	2017 Q2	2017 Q3	Est.2017 Q4
<b>Primary sectors</b>	5.0	4.7	5.8	4.2	-0.8	1.5	3.2	3.5
Of which: Agriculture	5.4	4.3	5.5	4.0	-1.3	1.3	3.1	3.3
Mining	-4.2	14.9	12.4	9.5	9.7	5.7	5.8	6.5
<b>Industry Sectors</b>	5.9	5.6	7.0	5.6	4.7	4.3	3.3	4.2
Of which: Manufacturing	5.6	2.5	3.6	3.5	2.9	2.3	2.1	2.4
Electricity and Water supply	6.6	6.1	8.5	7.1	5.1	6.1	4.8	4.6
Construction	6.1	13.1	13.9	9.2	8.4	7.5	4.9	7.0
<b>Services Sectors</b>	5.4	6.3	6.3	6.8	7.5	6.4	5.3	5.8
<b>GDP Growth</b>	5.9	5.4	5.7	5.8	4.7	5.0	4.4	5.3
Of which: Non agricultural GDP	5.4	6.1	6.3	6.7	6.9	6.1	5.0	5.5

*Source of data: Kenya National Bureau of Statistics*

16. Growth of the services sector accelerated from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favourable performance of ICT, real estate, wholesale and Retail Trade, Transport and Storage and Accommodation and Restaurants. Accommodation and restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel alerts from major tourist originating countries.

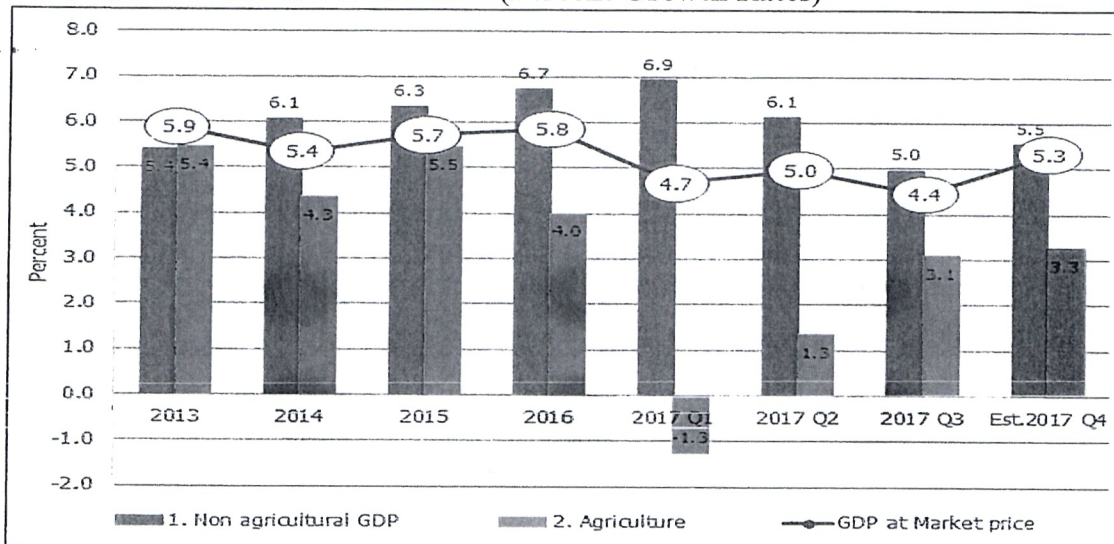
17. The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. However, the growth of the sector slowed down

to 6.9 percent in 2016 and is estimated at 3.2 percent in 2017 partly due low banking sector credit to the private sector and a decline in the growth of interest income.

18. The industry sector grew from 3.5 percent in 2012 to 7.0 percent in 2015 supported by the construction sector as a result of public infrastructural development. The sector slowed down in 2016 and 2017 following subdued performance of the manufacturing and electricity and water supply sectors.

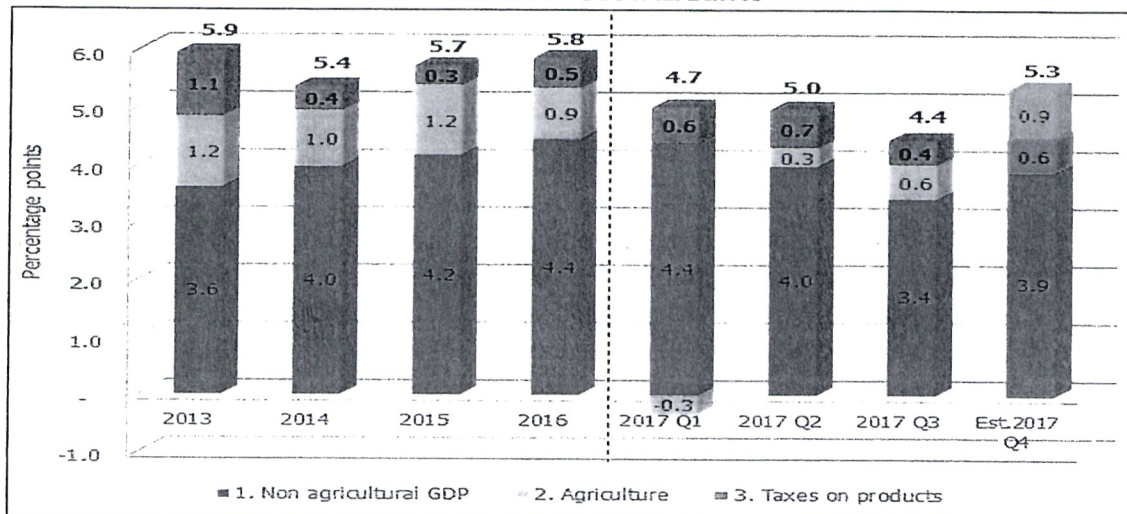
19. Meanwhile, growth of the agricultural sector rose from 2.8 percent in 2012 to 5.5 percent in 2015 but contracted to (-1.3) percent in first quarter of 2017 due to the prolonged drought that started in the fourth quarter of 2016. Growth in the sector recovered to 3.1 percent in the third quarter of 2017 as weather conditions improved.

**Chart 1.2a: Economic Performance (Percent Growth Rates)**



Source of data: Kenya National Bureau of Statistics

**Chart 1.2b: Sectoral contribution to GDP Growth Rates**



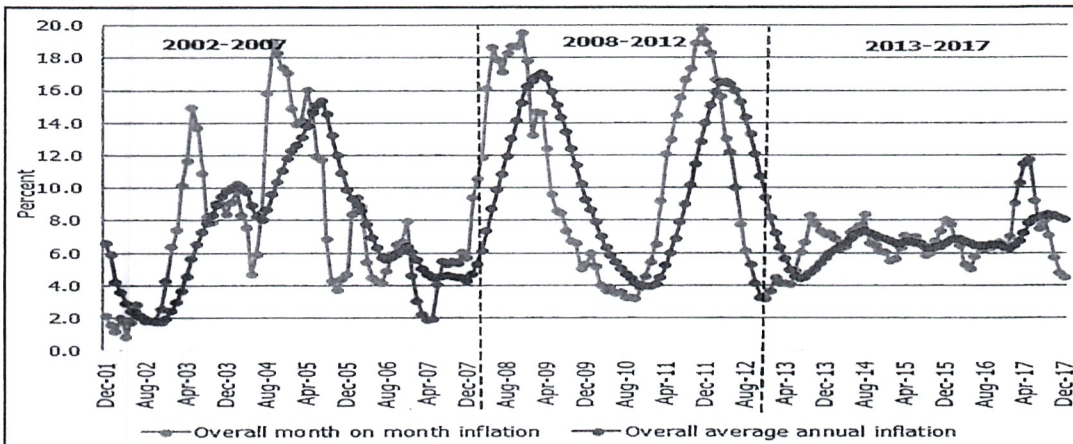
Source of data: Kenya National Bureau of Statistics

**Inflation Rate**

20. Inflation rate has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation averaged 6.7 percent during the period 2013-2017 compared with 7.4 percent during 2002-2007 and 10.6 percent during 2008-2012 (**Chart 1.3**). Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses.

21. However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.8 percent in January 2018 from 7.0 percent in January 2017, and was within the Government’s target range.

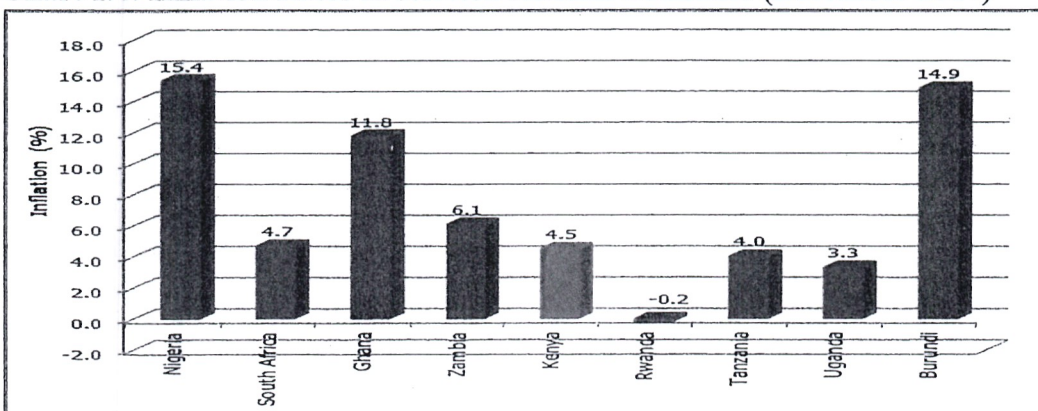
**Chart 1.3: Inflation Rate**



Source of data: Kenya National Bureau of Statistics

22. Kenya’s rate of inflation compares favorably with the rest of sub-Saharan African countries and especially its peers such as Nigeria and South Africa whose inflation rates were 15.4 percent and 4.7 percent, respectively (**Chart 1.4**).

**Chart 1.4: Inflation Rates in selected African Countries (December 2017)**

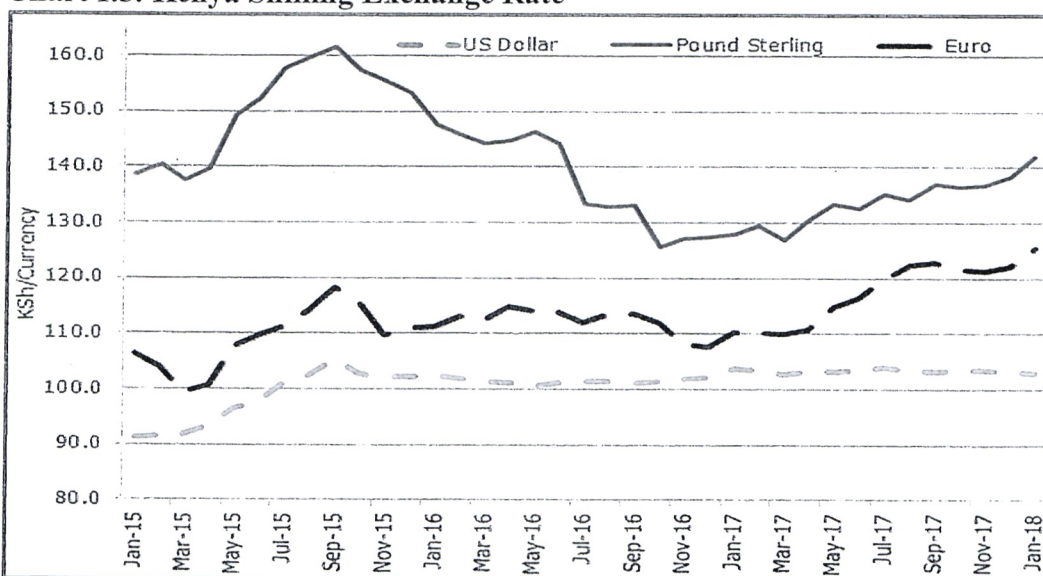


Source of data: Various National Central Banks

*Kenya Shilling Exchange Rate*

23. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at January 2018, the shilling exchange rate against the Dollar was at Ksh 102.9 compared with Ksh 103.7 in January 2017. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 125.4 and Ksh 141.9 in January 2018 from Ksh 110.2 and Ksh 128.0 in January 2017, respectively (**Chart 1.5**).

**Chart 1.5: Kenya Shilling Exchange Rate**



Source of data: Central Bank of Kenya

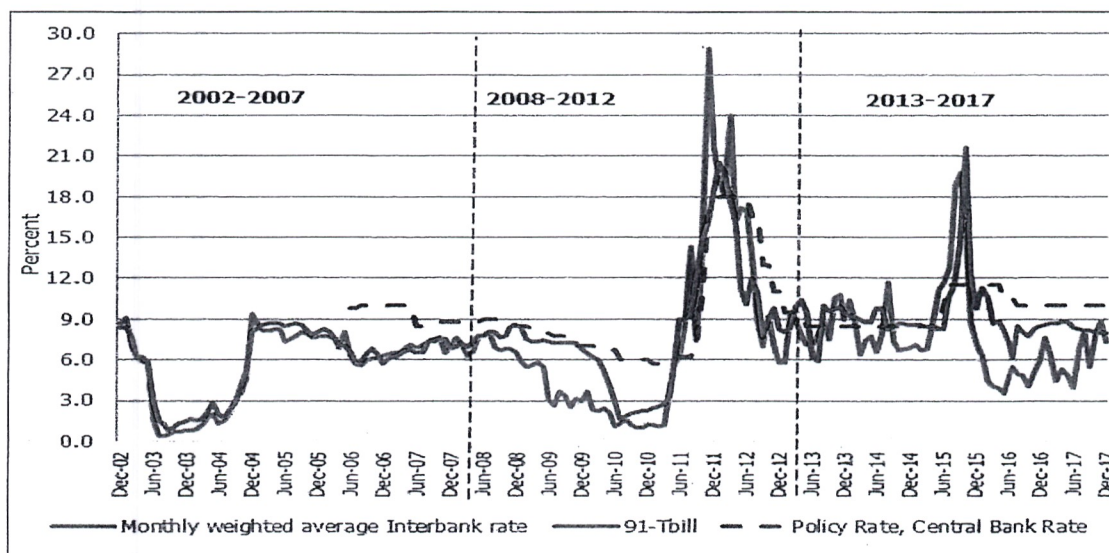
24. The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies, has continued to display relatively less volatility. This stability reflected resilient export receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

**Interest Rates**

25. Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations (**Chart 1.6**). The rate is currently (January 2018) at 10.0 percent since August 2016. The interbank rate has remained low at 6.1 percent in January 2018 from 7.7 percent in January 2017 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.6 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.2 percent in January 2018 from 10.5 percent and 11.0 percent in January 2017, respectively.

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**Chart 1.6: Short-Term Interest Rates**



Source of data: Central Bank of Kenya

26. The interest rate spread narrowed to 5.7 percent in October 2017 from 5.9 percent in October 2016 with the Commercial banks' average lending interest stabilizing at 13.7 percent over the same period. Meanwhile, the average commercial banks' deposit rate increased to 8.0 percent in October 2017 from 7.8 percent in October 2016.

### Money and Credit

27. Broad money supply, M3, grew by 9.5 percent in the year to December 2017 compared to a growth of 3.7 percent in the year to December 2016 (Table 1.3). The growth in M3 was largely on account of an increase of net domestic credit to the Government and the improvement in the contribution of net foreign assets.

**Table 1.3: Money Supply and Credit, Ksh billion**

	2015 DEC	2016 DEC	2017 DEC	Absolute Change		percent change	
				2015-2016 DEC	2016-2017 DEC	12 months to Dec-16	12 months to Dec-17
<b>Money supply, M3 (1+2)</b>	2,666.7	2,764.5	3,028.1	97.8	263.6	3.7	9.5
<b>1. Net foreign assets (1.1+1.2)</b>	491.5	495.2	535.1	3.7	39.9	0.8	8.1
1.1 Central Bank	621.4	621.6	627.1	0.2	5.5	0.0	0.9
1.2 Banking Institutions	-129.9	-126.4	-92.1	3.5	34.4	-2.7	-27.2
<b>2. Net domestic assets (2.1+2.2)</b>	2,175.2	2,269.3	2,493.1	94.1	223.7	4.3	9.9
<b>2.1 Domestic credit (2.1.1+2.1.2+2.1.3)</b>	2,793.9	2,973.2	3,198.3	179.3	225.1	6.4	7.6
2.1.1 Government (net)	525.1	592.8	756.8	67.7	164.0	12.9	27.7
2.1.2 Other public sector	82.4	104.7	111.3	22.3	6.6	27.0	6.3
2.1.3 Private sector	2,186.4	2,275.7	2,330.2	89.3	54.5	4.1	2.4
<b>2.2 Other assets net</b>	-618.7	-703.8	-705.2	-85.2	-1.4	13.8	0.2

Source of data: Central Bank of Kenya

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28. Net Foreign Assets (NFA) of the banking system in the year to December 2017 increased by 8.1 percent from a growth of 0.8 percent over a similar period in 2016. Meanwhile, the Net Domestic Assets (NDA) improved to a growth of 9.9 percent in the year to December 2017 from the growth of 4.3 percent over a similar period in 2016. The pickup in growth in 2017 is due to an improvement in the growth of net domestic credit. Domestic credit improved to an annual growth of Ksh 225.1 billion (7.6 percent) in the year to December 2017 compared to a growth of Ksh 179.3 billion (6.4 percent) in the year to December 2016.

29. Annual growth of credit to the private sector is on a gradual recovery path (2.4 percent in December 2017, 2.7 percent in November 2017, 2.0 percent in October 2017 and 1.7 percent in September 2017), reversing the downward trend witnessed since August 2015. However, this was a slowdown compared to the 4.1 percent growth in December 2016. The real estate, manufacturing, trade, consumer durables and private households have continued on a net basis to receive credit flows from the banking sector since January 2017.

## *Balance of Payments*

30. The overall balance of payments position improved to a surplus of US\$ 163.6 million (0.2 percent of GDP) in the year to December 2017 from a deficit of US\$ 129.0 million (0.2 percent of GDP) in the year to December 2016 (**Table 1.4 and Chart 1.7**) due to the improvement in the financial account that more than offset the widening current account deficit.

**Table 1.4: Balance of Payments**

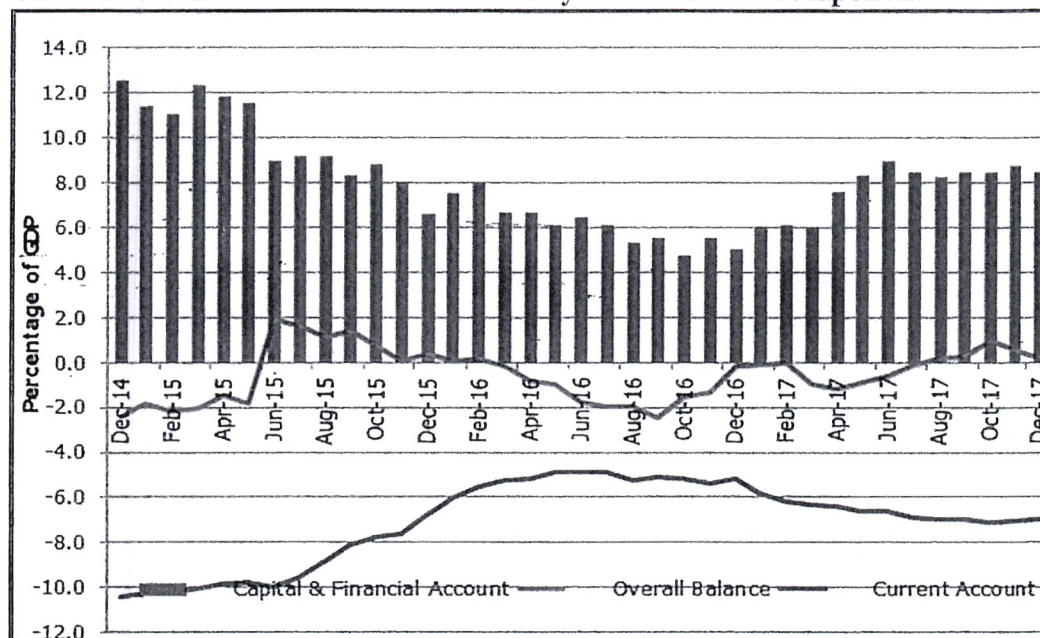
ITEM	Absolute amounts in USD Million							
	Dec-15	Jun-16	Dec-16	Jun-17	Sep-17	Oct-17	Nov-17	Dec-17
Overall Balance	254.6	-1,109.0	-129.0	-413.2	207.7	723.0	387.6	163.6
<i>As a Share of GDP</i>	0.4	-1.7	-0.2	-0.6	0.3	1.0	0.5	0.2
Current Account	-4,291.4	-3,122.1	-3,652.8	-4,834.1	-5,087.6	-5,193.3	-5,157.4	-5,095.2
<i>As a Share of GDP</i>	-6.7	-4.9	-5.2	-6.6	-7.0	-7.1	-7.1	-7.0
Of which: Merchandise account (a-b)	8,377.0	7,453.3	-7,890.0	-9,320.2	-9,958.7	-10,185.0	-10,249.9	-10,396.2
a. Goods: exports f.o.b.	5,981.4	6,090.0	5,747.4	5,700.5	5,705.9	5,766.4	5,770.0	5,796.1
b. Goods: imports f.o.b.	14,358.4	13,543.3	13,637.4	15,020.7	15,664.6	15,951.5	16,019.9	16,192.4
Services: credit	4,635.7	4,601.2	4,525.8	4,700.3	4,885.7	4,953.1	5,023.8	5,135.2
Services: debit	3,318.8	3,058.2	2,837.1	3,068.1	3,214.3	3,279.5	3,337.9	3,376.1
<i>Balance on goods and services</i>	-7,060.1	-5,910.3	-6,201.3	-7,687.9	-8,287.3	-8,511.5	-8,564.0	-8,637.1
Primary income: credit	491.6	462.5	433.5	471.1	476.5	481.6	486.1	491.1
Primary income: debit	1,175.7	1,113.8	1,114.8	1,249.0	1,294.8	1,294.1	1,299.9	1,344.7
<i>Balance on goods, services, and primary income</i>	-7,744.3	-6,561.6	-6,882.6	-8,465.8	-9,105.7	-9,324.0	-9,377.8	-9,490.7
Secondary income, n.i.e.: credit	3,516.2	3,498.6	3,280.9	3,704.8	4,093.4	4,206.4	4,297.7	4,474.9
Secondary income: debit	63.3	59.1	51.1	73.1	75.3	75.7	77.3	79.4
Capital Account	226.9	276.5	205.7	186.4	193.8	217.8	222.7	251.8
Financial Account	-3,913.6	-3,821.9	-4,137.4	-5,954.9	-5,940.4	-6,137.9	-5,915.8	-5,300.0

*Source of data: Central Bank of Kenya*

31. The current account balance registered a deficit of US\$ 5,095.2 million (7.0 percent of GDP) in the year to December 2017 from a deficit of US\$ 3,652.8 million (5.2 percent of GDP) in the year to December 2016. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

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**Chart 1.7: Performance of Balance of Payments and its Components**



Source of data: Central Bank of Kenya

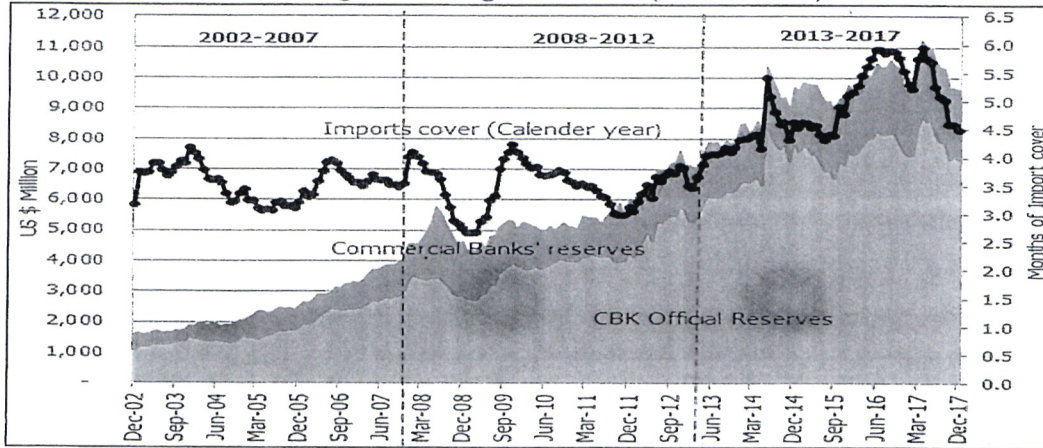
32. The deficit in the merchandise account widened by US\$ 2,506.2 million to US\$ 10,396.2 million in the year to December 2017 reflecting increase in payments for import of oil on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined generally reflecting lower global demand for exports of manufactured goods; raw materials; chemicals and related products; and miscellaneous manufactured articles.

33. Flows in the Financial Account increased to US\$ 5,300 million in December 2017 compared with US\$ 4,137.4 million in December 2016, with the surplus reflecting higher liabilities compared to assets. The financial inflows were mainly in the form of Foreign Direct Investments and other investments which stood at US\$ 379.9 million and US\$ 5,863.6 million, respectively in December 2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

### *Foreign Exchange Reserves*

34. The banking system's foreign exchange holding improved to US\$ 9,645.7 million in December 2017 from US\$ 9,587.5 million in December 2016 (**Chart 1.8**). The official foreign exchange reserves held by the Central Bank remained strong at US\$ 7,331.9 million (4.9 months of import cover) in December 2017 compared with US\$ 7,572.9 million (5.0 months of import cover) in December 2016 while commercial banks holdings was at US\$ 2,313.8 million in 2017 from US\$ 2,014.6 million in 2016.

Chart 1.8: Official Foreign Exchange Reserves (US\$ million)



Source of data: Central Bank of Kenya

**Capital Markets**

35. Activities at the stock market remained strong in January 2018 despite a slowdown in September 2017 and October 2017 due to uncertainty associated with the long electioneering period. The NSE 20 Share Index improved to 3,737 points in January 2018 from 2,794 points in January 2017 while Market Capitalization improved to Ksh 2,660 billion from Ksh 1,788 billion over the same period.

**1.3 Fiscal Performance**

36. Implementation of the FY 2017/18 budget is on course although performance is lagging behind targets. In the first half of the year, revenue collection has consistently lagged behind targets due to the under performance of the main revenue tax heads. On the other hand, there have been elevated expenditures pressures as a result of the adverse spillover effects of the prolonged drought, the repeat of the Presidential Elections and salary demands by Universities Staff and Health Workers.

37. By end December 2017, total cumulative revenues including A-I-A collected amounted to Ksh 709.4 billion (equivalent to 8.1 percent of GDP) against a target of Ksh 777.7 billion (8.8 percent of GDP). The recorded shortfall of Ksh 68.3 billion was due to under performance of the ordinary revenues by Ksh 44.8 billion and the ministerial A-I-A by Ksh 23.5 billion. The shortfall in ordinary revenue was on account of underperformance in all the broad categories of ordinary revenues.

38. Total expenditures amounted to Ksh 907.0 billion against a target of Ksh 1,029.3 billion falling below target by Ksh 122.3 billion at the end of December 2017. The shortfall was due to lower than projected disbursements to County Governments due to the delayed enactment of the County Allocation of Revenue Act as well as below target absorption of development expenditures despite the faster spending in the recurrent expenditures by the National Government. Recurrent expenditure amounted to Ksh 647.0 billion against a target of Ksh 616.2 billion, representing above target spending of Ksh 30.8 billion. The faster-spending was mainly recorded in operations and maintenance which accounted for Ksh 35.6 billion and higher than programmed domestic interest payments of Ksh 17.6 billion.

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39. The combined effect of the revenue and expenditure performance at end of December 2017, resulted to an overall fiscal deficit (including grants), of Ksh 209.2 billion against a targeted deficit of Ksh 226.2 billion. This deficit was financed through net foreign borrowing of Ksh 24.1 billion, net domestic financing of Ksh 183.6 billion and other domestic receipts of Ksh 1.6 billion.

40. FY 2017/18 budget projection has been reviewed to reflect revenue performance by end December 2017 and to take into account expenditure rationalization necessitated by the accommodation of the emerging priorities and salary and election related expenditure pressures.

41. In the revised fiscal framework revenues are projected at Ksh 1,643.1 billion or 19.0 percent of GDP from the budget level of Ksh 1,704.5 billion or 19.6 percent of GDP in FY 2017/18. Total expenditures and net lending are projected at Ksh 2,323.1 billion or 26.8 percent of GDP.

42. The deficit, inclusive of grants, is therefore projected at Ksh 620.8 billion (equivalent to 7.2 percent of GDP). Borrowing from the domestic market is projected at Ksh 293.8 billion, external borrowing at Ksh. 323.2 billion and other domestic receipts at Ksh 3.8 billion. The overall impact of these developments is reflected in **Table 1.5 and Annex Table 2 and Annex Table 3.**

**Table 1.5 Fiscal Framework (Ksh Million)**

	FY 2016/17		FY 2017/18		Deviation (BPS - Budget)	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
	Prcl. Actuals	Revised Budget II	Budget	BPS 2018		Proj.	Proj.	Proj.	Proj.
Ksh billion									
<b>A. TOTAL REVENUE AND GRANTS</b>	1,426.9	1,514.1	1,763.3	1,702.4	(61.0)	1,904.4	2,157.2	2,470.2	2,802.0
TOTAL REVENUE	1,400.6	1,455.4	1,704.5	1,643.1	(61.4)	1,853.9	2,105.6	2,417.8	2,747.6
Ordinary revenue	1,305.8	1,311.3	1,549.4	1,486.3	(63.1)	1,688.5	1,931.0	2,229.1	2,548.4
Ministerial Appropriation in Aid	94.8	144.0	155.1	156.8	1.7	165.5	174.6	188.7	199.2
GRANTS	26.3	58.8	58.8	59.2	0.4	50.5	51.6	52.4	54.4
<b>B. TOTAL EXPENDITURE AND NET LENDING</b>	2,110.0	2,327.0	2,298.8	2,323.1	24.4	2,492.2	2,636.0	2,892.9	3,234.1
Recurrent Expenditure	1,165.0	1,228.8	1,336.2	1,392.8	57.5	1,501.5	1,595.1	1,765.2	1,967.6
Development	645.8	797.0	640.3	579.6	(33.2)	612.9	663.7	740.8	866.5
County Allocation	305.0	301.2	345.7	345.7	-	372.7	372.2	381.9	391.9
Contingency Fund	-	-	5.0	5.0	-	5.0	5.0	5.0	8.0
<b>C. BALANCE EXCLUSIVE OF GRANTS</b>	(709.4)	(871.7)	(594.3)	(680.0)	(85.8)	(638.2)	(530.4)	(475.1)	(486.5)
<b>D. BALANCE INCLUSIVE OF GRANTS</b>	(683.1)	(812.9)	(535.5)	(620.8)	(85.3)	(587.7)	(478.8)	(422.6)	(432.1)
Discrepancy	14.2	-	-	-	-	-	-	-	-
<b>F. TOTAL FINANCING</b>	697.3	812.9	535.5	620.8	85.3	587.7	478.8	422.6	432.1
NET FOREIGN FINANCING	385.7	463.9	256.0	323.2	67.3	214.7	232.7	229.5	227.1
NET DOMESTIC FINANCING	311.5	349.0	279.5	297.6	309.8	373.0	246.1	193.1	205.0
<b>NOMINAL GDP</b>	<b>7,658.1</b>	<b>7,659.7</b>	<b>8,689.9</b>	<b>8,654.6</b>	<b>(35.2)</b>	<b>9,790.8</b>	<b>11,100.8</b>	<b>12,620.8</b>	<b>14,363.9</b>
As a share of GDP									
<b>A. TOTAL REVENUE AND GRANTS</b>	18.6	19.8	20.3	19.7	-	19.5	19.4	19.6	19.5
TOTAL REVENUE	18.3	19.0	19.6	19.0	-	18.9	19.0	19.2	19.1
Ordinary revenue	17.1	17.1	17.8	17.2	-	17.2	17.4	17.7	17.7
Ministerial Appropriation in Aid	1.2	1.9	1.8	1.8	-	1.7	1.6	1.5	1.4
GRANTS	0.3	0.8	0.7	0.7	-	0.5	0.5	0.4	0.4
<b>B. TOTAL EXPENDITURE AND NET LENDING</b>	27.6	30.4	26.5	26.8	-	25.5	23.7	22.9	22.5
Recurrent Expenditure	15.2	16.0	15.4	16.1	-	15.3	14.4	14.0	13.7
Development	8.4	10.4	7.4	6.7	-	6.3	6.0	5.9	6.0
County Allocation	4.0	3.9	4.0	4.0	-	3.8	3.4	3.0	2.7
Contingency Fund	-	-	0.1	0.1	-	0.1	0.0	0.0	0.1
<b>C. BALANCE EXCLUSIVE OF GRANTS</b>	(9.3)	(11.4)	(6.8)	(7.9)	-	(6.5)	(4.8)	(3.8)	(3.4)
<b>D. BALANCE INCLUSIVE OF GRANTS</b>	(8.9)	(10.6)	(6.2)	(7.2)	-	(6.0)	(4.3)	(3.3)	(3.0)
Discrepancy	0.2	-	-	-	-	-	-	-	-
<b>F. TOTAL FINANCING</b>	9.1	10.6	6.2	7.2	-	6.0	4.3	3.3	3.0
NET FOREIGN FINANCING	5.0	6.1	2.9	3.7	-	2.2	2.1	1.8	1.6
NET DOMESTIC FINANCING	4.1	4.6	3.2	3.4	-	3.8	2.2	1.5	1.4
<b>NOMINAL GDP</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: National Treasury

## 1.4 Fiscal Policy

43. The fiscal policy stance over the medium term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same

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time supporting the devolved system of Government for effective delivery of services. The fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union Protocol's fiscal targets. That is, the EAC targets of a fiscal deficit ceiling including grants of 3 percent of GDP and excluding grants 6 percent of GDP.

44. The fiscal policy underpinning the FY 2018/19 budget and MTEF will sustain the revenue projections in line with recent mobilization trends in order to maintain fiscal predictability. Revenue is projected to increase from 18.3 percent of GDP in FY 2016/17 to 19.2 percent of GDP in FY 2020/21 (**Table 1.5**).

45. In an effort to boost domestic revenue mobilization, the Government is going to undertake a combination of policy and administrative reforms to bolster revenue yields going forward. These efforts will reverse the revenue losses experienced in the recent past where ordinary revenues have declined about 1.0 percent of GDP from 18.1 percent in FY 2013/14 to 17.1 percent in FY 2016/17. In the medium term, ordinary revenues are projected to increase to 17.7 percent of GDP in FY 2020/21 from 17.1 percent of GDP in FY 2016/17. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.0 percent of GDP by FY 2021/22 from the projected 7.2 percent of GDP in FY 2017/18. Some of the reforms to be undertaken include:

- i. Roll out of the Integrated Customs Management System (ICMS) to seal loop holes at the Customs to prevent concealment, undervaluation, mis-declarations and falsifications of import documents;
- ii. Implementation of the Regional Electronic Cargo Tracking (RECTS) to tackle transit diversion;
- iii. Enhance scanning activities to detect concealment;
- iv. Scaling-up on-going and routine activities such as Pre-Verification of Conformity (PVOC), benchmarking and auctions;
- v. Data matching and use of third party data to enhance compliance through integration of iTax with IFMIS ;
- vi. Expansion of tax base by targeting informal sector, pursue non-filers and increase focus on taxation of international transactions and transfer pricing; and
- vii. Enhance investigations, intelligence capacity and KRA capacity to support revenue collection.

