REPUBLIC OF KENYA

PARLIAMENT
OF KENYA
LIBRARY

NATIONAL ASSEMBLY MEMORANDUM

ON

THE NATIONAL GREEN FISCAL INCENTIVES POLICY FRAMEWORK

MEMORANDUM ON THE NATIONAL GREEN FISCAL INCENTIVES POLICY FRAMEWORK

I. PURPOSE

1. The purpose of this Memorandum is to apprise the National Assembly of the Kenya's National Green Fiscal Incentives Policy Framework;

II. BACKGROUND

2. The Green Fiscal Incentives Policy Framework seeks to steer Kenya's economy onto a desired low-carbon climate-resilient green development pathway through a variety of fiscal and economic mechanisms. Green fiscal reforms can help shift consumption patterns, generate additional revenue, and drive private investment in projects and programs that adopt climate-friendly production mechanisms.

3. The policy sets out how the government Ministries, Departments and Agencies can enhance mobilization of climate Finance from all sources: private, public, multi-lateral agencies, bilateral, philanthropic, etc. to finance Kenya's updated NDC and NCCAPs.

4. The Policy Framework considers green fiscal reforms as mechanisms that have been used by governments to correct environmental externalities, support national climate change goals, and promote clean energy investments.

5. The mechanisms range from tax policies, subsidies and expenditure programs, and regulatory instruments with fiscal components all of which have revenue implications. As such: government taxes can be used to stimulate a shift in production, consumption and investment in low-carbon climate-resilient and environmentally sustainable practices; concessional loans, guarantees and interest rate subsidies can be effective tools in overcoming investment barriers and leveraging private sector green investments; and government spending can directly target the delivery of environmental outcomes that the private sector might otherwise ignore.

III. POLICY CONTEXT

6. Recognizing the threats posed by climate change and other environmental challenges, the world is now taking more rapid action. Investors are rapidly shifting from dirty to clean assets, and key technologies needed for environmental sustainability are experiencing rapid cost reductions.

7. The world's largest emitter, China, in 2020 pledged to reduce CO2 emissions to net zero by 2060. The United Nations Call for Action on Adaptation and Resilience spelled an urgent need for enhanced resilience and also recently adopted a landmark framework that considers the contribution of nature when measuring economic prosperity and human wellbeing.

8. In accordance with the updated NDCs that build on national policies, plans and legal frameworks, it is essential for Kenya to play a full and active part in this global transition to a low-carbon climate resilience development path.

9. A development path characterized by continued low-emissions, enhanced climate resilience and environmental sustainability.

10. Formulation of this Policy was initiated within the framework of the Climate Change Act, 2016 and the National Climate Change Action Plans whose objective is to encourage low carbon climate resilient development through implementation of the National Climate Change Response Strategy, 2010.

IV. GOALS AND OBJECTIVES OF THE POLICY

11. The goal of this policy is to identify and prioritize the implementation of a coherent suite of green fiscal actions that will allow Kenya to exploit the opportunities of accelerating the transition to a low-emissions development pathway while enhancing climate resilience and ensuring environmental sustainability. In doing this, the policy will:

    a. Direct government planning, budgeting and spending/procurement toward green and consumption.

b. Provide a framework for fiscal incentives to attract private sector investment into a low-carbon emission, climate-resilient and environmentally sustainable economy.
c. Provide a framework for generating additional revenue streams for the government.

V. BENEFITS OF THE POLICY TO KENYA

12. The Policy is an important part of accelerating the implementation of the Constitution of Kenya, 2010 where a clean and healthy environment (Articles 42, 69 and 70) are fundamental rights.
13. The policy will encourage private sector participation in climate relevant financing opportunities.
14. The policy will enhance resilience to climate change and other shocks.
15. The policy is essential for Kenya to manage transition risks. Failure to align with global low-emissions trends may lead to international marginalization, impacting trade and capital flows

VI. FINANCIAL IMPLICATION

16. Approximately Ksh.200 million annually will be required over five years to support the operationalization of the policy so as to meet the stated objectives and its related laws and regulations.