46. Total expenditures and net lending is projected to decline from 26.8 percent of GDP in FY 2017/18 to 25.5 percent of GDP in FY 2018/19 and 22.5 percent of GDP in FY 2021/22. This takes into account the Government's efforts to increase the efficiency, effectiveness, transparency, and accountability of public spending, in order to ensure that there is sufficient fiscal space for priority social and investment projects.

47. The overall fiscal deficit inclusive of grants is therefore projected to decline from 9.1 percent of GDP in FY 2016/17 to 7.2 percent of GDP in FY 2017/18, 6.0

percent in FY 2018/19 and further to 3.0 percent of GDP by FY 2021/22. Excluding expenditures related to the SGR, the deficit declines from 7.7 percent of GDP in FY 2016/17 to 6.5 percent of GDP in FY 2017/18 and 2.4 of GDP by FY 2021/22. The lower deficit reflects the projected completion of key infrastructural projects being implemented by the Government, enhanced revenue collection and prudent public spending.

48. This consolidation process significantly aids the Governments efforts towards attaining the EAC convergence criterion targeting a ceiling on fiscal deficit of 3.0 percent of GDP inclusive of grants. Embedded in this policy is the aim to continue containing the growth of recurrent expenditures in favour of capital investment so as to promote sustainable and inclusive growth.

49. The reduction in fiscal deficit will also support debt reduction. In this regard, nominal public debt on a net basis is projected to decline from the preliminary level of 51.9 percent of GDP in the FY 2016/17 to 43.6 percent of GDP in the FY 2021/22.

## 1.5 Economic Outlook

50. Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and sub-Saharan Africa growth recoveries. The growth projection takes into account the strategic objectives of the Government as outlined in the third MTP of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.9 percent by FY 2021/22 (**Table 1.6 and Annex Table 1**). This growth will be supported mainly by the implementation of "the Big Four" Plan, sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability.

51. The outlook, therefore points to a continued coordination of monetary and fiscal policies for overall macroeconomic stability which will support robust growth, lower fiscal deficits, contain inflation within the target range and a gradual improvement in the current account balance.

52. In addition, the measures being undertaken by the Government under "the Big Four" Plan to boost the manufacturing sector; enhance food security and nutrition; build affordable housing; and achieve Universal Health Coverage are expected to boost growth, create jobs and promote inclusive growth.

53. Inflation is currently within the Government's target range and is expected to remain so in the medium term underpinned by prudent monetary and fiscal policies, favourable weather outlook, relatively lower international oil prices, and a stable exchange rate which is expected to dampen any risks of imported inflation. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

54. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit. The improvement in the overall

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balance of payments reflects improved performance of tea and horticulture exports; strong diaspora remittances; recovery in tourism, and increased foreign direct investment in infrastructure.

**Table 1.6: Macroeconomic Framework**

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
Annual percentage change												
<b>National Account and Prices</b>												
Real GDP	5.8	5.3	6.2	5.7	5.3	6.5	5.9	6.9	6.3	7.1	6.8	6.9
GDP Deflator	8.8	8.4	5.5	7.9	6.8	6.8	6.4	6.4	6.1	6.8	5.9	5.8
CPI Index (eop)	6.7	6.6	5.0	5.9	5.6	5.2	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.4	6.9	5.0	6.6	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	-0.1	4.5	1.5	3.2	1.1	1.9	-0.3	0.7	0.3	0.4	0.1	1.1
Percentage of GDP												
<b>Investment and saving</b>												
Investment	19.5	17.5	24.4	20.0	19.7	22.4	21.9	22.6	22.6	25.5	22.8	23.4
Gross National Savings	16.2	12.4	18.3	14.1	13.6	16.5	16.5	16.7	17.1	20.0	18.0	19.2
<b>Central Government Budget</b>												
Total revenue	18.4	18.3	19.6	18.7	19.0	18.8	18.9	19.0	19.0	19.4	19.2	19.4
Total expenditure and net lending	26.6	27.6	26.5	26.8	26.8	25.2	25.5	24.2	23.8	24.4	22.9	22.5
Overall balance (commitment basis) excl. grants	-8.2	-9.3	-6.8	-8.1	-7.9	-6.4	-6.5	-5.1	-4.8	-5.0	-3.8	-3.4
Overall balance (commitment basis) incl. grants	-7.4	-9.1	-6.2	-7.4	-7.2	-5.9	-6.0	-4.7	-4.3	-4.6	-3.3	-3.0
Overall balance (commitment basis) incl. grants, excl. SGR	-6.6	-7.7	-5.5	-6.8	-6.5	-5.4	-5.5	-4.3	-3.9	-4.1	-2.8	-2.4
Nominal central government debt (eop), net of deposits	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
<b>External sector</b>												
Current external balance, incl. official transfers	-3.2	-5.0	-6.1	-5.9	-6.1	-5.9	-5.4	-5.9	-5.5	-5.5	-4.8	-4.2
Gross international reserve in months of imports	6.2	6.5	5.3	6.7	6.7	6.8	6.8	6.9	6.9	7.0	7.0	7.1

Source: National Treasury

Source: National Treasury

## 1.6 Risks to the Economic Outlook

55. This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

56. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under “The Big Four” Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

57. The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

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## II. CREATING JOBS, TRANSFORMING LIVES - “THE BIG FOUR” PLAN

### 2.1 Preamble

58. Over the last five years, the Government has implemented various policies and structural reforms under the Economic Transformation Agenda to foster a rapid social-economic transformation. The transformation Agenda focused on five key pillars including: (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. Significant achievements have been realized on all the five pillars.

59. The maintenance of macroeconomic stability over the past five years has created a conducive environment for investment and business. As a result, the economy expanded at an average rate of 5.5 percent per year in the last five years (2013 - 2017) outperforming the average growth rate of 4.5 percent in the 2008 to 2012 and 5.2% in the period 2003-2007 (see **Chart 1.1a**). The value of goods and services produced therefore increased raising the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017 (see **Chart 1.1b**). In addition, the economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012 (see **Chart 1.1c**).

60. Macroeconomic stability has been preserved with inflation rate remaining low and within target in the period 2013 - 2017 following implementation of conducive monetary and fiscal policies (see **Chart 1.3**). Similarly, interest rates remained low and stable while the exchange rate has remained competitive with less volatility in the period (2013 – 2017) as compared with the period 2008-2012 (see **Chart 1.6**).

61. On infrastructure, the movement of goods and people around the country has been made cheaper and more effective through expansion of most roads, seaports and airports. On the Standard Gauge Railway (SGR), the Government completed the construction of Phase 1 (Mombasa - Nairobi) in 2017 and has embarked on the construction of Phase 2A (Nairobi – Naivasha). The railway has significantly reduced transportation costs and eased the movement of people and goods from Nairobi to Mombasa. Further on infrastructure, by the end of 2017 more than 6.1 million Kenyans had been connected to electricity compared to 2.3 million Kenyans connected in 2013.

62. Targeted policies and reforms have been implemented in all the economic sectors including expanding access to subsidized fertilizer and seeds to farmers enabling them to increase productivity of their lands, earn more incomes and indeed make Kenya more food secure. Incentives in the manufacturing sector have included creation of industrial clusters, enactment of laws for Special Economic Zones, improving ease of doing business and expanding access to electricity.

63. On the social services, the Government has equipped hospitals with specialized medical equipment, and expanded access to maternal health care in all public hospitals. In the education sector, the Government abolished examination

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fees for both standard eight and form four candidates and increased capitation. The Government also provided free primary education, expanded the Digital Learning Program and more recently provided for free day secondary school education. In addition, thousands of orphans and vulnerable children, people living with disabilities and the elderly in our society continue to receive cash transfers through the social safety net program.

64. In regards to devolution, the National Government ensured that all budgeted transfers (particularly the shareable revenues) were disbursed to Counties to ensure key services were fully funded. In this context, the National Government disbursed around Ksh 1 trillion to County Governments over the past four years. The National Government also continued to provide the necessary capacity building in order to ensure efficient and effective service delivery at the County level.

65. Under the Economic Transformation Agenda therefore, the Government has laid a solid foundation for Kenya's industrialisation as envisaged in the Kenya Vision 2030. The Government realises that much more remains to be done to achieve our developmental objectives of creating jobs and wealth, ensuring continued inclusive growth, reducing poverty and more generally, achieving our Vision 2030 development objectives.

66. Building on the progress made thus far and with the desire to decisively confront the three perennial challenges of unemployment, poverty and income inequality that this economy continues to face, the Government has identified four key strategic areas of focus over the next five years that will accelerate broad based economic growth. This will help transform the lives of all Kenyans. The strategic areas under "The Big Four" Plan include:

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

67. Investments in the above four areas is expected to transform lives by creating the much needed jobs enabling Kenyans meet their basic needs, improve living conditions, lower cost of living, and reduce poverty and inequality.

68. Therefore, the policies in this BPS seek to provide an enabling environment for the attainment of "The Big Four" Plan and to enable private sector to thrive. Thus, particular focus will be on key enablers such as macroeconomic stability, improving the ease of doing business, expanding infrastructure, improving security, expanding access to finance, and instituting governance reforms. The

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policies in this BPS are also aligned to the medium-term priorities and strategies outlined in the Third Medium-Term Plan (2018-2022) of the Kenya Vision 2030.

## 2.2 “The Big Four” Economic Plan

### 2.2.1 Supporting Value Addition and Raising the Share of Manufacturing Sector to GDP to 15 Percent by 2022

69. The Government will target to increase the contribution of manufacturing sector to GDP from 9.2 percent in 2016 to 15 percent by 2022 by adding USD 2 to 3 billion to our GDP. It is expected that this will increase manufacturing sector jobs by more than 800,000.

70. In order to ensure that we achieve the manufacturing sector target of 15 percent of GDP, the Government will place special emphasis on the following key areas: (i) Textile and Apparels; (ii) Leather products; (iii) Agro - processing; and (iv) Manufacturing of construction materials. Other important sectors will be Oil, Mining and Gas; Iron and Steel; ICT; and Fish Processing (**Chart 2.1a**). Specific measures and incentives will be implemented to boost these sub-sectors and increase job creation.

**Chart 2.1a Increase Manufacturing Share to 15% of GDP: Priority Sub-sectors**

	Detailed targets by 2022	Priority Initiatives	
<b>Manufacturing from 9% to 15% by 2022</b>	<b>Textile/ apparel/ Cotton</b>	<ul style="list-style-type: none"> <li>\$350m → \$2bn</li> <li>500,000 cotton jobs; New Apparel jobs 100,000</li> </ul>	<ul style="list-style-type: none"> <li>Policy reviews for sector &amp; incentives</li> <li>5m sq ft of Industrial Sheds</li> <li>200,000 ha of BT Cotton</li> <li>Train 50,000 youth &amp; women</li> </ul>
	<b>Leather</b>	<ul style="list-style-type: none"> <li>\$140M → \$500m exports</li> <li>50,000 New jobs</li> <li>20m shoes made</li> </ul>	<ul style="list-style-type: none"> <li>Train &amp; set up 5,000 cottage industries</li> <li>Complete Machakos Leather park</li> <li>Change policies esp. in stopping imports</li> <li>Identify 3 other parks</li> </ul>
	<b>Agro-processing</b>	<ul style="list-style-type: none"> <li>16% → 50%</li> <li>1000 SME's</li> <li>200,000 jobs</li> </ul>	<ul style="list-style-type: none"> <li>Map tea, dairy, meat &amp; crops value chains</li> <li>Attract 2 global tea processors in Mombasa</li> <li>Regulate milk hawking business in Kenya</li> <li>Develop warehousing and cold chain sites</li> <li>Progress Mombasa food value add hub</li> </ul>
	<b>Construction materials</b>	<ul style="list-style-type: none"> <li>\$ 470m → \$1bn</li> <li>10,000 New jobs</li> </ul>	<ul style="list-style-type: none"> <li>Identify key housing components</li> <li>Identify manufacturers</li> <li>Buy Kenya policy (70% of total) for housing materials</li> </ul>
	<b>Oil, Mining &amp; Gas</b>	<ul style="list-style-type: none"> <li>Attract 1 global scale player in Mining value add</li> </ul>	<ul style="list-style-type: none"> <li>Conclude policy direction for value Addition</li> <li>Attract at least 1 International investor</li> <li>Refine vs crude export for Turkana oil</li> </ul>
	<b>Iron &amp; Steel</b>	<ul style="list-style-type: none"> <li>\$1bn in new investments</li> </ul>	<ul style="list-style-type: none"> <li>Develop Policy &amp; incentive framework</li> <li>Establish coal &amp; iron ore deposits</li> <li>Conclude JV with manufacturer</li> <li>Commit Gov't share of at least 30%</li> </ul>

	Detailed targets by 2022	Priority Initiatives	
<b>Manufacturing from 9% to 15% by 2022</b>	<b>ICT</b>	<ul style="list-style-type: none"> <li>Phone, laptop, TV assembly plants</li> <li>5 BPO players</li> <li>10,000 jobs</li> </ul>	<ul style="list-style-type: none"> <li>Develop IT Entrepreneurship Program to support sector</li> <li>Computer, light electronics &amp; IT related parts assembly/manufacture</li> <li>Strengthen Innovation Ecosystem (Incubators &amp; Accelerators)</li> </ul>
	<b>Fish Processing</b>	<ul style="list-style-type: none"> <li>\$ 20m fish feed</li> <li>Mill investment</li> <li>20,000 jobs</li> </ul>	<ul style="list-style-type: none"> <li>Identify 2 aquaculture investors</li> <li>Identify key local/ foreign investors to invest in fish feed mill</li> <li>Develop blue-ocean policy with MOLAF</li> <li>Designate aqua-culture SEZ in Lake victoria</li> </ul>

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71. To support the textiles industry, the Government will develop cotton production using hybrids and *Bacillus Thuringiensis* (BT) which have 3 times production yield compared to present conventional varieties, buy domestically grown cotton, improve governance in the import rules for textile products to cushion local producers as well as give incentives to investors to build modern ginneries and textile manufacturing plants. Further, the Government will train 50,000 youths and women to be involved in this sector and establish 5 million square feet of industrial sheds. Successful implementation of these measures is expected to increase revenue from textile industry from USD 350 million to USD 2 billion, create 500,000 cotton jobs and 100,000 new apparel jobs by 2022.

72. In addition to the above measures, the Government will continue to develop industrial infrastructure such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and industrial parks across the country. More specifically, priority will be given to establishment of a Modern Industrial Park in Naivasha, apparel industrial sheds in Athi River, establish the Dongo Kundu SEZs and infrastructures.

73. Kenya has a huge untapped potential in the leather industry. To support the growth of the leather industry in the country, the Government will ensure that all hides and skins are fully processed locally, train personnel and set up 5,000 cottage industries, complete Machakos Leather Park and identify three more leather parks, and support expansion of existing tanneries through incentives and access to finance. To cushion local manufacturers, the Government will review import rules for finished leather products with the aim of creating wider market access. This initiative is targeted at creating 50,000 new jobs, make 20 million shoes and increase export revenue by USD 500 million by 2022.

74. To promote growth of the agro-processing sector, the Government will support value addition to agricultural produce across the value chain. This will involve processing tea, coffee, meat, sugar, dairy, fruits and vegetables locally in order to obtain more value and create an additional 200,000 jobs and wealth for Kenyans. In addition, the Government targets to more than triple the amount of processed agricultural exports from the current annual growth of 16 percent to 50 percent by 2022. This will create additional jobs and increase export revenue for Kenya.

75. In addition, on agro-processing, the Government will build on the ongoing efforts in order to revitalize the coffee and tea subsectors including: reforming the legal and policy frameworks, promotion of value addition; supporting debt waiver for growers to ease their debt burden; and using locally blended fertiliser on a 50/50 basis and implementing liming. In addition, the Government will beef up the Commodities Fund by restoring commodity levies in order to expand access to credit and inputs by farmers; expansion of the Nairobi Coffee Exchange into a Commodities Exchange; and further liberalization and diversification of market access.

76. To support oil, mining and gas sector, the Government will facilitate the exploration of coal and iron ore deposits, support value addition in oil production and develop policy and incentive framework to attract international investors to the sector.

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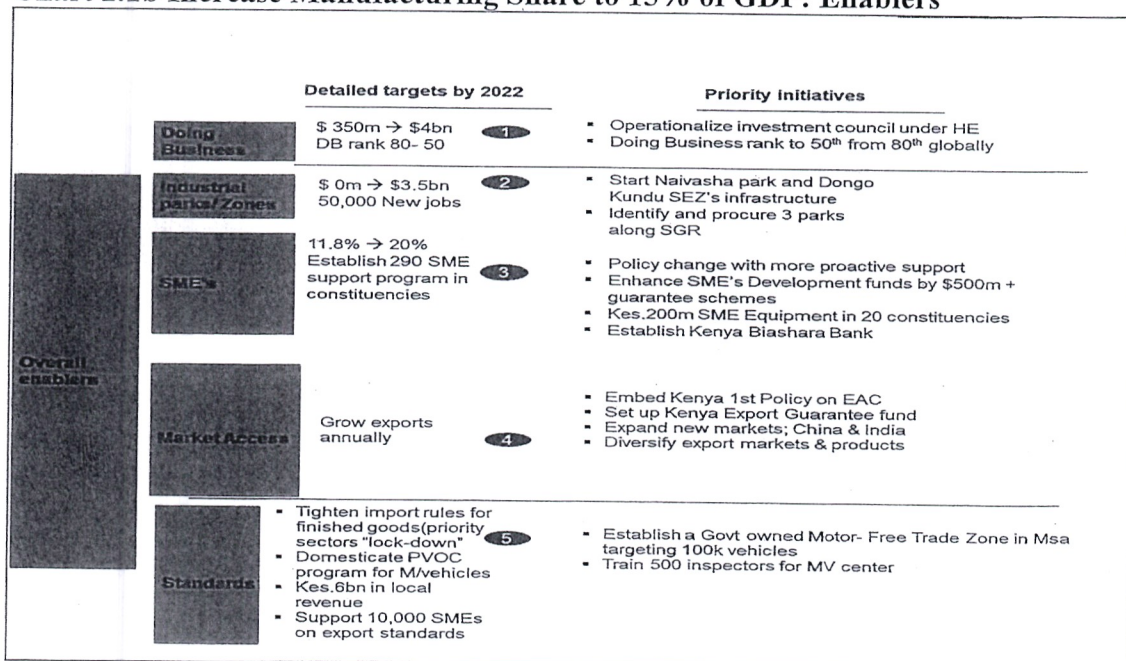
77. To enhance the export of our manufactured products, the Government will implement an elaborate marketing strategy to diversify our export markets including penetrating new markets. This will be alongside exploiting the markets available under Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and the tripartite arrangements.

78. On the blue economy, the Government targets to significantly expand fishing to 18,000 metric tonnes of fish annually from the current 2,500 metric tonnes. To facilitate the development of the blue economy, the Government will strengthen enforcement measures to curb illegal fishing activities along Kenya's Indian Ocean territory; suspend the fishing licenses of all international trawlers operating in Kenya's territorial waters until they comply with the local input requirement; and enhance processing before export to improve value of fish and marine products and remove structural bottlenecks in the sector.

79. In order to realise these objectives and expand manufacturing sector, the Government will create an enabling environment by implementing various initiatives including: cut the cost of off-peak power to heavy industry by half; review work permit regime and encourage expatriates whose skills support the manufacturing sector; expand infrastructure and land access; enhance of access to quality inputs and markets; protect local manufacturers from counterfeits goods; and create an additional 1000 small and medium size enterprises (SMEs) focused on manufacturing which will have access to affordable capital, skills and markets.

80. Other key areas will include investment in ICT; continue with ease of doing business initiatives; promotion of "Buy Kenya Build Kenya" initiative to expand production for local consumption; strict enforcement of the 40 percent local content for all government projects; and construction of industrial parks/Zones. (Chart 2.1b).

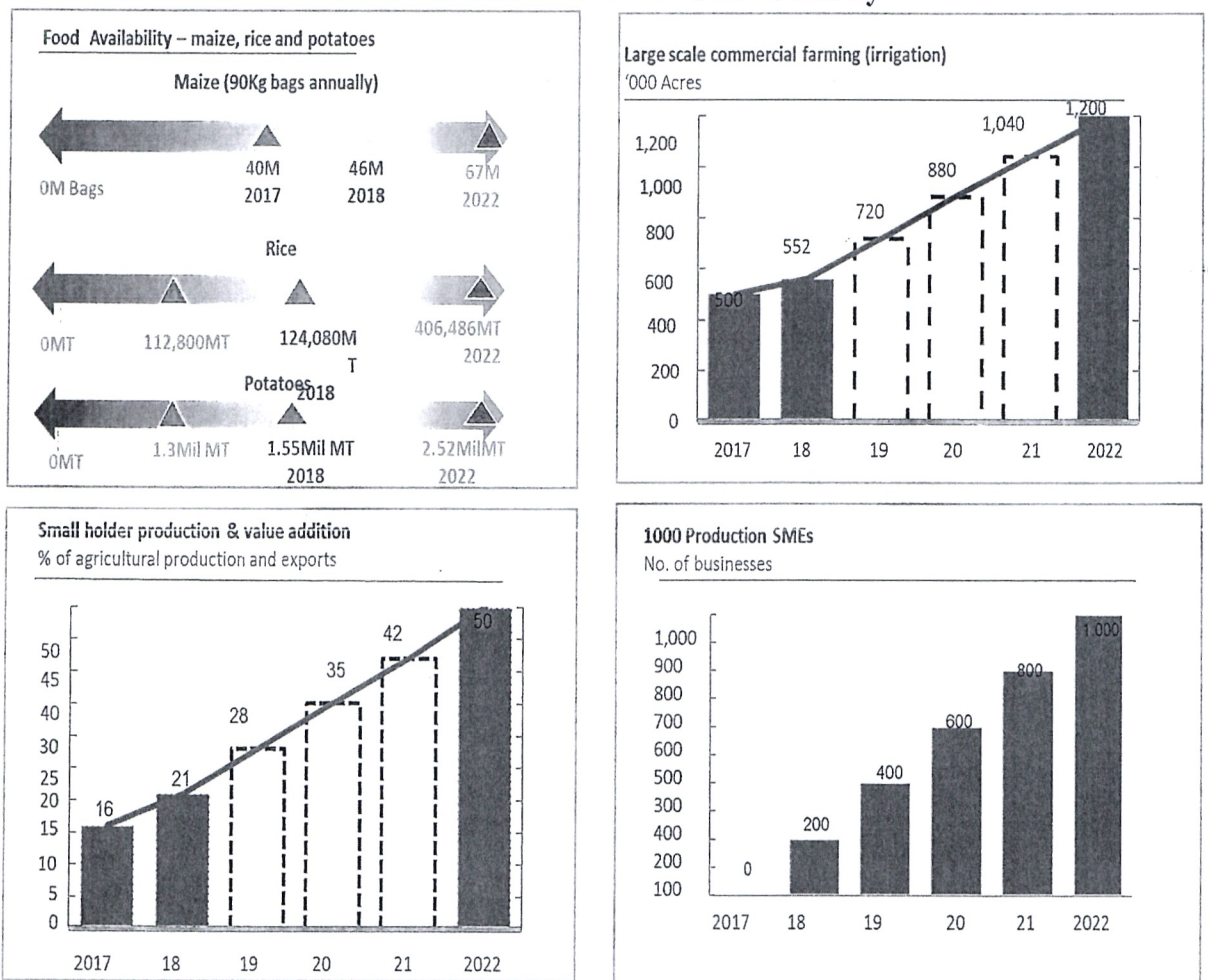
**Chart 2.1b Increase Manufacturing Share to 15% of GDP: Enablers**



### 2.2.2 Enhancing Food and Nutrition Security to all Kenyans by 2022

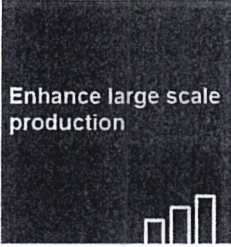


81. The Government targets to ensure that all citizens enjoy food security and proper nutrition by 2022 by ensuring self-sufficiency in the production of maize, rice and potatoes among others. Specifically, Government intends to increase the production of (i) maize from the current 40 million 90 kg bags annually to 67 million bags by 2022; (ii) rice from around 125,000 metric tonnes (MT) currently to 400,000 MT by 2022, and (iii) potatoes from the current 1.6 million tonnes to about 2.5 MT by 2022 (Chart 2.2).

**Chart 2.2: Increased Food Production to Enhance Food Security**



82. To achieve food security and improved nutrition, the Government will focus on three broad areas, namely: enhancing large-scale production; boosting smallholder productivity; and reducing the cost of food. Over the next five years, specific initiatives will be implemented across the three broad areas (Chart 2.3).

**Chart 2.3: New and Innovative Initiatives that will drive 100% food and nutrition Security over the next five years**

Focus areas	Detailed Initiatives
 <p>Enhance large scale production</p>	<ul style="list-style-type: none"> <li>Place <b>additional 700,000 Acres through PPP</b> (including idle arable land) under maize, potato, rice, cotton, aquaculture and feeds production.</li> <li>Form an Agriculture and Irrigation Sector Working Group (<b>AISWAG</b>) to provide <b>coordination for irrigated Agriculture</b></li> <li>Use <b>locally blended fertilizer</b> on a 50/50 basis and <b>implement liming</b> e.g. maize.</li> <li>Avail <b>incentives for post-harvest technologies</b> to reduce post-harvest losses from 20% to 15% e.g. <b>waive duty</b> on cereal drying equipment, hematic bags, grain cocoons/silos, fishing and aquaculture equipment and feed</li> </ul>
 <p>Drive small holder productivity</p>	<ul style="list-style-type: none"> <li><b>Establish 1,000 targeted production level SMEs</b> using a performance based <b>incentive model</b> in the entire value chain</li> <li>Improve access to credit/input for farmers through <b>Warehouse Receipt System</b> and <b>strengthen commodity fund</b></li> <li><b>Establish commercialized feed systems</b> for <b>livestock, fish, poultry and piggery</b> to revolutionize feed regime and <b>traceability of animals to access export markets.</b></li> <li>Secure <b>investors to construct a Shipyard</b> (in 2018 – site existing) and increase <b>domestic fishing fleet by 68 Vessels</b> in the Coast.</li> </ul>
Focus areas	Detailed initiatives
 <p>Reduce cost of food</p>	<ul style="list-style-type: none"> <li><b>Contract farmers for Strategic Food Reserve</b> (price stabilization) and other commercial off-takers.</li> <li><b>Redesign subsidy model</b> to maximize impact by focusing on specific farmer needs (flexible voucher and incentive based model)</li> <li>Secure investments through PPP in <b>post-harvest handling</b> (storage, cold storage for fish, aggregation) and <b>market distribution infrastructure to reduce losses</b></li> <li>Rehabilitate and operationalize fish landing sites in Lake Victoria (Migori, HomaBay and Busia)</li> <li><b>Eliminate multiple levies across counties</b> in the agriculture value chain (enforce laws on roads)</li> </ul>

83. To enhance large-scale production, the Government will place an additional 700,000 acres through PPP under maize, potato, rice and feeds production; expand irrigation schemes and secure water towers and river ecosystems. The Government will also transform the Strategic Food Reserve (SFR) by promoting investments in post-harvest handling through Public Private Partnerships, and by contracting farmers and other commercial off-takers. Further, the strategy will involve leasing idle agricultural land owned by the Government.

84. On agro-processing, the strategy will involve establishment of 1,000 SMEs focused on food processing to improve value addition; redesign of the subsidy

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model by focusing on specific farmers' needs; establishment of commercialized feedlots for livestock, fish, poultry and piggery to revolutionize feed regime and traceability of animals; and increasing access to credit or input for farmers through warehouse receipt system.

85. In order to enhance agricultural productivity among smallholder farmers, the Government will upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks. Additionally, the Government will continue to support other disaster risk financing instruments such as the Hunger Safety Net Program, National Drought Emergency Fund among others.

86. To promote the growth of the livestock sub-sector, the Government in collaboration with the County Governments, will continue to enhance the provision of extension services to the farmers in the Counties. In addition, the control of notifiable livestock diseases in the dairy sector will be a priority of the Government. Livestock disease free zones have the potential for ensuring sustainable increased livestock and agricultural productivity and cushioning the farmers and livestock from endemic diseases such as the tsetse fly transmitted Trypanosomiasis which affects 38 out of 47 counties putting 11 million people at risk. Further, the Government will waive duty on feeds, establish and revolutionize commercialized feedlots and traceability of animals.

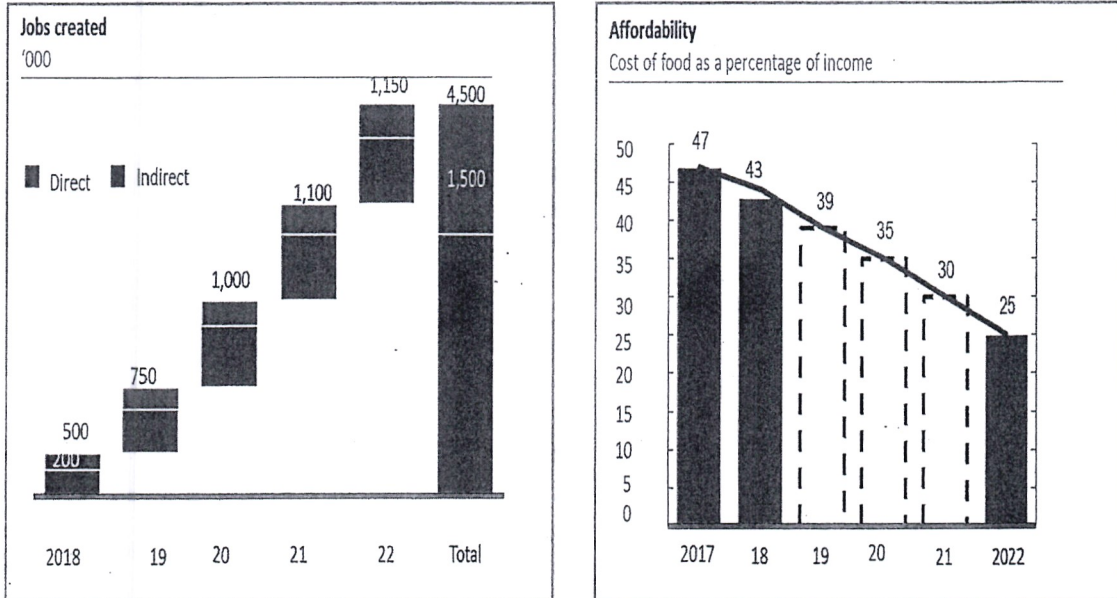
87. In addition, the Government will strengthen early warning system which is key in providing timely weather and climate information which is important in triggering appropriate early action and decision making in relation to food and nutrition security.

88. To increase fish production, the Government intends to establish and revolutionize commercialized feedlots for fish and avail incentives for post-harvest technologies to reduce overall post-harvest losses of fish from 20 percent to 15 percent.

89. In order to reduce the cost of food, the strategy will involve elimination of multiple taxation across Counties in the agricultural value chain; provision of affordable energy to reduce the cost of production; enhancement of market distribution infrastructure to reduce losses by use of cold storage for production and storage of seeds; availing incentives for post-harvest technologies to reduce post-harvest losses from 20 percent to 15 percent; and waiving of duty on cereal drying equipment, hematic bags, grain cocoons/silos and feed.

90. By implementing the above measures, the Government targets to create more jobs and reduce the cost of food. **(Chart 2.4).**

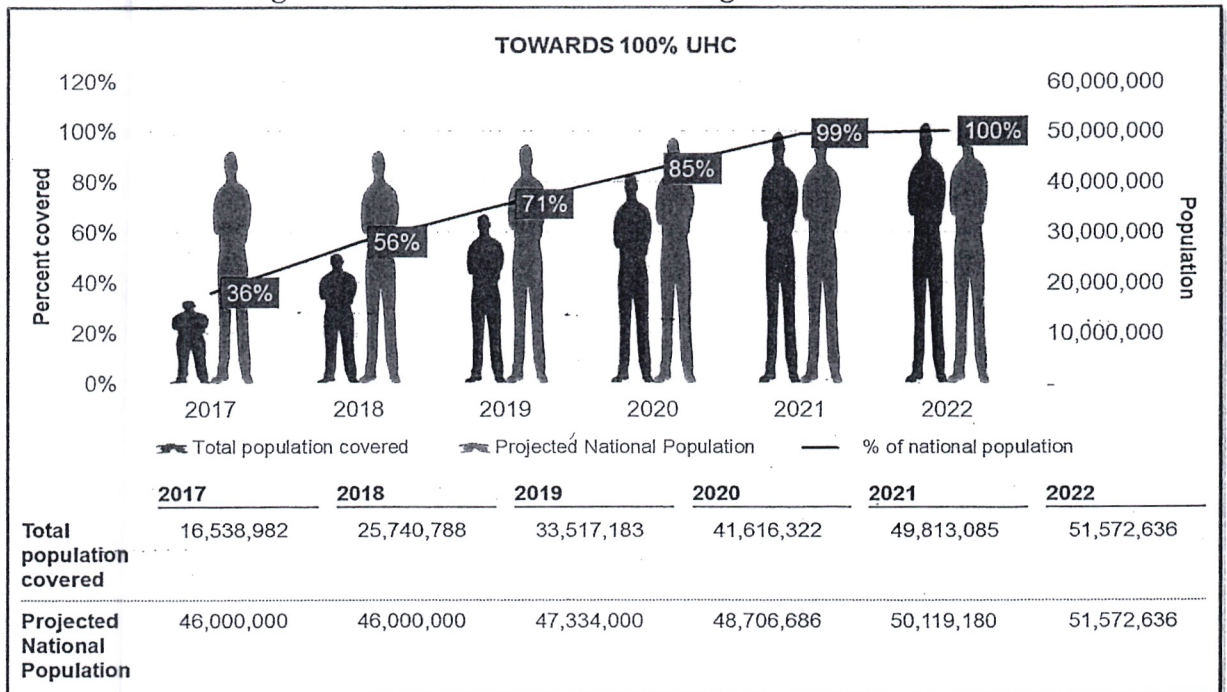
Chart 2.4: Job Creation and Reduction in the Cost of Food



2.2.3 Providing Universal Health Coverage to Guarantee Quality and Affordable Healthcare to All Kenyans

91. Over the next five years, the Government targets 100 percent Universal Health Coverage (UHC) for all households (Chart 2.5). This will guarantee access to quality and affordable health care to all Kenyans.

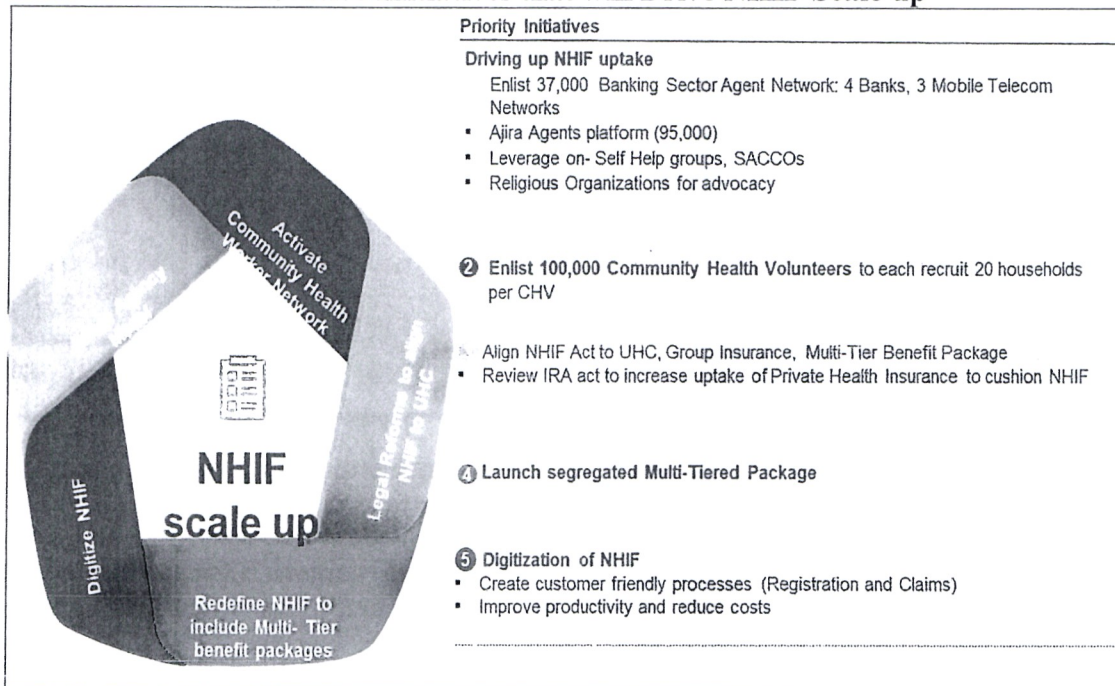
Chart 2.5: Achieving 100% Universal Health Coverage



92. In order to realise this objective, the Government will focus on reconfiguring the National Hospital Insurance Fund (NHIF) and reforming the

governance of private insurance companies. In particular, the Government will review and amend the NHIF Act to align it to the universal health coverage as well as review the laws governing private insurance companies to encourage investment by private health insurers and bring the cost of cover within the reach of every Kenyan (Chart 2.6).

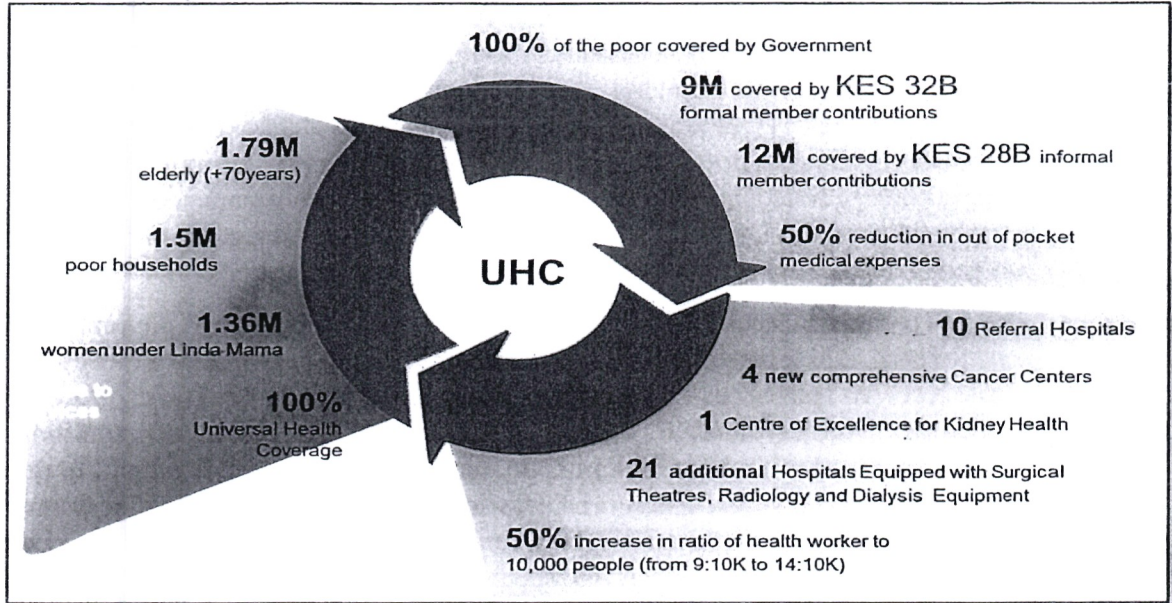
**Chart 2.6: Five Innovative Initiatives that will Drive NHIF Scale up**



93. The Government will continue to scale up the provision of specialized medical equipment and increase the number of health facilities at the community level including mobile health services in order to increase the number of Kenyans who access specialized healthcare. The Government will also continue with the digitization of the health information management especially NHIF, an endeavour that will increase efficiency and reduce overhead costs by 3 percent and foster faster online registration. To further enhance service delivery, the Government will establish national data centres (NDC)/Radiology Hubs at Kenyatta National Hospital and Moi Teaching and Referral Hospital (Chart 2.7).

94. Additional efforts to support achievement of universal health coverage, will include the expansion of the “Linda Mama” programme (free maternity programme) to mission hospitals and private hospitals and enlisting Community Health Volunteers to help in healthcare service provision at the grassroots.

Chart 2:7 Key Deliverables to Achieve UHC in Five Years

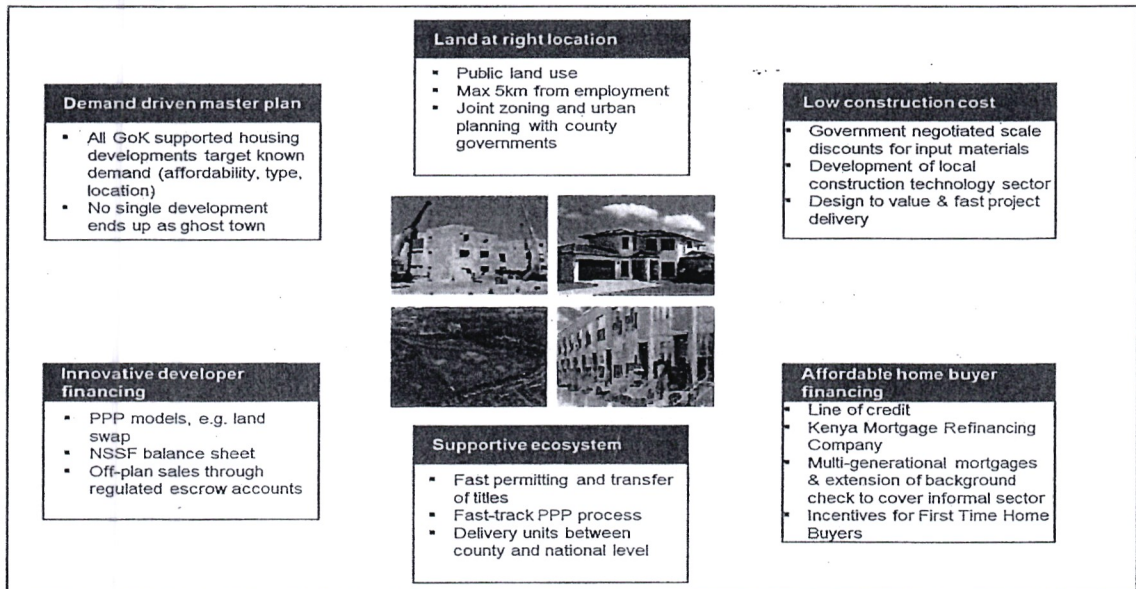


**2.2.4 Provision of Affordable and Decent Housing for All Kenyans**

95. The Government is keen on delivering five hundred thousand housing units by 2022 in major cities across the country. This will provide decent homes, create an additional 350,000 jobs, provide market for manufacturers and suppliers and raise the contribution of real estate and construction sector to 14 percent of GDP.

96. To achieve this objective, the Government will implement policy and administrative reforms which are targeted at lowering the cost of construction and improving accessibility of affordable mortgages. The focus will be on raising low-cost funds from public and private sectors for investment in large-scale housing production (Chart 2.8).

Chart 2.8: The Housing Program Combines Innovative Ideas on All Dimensions



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97. To enable the construction of decent low cost housing units, the Government has developed a comprehensive housing package that will incentivize the private sector in low cost housing. One of the incentives is the reduction of corporate tax rate for developers who construct at least 100 units per year. Additionally, the Government plans to establish a National Social Housing Development Fund and strengthen the National Housing Corporation (NHC) to take up more strategic roles in resource mobilization and management of tenant purchase schemes and provide alternative financing strategies to finance low cost housing and the associated social and physical infrastructure.

98. To expand access to affordable and decent housing, the Government has established a Taskforce on Expanding Affordable Housing Finance in Kenya. The Taskforce has embarked on the process of establishment of Kenya Mortgage Refinance Company (KMRC) which would be a wholesale financial institution that issues bonds in the local capital markets, and with the proceeds extend long term loans to financial institutions secured against mortgages. KMRC will be set up as a Public Private Partnership (PPP) between the Government and the private sector. It is expected to operate as a private sector driven company with a public purpose of developing the primary and secondary mortgage markets by raising long term funds from capital markets thus providing access to affordable housing finance in Kenya. To kick off the affordable housing program, the Government will develop 8,200 houses in a pilot project at Mavoko. The process of procuring Engineering, Procurement and Construction Contractor for this project is ongoing. The sector players and Development Partners have been brought on board to ensure sustainability of the program.

99. The Government will also expand the on-going initiatives in the housing sector including, the investment in low-cost houses through upgrading slums and informal settlements by providing clean water and sanitation, access roads, schools, health centres and income generating activities. Additionally, the Government will prioritize review of the National Construction Authority Act, Built Environment Bill, and related legislations to ensure they address matters on sustainable building standards and design procedures, as well as green building codes for sustainability and safety of the housing sub-sector.

### **2.3 Enablers for the “The Big Four” Economic Plan**

100. As stated earlier, the Government has successfully implemented the Economic Transformation Agenda during the last five years. This has created a strong and solid foundation for economic transformation and industrialisation as envisaged in Kenya Vision 2030.

101. Building on the progress made, the Government will continue with the implementation of programmes and policies under the Economic Transformation Agenda. As such raft of policies will be implemented under the five thematic areas of the Transformation Agenda namely:

- i) Creating a conducive business environment for investment and job Creation;
- ii) investing in infrastructure to unlock growth potential;

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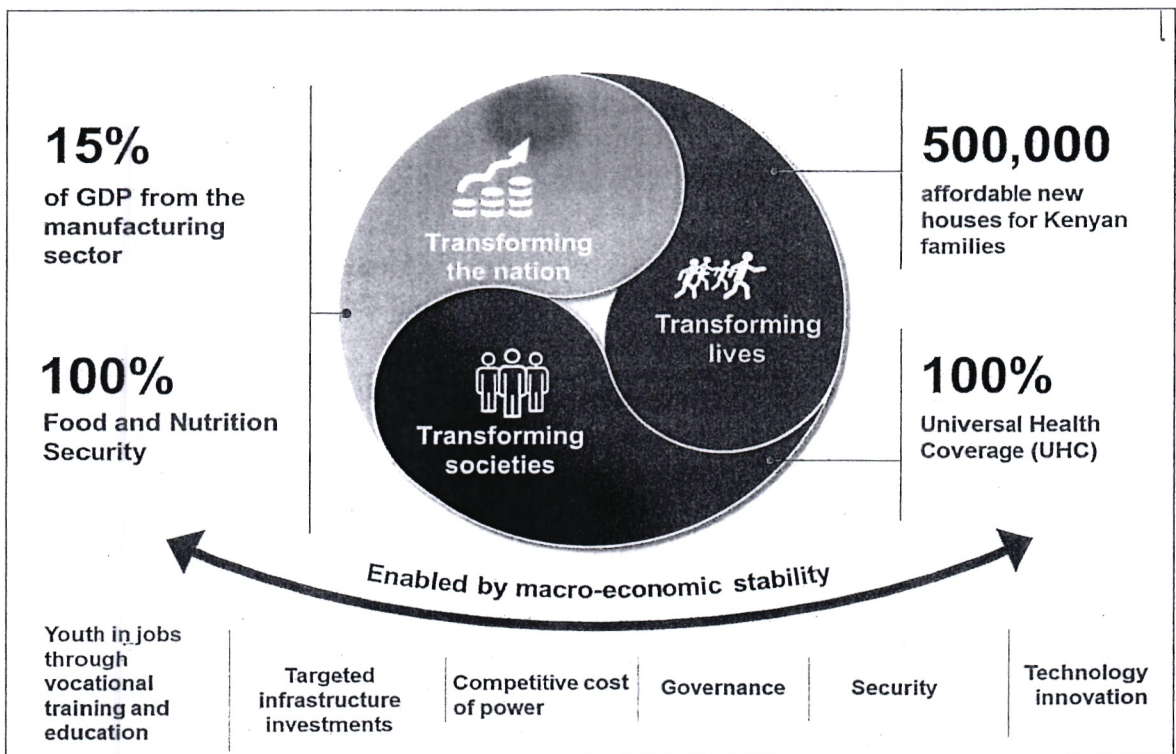
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- iii) investing in sectoral transformation for food security and broad based sustainable economic growth;
- iv) investing in quality and accessible social services (health, education and social safety net); and
- v) consolidating gains in devolution for services delivery and enhanced rural development. The Government will continue to implement structural reforms in areas such as governance, financial sector and in public financial management with a view to ensure enhanced productivity and competitiveness.

102. The strategy going forward will therefore, target to implement “The Big Four” Plan enabled by the pillars under the Economic Transformation agenda as follows:

### 2.3.1 Conducive Business Environment for Investment and Job Creation

103. This thematic area continues to focus on sustaining conducive business environment (**Chart 2.9**) by maintaining macroeconomic stability, supporting business regulatory reforms, and enhancing security so as to attract and encourage investment and job creation under “The Big Four” Plan.



#### 2.3.1.1 Macroeconomic Stability

104. Maintaining macroeconomic stability is necessary to create a conducive environment for private sector investments as a basis for sustained economic growth. As such, the Government will continue to pursue prudent fiscal and

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monetary policies that support the attainment of “The Big Four” Plan, strong economic growth and maintain public debt at sustainable levels.

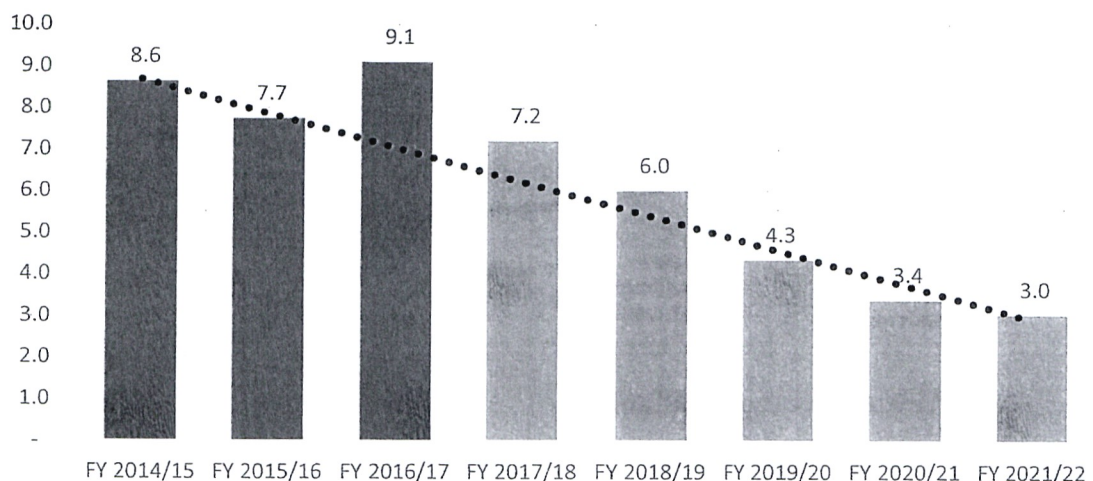
105. In this regard, monetary policy will target to keep inflation within the band of 2.5 percent on either side of the 5.0 percent target. To further reinforce price stability, monetary policy supported by the proposed fiscal policy will help keep interest rates low and stable and the exchange rate broadly stable and competitive to support our exports. The Government will also target to strengthen the international reserves position. Further, it is expected that credit to the private sector will support productive activities.

106. On the other hand, the Government will continue with fiscal consolidation efforts. Deliberate steps will be undertaken to narrow the primary budget deficit and stabilise public debt, prioritize development expenditures while protecting social spending and investments. In addition, the Government will implement various measures to boost revenue mobilization. These measures will include: complete overhaul of the current Income Tax Act, strengthening tax administration and expansion of the tax base. The review of the Income Act, that is expected to be finalised by June 2018, is based on the following principles: simplicity; expanding the tax base; equity and progressivity and international taxation principles including transfer pricing.

107. Inherent in the medium term fiscal policy, is the Government’s commitment to the fiscal consolidation program. The deficit dropped from 8.4 percent of GDP in FY 2014/15 to 7.4 percent of GDP in FY 2015/16, however on account of one off expenditures to deal appropriately with drought mitigation measures and the general election the fiscal deficit expanded to 9.1 percent of GDP in FY 2016/17 and is projected to decline slightly to 7.2 percent in FY 2017/18. The deficit is projected to further decline to 3.0 percent of GDP by FY 2021/22 (Chart 2.10).

108. The projected consolidation is driven more by slowdown in ministerial expenditures and boosted by the dividends from the ongoing reforms to enhance domestic revenue mobilization.

**Chart 2.10: Fiscal Consolidation Path, Fiscal Deficit a percent of GDP**



Source: National Treasury

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109. The fiscal consolidation will support reduction in the nominal public debt on a net basis (as a percentage of GDP) from the preliminary 51.9 percent of GDP in the FY 2016/17 to 43.6 percent in the FY 2021/22.

### **2.3.1.2 Deficit Financing Policy**

110. The main sources of funding for Government are from domestic and external official creditors. The Government will continue to diversify the sources of financial resources over the medium term by maintaining a presence in the international capital markets. The Government will utilize and maximize the official external sources for loans on concessional terms. Non-concessional and commercial external borrowing will be limited to development projects with high financial and economic returns.

111. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by adopting a deliberate approach in diversifying the currency structure of our debt so as to hedge against exchange rate risks especially for new loan commitments. A cautious approach will be adopted in the issuance of external Government loan guarantees and provision of Government support to minimize the risk exposure to contingent liabilities.

112. Domestic borrowing remains one of the key sources of financing the Government's deficit. The borrowing plan will be anchored in the medium term debt management strategy to ensure public debt sustainability without crowding out the private sector. The Government will continue playing a key role in domestic debt market reforms to ensure the market remains vibrant and continues to deepen as it provides an opportunity for the private sector participation in accelerating the economic activities of the country. This will be achieved by ensuring transparency in the market through issuance of borrowing calendar.

### **2.3.1.3 Business Regulatory Reforms**

113. "The Big Four" Plan requires brave steps to lower the cost of doing business across the country. In the last four years, tremendous progress has been made in this direction. As a result, Kenya's ease of doing business improved from position 129 in 2014 to position 80 in 2017 according to World Bank's Doing Business report. In addition, for two consecutive years (2016 and 2017), Kenya emerged as the third most reformed country in the world.

114. Out of the 11 indicators of ease of doing business, Kenya made six reforms during the year, among them: enhancing the ease of starting a business by merging formal procedures that small businesses need to comply with to register; reducing the cost of construction permits by eliminating clearance fees; easing payment of taxes through the iTax platform; and reducing the time for compliance through a single window system.

115. These reforms have helped to increase efficiency, local and foreign direct investments (FDI) which are vital for jobs creation. FDI levels have risen from US dollar 514 million in 2013 to US Dollar 2.6 billion in 2016, making Kenya one of the most preferred investment destinations in Africa.

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116. Going forward, the Government will build on the rapid progress by taking measures such as cutting the number and cost of permits and licenses at both National and County levels. This is expected to further improve our Doing Business ranking in line with our ambition of being among the top 50 nations by 2020.

#### **2.3.1.4 Improving National Security**

117. National security remains critical to economic stability and attracting investments, accelerating growth and in turn creating employment, especially for the youth. In light of this, the Government has in the last four years invested in better equipment, training and working tools as well as strengthened coordination among security agencies. The Government has also increased the numbers of Police Officers through annual recruitments. This has raised the ratio of police officers to citizens to one officer for every 407 citizens.

118. Going forward, the Government will build on the on-going security reforms by scaling-up investments in security infrastructures such as installation of Surveillance and Control System; equipping of the forensic laboratory; acquisition of 10,000 motorbikes for Chiefs and Assistant Chiefs; construction of ongoing and newly gazetted administrative units; installation of 3<sup>rd</sup> generation Identity Card System; modernisation of Government Press; provision of housing, patrol vehicles, training facilities. The Government will also undertake comprehensive registration and establishment of a National Population Register; reduction in alcohol, substances and drugs abuse; enhance the country's disaster preparedness; build capacity for effective and faster investigations; and strengthen partnership with communities.

#### **2.3.2 Investing in Infrastructure Development to Unlock Growth Potential and Drive “The Big Four” Plan**

119. Development of faster and cheaper means of transport for freight and passengers is critical for expansion of economic opportunities for employment and competitiveness of an economy. Investing in Infrastructure development will support achievement of the “The Big Four” Plan. The strategy will therefore, involve building on the on-going infrastructural development in road, rail, marine, air, energy, and ICT.

##### **2.3.2.1 Further Expanding Road Network**

120. Over the next five years, the Government intends to complete the 7,000km of roads currently under construction and work with County Governments to increase the coverage of rural access roads to enable farmers to get their produce to markets faster and cheaply. In addition, the Government is in the process of initiating the construction of the Mombasa-Nairobi six lane highway which will improve connectivity and enhance movement of people and goods between the two cities.

121. The Government will also focus on developing urban roads to decongest cities and major towns. For instance, the decongestion of Nairobi is ongoing with

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dualling of the outer-ring road that is now complete and the dualling of Ngong Road Phase one which is on course.

## 2.3.2.2 Rail, Marine and Air Transport

### *Standard Gauge Railway*

122. The completion of phase I of the Standard Gauge Railway (SGR) from Mombasa to Nairobi has improved the movement of Kenyans across the two cities. Currently, there are two SGR passenger trains operations per day with a capacity of 1,488 persons each. Since the inauguration of Madaraka Express in May 2017, more than 500,000 passengers have travelled the Mombasa-Nairobi route.

123. To improve efficiency in cargo transportation, the Government commissioned the SGR freight service in January 2018. On this service, four trains per day with a capacity of 4,000 tonnes per train will be running on a daily basis. This will reduce the cost of transportation and facilitate cheaper movement of freight between the two cities.

124. With Phase I of SGR completed, the Government has embarked on the Phase 2A (Nairobi – Naivasha). Already, detailed designs and financial mobilization of SGR Phase 2A has been done. Once completed, the railway line is expected to turn Naivasha into a magnet for SEZ investors and their tenants, offering a reliable freight service to haul raw materials and finished products between Naivasha and the Port of Mombasa for export purposes. In addition, in December 2017, HE The President launched the Inland Container Terminal in Nairobi to support the SGR Freight Cargo.

### *Sea Ports*

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

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

### *Airports*

127. The recent Category one status (CAT 1) awarded to Jomo Kenyatta International Airport (JKIA) emphasizes the Government’s commitment to cement Kenya’s position as the regional aviation hub. This is a historic milestone in the growth and development of civil aviation here in Kenya and in the East African

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region. With this new status airline operators in Kenya and USA will now realise their long awaited ambition to operate directly to/from the USA. This will similarly be convenient to passengers who can now fly for longer distances in a shorter time.

128. Over the last four years, three new terminals have been completed at JKIA-Terminal 1A, Terminal 1E, and Terminal 2 and made fully operational thereby increasing the capacity of the Airport to the current 7.5 million annual passenger throughput. Further, the completion of the Isiolo International Airport will improve connectivity and enhance trade in the horn of Africa.

129. Going forward, to support the achievement of “The Big Four” Plan, the Government has embarked on remodeling and upgrading JKIA’s Terminal 1B, C and D to raise its total passenger handling capacity to 10 million by the year 2020. Further, the Government will continue to develop a number of Airstrips to connect various parts of the Country as well as facilities which are meant to enhance connectivity with Kenya’s neighboring Countries. This includes the rehabilitation and expansion of Lokichoggio Airport in Turkana County, Ikanga Voi Airstrip in Taita Taveta County, Kabunde Airport in Homabay County, Suneka Airstrip in Kisii County, Wajir Airport in Wajir County, Manda Airport in Lamu County and Nanyuki Airstrip in Laikipia County.

### **2.3.2.3 Enhancing Access to Adequate, Affordable and Reliable Energy Supply**

130. Access to adequate, affordable and reliable energy supply is necessary to reduce cost of doing business, spur growth of enterprises and industries, and accelerate the realization of “The Big Four” Plan.

131. To this effect, the Government targets 100 percent access to affordable and reliable energy by the year 2022. In order to realize this, the Government is exploiting locally available energy sources including the vast potential of renewable energy. The development of power plants particularly the 310 MW Lake Turkana Wind Power Plant, and the two units in Olkaria that are expected to add approximately 210 MW to the grid.

132. Going forward, the Government will continue to invest in the construction of more electricity substations, transmission lines and distribution of transformers to boost the availability of electricity and to sustain demand.

### **2.3.2.4 Promoting the use of Information, Communication and Technology (ICT)**

133. Promoting the use of ICT is important as a means of reducing the cost of doing business and enhancing efficiency in service delivery. In light of this, over the last four years, the Government has implemented a number of initiatives to enhance the use of ICT including: the expansion of Optic Fibre Backbone Infrastructure across the Counties in order to facilitate internet connectivity; recruiting and training of ICT graduates under the Presidential Digital Talent Programme aimed at enhancing ICT skills among the youths to enhance their employability; training of 10,000 youth on online jobs under Ajira Programme;

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and leveraging on ICT to improve Government service delivery through initiatives such as e-Procurement, Huduma Kenya, e-Citizen, iTax and IFMIS.

134. Going forward, the Government will build on the progress made so far to improve ICT infrastructure and increase ICT skills and innovation in order to drive the attainment of “The Big Four” Plan. The strategy will focus on expanding ICT Infrastructure connectivity by further rolling out the National Optic Fibre Backbone (NOFBI) Broadband; connecting all State Departments to a Unified Government Communications System; management and improving cyber security; and increasing the number of youths trained under the Presidential Talent Initiative and Ajira Kenya initiative and facilitating their absorption to the job market.

135. Further, the Government will continue to increase online access to Government records through digitizing Government records; continue with the ongoing construction of Konza Complex and provide funds to facilitate provision of infrastructure that will attract investors to the Konza Techno City project.

## **2.3.3 Investing in Sectoral Transformation for Broad Based Sustainable Economic Growth**

### **2.3.3.1 Promoting Environmental Conservation and Water Supply**

136. Environmental conservation and access to adequate supply of clean water is fundamental for the achievement of “The Big Four” Plan. Indeed, a clean environment and adequate safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of labour. In addition, adequate supply of water is essential for increased agricultural production, manufacturing activities and serving the rapidly urbanizing population.

137. For this reason, the Government working with County Governments will continue to invest in clean water supply, prioritize on construction of large-scale dams across the country to increase water storage, complete ongoing water projects in urban and rural areas in order to increase the number of people connected to safe piped water, protect wetlands and water towers and construct water harvesting and storage infrastructure across the country. In addition, the Government will continue to expand sanitation infrastructure in the urban areas by connecting more households with sewerage and establish proper waste management system.

138. In recognition of the serious threats posed by climate change, the Government will continue to develop instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaptation measures. In particular, the Government is developing innovative financing mechanisms such as Kenya Climate Change Fund as provided for in the Climate Change Act, 2016. The Fund will be key in mobilizing and channeling climate finances at both national and international level. In addition, Kenya is also tapping into the Green Climate Fund and the Green Bonds Market. Indeed, Kenya is one of the first countries that is at an advanced stage for the issuance of Green Bonds. The Kenya Green Bond Programme is aimed at positioning key financial institutions to tap the

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growing investor demand for green investments and build the requisite structures and frameworks to tap into the Green Bond market.

139. Continuing with these efforts and with the aim of avoiding health and environmental effects resulting from the use of plastic bags, the Government banned the use, manufacture and importation of all plastic bags used for commercial and household packaging. So far, the ban has cut plastic pollution substantially. After the plastic ban milestone, the Government is organizing to host the East African Framework Agreement on Air Pollution, building on the Nairobi Agreement of 2008.

140. Going forward, the Government will continue to enforce the ban on use and manufacture of plastic bags, maintain the use of green energy, fight poaching and illegal trade in wildlife and wildlife products, and mainstream climate change mitigation and resilience measures into all its projects and programmes.

#### **2.3.3.2 Stimulating Tourism Recovery, Sports, Culture, and Arts**

141. Tourism transformation and its integration with sports, culture and arts are critical for revenue generation, inclusive growth and employment creation. Tourism as an enabler to “the Big Four Plan” will be availing the foreign exchange required for importation of machinery to facilitate manufacturing and any other imports besides stabilizing the foreign exchange.

142. Consequently, the Government has put in place various incentives to boost the sector, among them; giving visa on arrival for all Africans visiting Kenya and the introduction of Charter Incentive Program and Air Passengers subsidy (USD 30 rebates per passengers). The program is aimed at recovering lost business from tourist charter aircrafts that used to terminate at Moi International and Malindi airports. Waiving of visa fees for children under the age of 16 years is also meant to encourage family travel to Kenya. In addition, VAT exemption on Park Fees and the reduction in Park entry fees from USD 90 to USD 60 are effected to encourage both local and international tourists to visit our National Parks.

143. Going forward, in order to ensure sustainability in the tourism sector, the Government in partnership with key stakeholders will continue implementing the following strategies: revamping and refreshing beach and safari products; developing world class national parks and reserves; mainstreaming conservancies into the tourism value chain; developing heritage tourism product (refurbishment of Railway Museum, Fort Jesus and Mama Ngina Water Front); sports tourism; business and conference tourism; adventure tourism; city tours; wellness and yoga; medical and health tourism, among others. Development of infrastructure especially in tourism areas; marketing of Kenya as a viable tourism destination and strengthening presence in the new and emerging markets (China & India) as well as regionally (Nigeria & South Africa).

144. In addition, the Government will continue to train and nurture talented youths in various sports discipline and sensitize them on anti-doping. In arts and culture, the Government will continue to disseminate heritage knowledge, enhance

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film monitoring and enforcement by issuing film regulatory licenses; and conducting random inspections to ensure inappropriate content is not distributed to the public.

### **2.3.3.3 Sustainable Management of Land for Social-Economic Development**

145. Land as a factor of production is critical to economic, social, political and cultural development. Secure access to land, sustainable land use planning and equitable distribution of land remain immensely important for food security, employment creation and the socio-economic development of the country.

146. In order to support the attainment of “the Big Four” Plan, the Government will establish a Land Bank to set aside land for commercial use such as industrialization and the construction of 500,000 affordable and decent houses. The Government will also fast track finalization of the Land Value Index Bill so as to make sure that Kenyans are informed of the indicative prices of land in different parts of the country, so as to control speculation.

147. In addition, the Government will provide alternative forms of compensation such as equivalent value of land or government bonds, instead of focusing on monetary compensation. Further, the Government will fast track the approval of regulations for alternative dispute resolution mechanism. This will ensure that the public have an alternative method to resolving land disputes which is cheaper and faster.

### **2.3.4 Enhancing Service Delivery through Devolution**

148. Successful implementation of programmes and reforms under “The Big Four” Plan requires close collaboration between the National and the County Governments. In order to ensure that County Governments effectively play their role, support from the National Government towards devolution will focus on three key areas: i) enhanced financing for County Governments; ii) development of legal and regulatory frameworks for Public Finance Management (PFM); and, iii) technical support and capacity building for the Counties. The three areas which are aimed at enabling Counties improve delivery services are elaborated below:

#### **2.3.4.1 Enhanced Financing for County Governments**

149. Since FY 2013/14, more than Ksh 1 trillion has been transferred to the 47 Counties supporting service delivery and establishment of critical offices as stipulated in the Constitution. Over the last four years, it is evident that these transfers are having positive impacts on Kenyans at the grass root level through improved livelihoods and better economic performance at the local level. In general, devolution has improved public participation in decision making where policies and development programmes are concerned. Moving forward, the National Government is committed to boost funding for devolved functions by:

- enhancing fiscal transfers to the Counties, including through sustained growth in equitable share allocations, based on revenue raised nationally as stipulated in the Constitution; and,

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- Continued supplemental financing of devolved functions, through additional conditional allocations, including those sourced from development partners.

### **2.3.4.2 Development of Legal and Regulatory Frameworks for Public Finance Management**

150. Since the establishment of County Governments, the National Government has facilitated the development of various legal and regulatory frameworks intended to support devolution. Those already finalized include:

- a framework for borrowing, which is contained in the PFM (County Governments) Regulations, 2015;
- the Public Private Partnerships (PPP) Act, 2013, which enables County Governments to initiate local PPP arrangements, as long as the contracts do not generate unmitigated contingent liabilities at either level of Government;
- guidelines for the management of intergovernmental fiscal transfers, which clarify a cohesive oversight framework for fiscal flows between the two levels of Government, in line with the Constitution and the PFM Act, 2012; and,
- Guidelines on the Administration of the Equalization Fund, which has enabled operationalization of the Equalization Fund and ongoing implementation of projects.

### **2.3.4.3 Technical Support and Capacity Building for County Governments**

151. To date, the National Government has implemented a number of technical support and capacity building initiatives aimed at supporting devolution. Among other capacity building initiatives:

- a curriculum was prepared for County PFM training and a programme for rolling out training in the counties were developed by the National Treasury, intended to enhance capacity of County Governments in PFM;
- the National Treasury continues to dispatch technical staff to the Counties to support in implementing Integrated Financial Management and Information System (IFMIS); and,
- pursuant to a directive from the National and County Government Coordinating Summit, an analysis was undertaken of functions of the National and the County Governments, with the goal of eliminating duplication of functions as well as wastage arising therefrom.

152. At the moment, a major capacity building/performance grant programme, which aims to strengthen institutions and systems for devolved service delivery at

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both levels of Government is under implementation. The Kenya Devolution Support Programme (KDSP) is anchored under the National Capacity Building Framework (NCBF), and it targets results in four priority areas namely: i) strengthening PFM systems; ii) strengthening County human resource management; iii) improving County planning and M&E systems; and, iv) civic education and public participation. A major focus of capacity building moving forward is on budgeting and financial reporting.

### **2.3.5 Investing in Quality and Accessible Education and Social Safety Net**

153. The Government in supporting achievement of “The Big Four” Plan, will continue to foster inclusive growth, reduction of poverty and inequality by continuously investing in quality and accessible healthcare, relevant education and strengthening the social safety net.

#### **2.3.5.1 Investing in Quality and Relevant Education for all Kenyans**

154. Provision of quality and relevant education and training is essential in equipping Kenyans with the skills and know how necessary to spur industrialization.