VII. RECOMMENDATIONS TO THE NATIONAL ASSEMBLY

17. The National Assembly is requested to note the contents of this Memorandum, and if agreeable, adopt the National Green Fiscal Incentives Policy Framework as a sessional paper.

Sign.....

HON.CPA JOHN MBADI NG'ONGO, EGH

Cabinet Secretary

The National Treasury and Economic Planning

Dated.....30/10/24.....

REPUBLIC OF KENYA

THE NATIONAL TREASURY

SESSIONAL PAPER NO. 5 OF 2024

ON

THE NATIONAL GREEN FISCAL INCENTIVES POLICY FRAMEWORK

EXECUTIVE SUMMARY

This policy document is organized into five chapters, with the first chapter providing the policy background. The second chapter outlines the policy goals and guiding principles while chapter three gives a situational analysis of green fiscal reforms across key sectors in Kenya and internationally. Chapter four highlight green fiscal policy interventions for each sector based on international experience and the current Kenyan context described in the previous chapter. The fifth chapter concludes with an overview of the governance structures to implement the policy.

The Green Fiscal Incentives Policy Framework seeks to steer Kenya's economy onto a desired low-carbon climate-resilient green development pathway through a variety of fiscal and economic mechanisms. Green fiscal reforms can help shift consumption patterns, generate additional revenue, and drive private investment in projects and programs that adopt climate-friendly production mechanisms. The policy sets out how the government Ministries, Departments and Agencies can enhance mobilization of climate finance from all sources: private, public, multi-lateral and bilateral agencies, philanthropic, etc. to finance Kenya's National Determined Contributions and County and National Climate Change Action Plans.

The Policy Framework considers green fiscal reforms as mechanisms that have been used by governments to correct environmental externalities, support national climate change goals, and promote clean energy investments. The mechanisms range from tax policies, subsidies and expenditure programs, and regulatory instruments with fiscal components all of which have revenue implications. As such: **government taxes** can be used to stimulate a shift in production, consumption and investment in low-carbon climate-resilient and environmentally sustainable practices; **concessional loans, guarantees and interest rate subsidies** can be effective tools in overcoming investment barriers and leveraging private sector green investments; and **government spending** can directly target the delivery of environmental outcomes that the private sector might otherwise ignore.

Recognizing the threats posed by climate change and other environmental challenges, the world is now taking more rapid action. Investors are rapidly shifting from dirty to clean assets, and key technologies needed for environmental sustainability are experiencing rapid cost reductions.
The world's largest emitter, China, in 2020 pledged to reduce CO_2 emissions to net zero by 2060. Further progress is soon expected from the USA. The United Nations Call for Action on Adaptation and Resilience spelled an urgent need for enhanced resilience and also recently adopted a landmark framework that considers the contribution of nature when measuring economic prosperity and human wellbeing.

In accordance with the updated National Determined Contributions that build on national policies, plans and legal frameworks, it is essential for Kenya to play a full and active part in this global transition to a low-carbon-climate resilience development path. A development path characterized

by continued low emissions, enhanced climate resilience and environmental sustainability will provide Kenya with a wide range of benefits including: stronger growth, greener investment and higher innovation; enhanced natural capital; avoidance of transition risks; enhanced resilience to climate and other shocks; meet international obligations, among others.

The goal of this policy is to identify and prioritize the implementation of a coherent suite of green fiscal actions that will allow Kenya to exploit the opportunities of accelerating the transition to a low-emissions development pathway while enhancing climate resilience and ensuring environmental sustainability. In doing this, the policy will:

i. Direct government planning, budgeting and spending/procurement toward green production and consumption.
ii. Provide a framework for fiscal incentives to attract private sector investment into a low-carbon emission, climate-resilient and environmentally sustainable economy.
iii. Provide a framework for generating additional revenue streams for the government.