155. For this reason, the Government will focus on improving and expanding the industry-led Technical and Vocational Education and Training (TVET) Colleges and Universities in order to equip the youth with relevant skills required to drive the industrialization agenda. The Government’s strategy will involve construction of more technical and vocational colleges in all the 290 Constituencies and equipping them with appropriate training equipment. The Government will also develop more skilled and competitive workers through the planned “paid for” internship program that will lead to the absorption of more than 100,000 young Kenyans into the job market every year.

156. On curriculum reforms, the Government is currently piloting the new curriculum in nursery and lower primary schools. The next stages will involve developing curriculum designs and syllabi, curriculum support materials and teacher education curriculum ahead of the national roll-out. Once completed, the new curriculum will prepare learners to meet the 21st century needs, promote a focus on learning and competencies and develop quality and relevant skills for the job market.

157. Going forward, the Government’s strategy will focus on: construction and improvement of infrastructure in all learning institutions; enhancement of capitation and grants to institutions; developing educational delivery standards, rationalizing teacher deployment and strengthening teachers’ supervision, enhancement of ICT integration in education at all levels and promotion of science, technology and innovation.

### **2.3.5.2 Strengthening the Social Safety Nets**

158. The Government continues to address the various challenges facing vulnerable groups so as to build resilience and promote affirmative action for all. Over the medium term, the Government will continue building capacities of communities and register Self Help Groups and Beneficiaries Welfare Committees (BWCs) providing them with formal recognition and opportunities to link with Micro Finance Institutions (MFIs) and non-state actors; develop infrastructure of 12 Vocational Rehabilitation Centres (VRCs); establish the National Development Fund for Persons with Disabilities (PWDs) decentralization of the single registry for the National Safety Net Programme; and finalise integration of the existing Information Management Systems for the CT-OVC, OPCT and PWSD-CT programs into a one-stop system.

### **2.3.5.3 Empowering Youth, Women and Persons with Disabilities**

159. The Government targets to continue promoting gender and youth empowerment, improved livelihoods for the vulnerable groups and people living with disabilities through the National Youth Service (NYS) program, the social transformation program, and SACCOs in order to attain sustainable youth led enterprises and promote employment creation services.

160. The Government will also continue expanding opportunities for the youth, women and persons with disabilities in procurement using the Access to Government Procurement Opportunities (AGPO) and designate resources for the establishment of youth empowerment centers to mentor the youth on leadership, national values, and entrepreneurship skills.

161. Empowering youths, women and people with disabilities to start and run Micro, Small and Medium Scale Enterprises (MSMEs) is an important agenda of the Government. The Government has been supporting these groups through affirmative action funds such as Uwezo Fund, the Youth Enterprise Development Fund, the Women Enterprise Fund and the Micro and Small Enterprise Authority. However, the fragmented approach to supporting, financing and developing MSMEs, hinders their incubation and take off, particularly those owned and managed by youth, women, persons with disabilities and other minorities. In this regard, the Government is in the process of reforming and consolidating these funds into one robust Fund whose objective is to support MSMEs, with a greater emphasis to those owned by youth, women and persons with disabilities. This Fund forms a critical link between MSMEs and socio-economic empowerment agenda of the Government that feeds into the broader focus of Government over the medium term, and in particular, “the Big 4” Plan.

## **2.3.6 Entrenching Structural Reforms to Support “The Big Four” Plan**

### **2.3.6.1 Strengthening Governance and the Fight Against Corruption**

162. The Government will continue to strengthen various institutions that are mandated to fight corruption in the country, implement reforms on good governance and enhance the capacity to recover corruptly acquired assets. The Government will also continue with the implementation of the measures articulated in the National Call to Action against corruption.

163. The strategy will also strengthen the implementation of Mwongozo Code of Governance for State Corporations; support and enhance investment in the capacity of the judiciary to expedite the hearing and disposal of economic crimes cases and ensure that the timelines for the conclusion of economic crimes cases are radically reduced to less than 6 months.

### **2.3.6.2 Deepening Public Financial Management Reforms**

164. Achievement of “The Big Four” Plan necessitates prudent management of the available public resources. As such, the Government will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms aimed at enhancing transparency and accountability in order to provide fiscal space for financing priority projects.

165. The focus will be to fast track consideration of reports on budget implementation, audited accounts of the National Government, County Governments and State Corporations; expansion of automation of public service delivery systems; digitization of all payments for public services; review of taxation, duty and customs frameworks to ensure predictable, fairer and transparent tax system. These activities will go a long way in entrenching good governance in public institutions and ensuring accountability of public resources.

166. To enhance automation of public payments, the Government will finalize the integration of IFMIS with the electronic Project Monitoring Information System (e-ProMIS), KRA and CBK Systems; finalize the review of the IFMIS e-procurement module in line with the new requirements under the Public Procurement and Asset Disposal Act 2015; enhance the capacity of IFMIS users in the National and County Governments on cash management, automatic bank reconciliation and the automated exchequer release process; and implementation of the IFMIS Disaster Recovery Solution.

167. The Integrated Customs Management System (iCMS) and Excisable Goods Management System (EGMS) will enhance the efficiency of custom clearance processes and procedures of cargo entering into Kenyan local market and the rest of East African countries. The system minimizes manual transactions and thus fast cargo clearance at all border controls and is expected to increase cargo volume to East Africa through Kenya Ports Authority.

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## 2.3.6.3 Fostering Financial Sector Developments and Reforms

168. A robust financial sector is central to the realization of the “Big Four” Plan. The Government, will continue to implement measures and reforms aimed at further deepening and strengthening the financial sector.

169. Great strides have been made in the financial sector. In particular, the passing of the Nairobi International Financial Centre Act, 2017 in July 2017 which creates the Nairobi International Financial Centre Authority. This has laid ground for the positioning of Nairobi as an International Financial Centre. The Act will thus provide the legal framework to facilitate and support the development of an efficient and globally competitive financial services sector in Kenya. With an action plan already in place, going forward, the Government will expedite the operationalization of the NIFC.

170. To enhance access to credit, in May 2017, the Moveable Property Security Rights Bill was assented into law. With the Act in place, lenders can now provide credit using moveable properties as collateral. The Act also creates an online electronic collateral registry. In addition, The Government will expedite the enactment of the Kenya Credit Guarantee Scheme Bill to further support access to credit by Small and Medium Enterprises and guide structured implementation and development of a vibrant Credit Guarantee Scheme that embraces a Public-Private Partnership Structure.

171. Building on the progress made thus far, the Government will continue to strengthen financial sector supervision by expediting the enactment of the Financial Services Authority (FSA) Bill which will consolidate existing non-bank financial sector regulators and create a new market conduct framework.

172. Further, to strengthen bank supervision and regulatory framework, the Government will strengthen full implementation of risk based supervision to enable regulators to cope with new risks; enhance Kenya’s position as an Islamic Finance Hub; and further extend the credit reporting framework to include credit providers from outside the financial sector.

173. To deepen the capital markets, the Government will expedite the enactment of the Securities, Investments and Derivatives Bill; expand the new derivatives market; strengthen capital markets infrastructure and institutions; diversify capital markets products and services; unify the existing two Central Securities Depositories under a single Central Securities Depository (CSD); and support infrastructure financing by Counties and National Government through the capital markets. In addition, the Government will establish an Islamic Finance Council with a view of providing a clear Islamic Finance Governance Framework in order to ensure consistency and certainty in design and issuance of Islamic financial products and services.

174. To exploit Kenya’s established lead in digital finance, the Government will create a national digital infrastructure that will provide financial solutions across all parts of the economy. This infrastructure will involve strengthening of the national digital identity system; real-time money transfer; enhancing retail infrastructure for cashing in and cashing out of digital money; enhancing of cash

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conversion; development of new universal national payments addressing system and single payments; and digitisation of government payments.

175. To provide opportunities for individual savings and personal investments in health, housing, education and other sectors of the economy, the government will catalyze the mobilization of long-term domestic funds. Insurance and pension funds are currently the most important potential sources of such funds. To achieve this, new products will be developed, reforms in the insurance and pension's legal frameworks and regulations will be initiated, and training for institutional investors on these products will be conducted. By so doing the percentage of long term assets held will thus increase.

176. To protect consumers of financial products, a comprehensive consumer protection framework for transparency, fair treatment and recourse across all sub sectors will be developed. The major emphasis here will be on building cross-sector market conduct and consumer protection regulation to incentivize financial sector providers to develop financial solutions that match target consumer needs which are delivered appropriately. This will be supported by the roll-out of national financial consumer education and awareness initiatives.

### III. FY 2018/19 BUDGET AND THE MEDIUM TERM

#### 3.1. Fiscal Framework Summary

177. The FY 2018/19 budget framework is intended to continue the fiscal consolidation agenda which will bolster our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

##### Revenue Projections

178. The fiscal framework for the FY 2018/19 budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II.

179. In the FY 2018/19 revenue collection including Appropriation-in-Aid (AiA) is projected at Ksh 1,853.9 billion (18.9 percent of GDP) from Ksh 1,643.1 billion (19.0 percent of GDP) in the FY 2017/18 (**Annex Tables 2 and 3**). This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues are projected at Ksh 1,688.5 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in FY 2017/18.

##### Expenditure Projections

180. In the FY 2018/19, overall expenditure and net lending are projected at Ksh 2,492.2 billion (25.5 percent of GDP) from Ksh 2,323.1 billion (26.8 percent of GDP) in the FY 2017/18. These expenditures comprises among others, recurrent of Ksh 1,501.5 billion (15.3 percent of GDP).

181. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.5 percent of GDP in the FY 2018/19 from 4.6 percent in the FY 2017/18.

182. The ceiling for development expenditures including foreign financed projects (including net lending) in nominal terms amounts to Ksh 612.9 billion in the FY 2018/19. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, external borrowing, while the balance will be financed through domestic resources.

183. A contingency of Ksh 5.0 billion is provided for in the FY 2018/19 budget. In addition, Ksh 4.7 billion is provided for as conditional grants to marginalized areas.

##### Deficit Financing

184. Reflecting the projected expenditures and revenues, the fiscal deficit in the FY 2018/19 (excluding grants), amount to Ksh 638.2 billion (equivalent to 6.5 percent of GDP). Including grants, the overall fiscal deficit is projected at Ksh 587.7 billion (6.0 percent of GDP) in FY 2018/19 compared to the estimated overall fiscal balance of Ksh 620.8 billion (7.2 percent of GDP) in FY 2017/18. The deficit excluding SGR related expenditures in the FY 2018/19 is projected at

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5.5 percent of GDP which is lower than the projected 6.5 percent of GDP in FY 2017/18.

185. The fiscal deficit in FY 2018/19 will be financed by net external financing of Ksh 214.7 billion (2.2 percent of GDP), net domestic borrowing of Ksh 368.8 billion (3.8 percent of GDP) and other net domestic receipts of Ksh 4.2 billion.

## 3.2 Budgetary Allocations for the FY 2018/19 - 2020/21 MTEF

186. The budgetary allocations to the three arms of Government including sharable revenues to County Governments is summarised in **Table 3.1**:

**Table 3.1: Summary Budget Allocations for the FY 2018/19 - 2020/21 MTEF (Ksh Million)**

	2017/18	2018/19	2019/20	2020/21
1. National Government	1,566,493.6	1,607,944.1	1,717,517.6	1,828,717.8
2. Consolidated Fund Services	356,892.4	461,916.9	493,401.1	630,102.8
3. Judiciary	18,039.6	17,783.2	20,073.7	17,575.2
4. Parliament	36,043.0	31,768.9	32,797.5	34,546.4
5. County Governments, inc conditional	345,681.0	372,741.9	372,163.5	381,908.9
<b>TOTAL</b>	<b>2,323,149.6</b>	<b>2,492,154.9</b>	<b>2,635,953.4</b>	<b>2,892,851.1</b>
	<b>% Share in Total Expenditure</b>			
1. National Government	67.4%	64.5%	65.2%	63.2%
2. Consolidated Fund Services	15.4%	18.5%	18.7%	21.8%
3. Judiciary	0.8%	0.7%	0.8%	0.6%
4. Parliament	1.6%	1.3%	1.2%	1.2%
5. County Governments	14.9%	15.0%	14.1%	13.2%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: National Treasury*

### Key Priorities for the 2018/19 Medium Term Budget

187. The National Treasury issued guidelines directing Ministries, Departments and Agencies (MDAs) to prioritize public investments geared to the realisation of “The Big Four” Plan, namely supporting value addition in the manufacturing sector to raise the share to GDP to 15 percent by 2022; food security and improved nutrition by 2022; achievement of Universal Health Coverage; and constructing at least five hundred thousand (500,000) affordable houses by 2022. These are the Government priorities aligned to the MTP III of the Vision 2030.

188. In this regard, resource allocations will be aligned to development programmes/projects under the “The Big Four” Plan of the Government and resources earmarked for these interventions will be ring-fenced over the medium term.

189. In addition, we have factored additional resources with a special focus to the following over the medium-term:

- **Social Protection, Culture and Recreation** – resources to double the number of vulnerable citizens supported through the cash transfer

programme (Inua Jamii); and provision of health insurance cover through the NHIF for all citizens above the age of 70. The allocation to this sector is expected to increase by 14.7 percent in FY 2018/19 and by 7.0 percent over the medium-term. This will build resilience and promote affirmative action for addressing challenges facing vulnerable groups and communities.

- **Education** – enhancement of the Free Primary Education programme to include Free Day Secondary Education. The allocation to this sector is expected to increase by 14.2 percent in FY 2018/19 and by 7.1 percent over the medium-term.
- **Health** – expansion of the free maternity programme to include NHIF cover for postnatal care for one year. The allocation to this sector is expected to increase by 13.4 percent in FY 2018/19 and by 6.0 percent over the medium-term.
- **Agriculture, Rural and Urban Development** – expansion of food and agricultural production will require an increase in the fertilizer subsidy initiative to reduce the cost to farmers, and support to small-holder agricultural irrigation by constructing large-scale dams. The allocation to this sector is expected to increase by 1.5 percent in FY 2018/19 and by 4.5 percent over the medium-term.

### Allocation Baseline Ceilings

190. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, we initiated a Zero Based Budgeting approach which involved justifying each allocation, including provisions for salaries and other operational expenditures and non-discretionary expenditures.

191. Development expenditures have been prioritized on the basis of the ‘The Big Four’ initiatives, the updated Third MTP of Vision 2030 priorities and the strategic policy interventions of the Government. The following criteria was used in apportioning capital budget:

- *The ‘Big Four’ Plan:* priority was given to allocations that support the realisation of “The Big Four” Plan either directly as drivers or indirectly as enablers, namely supporting value addition in the manufacturing sector; food security and improved nutrition; achievement of Universal Health Coverage and affordable housing.
- *On-going projects:* emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.

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- *Counterpart funds*: priority was also given to adequate allocations for donor counterpart funds which is the portion that the Government must finance in support of the projects financed by development partners.
- *Strategic policy interventions*: further priority was given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

## Finalization of Spending Plans

192. The finalization of the detailed budgets will entail thorough scrutiny of individual MDAs budgets to ensure that the allocations for FY2018/19 and the Medium-Term have been realigned to reflect the “Big Four” Plan either directly (as drivers) or indirectly (as enablers). In the event that additional resources become available, Government will utilize them to accommodate key national strategic priorities. Specifically, the following will receive priority:

- Projects/services or interventions that will serve as drivers or enablers for achievement of the “Big Four” Plan in the areas of manufacturing, food security, affordable housing and Universal Health Coverage
- Interventions identified during the stakeholders consultation for the FY 2018/19 budget and over the medium term
- Strategic interventions and other policy interventions to enhance regional integration and social equity; and
- Specific consideration to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

## 3.3 Details of Sector Priorities

193. **Table 3.2** provides the projected baseline ceilings for the FY 2018/19 and the medium term, classified by sector.

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**Table 3.2: Medium Term Sector Ceilings, 2018/19 - 2020/21 (Ksh Million)**

	2017/18 Printed Estimates			2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total
Agriculture, Rural & Urban Development	17,311	21,086	38,397	17,096	21,885	38,981	18,507	23,336	41,842	19,306	24,497	43,802
Energy, Infrastructure & ICT	67,222	348,522	415,744	77,750	321,883	404,633	81,554	338,936	420,490	84,941	337,319	422,260
General Economic & Commercial Affairs	9,610	10,185	19,794	9,094	11,916	21,010	9,645	13,341	22,986	9,788	13,776	23,564
Health	30,721	30,979	61,700	34,807	35,179	69,987	37,417	35,403	72,820	37,725	35,420	73,146
Education	350,149	24,839	374,987	400,736	27,541	428,277	419,767	26,559	446,326	432,571	26,813	459,384
Governance, Justice, Law & Order	176,137	26,414	202,551	168,720	24,927	193,647	175,062	26,452	201,514	179,783	23,464	203,247
Public Admin. & International Relations	165,720	104,471	270,191	166,023	107,538	273,561	177,273	110,254	287,527	175,582	109,425	285,007
National Security	130,178	45	130,223	125,697	45	125,742	139,688	45	139,733	143,799	45	143,844
Social Protection, Culture & Recreation	20,652	25,526	46,178	29,434	23,492	52,926	31,277	25,005	56,282	31,362	24,952	56,314
Environment Protection, Water & Natural Resources	22,788	50,798	73,586	22,921	54,287	77,208	23,908	56,279	80,187	24,087	58,559	82,646
<b>TOTAL</b>	<b>990,487</b>	<b>642,865</b>	<b>1,633,352</b>	<b>1,052,279</b>	<b>628,693</b>	<b>1,680,972</b>	<b>1,114,098</b>	<b>655,609</b>	<b>1,769,707</b>	<b>1,138,944</b>	<b>654,269</b>	<b>1,793,214</b>
<b>% Share of Total Expenditures</b>												
	2017/18 Printed Estimates			2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total	Rec.	Dev.	Total
Agriculture, Rural & Urban Development	1.1%	1.3%	2.4%	1.0%	1.3%	2.3%	1.0%	1.3%	2.4%	1.1%	1.4%	2.4%
Energy, Infrastructure & ICT	4.1%	21.3%	25.5%	4.6%	19.1%	24.0%	4.6%	19.2%	23.8%	4.7%	18.8%	23.5%
General Economic & Commercial Affairs	0.6%	0.6%	1.2%	0.5%	0.7%	1.2%	0.5%	0.8%	1.3%	0.5%	0.8%	1.3%
Health	1.9%	1.9%	3.8%	2.1%	2.1%	4.1%	2.1%	2.0%	4.1%	2.1%	2.0%	4.1%
Education	21.4%	1.5%	23.0%	23.7%	1.6%	25.4%	23.7%	1.5%	25.2%	24.1%	1.5%	25.6%
Governance, Justice, Law & Order	10.8%	1.6%	12.4%	10.0%	1.5%	11.6%	9.9%	1.5%	11.4%	10.0%	1.3%	11.3%
Public Admin. & International Relations	10.1%	6.4%	16.5%	9.8%	6.4%	16.2%	10.0%	6.2%	16.2%	9.8%	6.1%	15.9%
National Security	8.0%	0.0%	8.0%	7.4%	0.0%	7.4%	7.9%	0.0%	7.9%	8.0%	0.0%	8.0%
Social Protection, Culture & Recreation	1.3%	1.6%	2.8%	1.7%	1.4%	3.1%	1.8%	1.4%	3.2%	1.7%	1.4%	3.1%
Environment Protection, Water & Natural Resources	1.4%	3.1%	4.5%	1.4%	3.2%	4.6%	1.4%	3.2%	4.5%	1.3%	3.3%	4.6%
<b>TOTAL</b>	<b>60.6%</b>	<b>39.4%</b>	<b>100.0%</b>	<b>62.3%</b>	<b>37.2%</b>	<b>100.0%</b>	<b>63.0%</b>	<b>37.0%</b>	<b>100.0%</b>	<b>63.5%</b>	<b>36.5%</b>	<b>100.0%</b>

*Source: National Treasury*

194. The medium term expenditure framework for 2018/19 – 2020/21 ensures resource allocation based on prioritized programmes aligned to the MTP III. It also focuses on strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction.

### **Agriculture, Rural and Urban Development Sector**

195. The Sector plays a key role in accelerating economic growth through enhancing food and nutrition security; income generation; employment and wealth creation; and foreign exchange earnings. The sector also contributes significantly to socio-economic growth and development through forward and backward linkages with other priority sectors of the economy.

196. During the FY 2018/19-2020/21 MTEF period, the Sector will continue to implement policies aimed at cushioning the agriculture sector from exogenous shocks and ensuring food security. The focus will be redesigning subsidies to ensure they target improvements in food yields and production quality; facilitating large scale commercial agriculture to help diversify staples; addressing arable land

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ownership and utilization; expansion of irrigation schemes and securing water towers and river ecosystems. In addition, fisheries, aquaculture and Blue Economy policies, infrastructure and capacities will be developed and implemented. The Sector will also fast-track the approval of National Land Use Policy to enable sustainable and productive use of land as enshrined in the Constitution.

197. In order to implement the prioritized programmes, the Sector has been allocated Ksh 38.981 billion, Ksh 41.842 billion and Ksh 43.802 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **Energy, Infrastructure and Information, Communication and Technology Sector**

198. The sector aims at sustaining and expanding cost-effective public utility infrastructure facilities and services in the areas of energy, maritime, transport, petroleum, ICT in line with the priorities in the Constitution of Kenya and the MTP III.

199. Some of the major projects for the sector targeted for implementation in FY 2018/19-2020/21 include: 2,946 MW of additional installed electricity generation capacity; Connecting all Kenyans to electricity; Northern Corridor Transport Improvement Project; Lamu Port Southern Sudan and Ethiopia Transport corridor (LAPSSET); Phase 2 of the Standard Gauge Railway; Konza Technopolis City; E-Commerce Hub; National Optic Fiber Backbone Infrastructure (NOFBI) Phase II, promotion and development of the maritime sector; East African Trade and Transport Facilitation Projects and County Connectivity; exploration and appraisals in oil blocks and Early Oil Monetization of Crude Oil to enhance early commercialization of the crude oil discoveries; and provision of offsite infrastructure for the development of low cost houses.

200. In order to implement the prioritized programs, the Sector has been allocated Ksh 404.633 billion, Ksh 420.490 billion and Ksh 422.260 billion for the financial years 2018/19, 2019/20 and 2020/21 respectively.

### **General Economic and Commerce Affairs Sector**

201. During the FY 2018/19 – 2020/21 MTEF period the sector focus will be, among others, to: Operationalize the Special Economic Zones (SEZ) Act 2015; develop new standards by KEBS; Increase credit disbursed to the private sector; install new milk processing machinery and equipment at New KCC; Develop Risk Based Supervision system (RBS) for Sacco Societies Regulatory Authority (SASRA); Develop an Integrated information management system for co-operatives; Improve accessibility of agricultural products/commodities to markets; equip Weights & Measures laboratories; Investigate and prosecute contraband and counterfeit cases; Facilitate potential and existing enterprises including youth and women in export business to increase exports; Comply with harmonized EAC tariffs and Common External Tariff; Reduce Non-Tariff Barriers; Commission One Stop Border Posts (OSBP) and establish a Monetary Institute for the East African Community; Increase the number of tourist establishments; Hold cultural tourism festivals; Construct Ronald Ngala Utalii College; and promote tourism to increase earnings.

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202. The Sector aims at creating employment opportunities and wealth creation for poverty reduction, overseeing the fast tracking of the regional integration initiatives and promotion of equity among Kenyans. This is expected to be achieved through creating an enabling environment for business, mobilization of resources for investments and industrial development; promotion of exports; promotion of sustainable tourism; and deepening of the EAC integration.

203. During the FY 2018/19-2020/21 MTEF period, the Sector aims to: create enabling environment to promote and facilitate industrial development through value addition and investment; provide standards for industrial products and incubation services to support MSMEs; promote co-operative sector development and improve governance and management of co-operative societies; promote trade, broaden export base and markets as well as undertake country branding; coordinate and monitor implementation of the EAC Council decisions and regional programmes; develop tourism products and market Kenya as a tourist destination both locally and internationally and provide efficient service delivery. Other measures to support tourism will include: tourism marketing and promotion; tourism product development and diversification; tourism standards and regulation; human resource development for the tourism sector; tourism infrastructure development; and tourism financing and investment.

204. To implement the prioritized programmes, the Sector has been allocated Ksh 21.010 billion, Ksh 22.986 billion and Ksh 23.564 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **Health Sector**

205. Although the Constitution of Kenya 2010 devolved some of the health functions to the County Government, Schedule 4 assigns the National Government functions pertaining to health policy; national referral health facilities; and capacity building and technical assistance to counties. Therefore, the health sector aims at attaining the highest possible health standards in a manner responsive to the population needs by supporting provision of equitable, affordable and quality health and related services at the highest attainable standards to all Kenyans.

206. Some of the key projects that will be implemented in the 2018/19 to 2020/21 MTEF period will be geared towards the following: scaling up Universal Health Coverage (UHC) initiatives including the Linda Mama (free maternity health services), subsidies for the poor, elderly and vulnerable groups and reducing out of pocket/catastrophic health expenditures through reforming the provider payment mechanisms; improving quality of healthcare through the revamping and expansion of health infrastructure, including expanding the categories of specialized medical equipment to include other components and areas not covered in Phase 1 of MES and establishment of centres of excellence in health, health commodity storage centres, new specialized health facilities and laboratories; building capacity in human resources for health at all levels of the healthcare system, including transforming the KMTC into a centre of excellence in training middle level health workers and the strengthening of the community health components.

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207. Others include improving reproductive, maternal, neonatal, child and adolescent Health (RMNCAH) through increased immunization, improved nutrition, increased access to family planning services and improved quality of health services; ending AIDS, TB, Malaria and Non-Communicable Diseases (NCDs) as a public health threat by 2030 through cost effective and transformative prevention interventions; increase access to national referral health facilities and specialised services, including mental health and spinal injury health services; strengthening health research for improved quality of healthcare; increased quality of health services through availability of norms and standards, and enhanced regulations; and develop the medical tourism industry to tap into the global multi-billion medical and health tourism business.

208. In order to implement the prioritized programmes, the Sector has been allocated Ksh. 69.987 billion, Ksh 72.820 billion and Ksh 73.146 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **Education Sector**

209. Expansion of access to education and training is at the heart of the Government's commitment to our children's future. In this regard, the Government continues to increase resources for early childhood development, improve basic education outcomes and step up support to TVET colleges and universities.

210. To meet its goal as well as contribute to economic growth, the sector has prioritized the following programmes for the 2018/19 to 2020/21 MTEF Period: construction and improvement of infrastructure in all learning institutions, enhancement of capitation and grants to institutions; supporting curriculum reforms and enhancement of examination assessment and certification; enhancement of ICT integration in education at all levels and promotion of science, technology and innovation.

211. Further, to support the attainment of "the Big Four" Plan, the Government will focus on improving and expanding the industry-led Technical and Vocational Education and Training (TVET) Colleges and Universities in order to equip the youth with relevant skills required to drive the industrialization agenda. The Government's strategy will involve construction of more technical and vocational colleges and equipping them with appropriate training equipment.

212. In order to implement the prioritized programmes, the Sector has been allocated Ksh 428.277 billion, Ksh 446.326 billion and Ksh 459.384 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **Governance, Justice, Law and Order Sector**

213. The sector aims to ensure effective and accountable leadership, promote a just, democratic and secure environment with strong governance structures to achieve inclusive economic, social and political development.

214. Some of the Sector's critical and priority areas in the 2018/19 to 2020/21 MTEF period include: centralized housing in both prisons and police; strategic intervention in provision of legal services to Government, installation of National Surveillance and Control System; continuous improvement of inmates and prison

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staff welfare; adoption of ICT, modernization of the criminal justice system; continue strengthening anti-corruption measures in order to reduce economic crime and unethical conduct, and ensure constitutional compliance, enhancement of civic education and public sensitization; and decentralization of services to the counties.

215. In order to implement the prioritized programmes, the Sector has been allocated Ksh 195.648 billion, Ksh 201.514 billion and Ksh 203.247 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **Public Administration and International Relations Sector**

216. The Sector provides overall policy direction and leadership to the country, oversees national legislation as well as the human resource function in the public service. It further coordinates national policy formulation, implementation, monitoring and evaluation; resource mobilization and management; devolution oversight; implementation of Kenya foreign policy; and oversight on use of public resources and service delivery.

217. During the 2018/19 - 2020/21 MTEF period, the Sector will implement thirty-two (32) programmes building on the programmes realized in the previous MTEF period. The focus will be on expanding Kenya's diplomatic representation and footprint across the globe and strengthening Kenya's leadership role in shaping global agenda at the bilateral and multilateral levels; strengthening public financial management by implementing effective public sector auditing of MDAs in service delivery and enhancing accountability; and provision of leadership, policy direction and guidance to Ministries, Departments and Agencies (MDAs).

218. To implement the prioritized programmes, the Sector has been allocated Ksh 273.583 billion, Ksh 287.527 billion and Ksh 285.006 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **National Security**

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

220. In FY 2018/19-2020/2021 the sector will continue focusing on the following areas; scaling-up investments towards modernization of security systems aimed at strengthening security of our borders and throughout the country, enhanced security operations, especially of areas prone to crimes; building capacity for effective and faster investigation, and strengthening coordination among security agencies with stronger partnership with communities. Other measures to fight crime nationally will include the establishment of specialized Units, focusing on drug-related crime, taxi violence and firearms and the enhanced utilization of investigative aids such as forensic leads.

221. In order to implement the prioritized programmes, there is a gradual increase in resource allocated to this Sector over the medium term. The sector has been allocated Ksh 125.742 billion for FY 2018/19, Ksh 139.733 billion for FY 2019/20, and Ksh 143.844 billion for the FY 2020/21.

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## **Social Protection, Culture and Recreation Sector**

222. The Sector is mandated to address the issues of promotion and exploitation of Kenya's diverse culture for peaceful co-existence.

223. During the 2018/19 – 2020/21 MTEF period the focus will be on programmes aimed at achieving high levels of investment in economic and social infrastructure necessary for rapid economic growth and support for employment creation and retention. In this regard, the identified programmes for implementation are: Sports; Culture and the Arts; Library and Archive Management Services; Promotion of Best Labour Practices; Manpower Development, Employment and Productivity Management; Social Development and Children Services; National Social Safety Net; Community Development; Gender and Women Empowerment; Special Initiatives; Accelerated Arid and Semi-Arid Lands (ASALs) Development and Policy and General Administrative Planning and Support Services.

224. In addition, the Government in partnership with key stakeholders will continue implementing the following strategies in FY 2018/19-2020/21: development and diversification of tourism products with key focus being on niche tourism such as eco-tourism, Meetings, Incentives, Conferences and Exhibitions (MICE), sports adventure and home stays; and supporting environment friendly practices such as eco-labelling and eco-warriors awards by Eco-tourism.

225. In order to implement the prioritized programmes, the Sector has been allocated Ksh 52.959 billion, Ksh 56.282 billion and Ksh 56.314 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

## **Environment Protection, Water and Natural Resources**

226. The Sector plays a crucial role in the economy as its investment will ensure the delivery of direct and indirect goods and services that are the backbone for the main productive sectors namely agriculture, tourism, energy and manufacturing. It has direct and indirect linkages with all other sectors of the economy thus promoting socio-economic development geared towards the realization of the Kenya Vision 2030 and various international commitments relating to the sector.

227. For the 2018/19 to 2020/21 MTEF period the sector has prioritized programmes intended to; provide policy and legal framework for efficient and effective management of the environment; sustainably manage and conserve environment; provide reliable weather and climate information for decision making; sustainably manage and conserve forests and water towers; sustainably conserve and manage Kenya's wildlife; provide policy and legal framework for efficient and effective management of the natural resources; promote good governance in the management of water resources; increase availability of safe and adequate water resources; enhance accessibility of water and sewerage services; enhance utilization of land through irrigation, drainage and land reclamation; and increase per capita water storage capacity for irrigation and other uses.

228. The prioritized programmes will also target to: provide efficient and effective support services for delivery of the State Department's programmes; develop and manage geological and mineral resources database; generate geo-

spatial data and information for sustainable development; and provide efficient and effective support services for management of mineral and geo-information data. The Government will also strengthen early warning systems in order to enable farmers to make appropriate farming decisions.

229. In order to implement the prioritized programmes, the Sector has been allocated Ksh 77.708 billion, Ksh 80.187 billion and Ksh 82.646 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively.

### **3.4 Public Participation/ Sector Hearings and Involvement of Stakeholders**

230. The law requires that the input of the public be taken into account before the Budget proposals are firmed up. In this regard, we held Public Hearings for the FY2018/19 Budget between 24<sup>th</sup> and 27<sup>th</sup> January 2018. Some of the key issues arising during the Public Hearings included:

#### **Agriculture, Rural and Urban Development Sector**

231. Members of the public enquired to know whether the sector got in touch with investors who were interested to invest in the Blue Economy during TICAD meetings. It was explained to the public that a side meeting was held during TICAD and that a Blue Economy Committee has since been formed to come up with ways of exploiting the Blue Economy. Currently, there is a blue economy project funded by the World Bank in addition to efforts of putting in place necessary infrastructure for the blue economy.

232. There were also concerns about the rising cases of land brokers who push up land prices. The Sector noted this and offered assurance that digitization of land records is ongoing and they are as well fast tracking finalization of the Land Value Index Bill so as to make sure that Kenyans are informed of the indicative prices of land in different parts of the country.

Members of the public enquired to know whether KEPHIS was being adequately supported to play its rightful role in agricultural production. It was explained to the public that KEPHIS has been supported in building a modern laboratory and there is focus to continue supporting it to play its role. Members of the public also enquired to know the support that was being given to coffee farmers to facilitate revival of the industry. It was explained to the public that there was a coffee taskforce in place and its recommendations are being implemented to ensure that the coffee industry is revived. For instance, different coffee varieties will be developed and supplied to farmers to ensure that more counties with potential for coffee production are brought on board.

#### **Energy, Infrastructure and Information, Communications Technology Sector**

233. The public commended the sector for the progress made during the review period and especially SGR and connecting many households with electricity. It was recommended that the sector should include political risk as factor in project implementation. This was after noting that the slow pace of project implementation due to political interferences.

234. Members of the public also enquired to know what the Government was doing to regulate crypto currency to safe guard the investments of the public. It was explained to the public that a task force has been set up to check on how crypto currency can be incorporated into the economy through regulation. Finally, the public recommended that the maritime sub-sector be adequately funded taking into account the opportunities that are available in the blue economy that have huge potential to provide jobs to the young people.

### **General Economic and Commercial Affairs Sector**

235. There was concern from the public that little emphasis was put on the Jua-Kali sector and they wished to know what the government doing to promote the Jua-Kali sector. The Sector informed the public that there are many projects undertaken by the various state departments that support the Jua-Kali sector such as the setting up of the leather factory that get artisans to make items such as shoes among others.

236. As regards milk processing the public suggested that there should be focus in setting up satellite milk processors in every Ward as well as cold rooms in order to avoid wastage from spoilage and ensure proper and hygienic milk handling, processing and storage.

### **Education Sector**

237. The public opined that the devolution of Early Childhood Development Education (ECDE) could have compromised the quality of learning of the children. The Sector informed the public that the setting of ECDE policy and standards remains a function of the National Government and that the Teachers Service Commission is working with the Council of Governors on standards and harmonization of remuneration for ECDE teachers.

238. While commending the government for the provision of services such as the scraping off of examination fees for candidates both in primary and secondary, public and private schools; and the Free Day Secondary School Education (FDSE), the public was still wary that some institutions still ask for fees to cater for these services. The public was advised that these services are indeed free and to report any such incidences to the relevant authorities. In the event some fees for other things were charged in schools, these had to be agreed upon and consented to by both the parents and administrators of the schools.

239. There was also concern that the sector had highlighted huge financing gaps that could not be addressed by the monies received from the government and they were urged to explore other financing mechanisms such as engaging with development partners in order to bridge the gap.

240. The public was also concerned about the quality and standards of school infrastructure whereby some schools were in deplorable conditions not conducive for learning e.g. muddy classes, no roofing etc. Further there was concern that the school inspections that used to be there were no longer being implemented. The sector assured the public that the school inspection teams are still there and take regular inspections and the school infrastructure is improved on a rolling basis

based on the availability of funds and it is hoped all the schools will eventually have better infrastructure.

241. As regards university education the public inquired what the government doing to ensure that money for government sponsored students to private universities is released and also if private universities can access money from the National Research Fund (NRF). The sector stated that all funds to government sponsored student, both in private and public institutions is timely released and that the NRF can be accessed even by private universities once they make an application and meet the necessary requirements.

### **Health Sector**

242. To bridge health sector resource deficit, the public suggested the implementation of health sector regulations requiring re-investment of 2 percent of tobacco industry profits into the health sector. The Sector welcomed the suggestion and informed the public that it will consult the National Treasury on the way forward.

243. The public raised concerns on security challenges in major health facilities as well as wastage and misuse of funds allocated to the sector. The Sector noted the concerns and committed to enhance security training to health facility managers and beef up security measures to address this challenge. On misuse of funds, the Sector is promoting adoption of technology on procurement and management of resources to minimize wastage.

244. To ensure the success of Universal Health Coverage, the public suggested that additional Computed Tomography (CT) scans be supplied to all counties, health workers be involved in National Hospital Insurance Fund (NHIF) registration, and training of specialist to handle the Specialized Medical Equipment. The Sector informed the public that already eight counties have been supplied with CT scans and provision of CT scans to the other counties has been prioritized in the current MTEF period. The Sector also affirmed that health workers will be involved in registration of the public into NHIF and that the training specialist in the use of the specialized Medical Equipment will be enhanced.

### **Public Administration and International Relations Sector**

245. The public urged the Sector to provide offices to chiefs and assistant chiefs which will enable them discharge their functions easily. The Sector clarified that the National Government Constituency Development Fund currently focuses on security and education, thus funds will be utilized to construct offices for chiefs and their assistants among other security priorities going forward.

246. On access to information, the public decried of the difficulties in accessing information that should otherwise be public. The Sector hinted that the Commission on Administrative Justice (CAJ) is working on operationalization of Access to Information Act and civic education to sensitize the public on access to information.

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247. Further, the public opined that there was no need for many embassies in foreign countries. The Sector enlightened the public on the importance of foreign embassies stating that Kenya has only 56 global missions despite hosting over 120 foreign missions.

## **Governance, Justice, Law and Order Sector**

248. The public inquired about the good conduct certificate and its usage since they reported that every employer or person requests for it. The sector stated that the certificate is a service they offer to anyone who requests it and the public was informed that they could also request for it when employing even their domestic staff as this just gives insight to the person you are to hire.

249. Drug abuse among the youth was observed to be on the increase and the public sought to know what is being done to address this. The sector stated that the police together with NACADA as well as other agencies have programmes and operations that deal with this.

250. There were various complaints and reports about bribery between the traffic police and matatu operators contributing to the menace on the road. While agreeing there could be incidences of misdemeanour, the sector reiterated the need for collective responsibility to adhere to the safety measures put in place where citizens speak out and report such cases so that perpetrators can be dealt with. There is also need to strengthen civic education on the same as there are a number of avenues and mechanisms to report police misconduct.

251. The public noted that most police stations and infrastructure are dilapidated and need to be modernized. This included upgrading the police stations and digitizing the OB, improving police housing, and equipping the forensic and investigations lab that was constructed as well as having a specialized police hospital

## **Social Protection, Culture and Recreation Sector**

252. The public recommended that the elderly people that were left out during registration of those over 70 years be given another chance to register. The public was of the opinion that those above 65 years should also be considered for support under the Inua Jamii programme. Further, the public wanted to know what was being done to cater for Orphans and Vulnerable Children (OVC) in this budget period. The Sector reiterated that this budget will allocate resources to assist OVC.

253. The stakeholders recommended that the betting tax be divided between sports and arts and ensure fair administration. The sector indicated that there is a committee in the office of the president that is working on regulations of the fund and it will look into the concerns raised.

254. The public wanted to know what the Sector was doing on the Heroes Council. The sector indicated that regulations almost ready to ensure that the heroes council is established. Finally, the sector was requested to come up with ways of merging the many small women targeted interventions so as to ensure their impacts are felt.

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### **Environmental Protection, Water and Natural Resources**

255. The Sector was challenged by the public to provide pictorial evidence of their achievements and projects they are undertaking so that the public can appreciate what it is the sector is doing. The sector was also commended for implementing the plastic ban and was urged to extend enforcement to imports into the country.

256. On the wildlife compensation claims, the public opined that this could be exacerbated due to the slow response time to alerts that there are wild animals on the loose and the sector was asked to improve on this. Further, the sector was tasked to relook and renegotiate the trans-boundary treaties e.g. the River Nile in order to address the trans-boundary issues and also enable efficient usage and benefits from these resources.

257. The public advised that mechanisms should be set up whereby when land sales occur the government is present to check and verify that the land is not in riparian land or wetlands and even road reserves. In addition to this the sector was tasked to improve weather forecasting to up to months in advance so that farmers can do proper planning and increase food production thus food security.

### **Programme Performance Information for 2018/19 - 2020/21 MTEF Period**

258. Annex Table 6 of this BPS provides a detailed report with information on programmes outputs, key performance indicators, and the set targets for the 2018/19 – 2020/21 MTEF period.

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## IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

### 4.1 Fiscal Performance of County Governments in FY 2016/17

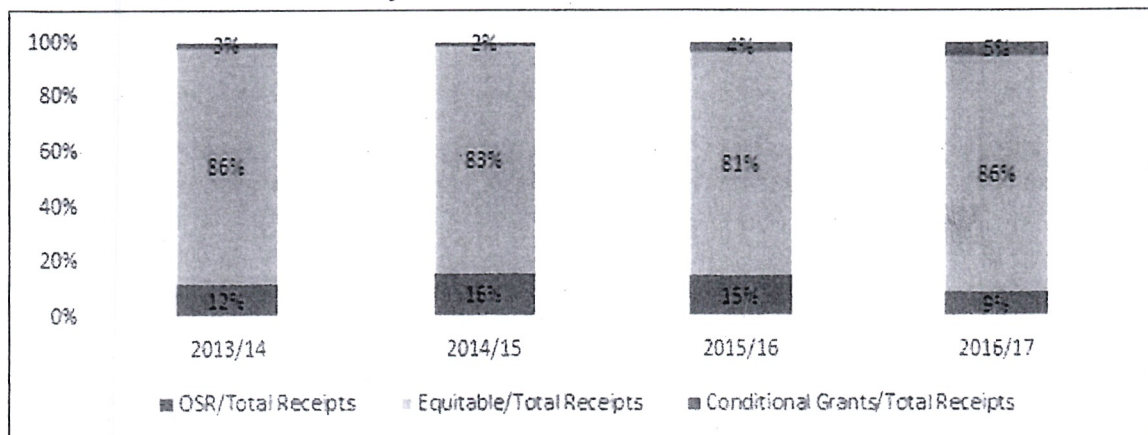
259. In FY 2016/17, approved budgets for County Governments amounted to Ksh 399.2 billion, reflecting an increase of 8.7% from FY 2015/16. This comprised of Ksh 240.9 billion (or 60.3%) recurrent budget and Ksh 158.4 billion (or 39.7%) development budget. The budget was to be financed by: i) Ksh 280.3 billion from equitable share of revenue; ii) Ksh 21.9 billion conditional allocations; iii) Ksh 57.7 billion own source revenue (OSR); and, iv) Ksh 37.2 billion cash balance brought forward from FY 2015/16.

#### 4.1.1 County Revenues

260. County Governments are increasingly relying on equitable share transfers from National Government, which forms over 80% of the Counties' total revenue (**Chart 4.1**). The proportion of Counties' total spending that is financed from OSR declined in each of the last four years. In the FY 2016/17, actual collections dropped significantly in absolute terms even though the economy grew by 5.3%. Among factors responsible for this underperformance are: i) absence of revenue policies and legislation; ii) human resource capacity and administrative constraints; iii) inappropriate institutional arrangements for revenue collection and administration; and, iv) lack of effective internal controls and audit mechanisms.

261. As a solution to challenges highlighted above, the National Treasury through an interagency committee has drafted a national policy and a legal framework to support enhancement of County OSR. Both drafts have been subjected to public participation, and are now awaiting submission to the Cabinet and to Parliament for approval. As part of strategies to implement the above policy, County Governments are to receive capacity building from the National Treasury on various PFM aspects including revenue forecasting and tax analysis. This capacity building will be provided under the ongoing Kenya Devolution Support Program (KDSP).

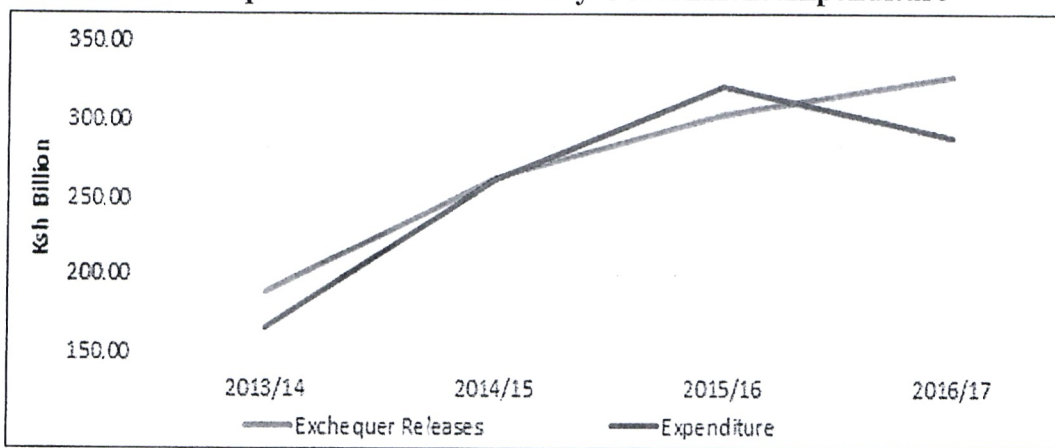
**Chart 4.1: Sources of County Governments' Revenues**



Source of Data: Controller of Budget

262. Exchequer releases to County Governments have been on an upward trend from FY 2013/14 to FY 2016/17. In FY 2015/16, County Governments' aggregate expenditure exceeded Exchequer releases (**Chart 4.2**). This is an indication that some County Governments might be spending their OSR at source, or that other revenue sources have not been declared, both of which may indicate that the Counties are in serious breach of measures established under the PFM Act. In general, spending commitments that exceed Exchequer releases are also likely to result in pending bills.

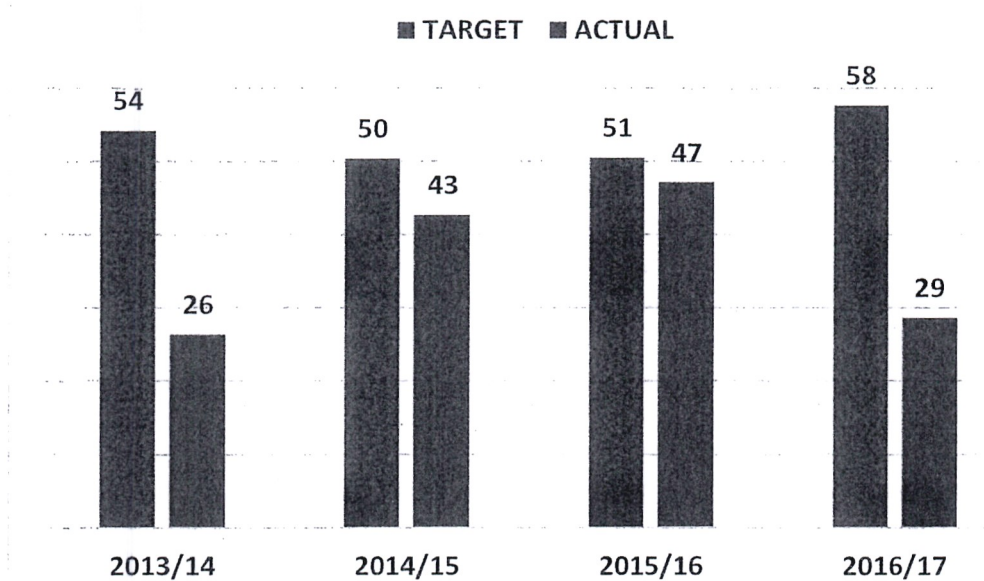
**Chart 4.2: Exchequer Releases and County Government Expenditure**



*Source of Data: Controller of Budget*

263. Since FY 2013/14, County Governments have missed their OSR targets. (**Chart 4.3**). The increasing variance between projected and actual OSR collection, highlights the difficulty Counties are facing in preparing realistic revenue forecasts. Funding gaps occasioned by unrealized revenue projections are a major source of fiscal constraints faced by Counties while implementing their annual budgets. To address this challenge, the National Treasury is exploring legal options to capping Counties' OSR revenue growth estimates, based on their historical performance vis-à-vis potential. A study is being commissioned to determine each County's OSR potential. The objective of the capping is to ensure that revenue estimates that exceed what is deemed realistic will need more stringent justification, so as to minimize the risk of budget deficits and rising pending bills that has been experienced over the last four years.

Chart 4.3: County Governments' OSR Targets vs. Actuals (Ksh Billions)



Source of Data: Controller of Budget

#### 4.1.2 Spending by County Governments

264. In the four years since their establishment, County Governments have cumulatively spent a total of Ksh 1.04 trillion, of which 71.4 percent went towards recurrent, and 28.6 percent to development. Spending by the Counties during this period has been characterized by low absorption -- 51.3 percent on average -- even though there are wide inter-County disparities (**Table 4.1**). In FY 2016/17, Counties' aggregate budget absorption was 72.3 percent, a drop from 87.2 percent achieved in FY 2015/16, and 80.3 percent in FY 2014/15. The development budget is particularly affected by low absorption, and factors responsible for this include procurement challenges and overall capacity deficits. On the other hand, average absorption of the recurrent budget over the four years was 93.4 percent. In FY 2014/15 and 2015/16, the Counties spent more than their approved recurrent estimates, which suggests that funds were reallocated from development to recurrent budget. It is expected that ongoing implementation of the KDSP capacity building initiative will help to resolve Counties' budget execution challenges, by improving planning and procurement. In addition, the National Treasury will continue disbursing to Counties their equitable share allocations in accordance with the approved schedule so that development projects are implemented within planned time frames.

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**Table 4.1: County Governments' Budget Allocations and Expenditures**

Financial Year	Budget allocations (Kshs billions)			Actual expenditure (Kshs billions)			Absorption rate (%)		
	Rec't	Dev't	Total	Rec't	Dev't	Total	Rec't	Dev't	Total
2013/14	161	100	261	129	37	166	80.1%	36.6%	63.4%
2014/15	181	145	326	185	77	262	102.2%	53.1%	80.3%
2015/16	209	159	368	230	91	321	110.0%	57.2%	87.2%
2016/17	241	158	399	216	103	319	89.5%	65.4%	80.0%

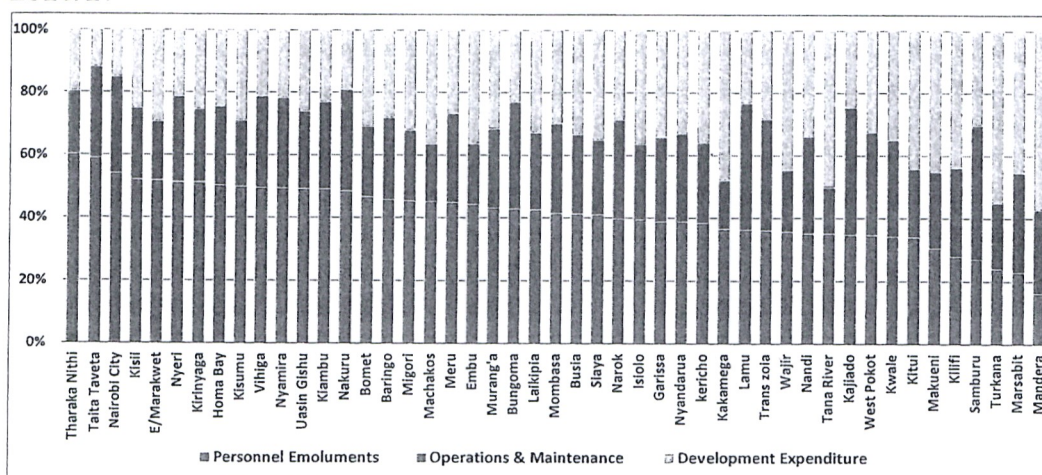
*Source of Data: Controller of Budget*

## 4.2 County Governments' Compliance with Fiscal Responsibility Principles

### 4.2.1 County's Expenditures by Economic Classification

265. In FY 2016/17, as in previous years, personal emoluments comprised a significant portion of County Governments' total expenditure (**Chart 4.4**). This is more pronounced in Counties that inherited comparatively more staff from the defunct Local Authorities, with some (such as, Nairobi, Nyeri, Embu, Kisumu, and Nakuru) registering wage bills above 50% of total expenditure in FY 2016/17. Among Counties with the least personal emoluments are Kilifi, Mandera, Marsabit and Turkana.

**Chart 4.4: County Expenditures by Economic Classification for Financial 2016/17**



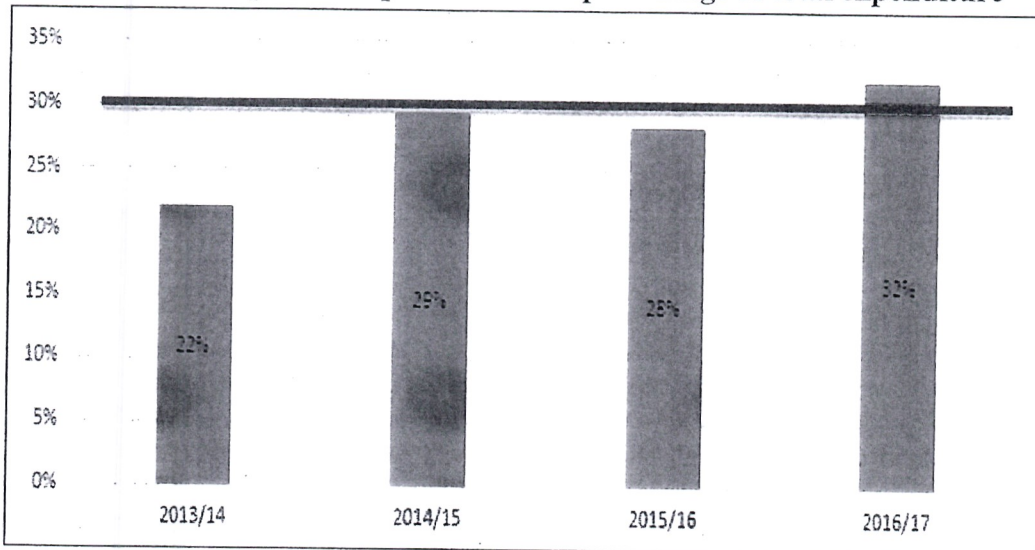
*Source of Data: CARA 2016, Controller of Budget*

### 4.2.2 Compliance with the requirement for development spending allocations

266. Section 107(2) of the PFM Act 2012 requires that County Governments allocate a minimum of 30 percent of their budget to the development expenditure. However, even though approved County budgets comply with this requirement, actual development expenditure for some Counties is below 30 percent. According

to the Controller of Budget (CoB), County Governments' development expenditure in FY 2016/17 comprised 32 percent of total expenditure (**Chart 4.5**). However, in 20 Counties, development spending was less than 30 percent of total expenditure. From the National Treasury's analysis, exaggerated OSR forecasts is among factors responsible for low development expenditure; many Counties tend to project unrealistic OSR targets as a balancing item to ensure compliance with Section 107(2) of the PFM Act. The range of measures proposed earlier (including implementation of KDSP, regulation of Counties' OSR projections and enhanced procurement planning support) are expected to improve Counties' development spending.

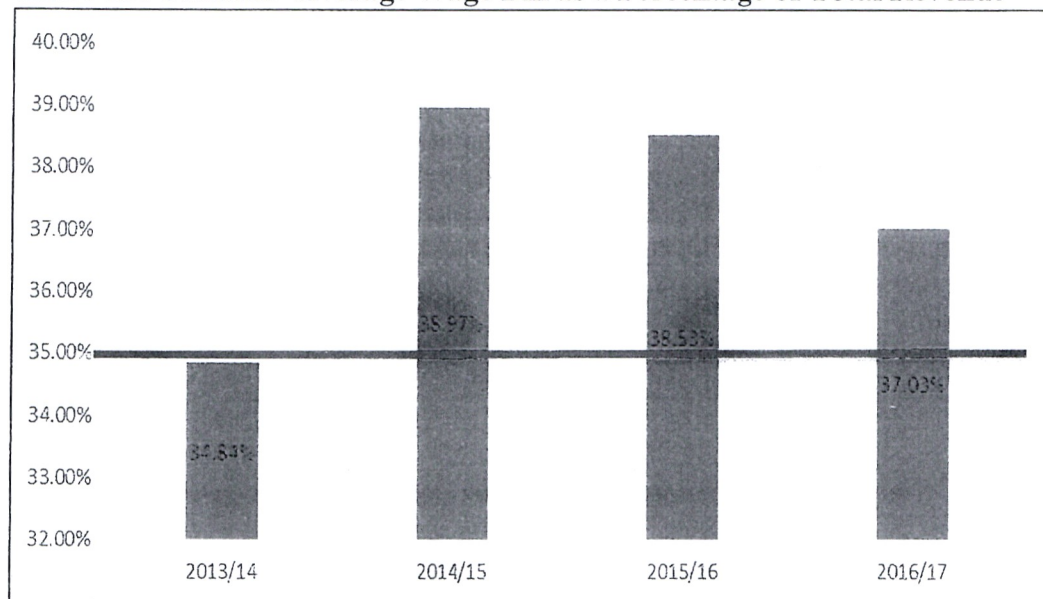
**Chart 4.5: Development Expenditure as a percentage of total expenditure**



*Source of Data: Controller of Budget*

#### 4.2.3 Compliance with the requirement for wages expenditure

267. Regulation 25 (1)(b) of the PFM (County Governments) requires that County wage bill shall not exceed 35% of the total revenue although on average, Counties are experiencing difficulties complying (**Chart 4.6**). Major reasons for this lack of compliance include irregular recruitment by Counties, and violation of guidelines issued by Salaries and Remuneration Commission (SRC) on job grading, salary structures and compensation of employees as well as payment of sitting allowances. A number of Counties (particularly those that hosted the former provincial headquarters) are disadvantaged by the current revenue distribution formula, which takes no account of inherited non-discretionary devolved costs, specifically personnel emoluments. Many Counties inherited bloated staff establishments from the defunct Local Authorities, whose recruitment policies did not have stringent regulations. Furthermore, in 2014, the SRC approved an upward adjustment of salaries for County Governments, State and public officers followed by further increases in 2015/16, benefiting certain cadre of County health professionals. These salary adjustments combined with new recruitments have contributed to the general rise in County wage bills.

**Chart 4.6: Counties' Average Wage Bill as a Percentage of Total Revenue**

*Source of Data: National Treasury*

268. County Governments' challenges with wage bills and other staffing matters are also attributable to ineffectiveness of County Public Service Boards (CPSBs). The Boards are established under Article 235 of the Constitution and section 59 of the County Government Act, 2012, and their functions include establishment/abolishment of offices, appointments and planning and budgeting for personnel emoluments. Ineffectiveness of CPSBs explains some of the weaknesses pertaining to HR management, such as: i) lack of staff establishments to guide recruitment of optimal staff levels; ii) irregular engagement of casuals, sometimes beyond three (3) months; iii) payment of salaries and wages outside IPPD which creates internal control challenges; and, iv) late or non-remittance of statutory deductions to KRA attracting interest and penalties.

269. As illustrated in **Chart 4.4**, a strong correlation exists between high wage bill and low development expenditures. Hence, by lowering their wage bill, County Governments will be able to increase development expenditure. To achieve more sustainable wage bill, Counties are expected to adhere to guidelines provided by the SRC. In particular, the Counties should: i) strengthen their human resource (HR) management frameworks (e.g. by adopting an approved staff establishment); ii) stop recruitment of non-essential staff and those not in the approved staff establishment; iii) ensure appropriate engagement of casuals and payment of salaries through IPPD to enhance efficiency in HR management; and, iv) comply with legal requirements on statutory deductions.

270. In addition, following measures contained in the report of the Capacity Assessment and Rationalization of the Public Service Programme (CARPS), the National Treasury recommends that resolutions of the National and County Governments Coordinating Summit be implemented, as they have the potential of easing County Governments' wage bill pressures.

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## 4.3 County Financial Reports

### 4.3.1 Intermittent use of IFMIS

271. The Auditor General has highlighted the fact that County Governments' financial statements are unreconciled, and are at variance with fiscal transaction records as captured in IFMIS. These variances are largely the result of Counties not posting all their transactions on IFMIS including receipts (Exchequer releases and OSR) and payments. Intermittent use of IFMIS in management of public funds can be attributed in part, to lack of capacity at the County Governments, and thus capacity building remains a major area of focus for the National Treasury. In addition, the National Treasury has put in place a dedicated unit to assist County Governments in the preparation of financial reports.

### 4.3.2 Procurement

272. The Auditor General has also highlighted cases of non-compliance with the Public Procurement and Asset Disposal Act, 2015. Specific issues include: procurement of goods and services outside the approved procurement plan, variation of contract sums and inflation of initial contract prices; unsupported and unexplained payments for projects, goods and services; full payment against incomplete, abandoned and stalled projects; unconfirmed assets purchases due to poor maintenance of fixed asset registers; as well as unjustified single sourcing of supplies, service providers and contractors. In their approved budgets, Counties are failing to disclose the cost of projects rolled over from previous financial years, while in other instances, funds are reallocated to different projects without approval as required in section 154 of the PFM Act. The National Treasury jointly with the Public Procurement Regulatory Authority (PPRA) will continue working with County Governments to ensure compliance with procurement laws and follow their procurement plan.

### 4.3.3 Management of Assets and Liabilities

273. Many County Governments do not maintain a fixed asset register or include a summary of fixed assets in their financial statement contrary to section 149 (1) of the PFM Act 2012. Those that do have not included assets and liabilities inherited from the defunct Local Authorities (LAs) in their financial statements. Going forward, the National Treasury through the Directorate of Portfolio Management will assist County Governments to develop their capacity for efficient, effective and transparent management of assets, which is an important element of public financial management. The main objective of this support will be to enable Counties keep updated inventories of assets and liabilities.

274. To finalize the transfer of assets and liabilities from the defunct LAs to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are: i) pending bills; ii) tax arrears; and, iii) statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE. In this context, County Assets and Liabilities committees were formed to

identify, verify, and validate the assets and liabilities of the defunct LAs as at 27th March 2013. This exercise has been concluded, and Intergovernmental Relations Technical Committee (IGRTC) is currently leading an exercise to validate the report as a basis to implementing its recommendations.

#### 4.3.4 Management of Public Funds

275. County Governments established various public funds including ward funds, and car and mortgage funds. However, the Counties did not put in place proper management frameworks before the funds were set up. For example, in a number of Counties, beneficiaries of the car and mortgage loan fund are not required to deposit securities (e.g. vehicle log books and property title deeds) with the fund managers. Most Counties continue to transfer funds directly to beneficiaries for purchase of vehicles and property, with the loan/mortgage repayment being pegged on beneficiaries' allowances rather than salaries.

276. Some County funds are uninsured, which exposes them to contingent liabilities in the event of defaults and/or expiry of beneficiaries' employment contracts. Section 116 of the PFM Act, 2012 requires the CEC Member for Finance to appoint an administrator for each County Fund. The administrator is required to ensure that all loans are repaid (with recoveries being done via the IPPD system), keep custody of all collateral and submit quarterly financial statements to the County Treasury with a copy to the Office of the Controller of Budget in line with section 168 (3) of the PFM Act. In addition, in a number of Counties the fund administrators did not prepare financial statements for these funds, neither did they submit financial statements to the Auditor General for audit. To deal with this issue, the National Treasury proposes to issue guidelines especially in respect of County car loans and mortgage funds, which are most problematic. The County guidelines will be based on the existing ones for the National Government.

#### 4.3.5 Planning and Budgeting

277. Planning and budgeting at the County is guided by the County Integrated Development Plans (CIDP) developed by the Counties as provided for by the County Government Act, 2012. During budgeting for projects, Counties are also guided by their Annual Development Plans (ADP) drawn from the CIDPs. In most Counties, however, development projects being implemented are weakly linked to the approved CIDPs or ADPs. In addition, the problem of unauthorized re-allocation of funds from appropriated items persists, as well as weak monitoring and evaluation, leading to delayed, incomplete or stalled projects. It is recommended that the Counties ensure timely approval of supplementary budgets, and that development projects be based on approved CIDPs and ADPs. The Government through the Ministry of Devolution and ASALs will support the Counties to ensure establishment of monitoring and evaluation frameworks for development projects. In the meantime, CIDP guidelines are currently being revised, and separate County ADP guidelines have been drafted.

278. In partnership with the World Bank, the Government has developed a capacity building program (Kenya Devolution Support Program, KDSP) to provide technical assistance and additional financial resources to facilitate enhancement of County Governments' capacity in planning, monitoring and evaluation as well as

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human resource management; Public Finance Management; and, civic education and public participation.

## 4.3.6 Transparency and Accountability

279. The PFM Act, 2012 and the PFM (County Governments) Regulations 2015 provides for the prudent management of public funds to ensure transparency and accountability. However, Counties continue to have challenges ensuring that the funds transferred to them are properly managed. These challenges include: existence of outstanding and/or multiple imprests, unsupported expenditures, non-establishment of Internal Audit Committees contrary to section 167 of PFM (County Governments ) Regulations, 2015, un-supported bank balances and operation of unauthorized numerous bank accounts and unreconciled and unexplained variances between the Financial Statements and the IFMIS. Implementation of KDSP is expected to help resolve these challenges. In addition, the National Treasury has initiated structured engagements with specific Counties to address some of the non-compliance issues.

## 4.4 Prudent Management of Fiscal Risks

280. The legal framework for Public Finance Management requires County Governments and National Government to disclose specific fiscal risks with potentially significant impact on the County economic environment, and to prudently manage such risks. Some of the risks include the following:

### 4.4.1 Expenditure Arrears

281. Based on reports from the Controller of Budget and the Auditor-General, most County Governments have accumulated expenditure arrears related mainly to unremitted statutory deductions (including PAYE, employee pension contributions and withholding VAT), salary arrears, pending bills due to contractors and suppliers of goods and services as well as utility payment backlogs. According to the KRA, outstanding County Governments' tax debt as at August 2017 stood at Ksh 6.4 billion, majority of which relates to PAYE. This outstanding debt is based on previous payment trends, rather than self-declaration by the Counties or conclusive compliance checks. KRA plans to conduct a comprehensive compliance check to establish actual debt owed by the Counties. In general, Counties' expenditure arrears have the potential of undermining budget execution in subsequent financial years. Moreover, non-payment of suppliers and contractors adversely affects other sectors of the economy like the financial sector by increasing non-performing loans.

282. To address the issue of expenditure arrears, there is need to strengthen Counties' capacity on proper planning and cash flow management. In addition, the County Governments should ensure that they budget within their resource envelopes. Going forward all Counties should remit employees' PAYE deductions at the time of paying salaries, and withholding VAT should be remitted at the time of paying suppliers and contractors since the Counties are required to budget for the full cost of works, goods and services. Further, it is necessary to put in place

intergovernmental mechanisms (e.g. through IBEC) to ensure that Counties prioritize budgeting for pending bills once the bills are verified. Ideally, pending bills should be included in Counties' medium term fiscal frameworks and subjected to review through the proposed intergovernmental mechanism.

#### 4.4.2 Duplication of Effort

283. It has emerged that some primary and secondary schools that were previously owned by Local Authorities are still being managed by County Governments, despite this being a National Government function. This represents a duplication of functions. Some County Governments are struggling with the financial burden of managing these schools. As a result infrastructures and amenities in these schools are deteriorating compromising significantly the quality of education. The National Treasury will engage with the IGRTC as well as the Ministry of Education and all concerned County Governments through IBEC so as to formulate a sustainable solution to this issue.

#### 4.4.3 Fiscal Imbalance between the two Levels of Government

284. Between FY 2014/15 and FY 2017/18, allocations to County Governments from revenue raised nationally averaged 22.4 percent of ordinary revenue (i.e. excluding appropriations in aid) (Table 4.2). After implementing Article 203(1) of the Constitution, the National Government's share was on average 17.2 percent of ordinary revenue. Thus, the difference between average allocations to the two levels of Government was 5.2 percent during the four-year period. In FY 2018/19, County Governments' proposed share from revenue raised nationally equals 19.6 percent of ordinary revenue. The National Government would be left with 8.5 percent, considerably lower than its average share in the preceding periods. After discharging national interest, public debt, other national obligations, emergencies and the Equalization Fund, the National Government's shrinking share of ordinary revenue suggests a fiscal gap (i.e. a mismatch between spending responsibilities and available revenue). These trends draw attention to a fiscal imbalance between the two levels of Government. International experience suggests that such an imbalance has the potential of endangering macroeconomic stability in the long run. If not addressed, the imbalance can also undermine service delivery by the National Government.