The policy sets out a series of green fiscal policy actions of particular interest to the government of Kenya. The key sectors identified in the policy have the greatest potential to green Kenya's economy and are in line with the National Climate Change Action Plan (2018–2022). These sectors include agriculture, food and nutrition security, water and sanitation, blue economy, disaster risk financing, health and sanitation, forestry, human settlement and infrastructure, energy, transport, manufacturing and waste management. The policy also identifies some key cross-cutting policy actions that would have an important impact in support of Kenya's green development agenda.

The National Treasury will lead and facilitate the implementation of this policy, working with partners to develop required laws and regulations. Capacity development for relevant stakeholders, including county governments, will be a critical element of implementation. A continuous program for monitoring and evaluation will be developed; and the policy shall be reviewed within five years to assess its effectiveness and relevance.

TABLE OF CONTENTS

EXECUTIVE SUMMARY ii

CHAPTER 1: INTRODUCTION 1

1.1 The call for action 1

1.2 New green fiscal policies to build on a strong planning foundation 3

CHAPTER 2: POLICY GOALS AND GUIDING PRINCIPLES 4

CHAPTER 3: SITUATIONAL ANALYSIS 7

3.1 Disaster risk management 8

3.2 Water and the blue economy 10

3.3 Health and sanitation 12

3.3.1 Health 12

3.3.2. Sanitation 14

3.4 Agriculture, food and nutrition security 16

3.5 Forestry, wildlife and tourism 18

3.6 Human settlements and infrastructure 23

3.7 Electricity 25

3.8 Clean cooking 27

3.9 Manufacturing 29

3.10 Transport 30

3.11 Waste management 32

3.12 Cross-cutting issues 34

CHAPTER 4: GREEN FISCAL POLICY ACTIONS 37

4.1 Sector-specific fiscal actions 37

4.1.1 Disaster risk management 37

4.1.2 Water and the blue economy 38

4.1.3 Health and sanitation 39

4.1.4 Agriculture, Food, and Nutrition Security 40

4.1.5 Forestry, wildlife and tourism 42

4.1.6 Human settlements and infrastructure 43

4.1.7 Renewable Energy 44

4.1.8 Clean cooking 45

4.1.9 Manufacturing 47

4.1.10 Transport 47

4.1.11 Waste management 48

4.2 Enhanced green financial intermediation actions: 48
4.2.1 Green investment bank 48
4.2.2 Carbon tax 50
CHAPTER 5: IMPLEMENTATION, GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS 51
GLOSSARY 60

LIST OF TABLES

Table 1: Damages and losses from selected climate-related shocks as recorded by different sources 13

CHAPTER 1: INTRODUCTION

1.1 The call for action

Recognizing the threats posed by climate change and other environmental challenges, the world is now taking more rapid action. Building on the momentum created by the Paris Agreement (PA) and agreement on the Global Goals (the Sustainable Development Goals, SDGs), and recognizing the urgent need to Build Back Better from the coronavirus disease 2019 (COVID-2019) crisis, countries around the world are committing to combat climate change and environmental risks. In 2020, the world's largest emitter, China, pledged to reduce CO_2 emissions to net zero by 2060. Further progress is soon expected from the US. The urgent need for enhanced resilience is reflected in the United Nations Call for Action on Adaptation and Resilience. Investors are rapidly shifting from dirty to clean assets, and key technologies needed for environmental sustainability are experiencing rapid cost reductions. The United Nations recently adopted a landmark framework that considers the contribution of nature when measuring economic prosperity and human wellbeing.[1]

In accordance with the updated National Determined Contributions (NDCs) that build on national policies, plans and legal frameworks, it is essential for Kenya to play a full and active part in this global transition to a low-carbon and climate-resilient development path. A development path characterized by continued low emissions, enhanced climate resilience and environmental sustainability will provide Kenya with a wide range of benefits:

Stronger growth, greener investment and higher innovation. UNEP's 2014 Kenya Green Economy Assessment Report shows that pursuing a green economy scenario will result in faster economic growth.[2] By 2030, gross domestic product (GDP) could be 12% higher by taking a green growth pathway compared with continuing a business-as-usual (BAU) scenario. This reflects the high positive spillovers from climate-related innovation, the savings and yield increases provided by a focus on resource productivity, and the ever-lower costs of many key low-carbon and climate-resilient technologies. Kenya has abundant renewable energy resources, a thriving green finance sector and an enviable reputation as a climate action leader globally. Kenya has the potential to sequester, reduce, or avoid about 30 metric tons of carbon dioxide equivalent per year and mobilize up to $600 million annually from regulatory compliance and voluntary carbon market (VCM) projects by 2030 using an average price of $20 per ton. Kenya has also emerged as one of the largest issuers of carbon credits - 8th largest in the world in 2021. All these advantages can be exploited in a green growth pathway. There are also benefits from low-carbon, climate resilient

[1] The System of Environmental-Economic Accounting- Ecosystem Accounting (SEEA EA)

[2] UNEP (2014), Green Economy Assessment Report: Kenya. Available: https://www.greengrowthknowledge.org/sites/default/files/downloads/resource/KenyaGEassessment_UNEP.pdf

growth that enhance human wellbeing but which are not fully reflected in GDP statistics, including lower air pollution and better health, reduced congestion, and the opportunity to live in a more attractive environment.

Enhanced natural capital. An estimated 42% of Kenya's GDP is derived from natural resource sectors, such as agriculture, mining, forestry, fishing and tourism, while 42% of the total employment comes from small-scale agriculture and pastoralism. A strong focus on preserving and enhancing the natural capital that these activities depend upon can ensure they provide sustainable, flourishing livelihoods for both current and future generations. The recent Dasgupta Review provides a salutary reminder that all human activity is ultimately reliant on strong and healthy ecosystems and natural capital.[3]

Enhanced resilience to climate and other shocks. At present, Kenya is in the top 20% of countries that are most vulnerable to climate change. It poses a major threat to Kenya's socio-economic wellbeing and the attainment of the Vision 2030 and its Medium-Term Plans, the NCCAP, the Bottom up Economic Transformation Agenda (BETA) model, among others.[4][5] A specific focus is needed to recognize, reduce and adapt to these risks. In so doing, the country designed a comprehensive program referred to as Financing Locally-Led Climate Action Program (FLLoCA) which is aimed at building resilience to climate related risks, vulnerability and shocks. Other interventions are also being developed to address other shocks (such as infectious diseases or cybersecurity) that threaten Kenya's development.

Reduced transition risks. As noted above, the world is moving toward a low-emissions pathway. A failure by Kenya to move in line with (and potentially help lead) this transition could instead result in Kenya being sidelined by international partners as trade and capital flows increasingly take account of climate considerations. Most carbon-intensive industries and fossil fuel exporters are already worrying about how to respond to this existential threat. A 20th-century growth model will not serve Kenya well in a 21st-century world.

Enhanced compliance with international obligations. Under the Paris Agreement (PA), countries have agreed to limit the increase in the global average temperature to 'well below 2°C above pre-industrial levels', and to pursue efforts to 'limit the temperature increase to 1.5°C above

---

[3] Partha Dasgupta (2021), The Economics of Biodiversity: The Dasgupta Review. United Kingdom HM Treasury. Available: https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review

[4] Bottom-Up Economic Model aims to boost economic growth by prioritizing investment in the grassroots economy, particularly in the agricultural sector, and empowering small and medium-sized enterprises (SMEs) to create jobs and reduce poverty.

[5] 'Big Four' refers to the name given to the four pillars of the economy (manufacturing, food security and nutrition, universal healthcare, and housing) that the President of Kenya planned to support in order to deliver on promises made to citizens during his second term (2017–2022). Subsequently, the four sectors were prioritized in Kenya's Medium Term Plan III.

pre-industrial levels. Kenya's contribution to this goal is formally reflected in its recently updated NDC, which enhanced its ambition by setting a goal to reduce its emissions by 32% relative to BAU by 2030, and included, for the first time, a commitment that some of this action would no longer be conditional on the provision of support by the international community.