**Table 4.2: Share of Revenue by National and County Government**

Item description ( <i>Ksh millions</i> )	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Ordinary Revenue (excluding AIA)</b>	<b>1,031,819</b>	<b>1,152,972</b>	<b>1,305,794</b>	<b>1,486,294</b>	<b>1,688,492</b>
A. National Interest [Art.203 (1)(a)]	73,942	79,189	79,685	82,492	94,159
B. Public Debt [Art. 203 [1][b]]	250,971	250,390	307,155	453,361	687,573
C. Other National Obligations [Art. 203 [1][b]]	282,439	324,583	371,743	398,589	421,273
D. Emergencies [Art. 203 (1)(k)]	7,700	7,245	7,245	9,294	6,281
E. Equalization Fund [Art. 203 (1) (g) and (h)]	3,400	6,000	6,000	7,727	4,700
<b>Balance to be shared by the two levels of Government</b>	<b>413,367</b>	<b>485,565</b>	<b>533,966</b>	<b>527,346</b>	<b>474,506</b>
F. Counties' allocation from ordinary revenue	229,928	273,073	294,021	314,205	331,231
G. Balance left for the National Government	183,439	212,492	239,945	213,141	143,275
<i>County Governments' share (% of ordinary revenue)</i>	<i>22.3%</i>	<i>23.7%</i>	<i>22.5%</i>	<i>21.1%</i>	<i>19.6%</i>
<i>National Government's share (% of ordinary revenue)</i>	<i>17.8%</i>	<i>18.4%</i>	<i>18.4%</i>	<i>14.3%</i>	<i>8.5%</i>

**Source of Data: National Treasury**

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285. The National Treasury will initiate dialogue with key actors -- including the CRA and the Council of Governors -- on how the two levels of Government can achieve optimality in not only vertical revenue sharing, but also revenue raising and public spending. The dialogue, to be convened under IBEC, will revolve around the annual division of revenue process and application of criteria provided in Article 203 of the Constitution. It is hoped outcomes of the deliberations will help to strengthen intergovernmental fiscal relations within the country. In the meantime, the National Treasury expects that approval (by Cabinet and Parliament) and successful implementation of the draft Policy to Support Enhancement of County Governments' OSR will minimize Counties' dependence on fiscal transfers which, in National Treasury's view, fuels demands for increased transfers way beyond what is feasible within the overall fiscal framework.

## 4.4.4 Contingent Liabilities

286. Some County Governments established car and mortgage schemes without setting up proper management guidelines such that some Counties advance loans to officers which were not insured, and some were pegged on allowances as opposed to salaries. This exposes these Counties to contingent liabilities in the event of defaults and/or expiry of beneficiaries' employment contracts. The national government should partner with County Governments to ensure there is proper management framework for these funds to reduce contingent liabilities to the Counties.

## 4.5 Vertical Division of Revenue

287. In FY 2018/19, the National Treasury proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 314 billion, and that the National Government be allocated Ksh 1,370 billion. County Governments' equitable share of revenue for the FY 2018/19 was arrived at by adjusting the equitable share allocation in FY 2017/18 by a growth factor of 4.0 percent, which is equivalent to Ksh 12 billion. (Table 4.3).

**Table 4.3: County Governments' Equitable Revenue Share (Ksh Million)**

Budget item	2014/15	2015/16	2016/17	2017/18	2018/19
Baseline (i.e. allocation in the previous FY)	196,000.0	226,660.0	259,774.5	280,300.0	302,000.0
Baseline adjustments:					
1. Baseline adjustments (Due to additional functions)	30,660.0	2,946.0			
Adjusted baseline:	226,660.0	229,606.0	259,774.5	280,300.0	302,000.0
Additional revenue measures					
1. Adjustment for revenue growth		23,902.0	20,525.2	21,700.0	12,000.0
2. Other adjustments		4,500.0			
3. Adjustments negotiated in Parliament post-BPS		1,766.5			
Computed equitable revenue share allocation	226,660.0	259,774.5	280,300.0	302,000.0	314,000.0

288. In addition to the above equitable share, County Governments will receive additional funds as conditional grants. These include the following:

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- From the National Governments' equitable revenue share, Ksh 17.2 billion conditional allocations for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; iv) compensation for foregone user fees; and, v) Construction of County Head Quarters (**Table 4.4**);
- Equalization Fund to the marginalized areas amounting to Ksh 4.7 billion

**Table 4.4: Division of Revenue Raised Nationally (Ksh Million)**

Type/level of allocation	2014/15	2015/16	2016/17	2017/18	2018/19
National Government, of which:	801,759.0	887,197.5	1,019,494.0	1,176,567.0	1,369,792.0
Free maternal healthcare	3,320.0	4,298.0	4,121.0	-	-
Leasing of medical equipment		4,500.0	4,500.0	6,100.0	9,400.0
Compensation for user fees forgone		900.0	900.0	900.0	900.0
Level 5 hospitals	1,863.3	3,600.5	4,000.0	4,200.0	4,326.0
Special purpose grant (Emergency Med. Serv.)			200.0	-	-
Rehabilitation of village polytechnics				2,000.0	2,000.0
Supplement for construction of County HQs				605.0	605.0
Equalization Fund	3,400.0	6,000.0	6,000.0	7,727.0	4,700.0
County equitable share	226,660.0	259,774.5	280,300.0	302,000.0	314,000.0
<b>Total shareable revenue</b>	<b>1,031,819.0</b>	<b>1,152,972.0</b>	<b>1,305,794.0</b>	<b>1,486,294.0</b>	<b>1,688,492.0</b>

- Ksh 8.3 Billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB); and
- Ksh 33.2 billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant. **Table 4.5** shows the total disaggregation of revenues transferred to the County Government.

**Table 4.5: Disaggregation of County Governments' Allocation, Ksh Million**

Type/level of allocation	2014/15	2015/16	2016/17	2017/18	2018/19
County equitable share	226,660.0	259,774.5	280,300.0	302,000.0	314,000.0
Additional conditional allocations, of which:					
Free maternal healthcare	3,320.0	4,298.0	4,121.0	-	-
Leasing of medical equipment		4,500.0	4,500.0	6,100.0	9,400.0
Compensation for user fees forgone		900.0	900.0	900.0	900.0
Level 5 hospitals	1,863.3	3,600.5	4,000.0	4,200.0	4,326.0
Special purpose grant (Emergency Med. Serv.)			200.0	-	-
Rehabilitation of village polytechnics				2,000.0	2,000.0
Supplement for construction of County HQs				605.0	605.0
Allocation from Fuel Levy (15%)	3,400.0	3,300.0	4,306.8	7,875.0	8,269.0
Allocation from loans and grants		10,671.2	3,870.7	12,541.4	33,241.9
<b>Total County Allocations</b>	<b>235,243.3</b>	<b>287,044.2</b>	<b>302,198.5</b>	<b>336,221.4</b>	<b>372,741.9</b>

## 4.6 Horizontal Allocation of Revenue

289. Horizontal distribution of County Governments' equitable revenue share allocation for FY 2018/19 is based on the current formula, which uses six parameters with specific weights, namely: population (45 percent); basic equal share (26 percent); poverty (18 percent); land area (8 percent); fiscal responsibility

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(2 percent) and development factor (1 percent). Each additional conditional allocation is distributed based on its objectives, criteria for selecting beneficiary Counties and distribution formula. Accordingly, in FY 2018/19, the Counties will share an estimated Ksh 372.7 billion, which represents an increase of 11.4 percent over and above projected total transfers for 2017/18 of Ksh 334.6 billion. **Table 4.6** shows the projected transfer to each County in FY 2018/19.

Table 4.6: Revenue Allocation for Each County Government

No	County	2017/2018			2018/2019										Total Allocations	Percentin Allocation
		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share	Conditional Grants to Level-5 Hospitals	Supplement for Construction of County Headquarters	Conditional Grant-Compensation for User Fee Foregone	Conditional Grant-Licensing of Medical Equipment	Conditional Grant-Road Maintenance Fuel Levy	Conditional Grant-Rehabilitation of Village Polytechnics	Total Conditional Grants from the National Government Revenue	Total Loaned and Grants			
1	Baringo	1.65	4,983,000,000	1.62	5,086,800,000	-	-	13,191,000	200,000,000	133,931,014	35,605,000	382,727,014	393,695,552	5,863,222,566	10.554	
2	Bomet	1.74	5,234,800,000	1.89	5,924,600,000	-	-	16,713,356	200,000,000	156,252,849	47,875,000	420,841,205	434,246,074	6,789,687,279	9.239	
3	Bungoma	2.9	8,758,000,000	2.85	8,949,000,000	-	-	32,837,307	200,000,000	235,619,376	65,500,000	533,956,683	629,104,073	10,112,060,756	7.354	
4	Busia	1.93	5,828,000,000	1.9	5,966,000,000	-	-	16,934,085	200,000,000	157,079,584	41,960,000	435,973,669	371,628,470	6,773,602,139	9.105	
5	E/Marakwet	1.2	3,624,000,000	1.2	3,768,000,000	-	-	8,788,919	200,000,000	99,208,158	41,800,000	349,797,077	307,505,019	4,425,302,096	11,960	
6	Embu	1.36	4,107,200,000	1.42	4,458,800,000	301,040,462	-	117,396,321	200,000,000	182,708,358	37,900,000	667,061,008	364,692,990	5,490,553,998	10,636	
7	Garissa	2.21	6,659,100,000	2.21	6,939,400,000	344,739,884	-	12,964,636	200,000,000	176,094,481	46,675,000	444,954,827	416,987,377	8,268,735,255	13,271	
8	Homa bay	1.25	3,775,200,000	1.25	3,925,000,000	-	-	22,185,346	200,000,000	103,341,832	21,235,000	449,049,293	361,323,006	7,550,142,358	7,834	
9	Isiolo	1.91	5,768,200,000	1.91	5,997,400,000	-	12,100,000	3,472,461	200,000,000	157,906,319	40,345,000	415,206,684	510,628,184	6,923,234,868	10,073	
10	Kajiado	3.29	9,935,800,000	3.29	10,330,600,000	427,283,237	-	37,789,290	200,000,000	271,995,701	69,910,000	1,006,978,228	702,938,880	12,040,517,108	7,250	
11	Kakamega	1.73	5,224,600,000	1.82	5,714,800,000	-	-	18,048,789	200,000,000	150,465,707	41,005,000	409,519,496	496,861,567	6,621,181,063	8,800	
12	Kericho	3.2	9,664,000,000	2.98	9,337,200,000	538,716,765	-	34,671,542	200,000,000	246,366,927	68,110,000	1,087,865,234	2,169,283,319	12,614,348,553	7,771	
13	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
14	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
15	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
16	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
17	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
18	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
19	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
20	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
21	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
22	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
23	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
24	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
25	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
26	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
27	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
28	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
29	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
30	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
31	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
32	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
33	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
34	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
35	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
36	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
37	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
38	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
39	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
40	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
41	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
42	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
43	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
44	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
45	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
46	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
47	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
48	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
49	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
50	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
51	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
52	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
53	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
54	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
55	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
56	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
57	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
58	Kisumu	3.2	9,664,000,000	3.45	10,833,000,000	-	-	25,969,864	200,000,000	285,223,455	53,035,000	564,228,319	665,479,644	12,062,707,263	10,870	
59	Kisumu															

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#### 4.7 Summary

290. The National Treasury, through the Intergovernmental Fiscal Relations (IGFR) Department continues to implement reforms to enhance performance of County Governments. The reforms, which are being implemented under the Revised Public Finance Management Reform Strategy (2016-2018) are expected to lead among other things, to:

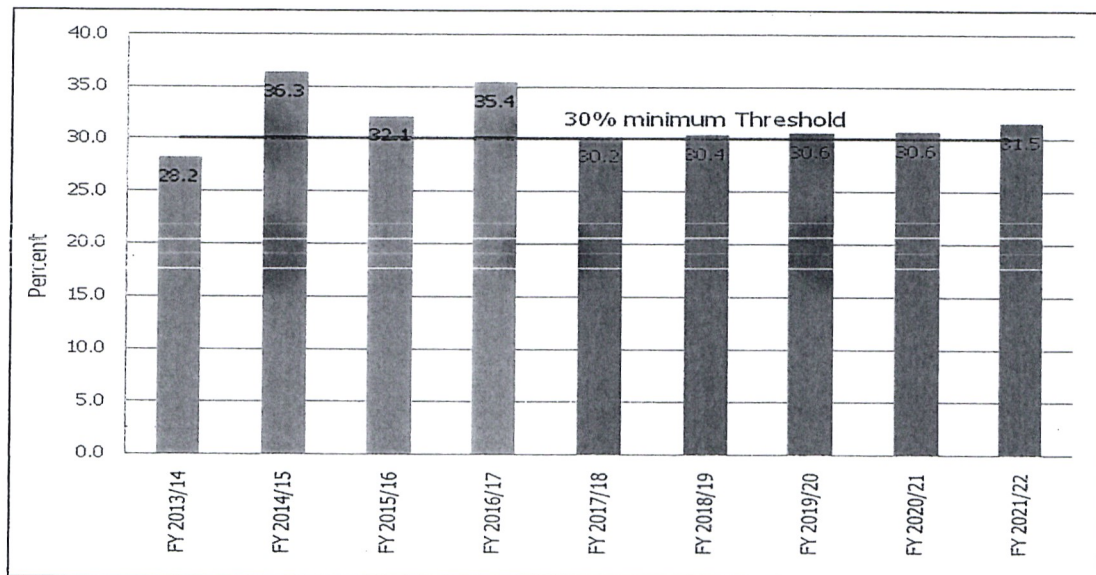
- Improved collection and efficiency of County Governments' own-source revenue (OSR) systems, including accounting and reporting;
- Improved capacity of Counties to formulate realistic and credible budgets, and hence better harmony between County Executive and County Assemblies in the budget process;
- Strengthened capacity of County Assembly oversight committees specifically, County Assembly Budget and Appropriation Committees to produce quality reports in a timely manner;
- Proper documentation and management of County Governments' assets and liabilities; and
- A clearer and stronger system of intergovernmental fiscal relations, particularly on management of intergovernmental conditional grants between the two levels of Government.

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## ANNEX 1: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

1. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM regulations, and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statute as follows:
  - a) The National Government's development expenditure as a percent of total budget has been above the 30 percent minimum threshold set out in the PFM law. Despite the constraints in revenues, the development expenditures are expected to continue being above the threshold at 30.2 percent in FY 2017/18, 30.4 percent in FY 2018/19 and 31.5 percent over the medium term (**Chart 1.1**).

**Chart 1.1: Development Expenditures as a % of Total National Government Budget**

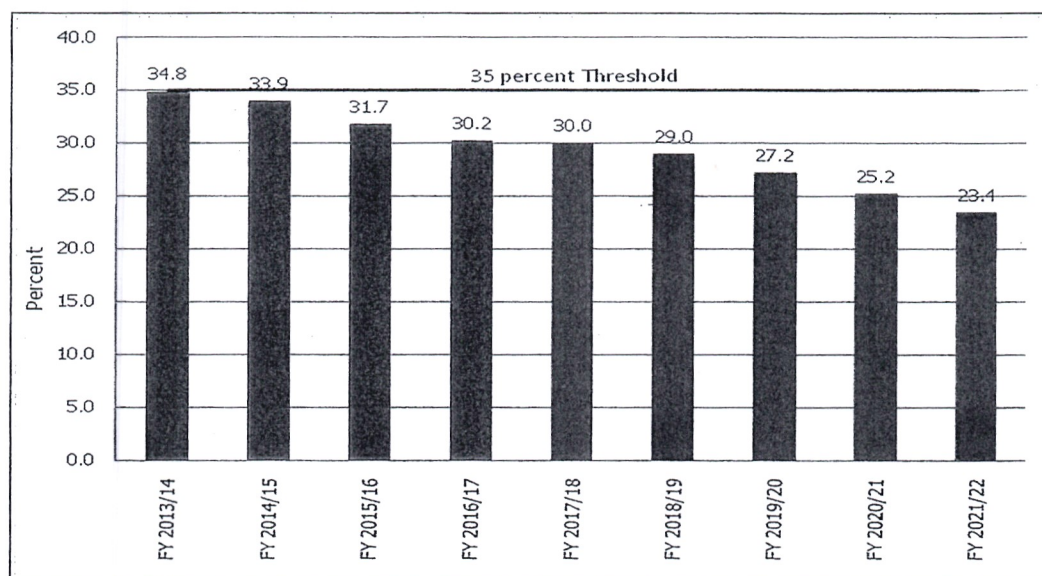


*Source: National Treasury*

- b) On compensation of employees, the share of wages to the National Government revenues was 30.2 percent in FY 2016/17, and is projected at 29.0 percent in FY 2018/19 and at 23.4 percent over the medium term. These ratios demonstrate the commitment to the fiscal responsibility principle of ensuring that the national government's expenditure on wages and benefits for public officers does not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated

by the national government pursuant to Article 209 (4) of the Constitution (Chart 1.2).

**Chart 1.2: Wages as a percentage of National Government Revenues**



*Source: National Treasury*

- c) PFM Act section 15(2) (c) requires that the national government's borrowings be used only for the purpose of financing development expenditure and not for recurrent expenditure. The government has continued to adhere to this principle. Further, this borrowing is carried out within the context of the Medium Term Debt Strategy (MTDs) approved by parliament.
- d) The National Government is required to maintain public debt at sustainable levels as set out in the Public Finance Management Act 2012, and its regulations. Our debt ratios compared with internationally recognized thresholds continue to show that our debt level remains sustainable (Table 1.1). The baseline public debt path remains consistent with the EAC convergence ceiling of 50 percent of GDP.
- e) The external debt sustainability indicators illustrate that Kenya remains within the sustainable bounds. This is attributed to the large portion of debt that is on concessional terms in terms of low costs and long term maturity. This funding continues to play a key role in the development agenda of the National Government.

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**Table 1.1: Kenya's Public Debt Sustainability Indicators**

Indicator	Threshold	2016	2017	2019	2026
PV of public sector debt to GDP ratio	<b>74</b>	48.7	49.0	47.1	35.6
PV of public sector debt-to-revenue ratio	<b>300</b>	247.2	235.7	217.4	161.4
Debt service-to-revenue ratio	<b>30</b>	32.8	35.8	33.4	24.3

*Source: IMF Staff Report for Kenya, February 2017*

- f) To manage fiscal risks prudently, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. A detailed annex on the Specific Fiscal Risks (**see Annex 2**) has been prepared as part of this Budget Policy Statement. The Government also takes into account the fiscal risks arising from contingent liabilities. Further, every year a contingency provision of Ksh 5.0 billion is factored in the budget to cater for urgent and unforeseen expenditure.
- g) On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, in the FY 2014/15 Government simplified and modernized the VAT legislation and consolidated all the appeals in the tax legislation to a single legislation. Similarly in the FY 2015/16, modern and simplified Excise Duty and Tax Procedure legislations were enacted. A review of the Income Tax Act is ongoing and will be completed before June 2018. These reforms are intended to lock in predictability and enhance compliance with the tax system and ensure stability in tax revenue.

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## ANNEX 2: STATEMENT OF SPECIFIC FISCAL RISKS

### Introduction

1. The Kenyan economy remains resilient with a robust growth outlook. However, the economy remains vulnerable to both domestic and external shocks. For prudent management of risks, the PFM Act, 2012 requires the preparation of a “Statement of Fiscal Risks”.
2. The “Statement of Specific Fiscal Risks” outlines Kenya’s exposure to fiscal risks that are associated with macroeconomic assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by nature.
3. The Government remains committed to fiscal consolidation in order to assure on the long-term sustainability of public finances. Nevertheless, the Government will monitor the risks and take appropriate measures to safeguard macroeconomic stability.
4. In this respect, this Statement sets out the assessment of risks that can affect the achievement of the macroeconomic targets and strategic objectives outlined in this Budget Policy Statement. It also proposes a framework for responding to the risks. The Statement is intended to inform the Parliament and the public about the country’s exposure to these various sources of risk and what more can be done to ensure fiscal viability in the event of the occurrence of the stated risks.
5. Overall, the Statement highlights the following: spending at current levels and low absorption of development funding, combined with low revenue collections, makes it more difficult for the government to achieve its fiscal targets; Shocks to the exchange rate could impact the size of debt servicing, the terms of trade, and inflation; the financial sector remains sound and is adequately capitalized; Contingent liabilities from key State Corporations present minimal fiscal risks; and risks from the devolved system of government remain a key concern.

### Risk in Changes in Macroeconomic Assumptions

6. Unexpected changes in macroeconomic variables create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. Adverse changes in real GDP growth rates, inflation, exchange rate and volatility of commodity prices on imports. This section reviews past

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macroeconomic and fiscal performance in Kenya and then assesses four important sources of fiscal risk to the budget namely:

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

7. **Table 2.1** presents the magnitude of first round impacts of various macroeconomic variables mentioned above on fiscal aggregates.

**Table 2.1: Fiscal Sensitivity to Key Macroeconomic Variables, 2018/19 (Ksh bn)**

	Revenue	Expenditure	Budget Balance
One percentage point reduction in real GDP (%)	-17.0	-7.2	-9.8
One percentage point increase in inflation rate (%)	15.9	7.7	8.3
10% depreciation in exchange rate (Ksh/US\$)	10.7	12.9	-2.2
10 percentage increase in value of imported goods (US\$)	4.7	-0.1	4.8
All shocks Combined	14.1	13.2	0.9

8. The reduction in real GDP by one percentage point results in a larger reduction of revenue compared to expenditures. On balance, revenue declines by Ksh 9.8 billion. Inflation instability (in this case, an increase in inflation by one percentage points) results in higher revenues relative to expenditures giving a net increase in revenue of Ksh 8.3 billion.

9. Exchange rate volatility as measured by a 10 percent depreciation results in Kenya shilling exchange rate to the US dollar, results in increases in both revenues and expenditures. However, expenditures would increase more than revenues by Ksh 2.2 billion. Volatility in prices of imported goods as measured by an increase in value of imported goods in US dollar terms results in higher revenues and a marginal decline in expenditures. On a net basis, revenues increase by Ksh 4.8 billion.

10. Overall, if all the shocks are applied at the same time, revenues would increase by Ksh 14.1 billion while expenditures would also increase by Ksh 13.2 billion. On a net, balance, revenues would increase by Ksh 0.9 billion.

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## Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

11. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2.2**. Over the period 2014/15-2017/18, the average deviation between the assumed and provisional actual real GDP growth rates was 0.5 percentage point. With respect to inflation assumption, the largest deviation was in FY 2014/15 by 1.0 percentage point and over the period averaged 0.6 percentage point. The depreciation of the shilling exchange rate against major international currencies since the FY 2015/2016 was due to the strengthening of the US dollar but has since stabilized with less volatility.

**Table 2.2: Deviations in Macroeconomic and Fiscal Aggregates**

(In percentage points; unless specified)	2014/15			2015/16			2016/17			2017/18			2014/15-2017/18 Ave. Dev.
	Proj.	Act	Dev.	Proj.	Act	Dev.	Proj.	Prel Act	Dev.	Proj.	Rev.	Dev.	
<b>I. Key Macroeconomic Assumptions</b>													
Real GDP	6.1%	5.5%	-0.6%	5.8%	5.8%	0.0%	5.5%	5.3%	-0.2%	6.6%	5.3%	-1.3%	-0.5%
Inflation rate (avg)	5.7%	6.6%	1.0%	5.7%	6.4%	0.8%	6.6%	6.9%	0.3%	5.8%	6.3%	0.5%	0.6%
Exchange rate (Ksh/US\$), avg		91.4			101.1			102.5			103.6		
Export growth		1.1%			-4.4%			5.3%			12.0%		
Import growth		-1.0%			-12.5%			11.7%			15.9%		
<b>II. Fiscal Aggregates (in Ksh billion)</b>													
Total Revenue	1239.3	1135.9	-103.4	1365.9	1262.2	-103.6	1514.1	1426.9	-87.2	1763.3	1702.4	-61.0	-88.8
Tax and non-tax	1180.5	1107.8	-72.8	1299.9	1232.6	-67.3	1455.4	1400.6	-54.8	1704.5	1643.1	-61.4	-64.0
Ordinary Revenue	1086.4	1031.8	-54.6	1184.4	1153.0	-31.4	1311.3	1305.8	-5.5	1549.4	1486.3	-63.1	-38.6
AiA	94.1	76.0	-18.2	115.5	79.7	-35.9	144.0	94.8	-49.2	155.1	156.8	1.7	-25.4
Grants	58.7	28.1	-30.6	66.0	29.6	-36.4	58.8	26.3	-32.5	58.8	59.2	0.4	-24.8
Total Expenditure	1597.8	1639.9	42.1	2032.5	1781.9	-250.6	2326.9	2110.0	-216.9	2298.8	2323.1	24.4	-100.3
Recurrent	871.5	895.2	23.7	1085.3	1020.0	-65.3	1238.3	1165.0	-73.3	1335.3	1392.8	57.5	-14.3
Development	492.0	510.5	18.5	678.0	480.7	-197.3	803.9	639.9	-163.9	612.8	579.6	-33.2	-94.0
Domestic	298.7	266.8	-31.8	316.5	298.2	-18.3	430.3	385.1	-45.2	366.3	320.3	-46.0	-35.3
External	187.8	241.2	53.4	353.0	173.9	-179.1	365.2	246.4	-118.9	236.4	249.2	12.8	-57.9
Net Lending	2.1	2.1	0.0	2.1	2.2	0.1	2.3	2.4	0.1	2.4	2.4	0.0	0.1
Equalization Fund	3.4	0.4	-3.0	6.4	6.4	0.0	6.0	6.0	0.0	7.7	7.7	0.0	-0.8
Others	5.0	5.0	0.0	5.0	5.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0	0.0
County Allocation	229.3	229.2	-0.1	264.2	276.2	12.0	284.7	305.0	20.3	345.7	345.7	0.0	8.1
Balance	-358.6	-504.0	-145.4	-666.6	-519.7	146.9	-812.8	-683.1	129.7	-535.5	-620.8	-85.3	11.5
Financing	358.6	471.5	112.9	666.6	474.6	-192.1	812.8	697.3	-115.5	535.5	620.8	85.3	-27.3
Net Foreign Financing	165.8	217.5	51.7	419.0	269.9	-149.1	463.9	385.7	-78.1	256.0	323.2	67.3	-27.1
Other	2.0	2.9	0.9	2.6	2.4	-0.2	2.1	1.8	-0.4	3.8	3.8	0.0	0.1
Net Domestic Financing	190.8	251.1	60.3	245.0	202.3	-42.8	346.8	309.8	-37.1	275.7	293.8	18.1	-0.4
Others	190.8	110.6	-80.2	245.0	202.3	-42.8	346.8	309.8	-37.1	275.7	293.8	18.1	-35.5
<b>Memo items:</b>													
Nominal GDP (Ksh billion)	5,633.2	5,831.5	198.3	6,444.0	6,709.7	265.7	7,435.2	7,658.1	222.9	8,689.9	8,654.6	-35.2	162.9

Source: National Treasury

Source: National Treasury

12. The actual performance of fiscal aggregates vis-à-vis target was below target. Total revenue between FY 2014/15 and FY 2017/18 underperformed its target by an average of Ksh 88.8 billion while ordinary revenue was below target by an

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average of Ksh 38.6 billion. The underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments.

13. The average deviation of total expenditure and net lending between FY 2014/15 and FY 2017/18 was an underspending of Ksh 100.2 billion. This shortfall was attributed to lower absorption in development expenditures. The recurrent expenditure has on average exceeded target by Ksh 8.9 billion during the period.

14. The execution of development expenditure has generally been low due to lower execution rates by the Ministries, Departments and Agencies particularly for external financing.

15. The slower-than-programmed spending on development budget poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing, the National Treasury is preparing guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the budget. The National Treasury will engage Development Partners and execute financial agreements when the project has fulfilled all preliminary conditions for execution.

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

### **SPECIFIC FISCAL RISKS**

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

- i. The sustainability of public debt;
- ii. Explicit Contingent Liabilities
- iii. Implicit Contingent Liabilities
- iv. Devolved System of Government

### **Sustainability of Public Debt**

18. The sustainability of Kenya's debt depends on macroeconomic performance and prudent debt management. In addition, increased external financing on both concessional and non-concessional terms pose an inherent foreign exchange risk which may worsen the PV of debt and therefore increases the risk of debt distress. Increased use of longer-term domestic debt instruments would help mitigate exposure of the Government debt portfolio to foreign currency risk and contribute to reducing domestic rollover risk.

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19. The above notwithstanding, the Government recognizes the importance of managing debt in a prudent way to ensure the debt burden is shared equally between the current and future generation. The latest debt sustainability analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

20. The World Bank's Country Policy and Institutional Assessment (CPIA) Index, classifies countries into three performance categories i.e. Strong, Medium and Poor and each category has different indicative thresholds for debt burdens depending on the country's policies and institutions. Kenya is rated as a strong policy performer and a low middle income country and thus is subject to the threshold of 74 percent on the Present Value of Debt/ GDP.

21. Kenya's debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable (**see Table 1.1 in the Fiscal Responsibility Principles**). Both the present value of public sector debt to GDP ratio and present value of public sector debt to revenue ratio are well within internationally recognized thresholds.

### **State Corporations/State Owned Enterprises**

#### ***Governance***

22. The establishment of State Corporations is as a result of a deliberate Government policy to establish entities to undertake specific developmental and strategic objectives on behalf of Government to accelerate economic and social development in the country. These entities have contributed significantly towards the achievement of Government development agenda as stipulated in Government policies and development plans including Vision 2030. It is envisaged that those entities would operate on cost recovery basis and make reasonable returns on the investments.

23. Over the years, major reforms premised on Government policy of a private sector led economy have resorted to privatization of some corporations. Successful privatized entities like Safaricom are playing a significant role in the economy by creating job opportunities, remitting reasonable dividends to the national exchequer and tax revenues. Further, the unbundling of the operations of infrastructure State Corporations to separate regulatory functions from commercial operations and create independent regulatory institutions has seen the country

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unlock the great potential in some sectors like the ICT, transport and energy that have made tremendous strides in the economy. Other reforms in the sector include a deliberate Government policy to embrace global best practices, enhance good corporate governance and accountability on the use of public resources to enable those Corporations deliver on strategic mandates on behalf of the Government.

24. In efforts to strengthen good corporate governance of State Corporations, the Government issued the Mwongozo Code of Conduct to provide guidance on effective governance and oversight of State Corporations. This, together with the establishment and operationalization of audit committees and risk management frameworks for Government entities including State Corporations under the PFM Act/Regulations are geared towards enhancing capacity for effective delivery of strategic objectives on behalf of the Government. In addition the Capital Market Authority has issued Regulations under the Capital Market Act (Cap 486) on code of governance requirements to be observed by companies listed at the NSE. This will enhance accountability, transparency and full disclosure by Corporations listed in NSE where Government has a stake.

### ***Public Debt***

25. Under various enabling legislations establishing State Corporations, the Corporations are legal entities with the capacity to borrow or contract debts and other liabilities for purposes of furthering their mandate on behalf of the Government. The process of contracting debts and other liabilities by State Corporations are spelt out in the PFM Act/Regulation and the State Corporations Act with clear approval requirements. State Corporations with strong balance sheets can contract debts and other liabilities only with relevant approvals from the line Ministry and the National Treasury to finance projects that are viable and will enhance the revenue stream to service all obligation arising from the debts without reverting to the national exchequer for bailout.

26. On the other hand, the Government through the National Treasury can procure loans on concessional terms from bilateral/multilateral sources and other financial intuitions to implement strategic infrastructure projects that require huge capital outlays like in energy/petroleum, roads, airports, rail, and sea ports. The concessional loans are on-lent to respective State Corporations implementing the strategic infrastructure projects. The on-lent concessional loans constitute public debts and are sustainable as they are procured by the Government as per the Medium Term Debt Management Strategy and are within the required thresholds with respect to Kenya's public indebtedness.

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## **Explicit/Implicit Contingent Liabilities**

27. Government, as a strategic thrust, has a stake in State Owned Enterprises (SOEs) and other Government investments. While contracted debts and other liabilities by SOEs and other companies where Government has a stake are backed by their balance sheets and revenue streams, they may constitute a potential source of fiscal risk. Due to economic downturns and fortunes as a result of vagaries of the weather, global economic shocks, new technology, competition, change of law as a result of domesticating regional treaties, and change of policies, SOEs and other companies where government has a stake may face challenges and financial distress. Consequently, their balance sheets and revenue streams may be adversely impacted and hence impair their capacity to honour obligations arising from contracted debts and other liabilities.

28. Due to the strategic nature of those SOEs and other companies where Government has a stake and the overall impact of their collapse to the economy, the Government may be obligated to intervene through various measures. This may include underwriting/guaranteeing contracted debts and other liabilities, and/or direct cash bailout through provision of budgetary resources and this poses potential fiscal risks. The Government will continue to put in place measures including appropriate legislation and policy directives to monitor and mitigate any potential fiscal risks as a result of Government stake in SOEs and other companies that are of strategic importance.

## **Unfunded Pension Liabilities**

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

## **Public Private Partnership (PPP) Projects**

30. Since 1996 and as a result of progressive legal, regulatory and institutional reforms of the economy, Kenya has attracted private investments into the country's economic infrastructure sectors including telecommunications, energy, transport, water and sewerage. The frontrunner sector to lock in private participation in public infrastructure development is the energy sector – which witnessed its first

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Independent Power Producers (IPPs) in electricity generation starting from 1996. Currently, all of the country's generated electricity is private sector-led, eleven (11) active IPPs that generate a total of 691MW out a total of 2341MW installed capacity in Kenya. In addition, before June 2018, 300MW from Lake Turkana project shall be put on the National Grid once the transmission line has been completed (**Annex Table 5**).

#### **Planned Infrastructure PPP Projects in Kenya**

31. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and County Governments. A total of 70 projects are in the National Priority List of PPP projects. These projects are in the transport and infrastructure, energy, tourism, education, environment, health among others. In the **Table 2.3**, highlights of currently active transactions are provided. This pipeline of projects is currently under review and is expected to be realigned with projects to be implemented under the Government's "Big 4" agenda.

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Sector	Project Value (US\$ M)
<ul style="list-style-type: none"> <li>• Kenyatta University Student Hostels (<i>PPP Project Agreement has been signed</i>)</li> <li><i>Procurement is ongoing for the following projects;</i></li> <li>• Moi University Student Hostels</li> <li>• University of Embu Student Hostels</li> <li>• South Eastern Kenya University Student Hostels</li> <li>• Egerton University</li> <li>• Kenya Technical Trainers College</li> </ul>	52.5
Water and Environment <ul style="list-style-type: none"> <li>• multi-purpose dams,</li> <li>• water supply projects</li> <li>• solid waste management projects</li> </ul>	2,000
Housing <ul style="list-style-type: none"> <li>• Civil Servants Housing</li> <li>• Affordable Housing</li> <li>• Police and prisons housing</li> </ul>	1,500
Urban Development <ul style="list-style-type: none"> <li>• Multilevel car park in Nairobi</li> <li>• Multilevel car park in Mombasa</li> </ul>	100
Tourism <ul style="list-style-type: none"> <li>• Mombasa International Convention Centre</li> <li>• Nairobi International Convention and Exhibition Centre</li> <li>• Kenyatta International Convention Centre</li> </ul>	500
Agriculture and Livestock <ul style="list-style-type: none"> <li>• Export Quarantine Station &amp; Livestock Export Zone</li> </ul>	10
Likoni Crossing Aerial Cable Car	43
<b>Total</b>	<b>12,346</b>

32. The Government understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular and based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial Risk Guarantees (PRG), etc. As it stands, the Government is currently finalizing a policy on the issuance of Government Support Measures with an objective to provide a clear structure and process for the issuance of Government Support policy instruments.

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33. In accordance with section 7(1) of the PPP Act, the PPP Committee has adopted a Fiscal Commitment and Contingent Liability (FCCL) Management Framework to ensure approval of, and fiscal accountability in the management of, financial and any other form of Government support granted in the implementation of the country's PPP program.

34. The FCCL Unit established under the Directorate of the Public Debt Management Office of the National Treasury is responsible for: mandatory evaluation of all proposed PPP projects for financial risks and contingent liabilities as a condition of project approval; confirmation of this initial approval at feasibility stage based on preferred submission and final negotiated project structure; regular monitoring of all support measures for any amendment(s) or variation(s) to a project agreement's terms and conditions, project outputs or any waivers in the project agreement.

35. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities are integrated into the debt management process. The FCCL Unit continues to routinely assess contingent liabilities and is establishing systems for monitoring these projects with a view to ensuring continuous risk management and the scheduled disclosure and reporting of all fiscal risks associated with PPPs. In addition, as part of increasing accountability and transparency within the PPP space, the National Treasury in collaboration with the World Bank is finalizing a PPP disclosure framework.

36. To mitigate the risks, the PPP Project Facilitation Fund (PFF) (a multi-purpose revolving fund) established under the PPP Act will provide good Governance Framework to manage Direct (or explicit) Liabilities and Contingent Liabilities once it is operational in the FY 2018/19.

To entrench better outcomes in fiscal risk management, the National Treasury is also placing a lot of emphasis in project financial models, with the view to ensuring that project debt repayment is front-loaded, while equity pay-out is back-loaded. This way, overall fiscal exposure is potentially lowered.

### **Implicit Contingent Liabilities**

#### **Natural Disasters**

37. Natural disasters often lead to lower than projected economic growth and have huge budgetary implications. They also impact negatively on social welfare. The severe drought that started in mid-2016 heavily impacted on agricultural activities resulting in the contraction of the agricultural sector thereby lowering economic growth with huge budgetary implications.

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38. Given the importance of disaster risk, the Government has been focusing on natural disaster risk assessment and management through developing early warning systems and disaster preparedness strategies. The intention has not been to work towards risk financing tools, but to understand the budgetary implications of disaster risk and identify options for managing the risks. To reduce disaster risk, the Government has mainstreamed risk management in different sectors, such as agriculture; which is prone to significant loss of revenue following the physical loss of crops and livestock in the event of drought or flooding.

39. On the other hand, floods depending on their magnitude impact on agriculture, infrastructure such as electricity poles and transformers, roads, bridges and therefore affect households both directly and indirectly. Due to the impact a natural disaster on social welfare and its effects on essential amenities, the Government is always obligated to prevent social welfare reduction by incurring cost of returning normalcy after an occurrence.

40. The Government being privy to some past occurrences has been providing a contingency fund to cushion the fiscal framework from the risks, among others. However, the impact of such likely unforeseen events could be of greater magnitude than the provision and hence pose fiscal risk to the Government.

#### **Climate Change related fiscal risks to the economy**

41. Climate change is a threat to the achievements of the Sustainable development goals and the Kenya Vision 2030. It is projected that, under current policies (“business as usual,” BAU), the global mean temperature will continue to increase over the next century by 2.8<sup>0</sup>C, with a 3 percent chance of rising 6<sup>0</sup>C or more. The physical consequences of such a rise include: changed precipitation patterns, sea level rise, more intense and perhaps frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many counties.

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

43. The fiscal implications of climate change impacts are serious and immediate. Climate change impacts will directly affect fiscal positions, through their impact on tax bases and spending programs and use of fiscal instruments in mitigating and adopting to climate change related effects so as to limit the damage. For example, an increase in the frequency of storms will require more disaster relief spending and flood insurance pay-outs. Heavy rainfall events will prompt investments to protect, repair, and relocate facilities. Changing weather patterns and extreme weather events will affect farmers and thus affect the attainment of food security due to low productivity.

44. In recognition of the serious threats posed by climate change, the National Treasury has been leading the process of developing instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaptation measures. These include: Development of the frame-work National Policy on Climate Finance, Climate Public Expenditure and Budget Reviews (CPEBR), Development Climate Change Budget Coding for tracking and reporting climate finance flows and expenditure, Establishment of requisite structures for the private sector to support government efforts in financing both mitigation and adaptation actions through issuance of Green Bonds (sovereign), Establishment of the National Treasury as the National Designated Authority (NDA) for Green Climate Fund (GCF), Establishment of the Climate Change Fund (CCF) and the Disaster Risk Financing Strategy all aimed at cushioning the economy from fiscal risks arising from the effects of climate related shocks and natural disasters.

#### **Evolving Acts of Terrorism (Violent Extremism)**

45. Potential terrorist attacks may impose economic costs through direct and indirect channels. The direct costs include loss of life and physical destruction, whereas the indirect costs include impacts on restriction of movement of people, consumption, investment, and growth caused by terrorist attacks. In particular, potential terrorist attacks have direct effect on tourism by reducing tourists' visits due to security concerns.

46. These direct and other indirect costs including loss of jobs have a negative impact on government revenue from tax, increased government spending on security and peace restoration as well as redeeming country's image hence risk to the Government's fiscal framework.

47. Recognizing the significant risk that terrorism pose, the Government has undertaken a raft of reforms over the last two financial years to mitigate the adverse effects of this risk. These reforms include development of counter-terrorism strategy that involve cooperation among all security agencies, increasing

collaboration with local communities on security matters, security modernization involving acquisition of modern security equipment, and raising awareness to potential threats. Awareness.

### **Technological Disaster**

48. Information, Communication and Technology (ICT) continues to play a revolutionary role in expanding access to financial services and improving the ways of doing business in Kenya. Technological advancement in Kenya has seen significant expansion in mobile financial services and internet usage. Mobile financial services has offered significant opportunities for improving the efficiency of financial services by expanding access and lowering transaction costs. The rapid growth of mobile money has demonstrated that the technology is mature and brings real benefits to people who previously could not access financial products or services.

49. Owing to the success of mobile money, various financial products have been leveraged on this payment channel increasing the inter linkages between this technology and the banking sector. The Government as well has tapped into the technology to provide services and receive payments online. In this regard, large volumes of money are transacted through the mobile money systems, being payment to governments for services offered as well as payments to private sector. The banking sector and other businesses whose performance is linked to this system remains an important source of corporate tax revenue for the government.

50. Therefore, given the importance of the mobile money system to the economy, its disruption would lead to substantial loss of potential government revenue, customers deposits and market confidence. The Government might therefore be under pressure to compensate losses and hence should be considered as a plausible fiscal risk.

51. On the other hand, increased usage of information technology (IT) systems such as computers and internet by households, businesses and Government entities has enhanced efficiency and improved service delivery. In particular, the Government in recent years has heavily leveraged on technology to improve service delivery using products such as IFMIS, iTax, e-procurement, Huduma centres and e-citizen. Given the significant revenues channelled through those systems, the reliance on these IT systems exposes the Government to a range of risks such as cybercrime and fraud which may result to data corruption or loss; and government revenue loss. Recognizing the possibility of these threats occurring,

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the Government has sensitized all users on the importance of enhancing cyber security.

#### **Liabilities of the financial sector via systemically important Banks**

52. “The Kenya Deposit Insurance Corporation (KDIC) was established under section 4 of the Kenya Deposit Insurance Act, 2012 as a deposit insurance scheme for depositors and to act as a Resolution Authority for failed financial member institutions, as well as the role of Risk Minimization. As at November 2017, the coverage level was at Ksh 268.1 Billion with 46.6 million accounts fully covered. This translates to 96.8% of total number of accounts covered. However, in value terms, KDIC only covers 9.2% of the total deposits in the Banking sector. This is quite low compared to the internationally recommended minimum standard of 20% by International Association of Deposit Insurers (IADI). This therefore implies that, in the event of failure of a Systemically Important Bank, the low cover would cause a fiscal risk, in the absence of review of the current coverage level of Ksh 100,000 to a higher level.

#### **Devolved System of Government**

53. The Constitution of Kenya provides for two levels of government i.e. National and the County Governments which are distinct and inter-dependent. This system of governance which came into place in March 2013 gives the County Governments powers under Article 209 to collect assigned revenues as well as to budget and spend. Counties spend as per the functions assigned to them under Schedule 4 of the constitution (Devolved functions). They are financed through National Government transfers, own source revenues and conditional allocations.

54. However, major risks have emerged from Kenya’s fiscal decentralization, and which require prudent management especially by the County Governments. Below is a summary of the main risks and proposed mitigation measures, some of which are already being implemented:

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**Risks**

- a) Failure by Counties to remit statutory deductions (e.g. PAYE, withholding VAT, NSSF contributions, etc.) could impact on overall collection of ordinary revenue by the Kenya Revenue Authority (KRA)
- b) Considering that urban areas are the engines of economic growth, failure by Counties to appoint and empower legally-required Municipal Boards and Town Committees undermines the financing and effective management of built up areas, especially in medium-sized towns, which sit in largely rural Counties. This could undermine the country's overall economic performance.
- c) The growing stock of expenditure arrears, especially pending bills due to suppliers and contractors, is potentially a factor behind struggling small and medium-sized enterprises (e.g. hotels, travel agencies, etc.), many of which borrow to finance their operations.

**Mitigation measures**

All Counties to prioritize remittance of statutory deductions while paying salaries, since this is duly budgeted for. With regard to withholding VAT, Counties should make payments at the time of paying suppliers and contractors since they are required to budget for the full cost of works, goods and services.

Jointly with the World Bank, the Government is finalizing design of a program-for-results (P-for-R) which will provide budgetary incentives for Counties to establish legally-required urban management structures, among other measures to ensure that cities and towns function effectively, and that municipal infrastructure and services are adequately maintained. A number of Counties have already signed up to the program whose implementation is expected to commence in FY 2017/18.

Counties to establish pending bills committees to verify authenticity of all outstanding payments and formulate strategies to eliminate all arrears

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**Annex Table 1: Macroeconomic Indicators**

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
<i>annual percentage change, unless otherwise indicated</i>												
<b>National Account and Prices</b>												
Real GDP	5.8	5.3	6.2	5.7	5.3	6.5	5.9	6.9	6.3	7.1	6.8	6.9
GDP deflator	8.8	8.4	5.5	7.9	6.8	6.8	6.4	6.4	6.1	6.8	5.9	5.8
CPI Index (eop)	6.7	6.6	5.0	5.9	5.6	5.2	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.4	6.9	5.0	6.6	6.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-0.1	4.5	1.5	3.2	1.1	1.9	-0.3	0.7	0.3	0.4	0.1	1.1
<b>Money and Credit (end of period)</b>												
Net domestic assets	3.8	3.6	2.5	6.2	5.5	15.5	15.1	18.4	19.2	14.6	16.6	14.5
Net domestic credit to the Government	7.4	15.8	22.9	18.6	17.3	18.9	18.5	12.9	10.6	10.9	7.4	7.4
Credit to the rest of the economy	8.4	2.7	8.7	3.5	3.4	12.4	12.2	13.1	14.7	18.6	21.8	15.5
Broad Money, M3 (percent change)	8.1	6.0	11.4	14.4	13.0	13.5	13.1	19.5	19.8	12.0	13.7	13.8
Reserve money (percent change)	4.9	2.8	10.8	20.9	19.4	12.9	12.5	18.8	19.1	11.3	13.0	13.1
<i>in percentage of GDP, unless otherwise indicated</i>												
<b>Investment and Saving</b>												
Investment	19.5	17.5	24.4	20.0	19.7	22.4	21.9	22.6	22.6	25.5	22.8	23.4
Central Government	7.0	8.2	7.6	6.8	6.6	6.7	6.2	6.3	5.9	6.8	5.8	6.0
Other	12.4	9.2	16.9	13.2	13.1	15.7	15.7	16.3	16.7	18.7	17.0	17.4
Gross National Saving	16.2	12.4	18.3	14.1	13.6	16.5	16.5	16.7	17.1	20.0	18.0	19.2
Central Government	3.2	3.0	4.7	2.3	2.6	3.7	3.6	4.5	4.6	4.9	5.2	5.5
Other	13.0	9.4	13.6	11.8	11.1	12.8	13.0	12.3	12.5	15.0	12.9	13.7
<b>Central Government Budget</b>												
Total revenue	18.4	18.3	19.6	18.7	19.0	18.8	18.9	19.0	19.0	19.4	19.2	19.4
Total expenditure and net lending	26.6	27.6	26.5	26.8	26.8	25.2	25.5	24.2	23.8	24.4	22.9	22.5
Overall balance (commitment basis) excl. grants	-8.2	-9.3	-6.8	-8.1	-7.9	-6.4	-6.5	-5.1	-4.8	-5.0	-3.8	-3.4
Overall balance (commitment basis) incl. grants	-7.4	-9.1	-6.2	-7.4	-7.2	-5.9	-6.0	-4.7	-4.3	-4.6	-3.3	-3.0
Overall balance (commitment basis) incl. grants excl SGR	-6.6	-7.7	-5.5	-6.8	-6.5	-5.4	-5.5	-4.3	-3.9	-4.1	-2.8	-2.4
Primary budget balance	-4.2	-5.6	-2.9	-3.8	-3.7	-2.5	-2.2	-1.3	-0.9	-1.2	0.1	0.4
Net domestic borrowing	3.0	4.0	3.2	3.6	3.4	3.8	3.8	2.8	2.8	3.7	3.7	4.0
Total external support (grant & loans)	2.7	3.3	3.0	3.2	3.1	2.8	2.9	2.7	2.8	3.2	2.7	2.7
<b>External Sector</b>												
Exports value, goods and services	17.2	16.2	21.7	16.9	16.2	17.6	17.4	18.4	17.6	18.7	17.7	17.9
Imports value, goods and services	24.6	25.1	31.5	25.8	25.8	26.1	26.0	26.6	25.9	26.3	25.0	24.4
Current external balance, including official transfers	-3.2	-5.0	-6.1	-5.9	-6.1	-5.9	-5.4	-5.9	-5.5	-5.5	-4.8	-4.2
Gross international reserve coverage in months of next year imports (end of period)	5.3	4.7	4.9	5.9	5.8	5.9	5.9	6.3	6.3	6.0	6.3	6.3
Gross international reserve coverage in months of this year's imports (end of period)	6.2	6.5	5.3	6.7	6.7	6.8	6.8	6.9	6.9	7.0	7.0	7.1
<b>Public debt</b>												
Nominal central government debt (eop), net of deposits	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
Domestic (gross)	27.1	27.6	27.8	27.6	27.8	28.1	28.3	27.5	27.3	26.9	25.5	23.9
Domestic (net)	21.1	21.9	25.2	22.6	22.8	23.7	23.9	23.7	23.4	23.5	22.1	20.8
External	26.8	30.0	29.2	29.8	30.2	28.3	28.9	27.0	27.6	26.4	26.1	22.8
<b>Memorandum Items:</b>												
Nominal GDP (in Ksh Billion)	6,710	7,658	8,690	8,805	8,655	9,998	9,791	11,314	11,101	12,671	12,621	14,364
Nominal GDP (in US\$ Million)	66,367	74,742	81,284	84,537	83,559	94,806	94,611	106,266	107,575	117,875	122,166	138,627

Source: National Treasury

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

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**Annex Table 2: Government Fiscal Operations, Ksh Billion**

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BROP'17	BPS'18	BPS'18
<b>TOTAL REVENUE</b>	<b>1,232.6</b>	<b>1,400.6</b>	<b>1,704.5</b>	<b>1,647.2</b>	<b>1,643.1</b>	<b>1,882.5</b>	<b>1,853.9</b>	<b>2,154.7</b>	<b>2,105.6</b>	<b>2,453.7</b>	<b>2,417.8</b>	<b>2,747.6</b>
Ordinary Revenue	1,153.0	1,305.8	1,549.4	1,490.4	1,486.3	1,717.0	1,688.5	1,977.7	1,931.0	2,261.6	2,229.1	2,548.4
Income Tax	560.8	625.1	765.6	719.1	709.1	837.0	816.6	970.8	935.0	1,115.9	1,090.6	1,259.6
Import duty (net)	79.2	89.9	102.4	102.4	102.4	116.3	116.9	132.1	132.1	150.0	150.0	170.4
Excise duty	139.5	165.5	197.4	183.7	183.7	210.3	209.6	241.1	241.1	276.3	276.3	315.6
Value Added Tax	289.2	339.0	383.5	388.7	383.7	445.4	441.2	513.3	508.8	586.0	586.0	665.5
Investment income	19.3	28.5	18.2	23.1	23.1	25.2	24.6	26.9	26.9	28.4	28.4	32.1
Other	65.0	57.8	82.3	73.4	84.3	82.8	79.7	93.5	87.1	104.9	97.7	105.1
Railway Development Levy	17.3	18.9	21.2	21.2	21.2	24.7	24.7	28.1	25.6	31.8	28.4	35.6
Ministerial and Departmental Fees (AiA)	62.4	75.9	134.0	135.6	135.6	140.7	140.7	148.9	148.9	160.3	160.3	163.5
<b>EXPENDITURE AND NET LENDING</b>	<b>1,781.9</b>	<b>2,110.0</b>	<b>2,298.8</b>	<b>2,358.6</b>	<b>2,323.1</b>	<b>2,523.0</b>	<b>2,492.2</b>	<b>2,733.8</b>	<b>2,636.0</b>	<b>3,087.1</b>	<b>2,892.9</b>	<b>3,234.1</b>
Recurrent expenditure	1,020.0	1,165.0	1,335.3	1,424.5	1,392.8	1,459.9	1,501.5	1,636.2	1,595.1	1,792.5	1,765.2	1,967.6
Interest payments	215.3	271.2	280.7	317.0	304.1	340.4	370.8	383.9	383.9	431.4	431.4	491.1
Domestic interest	172.9	212.9	210.1	229.9	215.2	236.3	258.2	271.8	271.8	312.6	312.6	359.4
Foreign interest	42.5	58.4	70.6	87.1	88.8	104.1	112.7	112.1	112.1	118.8	118.8	131.6
Wages and Salaries <sup>1</sup>	307.4	336.6	391.3	404.0	401.0	404.0	444.2	466.4	484.4	466.4	524.6	563.4
Contribution to civil service pension fund	0.0	0.0	17.9	17.9	0.0	22.8	15.3	24.0	24.0	25.4	25.4	33.8
Pensions etc	53.4	64.0	76.2	76.2	76.2	91.1	91.1	109.5	109.5	124.5	124.5	139.0
Other	330.2	363.0	439.9	480.2	488.1	467.9	454.6	519.1	466.8	602.9	521.0	600.4
Defense and NSIS	113.7	130.2	130.2	130.2	123.5	134.6	125.5	134.3	126.5	142.9	138.3	139.9
Development and Net lending	480.7	639.9	612.8	583.4	579.6	679.0	612.9	690.4	663.7	859.5	740.8	866.5
Domestically financed	298.2	385.1	366.3	321.6	320.3	380.1	353.7	404.6	375.2	455.3	425.1	499.5
o/w Domestically Financed (Net)	277.1	353.2	330.4	278.7	277.3	331.5	305.1	351.3	324.3	396.8	369.9	436.6
o/w Exchequer Issues	277.1	353.2	330.4	278.7	277.3	331.5	305.1	351.3	324.3	396.8	369.9	436.6
Ministerial Development AIA	21.1	31.9	43.0	43.0	43.0	48.5	48.5	53.3	50.9	58.5	55.1	62.9
Foreign financed	173.9	246.4	236.4	258.8	249.2	246.9	252.2	273.3	281.1	366.5	306.7	357.1
Net lending	2.2	2.4	2.4	2.4	2.4	2.4	2.4	1.6	1.6	2.5	2.5	2.5
Contingencies	5.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	8.0
County Allocation	276.2	305.0	345.7	345.7	345.7	379.1	372.7	402.2	372.2	430.0	381.9	391.9
Sharable	259.8	280.3	302.0	302.0	302.0	324.0	314.0	350.0	320.4	378.0	330.0	339.9
Others - GoK	3.6	4.0	4.2	4.2	4.2	4.5	4.3	4.9	4.5	4.8	4.6	4.7
Conditional Allocations	12.8	20.7	39.5	39.5	39.5	50.6	54.4	47.3	47.3	47.3	47.3	47.3
of which: Road Maintenance Levy 15%	3.3	4.3	11.1	11.1	11.1	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Foreign Financed Transfers	2.2	1.8	20.4	20.4	20.4	29.4	33.2	29.4	29.4	29.4	29.4	29.4
Equalization Fund for Marginal areas	6.4	6.0	7.7	7.7	7.7	8.6	4.7	9.9	5.8	11.3	6.5	7.4
<b>Fiscal Balance (commitment basis excl grants)</b>	<b>-549.3</b>	<b>-709.4</b>	<b>-594.3</b>	<b>-711.5</b>	<b>-680.0</b>	<b>-640.6</b>	<b>-638.2</b>	<b>-579.1</b>	<b>-530.4</b>	<b>-633.4</b>	<b>-475.1</b>	<b>-486.5</b>
Adjustment to cash basis	22.4	-14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>29.6</b>	<b>26.3</b>	<b>58.8</b>	<b>59.6</b>	<b>59.2</b>	<b>50.5</b>	<b>50.5</b>	<b>51.6</b>	<b>51.6</b>	<b>51.4</b>	<b>52.4</b>	<b>54.4</b>
Of which: Project grants	24.1	19.1	52.7	53.5	53.1	44.4	44.4	46.6	46.6	48.9	48.9	51.4
Debt Swap	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme grants	4.3	6.8	6.1	6.1	6.1	6.1	6.1	5.0	5.0	2.5	3.5	3.0
County Health Facilities - DANIDA	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fiscal Balance (cash basis incl. grants)</b>	<b>-497.3</b>	<b>-697.3</b>	<b>-535.5</b>	<b>-651.8</b>	<b>-620.8</b>	<b>-590.1</b>	<b>-587.7</b>	<b>-527.5</b>	<b>-478.8</b>	<b>-581.9</b>	<b>-422.6</b>	<b>-432.1</b>
<b>Fiscal Balance (cash basis incl. grants) Excl. SGR</b>	<b>-445.0</b>	<b>-585.9</b>	<b>-481.4</b>	<b>-597.8</b>	<b>-566.8</b>	<b>-540.0</b>	<b>-537.7</b>	<b>-481.8</b>	<b>-433.1</b>	<b>-513.7</b>	<b>-354.4</b>	<b>-347.1</b>
Statistical discrepancy	-22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>FINANCING</b>	<b>474.6</b>	<b>697.3</b>	<b>535.5</b>	<b>651.8</b>	<b>620.8</b>	<b>590.1</b>	<b>587.7</b>	<b>527.5</b>	<b>478.8</b>	<b>581.9</b>	<b>422.6</b>	<b>432.1</b>
Net Foreign Financing	269.9	385.7	256.0	332.4	323.2	205.6	214.7	224.9	232.7	289.3	229.5	227.1
Project loans	151.4	228.6	204.1	225.6	205.0	231.9	231.9	256.2	256.2	347.0	287.1	335.1
Programme loans	8.6	6.8	0.9	6.0	6.0	2.5	2.5	1.5	1.5	1.5	1.5	3.5
Commercial Financing	145.0	186.3	200.0	250.0	250.0	288.0	288.0	100.0	100.0	50.0	50.0	0.0
Export Credit- Commercial Financing		0.0	0.0	0.0	11.5	0.0	9.1	0.0	7.8	0.0	0.1	0.0
Repayments due	-35.1	-35.9	-149.0	-149.3	-149.3	-316.8	-316.8	-132.8	-132.8	-109.2	-109.2	-111.6
Other Domestic Financing	2.4	1.8	3.8	3.8	3.8	4.2	4.2	-5.7	-5.7	-1.1	-1.2	-2.2
Net Domestic Financing	202.3	309.8	275.7	315.7	293.8	380.3	368.8	308.2	251.7	293.7	194.3	207.2
Others	202.3	309.8	275.7	315.7	293.8	380.3	368.8	308.2	251.7	293.7	194.3	207.2
Financing gap	-22.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memo items</b>												
External Debt	1,796.2	2,294.7	2,462.5	2,627.1	2,618.0	2,832.7	2,832.7	3,057.6	3,065.4	3,346.9	3,294.9	3,273.8
Domestic Debt (gross)	1,815.1	2,112.3	2,388.0	2,427.9	2,406.0	2,808.2	2,774.8	3,116.4	3,026.6	3,410.1	3,220.9	3,428.1
Domestic Debt (net)	1,414.6	1,677.8	1,953.5	1,993.4	1,971.6	2,373.7	2,340.4	2,682.0	2,592.1	2,975.7	2,786.4	2,993.7
Primary budget balance	-282.0	-426.0	-254.7	-334.9	-316.7	-249.6	-216.9	-143.6	-94.9	-150.5	8.8	59.0
Nominal GDP	6,709.7	7,658.1	8,689.9	8,804.9	8,654.6	9,997.7	9,790.8	11,314.0	11,100.8	12,670.7	12,620.8	14,363.9

Source: The National Treasury

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

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

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Annex Table 3: Government Fiscal Operations, Percent of GDP

	2015/16	2016/17	2017/18			2018/19		2019/20		2020/21		2021/22
	Act	Prel. Act	Budget	BROP17	BPS18	BROP17	BPS18	BROP17	BPS18	BROP17	BPS18	BPS18
<b>TOTAL REVENUE</b>	<b>18.4</b>	<b>18.3</b>	<b>19.6</b>	<b>18.7</b>	<b>19.0</b>	<b>18.8</b>	<b>18.9</b>	<b>19.0</b>	<b>19.0</b>	<b>19.4</b>	<b>19.2</b>	<b>19.1</b>
Ordinary Revenue	17.2	17.1	17.8	16.9	17.2	17.2	17.2	17.5	17.4	17.8	17.7	17.7
Income tax	8.4	8.2	8.8	8.2	8.2	8.4	8.3	8.6	8.4	8.8	8.6	8.8
Import duty (net)	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Excise duty	2.1	2.2	2.3	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2
Value Added Tax	4.3	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.6	4.6	4.6	4.6
Investment income	0.3	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Other	1.0	0.8	0.9	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Railway Development Levy	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2
Ministerial and Departmental Fees (AIA)	0.9	1.0	1.5	1.5	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.1
<b>EXPENDITURE AND NET LENDING</b>	<b>26.6</b>	<b>27.6</b>	<b>26.5</b>	<b>26.8</b>	<b>26.8</b>	<b>25.2</b>	<b>25.5</b>	<b>24.2</b>	<b>23.7</b>	<b>24.4</b>	<b>22.9</b>	<b>22.5</b>
Recurrent expenditure	15.2	15.2	15.4	16.2	16.1	14.6	15.3	14.5	14.4	14.1	14.0	13.7
Interest payments	3.2	3.5	3.2	3.6	3.5	3.4	3.8	3.4	3.5	3.4	3.4	3.4
Domestic interest	2.6	2.8	2.4	2.6	2.5	2.4	2.6	2.4	2.4	2.5	2.5	2.5
Foreign Interest	0.6	0.8	0.8	1.0	1.0	1.0	1.2	1.0	1.0	0.9	0.9	0.9
Wages and Salaries/1	4.6	4.4	4.5	4.6	4.6	4.0	4.5	4.1	4.4	3.7	4.2	3.9
Contribution to civil service pension fund	0.0	0.0	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Pensions etc	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Other	4.9	4.7	5.1	5.5	5.6	4.7	4.6	4.6	4.2	4.8	4.1	4.2
Defense and NSIS	1.7	1.7	1.5	1.5	1.4	1.3	1.3	1.2	1.1	1.1	1.1	1.0
Development and Net lending	7.2	8.4	7.1	6.6	6.7	6.8	6.3	6.1	6.0	6.8	5.9	6.0
Domestically financed	4.4	5.0	4.2	3.7	3.7	3.8	3.6	3.6	3.4	3.6	3.4	3.5
o/w Domestically Financed (Net)	4.1	4.6	3.8	3.2	3.2	3.3	3.1	3.1	2.9	3.1	2.9	3.0
o/w Exchequer Issues	4.1	4.6	3.8	3.2	3.2	3.3	3.1	3.1	2.9	3.1	2.9	3.0
Ministerial Development AIA	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Foreign financed	2.6	3.2	2.7	2.9	2.9	2.5	2.6	2.4	2.5	2.9	2.4	2.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1
County Allocation	4.1	4.0	4.0	3.9	4.0	3.8	3.8	3.6	3.4	3.4	3.0	2.7
Shareable	3.9	3.7	3.5	3.4	3.5	3.2	3.2	3.1	2.9	3.0	2.6	2.4
Others - GoK	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conditional Allocations	0.2	0.3	0.5	0.4	0.5	0.5	0.6	0.4	0.4	0.4	0.4	0.3
of which: Road Maintenance Levy 15%	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign Financed Transfers	0.0	0.0	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
<b>Fiscal Balance (commitment basis excl. grants)</b>	<b>-8.2</b>	<b>-9.3</b>	<b>-6.8</b>	<b>-8.1</b>	<b>-7.9</b>	<b>-6.4</b>	<b>-6.5</b>	<b>-5.1</b>	<b>-4.8</b>	<b>-5.0</b>	<b>-3.8</b>	<b>-3.4</b>
Adjustment to cash basis	0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.4	0.3	0.6	0.6	0.7	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Of which: Project grants	0.4	0.2	0.0	0.0	0.6	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Programme grants	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Fiscal Balance (cash basis incl. grants)</b>	<b>-7.4</b>	<b>-9.1</b>	<b>-6.2</b>	<b>-7.4</b>	<b>-7.2</b>	<b>-5.9</b>	<b>-6.0</b>	<b>-4.7</b>	<b>-4.3</b>	<b>-4.6</b>	<b>-3.3</b>	<b>-3.0</b>
<b>Fiscal Balance (cash basis incl. grants) Exl. SGR</b>	<b>-6.6</b>	<b>-7.7</b>	<b>-5.5</b>	<b>-6.8</b>	<b>-6.5</b>	<b>-5.4</b>	<b>-5.5</b>	<b>-4.3</b>	<b>-3.9</b>	<b>-4.1</b>	<b>-2.8</b>	<b>-2.4</b>
Statistical discrepancy	-0.3											
<b>FINANCING</b>	<b>7.1</b>	<b>9.1</b>	<b>6.2</b>	<b>7.4</b>	<b>7.2</b>	<b>5.9</b>	<b>6.0</b>	<b>4.7</b>	<b>4.3</b>	<b>4.6</b>	<b>3.3</b>	<b>3.0</b>
Net Foreign Financing	4.0	5.0	2.9	3.8	3.7	2.1	2.2	2.0	2.1	2.3	1.8	1.6
Project loans	2.3	3.0	2.3	2.6	2.4	2.3	2.4	2.3	2.3	2.7	2.3	2.3
Programme loans	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing	2.2	2.4	2.3	2.8	2.9	2.9	2.9	0.9	0.9	0.4	0.4	0.0
Export Credit- Commercial Financing	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Repayments due	-0.5	-0.5	-1.7	-1.7	-1.7	-3.2	-3.2	-1.2	-1.2	-0.9	-0.9	-0.8
Other Domestic Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
<b>Net Domestic Financing</b>	<b>3.0</b>	<b>4.0</b>	<b>3.2</b>	<b>3.6</b>	<b>3.4</b>	<b>3.8</b>	<b>3.8</b>	<b>2.7</b>	<b>2.3</b>	<b>2.3</b>	<b>1.5</b>	<b>1.4</b>
Others	3.0	4.0	3.2	3.6	3.4	3.8	3.8	2.7	2.3	2.3	1.5	1.4
Financing gap	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memò Items</b>												
Total Public Debt (net)	47.9	51.9	54.4	52.5	53.0	52.1	52.8	50.7	51.0	49.9	48.2	43.6
External Debt	26.8	30.0	28.3	29.8	30.2	28.3	28.9	27.0	27.6	26.4	26.1	22.8
Domestic Debt (gross)	27.1	27.6	27.5	27.6	27.8	28.1	28.3	27.5	27.3	26.9	25.5	23.9
Domestic Debt (net)	21.1	21.9	22.5	22.6	22.8	23.7	23.9	23.7	23.4	23.5	22.1	20.8
Primary budget balance	-4.2	-5.6	-2.9	-3.8	-3.7	-2.5	-2.2	-1.3	-0.9	-1.2	0.1	0.4
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million)

Sector/ Vote/Programme Details	2018/19 Ceiling		2019/20 Projection		2020/21 Projection	
	Current	Capital	Current	Capital	Current	Capital
<b>AGRICULTURE, RURAL &amp; URBAN DEVELOPMENT</b>						
1112 Ministry of Lands & Physical Planning	17,095.9	21,385.3	18,506.7	23,335.5	19,305.7	24,496.6
0101000 Land Policy & Planning	2,403.2	3,480.0	2,616.0	3,837.0	2,727.0	3,959.0
0101000 Land Policy & Planning	2,403.2	3,480.0	2,616.0	3,837.0	2,727.0	3,959.0
1161. State Department for Agriculture	5,681.8	10,302.0	6,276.0	11,346.0	6,607.0	11,932.0
0107000 : General Admin., Planning & Support Services	2,909.8	1,71.0	3,080.8	2,15.0	3,395.0	2,25.0
0108000 : Crop Development & Management	2,580.0	9,534.0	2,789.0	10,413.0	3,023.0	11,407.0
0109000 : Agrubusiness & Information Management	192.0	1,097.0	197.0	718.0	189.0	300.0
1162 State Department for Livestock	5,712.8	5,289.3	5,918.6	5,770.0	6,093.6	6,090.0
0112000 : Livestock Resources Management & Development	5,712.8	5,289.3	5,918.6	5,770.0	6,093.6	6,090.0
1164 State Department for Fisheries & the Blue Economy	1,903.4	2,014.0	2,142.1	2,066.5	4,208.6	2,170.6
0111000 : Fisheries Development & Management	1,489.0	1,014.0	1,687.3	1,106.5	2,793.8	1,120.6
Programme: General Admin., Planning & Support Services	181.3	-	192.9	-	204.8	-
Programme: Development & Coordination of the Blue Economy	233.1	1,000.0	261.9	960.0	1,221.9	1,050.0
2021 National Land Commission	1,394.7	300.0	1,554.0	316.0	1,870.0	345.0
0113000 : Land Admin. & Management	1,394.7	300.0	1,554.0	316.0	1,870.0	345.0
0114000 : General Admin., Planning & Support Services						
0115000 : Land Disputes & Conflict Resolutions						
0116000 : National Land Information Management System						
0113000 Land Admin. & Management	1,394.7	300.0	1,554.0	316.0	1,870.0	345.0
<b>ENERGY, INFRASTRUCTURE &amp; ICT</b>						
1152 State Department for Energy	77,750.3	321,383.0	81,554.0	338,936.0	84,941.0	337,319.0
0211000 General Admin., Planning & Support Services	2,161.7	67,656.0	2,302.0	74,637.0	2,331.0	74,742.0
0212000 Power Generation	332.7	244.0	368.0	249.0	617.0	193.0
0213000 Power Transmission & Distribution	919.0	20,578.0	1,001.0	18,450.0	1,018.0	26,628.0
0214000 Alternative Energy Technologies	777.0	44,680.0	797.0	51,441.0	797.0	43,146.0
0214000 Alternative Energy Technologies	133.0	2,154.0	136.0	4,497.0	139.0	4,775.0

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) .Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<b>1153 State Department for Petroleum</b>									
0215000 Exploration & Distribution of Oil & Gas	272.6	2,876.0	3,148.6	290.0	4,544.0	4,834.0	308.0	4,554.0	4,862.0
<b>1091. State Department of Infrastructure</b>									
0202000 Road Transport	58,525.0	123,068.0	181,593.0	61,518.0	128,628.0	190,146.0	64,578.0	129,259.0	193,837.0
<b>1092 State Department of Transport</b>									
0201000 General Admin., Planning & Support Services	9,284.0	78,038.0	87,322.0	9,397.0	81,062.0	90,459.0	9,469.0	81,089.0	90,558.0
0203000 Rail Transport	407.0	760.0	1,167.0	432.0	769.0	1,201.0	447.0	769.0	1,216.0
0204000 Marine Transport	-	59,324.0	59,324.0	-	60,380.0	60,380.0	-	60,383.0	60,383.0
0205000 Air Transport	1,225.0	13,110.0	14,335.0	1,234.0	14,287.0	15,521.0	1,242.0	14,400.0	15,642.0
0216000000 Road Safety	7,206.0	4,544.0	11,750.0	7,281.0	5,059.0	12,350.0	7,327.0	4,978.0	12,305.0
<b>1093 State Department for Maritime Affairs &amp; Marine Transport</b>									
0204000 Marine Transport	446.0	300.0	746.0	450.0	557.0	1,007.0	453.0	559.0	1,012.0
0219000 Shipping & Maritime Affairs	326.1	-	326.1	361.0	-	361.0	377.0	-	377.0
<b>1122 State Department for Information Communications Technology &amp; Innovation</b>									
0207000 : General Admin. Planning & Support Services	326.1	-	326.1	361.0	-	361.0	377.0	-	377.0
0210000 : ICT Infrastructure Development	1,159.5	30,759.0	31,918.5	1,331.0	29,368.0	30,699.0	1,377.0	26,405.0	27,782.0
0217000 E-Government Services	242.2	-	242.2	329.0	-	329.0	356.0	-	356.0
<b>1123 State Department for Broadcasting &amp; Telecommunications</b>									
0207000 : General Admin. Planning & Support Services	321.0	30,759.0	31,080.0	374.0	29,368.0	29,742.0	386.0	26,405.0	26,791.0
0208000 : Information & Communication Services	596.3	-	596.3	628.0	-	628.0	635.0	-	635.0
0209010 : Mass Media Skills Development	2,880.1	688.0	3,568.1	3,051.0	747.0	3,798.0	3,117.0	750.0	3,867.0
0209000 : General Admin. Planning & Support Services	311.1	-	311.1	342.0	143.0	485.0	359.0	143.0	502.0
0209010 : Mass Media Skills Development	2,366.9	428.0	2,794.9	2,500.0	428.0	2,928.0	2,548.0	507.0	3,055.0
<b>1094 State Department for Housing &amp; Urban Development</b>									
0102000 Urban & Metropolitan Development	202.1	260.0	462.1	209.0	176.0	385.0	210.0	100.0	310.0
0105000 Housing Development & Human Settlement	2,299.1	16,839.0	19,138.1	2,398.0	17,835.0	20,233.0	2,441.0	18,396.0	20,837.0
0106000 General Admin. Planning & Support Services	466.0	9,040.0	9,506.0	478.0	10,197.0	10,675.0	488.0	10,304.0	10,792.0
Programme 4 - Regulation & Development of the Construction Industry	263.0	7,663.0	7,926.0	277.0	7,486.0	7,763.0	292.0	7,940.0	8,231.0
0106000 General Admin. Planning & Support Services	249.1	-	249.1	282.0	-	282.0	289.0	-	289.0
<b>1095 State Department for Public Works</b>									
0103000 Government Buildings	1,321.0	136.0	1,457.0	1,361.0	152.0	1,513.0	1,372.0	152.0	1,525.0
0104000 Coastline Infrastructure & Pedestrian Access	842.2	1,959.0	2,801.2	906.0	2,115.0	3,021.0	943.0	2,124.0	3,067.0
0106000 General Admin. Planning & Support Services	400.00	1,734.00	2,134.00	413.00	1,885.00	2,298.00	427.00	1,667.00	2,094.00
0106000 General Admin. Planning & Support Services	83.00	170.00	253.00	86.00	191.00	277.00	88.00	411.00	499.00
0106000 General Admin. Planning & Support Services	359.20	55.00	414.20	407.00	39.00	446.00	428.00	46.00	474.00

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<b>GENERAL ECONOMIC &amp; COMMERCIAL AFFAIRS</b>									
1172 State Department for Investment & Industry	9,094.3	11,916.0	21,010.3	9,645.0	13,341.0	22,986.0	9,788.0	13,776.0	23,564.0
0301000 General Admin. Planning & Support Services	2,408.6	7,809.0	10,217.6	2,681.0	8,236.0	10,917.0	2,713.0	8,386.0	11,099.0
0302000 Industrial Development & Investments	442.5	234.0	676.5	502.0	234.0	736.0	518.0	234.0	752.0
0303000 Standards & Business Incubation	803.3	5,440.0	6,243.3	878.0	5,805.0	6,683.0	892.0	5,630.0	6,522.0
1173 State Department for Cooperatives	1,162.8	2,135.0	3,297.8	1,301.0	2,197.0	3,498.0	1,303.0	2,522.0	3,825.0
0304000 Cooperative Development & Management	366.9	870.0	1,236.9	449.0	1,070.0	1,519.0	477.0	1,105.0	1,582.0
1174 State Department for Trade	366.9	870.0	1,236.9	449.0	1,070.0	1,519.0	477.0	1,105.0	1,582.0
0307000 Trade Development & Promotion	2,014.2	552.0	2,566.2	2,031.0	950.0	2,981.0	2,060.0	1,050.0	3,110.0
1183 State Department for East African Integration	2,014.2	552.0	2,566.2	2,031.0	950.0	2,981.0	2,060.0	1,050.0	3,110.0
0305000 East African Affairs & Regional Integration	1,581.4	65.0	1,646.4	1,571.0	65.0	1,636.0	1,598.0	65.0	1,663.0
1201 Ministry of Tourism	1,581.4	65.0	1,646.4	1,571.0	65.0	1,636.0	1,598.0	65.0	1,663.0
0306000 Tourism Development & Promotion	2,723.4	2,620.0	5,343.4	2,913.0	3,020.0	5,933.0	2,940.0	3,170.0	6,110.0
	2,723.4	2,620.0	5,343.4	2,913.0	3,020.0	5,933.0	2,940.0	3,170.0	6,110.0
<b>HEALTH</b>									
1081 Ministry of Health	34,807.3	35,179.0	69,987.3	37,417.0	35,403.0	72,820.0	37,725.0	35,420.0	73,146.0
0401000 Preventive, Promotive & RMNCAH	34,807.3	35,179.0	69,987.3	37,417.0	35,403.0	72,820.0	37,725.0	35,420.0	73,146.0
0402000 National Referral & Specialized Services	4,786.0	8,911.0	13,697.0	5,683.0	8,911.0	14,594.0	5,715.0	8,911.0	14,626.0
0403000 Health Research & Development	15,849.7	15,453.0	31,303.7	16,423.0	16,614.0	33,037.0	16,397.0	17,587.0	33,984.0
0404000 General Admin., Planning & Support Services	5,284.9	436.0	5,720.9	5,499.0	78.0	5,577.0	5,501.0	69.0	5,571.0
0405000 Health Policy, Standards & Regulations	5,856.7	3,093.0	8,949.7	7,451.0	2,511.0	9,962.0	7,722.0	1,564.0	9,286.0
	3,030.0	7,286.0	10,316.0	2,361.0	7,289.0	9,650.0	2,390.0	7,289.0	9,679.0
<b>EDUCATION</b>									
1061. State Department for Basic Education	400,736.2	27,541.1	428,277.3	419,766.8	26,559.1	446,325.8	432,571.0	26,813.2	459,384.2
0501000 Primary Education	89,132.2	8,895.0	98,027.2	92,784.0	7,068.0	99,852.0	93,801.0	6,803.0	100,604.0
0502000 Secondary Education	16,765.4	4,727.0	21,492.4	17,181.0	2,620.0	19,801.0	17,569.0	2,637.0	20,206.0
0503000 Quality Assurance & Standards	63,560.4	3,753.0	67,313.4	66,434.0	3,874.0	70,308.0	66,841.0	3,781.0	70,622.0
0508000 P. 8 General Admin., Planning & Support Services	4,053.4	242.0	4,295.4	4,230.0	324.0	4,554.0	4,330.0	10.0	4,340.0
1064 State Department for Vocational & Technical Training	4,753.0	173.0	4,926.0	4,939.0	250.0	5,189.0	5,061.0	375.0	5,436.0
0505000 Technical Vocational Education & Training	2,373.4	3,703.0	6,076.4	2,439.0	3,960.0	6,399.0	2,500.0	4,227.0	6,727.0
0507000 Youth Training & Development	60.0	2,025.0	2,085.0	69.0	2,025.0	2,094.0	72.0	2,030.0	2,102.0
0508000 P. 8 General Admin., Planning & Support Services	160.0	-	160.0	186.0	-	186.0	186.0	-	186.0

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**Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd**

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<b>1065 State Department for University Education</b>	<b>90,350.7</b>	<b>12,782.1</b>	<b>103,132.7</b>	<b>95,350.8</b>	<b>13,350.1</b>	<b>108,700.8</b>	<b>96,996.0</b>	<b>13,588.2</b>	<b>110,584.2</b>
0504000 University Education	87,355.6	12,487.6	99,843.2	91,660.8	13,038.5	104,699.4	93,516.5	13,269.6	106,786.1
0506000 Research, Science, Technology & Innovation	2,634.3	294.4	2,928.7	3,207.7	311.5	3,519.2	3,282.8	318.7	3,601.5
0508000 General Admin., Planning & Support Services	360.7	-	360.7	482.2	-	482.2	196.6	-	196.6
<b>2091 Teachers Service Commission</b>	<b>218,660.0</b>	<b>136.0</b>	<b>218,796.0</b>	<b>228,938.0</b>	<b>156.0</b>	<b>229,094.0</b>	<b>239,016.0</b>	<b>165.0</b>	<b>239,181.0</b>
0509000 Teacher Resource Management	211,842.0	-	211,842.0	221,933.0	-	221,933.0	231,832.0	-	231,832.0
0510000 Governance & Standards	75.0	-	75.0	75.0	-	75.0	75.0	-	75.0
0511000 General Admin., Planning & Support Services	6,743.0	136.0	6,879.0	6,930.0	156.0	7,086.0	7,109.0	165.0	7,274.0
<b>GOVERNANCE, JUSTICE, LAW &amp; ORDER</b>	<b>168,720.2</b>	<b>24,927.4</b>	<b>193,647.6</b>	<b>175,062.4</b>	<b>26,451.5</b>	<b>201,513.9</b>	<b>179,783.3</b>	<b>23,464.2</b>	<b>203,247.5</b>
<b>1021 State Department for Interior</b>	<b>112,135.5</b>	<b>16,701.0</b>	<b>130,836.5</b>	<b>112,633.4</b>	<b>18,267.7</b>	<b>130,901.1</b>	<b>115,280.9</b>	<b>18,276.2</b>	<b>133,557.1</b>
0601000 Policing Services	82,997.6	10,210.0	93,207.6	83,201.8	12,178.9	95,380.7	85,235.0	12,180.9	97,415.9
0602000 Planning, Policy Coordination & Support Service	22,128.0	4,115.7	26,243.7	22,428.9	4,048.0	26,477.0	22,852.0	4,052.3	26,904.4
0603000 Government Printing Services	741.0	150.0	891.0	800.5	147.5	948.0	810.2	147.6	957.9
0605000 Population Management Services	6,269.0	2,225.3	8,494.3	6,202.2	1,893.3	8,095.5	6,383.6	1,895.3	8,278.9
0624000 Betting Control, Licensing & Regulation Services	-	-	-	-	-	-	-	-	-
<b>1023 State Department for Correctional Services</b>	<b>25,611.6</b>	<b>1,881.0</b>	<b>27,492.6</b>	<b>26,521.2</b>	<b>1,900.0</b>	<b>28,421.2</b>	<b>27,278.9</b>	<b>2,000.0</b>	<b>29,278.9</b>
0604000 Correctional services	25,070.6	1,801.3	26,871.9	25,759.4	1,845.0	27,604.4	26,511.1	1,934.3	28,445.5
0623000 General Admin., Planning & Support Services	404.7	69.7	474.4	538.6	45.0	583.6	542.7	45.7	588.4
Programme 3. Betting Control Licensing & Regulation Services	136.3	10.0	146.3	223.2	10.0	233.2	225.1	20.0	245.1
<b>1252 State Law Office &amp; Department of Justice</b>	<b>4,012.5</b>	<b>1,634.0</b>	<b>5,646.5</b>	<b>5,066.0</b>	<b>1,659.0</b>	<b>6,725.0</b>	<b>5,182.5</b>	<b>1,671.0</b>	<b>6,853.5</b>
0606000 Legal Services	1,649.4	106.0	1,755.4	2,261.4	109.0	2,370.4	2,326.2	102.0	2,428.2
0607000 Governance, Legal Training & Constitutional Affairs	1,691.5	1,450.0	3,141.5	2,011.4	1,370.0	3,381.4	2,044.6	1,370.0	3,414.6
0609000 General Admin., Planning & Support Services	671.6	78.0	749.6	793.3	180.0	973.3	811.8	199.0	1,010.8
<b>1261 The Judiciary</b>	<b>13,254.6</b>	<b>4,049.0</b>	<b>17,303.6</b>	<b>15,441.0</b>	<b>4,099.0</b>	<b>19,540.0</b>	<b>16,031.0</b>	<b>1,000.0</b>	<b>17,031.0</b>
0610000 Dispensation of Justice	13,254.6	4,049.0	17,303.6	15,441.0	4,099.0	19,540.0	16,031.0	1,000.0	17,031.0
<b>1271 Ethics &amp; Anti-Corruption Commission</b>	<b>2,851.5</b>	<b>120.0</b>	<b>2,971.5</b>	<b>2,854.3</b>	<b>40.0</b>	<b>2,894.3</b>	<b>2,858.3</b>	<b>30.0</b>	<b>2,888.3</b>
0611000 Ethics & Anti-Corruption	2,851.5	120.0	2,971.5	2,854.3	40.0	2,894.3	2,858.3	30.0	2,888.3
<b>1291 Office of the Director of Public Prosecutions</b>	<b>2,400.0</b>	<b>142.6</b>	<b>2,542.6</b>	<b>2,816.0</b>	<b>82.6</b>	<b>2,898.6</b>	<b>2,919.0</b>	<b>82.6</b>	<b>3,001.6</b>
0612000 Public Prosecution Services	2,400.0	142.6	2,542.6	2,816.0	82.6	2,898.6	2,919.0	82.6	3,001.6
<b>1311 Office of Registrar of Political Parties</b>	<b>854.9</b>	<b>-</b>	<b>854.9</b>	<b>952.3</b>	<b>-</b>	<b>952.3</b>	<b>976.4</b>	<b>-</b>	<b>976.4</b>
0614000 Registration, Regulation & Funding of Political Parties	854.9	-	854.9	952.3	-	952.3	976.4	-	976.4

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<b>1032 State Department for Devolution</b>									
0732000 General Admin., Planning & Support Services	1,166.0	3,528.0	4,715.8	804.3	3,527.2	4,331.6	844.3	3,588.0	4,432.3
0712000 : Devolution Services	238.1	1,028.0	1,288.0	272.2	200.0	472.2	274.8	-	274.8
Management of Intergovernmental Relations	106.9	2,500.0	2,606.9	108.8	3,327.2	3,436.0	110.6	3,588.0	3,698.6
<b>1051 Ministry of Foreign Affairs &amp; International Trade</b>									
0715000 Foreign Relation & Diplomacy	821.0	-	821.0	423.4	-	423.4	458.9	-	458.9
0742000 Economic & Commercial Diplomacy	17,440.5	1,987.7	19,428.3	17,918.2	1,986.9	19,905.1	18,618.8	2,056.4	20,675.2
Foreign Policy Research, Capacity Development & Technical Cooperation	14,003.9	1,517.7	15,521.6	14,459.1	1,216.9	15,676.0	14,982.6	1,156.4	16,139.0
	132.9	-	132.9	138.2	-	138.2	143.7	-	143.7
0714000 General Admin. Planning & Support Services	144.9	200.0	344.9	144.3	200.0	344.3	152.8	200.0	352.8
<b>1071 The National Treasury</b>									
0717000 : General Admin. Planning & Support Services	3,158.8	270.0	3,428.8	3,176.6	570.0	3,746.6	3,339.8	700.0	4,039.8
0718000 : Public Financial Management	76,446.3	45,582.9	122,029.2	84,398.5	46,541.8	130,940.3	84,639.8	44,793.2	129,433.0
0719000 : Economic, Financial Policy Formulation & Management	70,528.7	3,988.3	74,517.1	78,456.6	4,913.3	83,369.9	78,596.6	4,968.3	83,564.9
0720000 : Market Competition	4,432.4	40,188.0	44,620.3	4,447.8	40,221.8	44,669.6	4,448.9	38,418.3	42,867.2
0740000 Government Clearing Services	1,067.4	1,351.6	2,419.0	1,076.2	1,351.6	2,427.8	1,076.2	1,351.6	2,427.8
	338.7	55.0	393.7	340.0	55.0	395.0	340.0	55.0	395.0
	79.2	-	79.2	78.0	-	78.0	78.0	-	78.0
<b>1211 State Department for Public Service &amp; Youth Affairs</b>									
0710000 : Public Service Transformation	13,542.1	12,824.5	26,366.6	13,984.4	12,813.7	26,798.1	14,368.1	13,701.2	28,069.3
0711000 : Youth Empowerment	1,770.8	2,104.8	3,875.6	1,840.1	2,124.8	3,964.9	1,900.0	2,404.8	4,304.8
0709000 : General Admin. Planning & Support Services	7,617.3	10,548.7	18,166.0	7,973.3	10,518.0	18,491.2	8,277.0	11,045.4	19,322.5
<b>2042 National Assembly</b>									
0721000 National Legislation, Representation & Oversight	4,154.1	171.0	4,325.1	4,171.0	171.0	4,342.0	4,191.0	251.0	4,442.0
	18,795.4	-	18,795.4	19,001.9	-	19,001.9	21,320.2	-	21,320.2
<b>2041 Parliamentary Service Commission</b>									
0722000 Senate Affairs	18,795.4	-	18,795.4	19,001.9	-	19,001.9	21,320.2	-	21,320.2
0723000 General Admin., Planning & Support Services	5,838.3	-	5,838.3	6,159.6	-	6,159.6	6,159.6	-	6,159.6
<b>2061 The Commission on Revenue Allocation</b>									
0724000 Inter-Governmental Revenue & Financial Matters	4,985.2	2,150.0	7,135.2	4,985.2	2,650.8	7,636.0	4,985.2	2,081.4	7,066.6
	389.0	-	389.0	370.5	-	370.5	383.3	-	383.3
<b>2071 Public Service Commission</b>									
0725000 General Admin., Planning & Support Services	389.0	-	389.0	370.5	-	370.5	383.3	-	383.3
0726000 Human Resource Management & Development	1,220.4	59.3	1,279.7	1,374.8	59.2	1,434.1	1,423.6	63.4	1,487.0
0727000 Governance & National Values	866.6	59.3	925.9	1,010.8	59.2	1,070.0	1,048.6	63.4	1,112.0
<b>2081 Salaries &amp; Remuneration Commission</b>									
0728000 Salaries & Remuneration Management	221.2	-	221.2	227.5	-	227.5	234.3	-	234.3
	132.6	-	132.6	136.6	-	136.6	140.7	-	140.7
	564.9	-	564.9	702.0	-	702.0	721.5	-	721.5
	564.9	-	564.9	702.0	-	702.0	721.5	-	721.5

Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
2111 Auditor-General	5,245.2	232.2	5,477.5	5,421.2	232.0	5,653.2	5,602.9	248.4	5,851.3
0729000 Audit Services	5,245.2	232.2	5,477.5	5,421.2	232.0	5,653.2	5,602.9	248.4	5,851.3
2121 Controller of Budget	524.6	-	524.6	584.6	-	584.6	604.9	-	604.9
0730000 Control & Management of Public finances	524.6	-	524.6	584.6	-	584.6	604.9	-	604.9
2131 The Commission on Administrative Justice	506.8	-	506.8	584.5	-	584.5	601.3	-	601.3
0731000 Promotion of Administrative Justice	506.8	-	506.8	584.5	-	584.5	601.3	-	601.3
<b>NATIONAL SECURITY</b>									
1041 Ministry of Defence	125,697.0	45.0	125,742.0	139,688.0	45.0	139,733.0	143,799.0	45.0	143,844.0
0801000 Defence	97,106.0	45.0	97,151.0	108,797.0	45.0	108,842.0	110,387.0	45.0	110,432.0
0802000 Civil Aid	95,478.0	45.0	95,523.0	107,133.0	45.0	107,178.0	108,686.0	45.0	108,731.0
0803000 General Admin., Planning & Support Services	270.0	-	270.0	270.0	-	270.0	270.0	-	270.0
National Space Management	1,358.0	-	1,358.0	1,394.0	-	1,394.0	1,431.0	-	1,431.0
1231 National Intelligence Service	300.0	-	300.0	300.0	-	300.0	300.0	-	300.0
0804000 National Security Intelligence	28,591.0	-	28,591.0	30,891.0	-	30,891.0	33,412.0	-	33,412.0
28,591.0	-	-	28,591.0	30,891.0	-	30,891.0	33,412.0	-	33,412.0
<b>SOCIAL PROTECTION, CULTURE &amp; RECREATION</b>									
1033 State Department for Special Programmes	29,434.2	23,491.7	52,925.9	31,277.0	25,004.9	56,281.9	31,362.2	24,951.7	56,314.0
0713000 Special Initiatives	1,360.5	3,875.0	5,235.5	2,618.9	3,629.0	6,247.9	2,548.8	3,666.0	6,214.8
0733000 Accelerated ASAL Development	390.8	-	390.8	1,583.1	-	1,583.1	1,504.1	-	1,504.1
General Admin. Services	702.8	3,875.0	4,577.8	736.2	3,629.0	4,365.2	734.0	3,666.0	4,400.0
1132 State Department for Sports Development	266.9	-	266.9	299.6	-	299.6	310.7	-	310.7
0901000 Sports	1,669.1	600.0	2,269.1	1,881.1	1,485.2	3,366.3	1,917.8	1,505.8	3,423.6
0905000 General Admin., Planning & Support Services	1,062.2	600.0	1,662.2	1,252.7	1,485.2	2,737.9	1,272.6	1,505.8	2,778.3
1133 State Department for Arts & Culture	606.8	-	606.8	628.4	-	628.4	645.3	-	645.3
0902000 Culture Development	2,948.3	851.6	3,822.9	3,141.1	1,409.5	4,550.6	3,137.5	1,131.2	4,268.7
0903000 The Arts	1,355.38	531.6	1,919.98	1,465.59	922.5	2,388.09	1,483.12	1,131.9	2,614.31
0904000 Library Services	721.32	20	741.32	801.18	114	915.18	779.28	0	779.28
0905000 General Admin., Planning & Support Services	699.61	300	999.61	696.4	373	1,069.4	688.26	0	688.26
171.96	0	171.96	177.95	0	177.95	186.8	0	186.8	186.8

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Annex Table 4: Summary of Expenditure by Programmes, 2018/19 - 2020/21 (Ksh Million) ..Contd

Sector/ Vote/ Programme Details	2018/19 Ceiling			2019/20 Projection			2020/21 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
<b>1184 State Department for Labour</b>									
0906000 Promotion of the Best Labour Practice	2,626.6	2,592.0	5,218.6	2,523.3	3,032.7	5,556.0	2,564.4	2,844.5	5,408.9
0907000 Manpower Development, Employment & Productivity Management	661.5	150.4	811.8	568.4	385.1	953.5	585.0	330.0	915.0
0910000 : General Admin. Planning & Support Services	1,355.5	2,441.6	3,797.1	1,393.6	2,647.6	4,041.2	1,399.0	2,514.5	3,913.5
	609.7	-	609.7	561.3	-	561.3	580.4	-	580.4
<b>1185 State Department for Social Protection</b>									
0908000 : Social Development & Children Services	19,305.4	12,643.1	31,948.5	19,497.6	12,518.5	32,016.1	19,553.7	12,874.3	32,428.0
0909000 : National Social Safety Net	2,803.1	1,008.0	3,811.1	3,099.9	1,379.1	4,479.0	3,152.8	1,289.2	4,442.0
0910000 : General Admin. Planning & Support Services	16,272.8	11,635.1	27,907.9	16,091.4	11,119.3	27,210.8	16,098.6	11,555.1	27,653.7
	229.5	-	229.5	306.3	20.0	326.3	302.4	30.0	332.4
<b>1212 State Department for Gender</b>									
0911000 Community Development	1,524.3	2,930.0	4,454.3	1,615.0	2,930.0	4,545.0	1,640.0	2,930.0	4,570.0
0912000 Gender Empowerment	-	2,130.0	2,130.0	-	2,130.0	2,130.0	-	2,130.0	2,130.0
General Admin. & Planning	1,265.3	800.0	2,065.3	1,327.0	800.0	2,127.0	1,341.0	800.0	2,141.0
	259.0	-	259.0	288.0	-	288.0	299.0	-	299.0
<b>ENVIRONMENT PROTECTION, WATER &amp; NATURAL RESOURCES</b>									
<b>1103 State Department for Water Services</b>									
1001000 General Admin., Planning & Support Services	22,920.7	54,287.0	77,207.7	23,908.0	56,279.0	80,187.0	24,087.0	58,559.0	82,646.0
1004000 Water Resources Management	4,225.8	31,027.0	35,252.8	4,596.0	30,996.0	35,592.0	4,628.0	31,635.0	36,263.0
1017000 Water & Sewerage Infrastructure Development	642.6	151.0	793.6	789.0	151.0	940.0	813.0	151.0	964.0
1014000 Irrigation & Land Reclamation	1,544.0	4,688.0	6,232.0	1,560.0	4,688.0	6,248.0	1,537.0	4,688.0	6,225.0
1015000 Water Storage & Flood Control	2,039.2	26,188.0	28,227.2	2,247.0	26,157.0	28,404.0	2,278.0	26,796.0	29,074.0
1016000 : General Admin. & Support Services	971.5	14,653.0	15,624.5	1,019.0	16,208.0	17,227.0	1,032.0	17,160.0	18,192.0
	807.7	7,928.0	8,735.7	835.0	8,049.0	8,884.0	841.0	9,001.0	9,842.0
	45.0	6,725.0	6,770.0	51.0	8,159.0	8,210.0	55.0	8,159.0	8,214.0
	118.8	-	118.8	133.0	-	133.0	136.0	-	136.0
<b>1105 State Department for Environment</b>									
1012000 Meteorological Services	2,916.2	3,848.0	6,764.2	3,042.0	3,837.0	6,879.0	3,088.0	4,058.0	7,146.0
1002000 Environment Management & Protection	1,093.0	1,082.0	2,175.0	1,132.0	1,082.0	2,214.0	1,143.0	1,082.0	2,225.0
1010000 General Admin., Planning & Support Services	1,479.9	2,766.0	4,245.9	1,527.0	2,755.0	4,282.0	1,529.0	2,976.0	4,505.0
	343.3	-	343.3	383.0	-	383.0	416.0	-	416.0
<b>1106 State Department for Natural Resources</b>									
1003000 Natural Resources Management & Protection	13,667.4	4,023.0	17,690.4	13,936.0	4,008.0	17,944.0	13,959.0	4,333.0	18,292.0
Forests & Water Towers Conservation & Management	7,111.7	2,912.0	10,023.7	7,537.0	2,897.0	10,434.0	7,557.0	2,992.0	10,549.0
Wildlife Conservation & Management	6,206.6	1,097.0	7,303.6	6,012.0	1,097.0	7,109.0	6,012.0	1,327.0	7,339.0
General Admin., Planning & Support Services	349.1	14.0	363.1	387.0	14.0	401.0	390.0	14.0	404.0
<b>1119 Ministry of Mining</b>									
1007000 General Admin. Planning & Support Services	1,139.9	736.0	2,375.9	1,315.0	1,230.0	2,545.0	1,380.0	1,373.0	2,753.0
1008000 Resources Surveys & Remote Sensing	737.9	60.0	797.9	892.0	60.0	952.0	933.0	60.0	993.0
1009000 Mineral Resources Management	184.0	361.0	545.0	184.0	361.0	545.0	185.0	361.0	546.0
	218.0	315.0	1,033.0	239.0	809.0	1,048.0	262.0	952.0	1,214.0
<b>Total</b>	<b>1,052,279.4</b>	<b>628,692.9</b>	<b>1,688,528.2</b>	<b>1,114,097.7</b>	<b>655,609.1</b>	<b>1,769,706.9</b>	<b>1,138,943.8</b>	<b>654,269.2</b>	<b>1,793,214.1</b>

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**Annex Table 5: Public Private Partnership (PPP) Projects – Kenya, Government's Guarantee and Termination Terms**

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
1.	Africa Geothermal International 140 MW	25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya	760	Financial Close: 3 <sup>rd</sup> April, 2014  Status: Under Construction	Letter of support issued	<ol style="list-style-type: none"> <li>Total Project cost depreciated at 5% per annum</li> <li>Expenses incurred by the seller as a result of termination</li> <li>Net Present Value of 5 Years profits at 10%</li> </ol>	US\$ 77.3 Mn	NO
2.	Lake Turkana Wind Power – 300 MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West, on a 20 Year PPA with Kenya Power	847	Financial Close: 24 <sup>th</sup> March, 2014  Status: Commissioned	Letter of support covering political risks issued on 28 <sup>th</sup> February, 2013  Indemnity Agreement covering ADF Guaranteed Letter of Credit (LC) in the amount of Euros 20 Mn	<ol style="list-style-type: none"> <li>Total Project cost depreciated at 5% per annum</li> <li>Expenses incurred by the seller as a result of termination</li> <li>Net Present Value of 5 Years profits at 10%</li> </ol>	Deemed Generated Energy Payments Euros 110.4 MN	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
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: 18 <sup>th</sup> November, 2013  Status: Under Construction	Letter of support covering political risks issued on 2 <sup>nd</sup> July 2012  Indemnity Agreement covering PRG payments was signed on 14 <sup>th</sup> March 2013. PRG amount US\$ 35 Mn and Euros 7 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 16.3 Mn	NO
4.	Triumph Power – 82 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	156.5	Financial Close: 7 <sup>th</sup> August 2013  Status: Under construction	Letter of support covering political risks issued on 2 <sup>nd</sup> July 2012  Indemnity Agreement covering PRG payments was signed on 5 <sup>th</sup> December 2012. PRG Amount US\$ 45 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	US\$ 24.5Mn	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	146	Financial Close: 11 <sup>th</sup> October 2012  Status: operational from August 2013	Letter of support covering political risks issued on 2 <sup>nd</sup> July 2012 Indemnity Agreement covering PRG payments was signed on 28 <sup>th</sup> August 2014. PRG Amount US\$ 35 Mn and Euros 7.7 Mn	<ol style="list-style-type: none"> <li>Total Project cost depreciated at 5% per annum</li> <li>Expenses incurred by the seller as a result of termination</li> <li>Net Present Value of 5 Years profits at 10%</li> </ol>	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: 31 <sup>st</sup> December 2012  Status: Under Arbitration & Development stopped	Letter of support covering political risks issued on 26 <sup>th</sup> July, 2013	<ol style="list-style-type: none"> <li>Total Project cost depreciated at 5% per annum</li> <li>Expenses incurred by the seller as a result of termination</li> <li>Net Present Value of 5 Years profits at 10%</li> </ol>	Deemed Energy Payment US\$ 26.8 Mn	NO*

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
7.	Orpower 150MW** Olkaria III Geothermal power plant (1 <sup>st</sup> plant 48MW, 2 <sup>nd</sup> plant 36MW, 3 <sup>rd</sup> plant 16MW and 4 <sup>th</sup> Plant 29MW)	Description: 20 year - BOO	558***	Financial Close: Jan, 1999 Status: Operational	Letter of support covering political risks issued on 16 <sup>th</sup> April, 2015 Indemnity Agreement LC covering PRG payments of Amount US\$ 31Mn	<ol style="list-style-type: none"> <li>Total Project cost depreciated at 5% per annum</li> <li>Expenses incurred by the seller as a result of termination</li> <li>Losses incurred by the Seller</li> </ol>	US\$70.98 Mn	NO
8.	Rabai Power Plant - 90 MW	20 year - BOO	155	Financial Close: October, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalable Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO
9.	Mumias Power Plant - 35MW	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US\$ 5.3Mn	NO

No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
10.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Financial Close: None Status: Operational	None	None	Ksh 2,209Mn	NO
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	<ol style="list-style-type: none"> <li>Net Present Value of Non-escalable Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum.</li> <li>Expenses incurred by the Seller as a result of termination.</li> <li>The value of the stock of fuel and other</li> </ol>	US\$9.62 Mn	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	consumables and spare parts at the Plant None	None	NO
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
14.	1050 MW Lamu Power Project	Located in Manda Bay, the Lamu Coal Power Plant is on a BOO basis over a 25 - year concession period	2,000	Status: Financial Close Impending	Letter of support covering political risks issued on 4 <sup>th</sup> August, 2017	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	US\$ 360 Mn	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
15.	100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Impending	Letter of support covering political risks issued	<ol style="list-style-type: none"> <li>Total amount outstanding and unpaid to all Financing Parties – Debt &amp; Equity</li> <li>NPV of 5 years profits at 10% discount rate</li> <li>Redundancy payments/ Termination &amp; Breakage costs</li> <li>Value of unpaid construction works as at termination</li> </ol>	US\$ 60 Mn	NO
16.	Akiira Geothermal 70 MW Power Project (Phase I of	Feed in Tariff Power Plant on a BOO basis	333	Status: Financial Close Impending	Letter of support covering political risks issued	<ol style="list-style-type: none"> <li>Total amount outstanding and unpaid to all</li> </ol>	US\$ 37.4 Mn	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
	140 MW project)					Financing Parties – Debt & Equity		
17.	35MW Geothermal Quantum Power Project	Located in Nakuru County, the Quantum Power project is based on BOO arrangement over 25 years	90	Status: Financial Close Impending	Letter of support covering political risks issued	2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs	US\$ 14.27 Mn	NO
18.	35 MW Geothermal Sosian Power Project	Located in Nakuru County, the Sosian Power project is based on BOO arrangement over 25 years	79	Status: Financial Close Impending	Letter of support covering political risks issued	4. Value of unpaid construction works as at termination	US\$ 14.27 Mn	NO
19.	40 MW Cedate Solar Power	Feed in Tariff Power Plant on a BOO basis	77	Status: Financial Close Impending	Letter of support covering political risks issued		US\$ 12.5 Mn	NO
20.	40 MW Selenkei Solar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Impending	Letter of support covering political risks issued		US\$ 12.5 Mn	NO
21.	40 MW Malindi Solar Power Project	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Impending	Letter of support covering political risks issued		US\$ 11.2 Mn	NO

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No.	Project Name	Project Description	Project Value (\$ Mn)	Status	Type/Value/State Guarantee	Amount of Termination Payment (Default by GOk)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
22.	40 MW Alten Solar Power Project	Feed in Tariff Power Plant on a BOO basis	105	Status: Financial Close Impending.	Letter of support covering political risks issued		US\$ 13.8 Mn	NO

\*\*With respect to Kinangop Wind Power, it is recognized that a claim under the Government Letter of Support was lodged, and the matter is currently sub judice, before an arbitration panel under ICC rules. The ruling on this matter is likely to be issued in the FY 2018.

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