Cooking poverty: Cooking poverty is a national development issue that mainly affects the poor households. Incentives are needed to develop and deliver cooking decency for all. For long-term sustainability, interventions must be guided by principles that put cooking needs and aspirations of poor households at the center and fully integrate the universal access goal into national strategies and roadmaps underpinned by high-level political support and investments.

There are inherent benefits of access to clean cooking: Improving access to clean cooking can accrue large socioeconomic and environmental benefits for society. However, progress has been stymied due to a lack of prioritization at all levels, including donors, national governments, the private sector, and households.

1.2 New green fiscal policies to build on a strong planning foundation

Kenya has made significant progress in moving toward a green and blue development pathway as sustainable natural resource utilization including marine and aquatic resource is embedded in the Constitution. The Green economy has been mainstreamed in the MTPs and County Integrated Development Plans (CIDPs). Under the Climate Change Act 2016, the government is required to develop five-year NCCAPs to guide the mainstreaming of adaptation and mitigation actions into the sector functions of the national and county governments. The NCCAP, covering the period 2018 to 2022, identifies a series of actions for government and other stakeholders, with a particular focus on adaptation. The National Policy on Climate Finance (2018), provided a clear direction on mechanism for enhanced mobilization of climate finance from all sources: private, public, multi-lateral Agencies, bilateral, philanthropic, etc. to finance Kenya's updated NDC and NCCAPs. The policy recommended the development of green fiscal incentive policies to catalyze the private sector to finance transition to a low-carbon and climate-resilient development path.

A range of further specific policies provide for green growth and sustainable natural resource management including the Environmental Management and Coordination Act, 1999 and the Sustainable Waste Management Policy and Sustainable Waste Management Act, 2022.

However, the government has identified that more needs to be done to realize the benefits of transitioning to a low-emissions development pathway, while enhancing climate resilience and environmental sustainability. In particular, it recognizes the need for new and additional green fiscal policies – i.e., to use policies relating to the way in which it raises and spends financial

resources to steer the economy onto the desired green pathway. There are several reasons why these policies are powerful and important:

Taxes and subsidies can influence the costs, prices and profits in a wide range of markets. They can be used to stimulate a shift in production, consumption and investment in low-carbon, climate-resilient and environmentally sustainable practices. Such instruments are often the most cost-effective way to deliver environmental outcomes and can uncover innovative solutions to environmental challenges that would otherwise be ignored.

Some fiscal instruments – such as concessional loans, guarantees and interest rate subsidies can be effective tools in overcoming investment barriers and leveraging private sector green investments. These instruments have consistently leveraged private capital that is many multiples of the committed public spending. This has been achieved across multiple country contexts and economic sectors.

In other cases, government spending can directly target the delivery of environmental outcomes that the private sector might otherwise ignore. Some (largely adaptation) solutions – for example, disaster risk reduction and management activities, or the restoration of degraded lands – may never attract sufficient private spending. Direct government spending may be the quickest and easiest way to achieve the desired outcomes.

The way in which the government raises capital (including through green bonds, etc.) can signal to stakeholders the importance that the government attaches to delivering particular outcomes.

Green fiscal reforms have been applied successfully around the world, from economy-wide solutions like ***carbon taxes*** in South Africa and ***Ecological Fiscal Transfers (EFTs)*** in India and Brazil, to narrower and more direct measures like government investment in afforestation and land protection seen in Ethiopia and the African Union's Great Green Wall. This experience clearly demonstrates that ***Green Fiscal Reform*** in Kenya can enhance private sector financing of climate actions, spur green innovation and technology development, improve fiscal consolidation, correct market failures, and help identify smarter ways for government taxation and spending.

CHAPTER 2: POLICY GOALS AND GUIDING PRINCIPLES

The goal of this policy is to **identify and prioritize implementation of coherent suite of green fiscal actions that will enable Kenya to exploit the opportunities for accelerating the transition to a low-emissions development pathway while enhancing climate resilience and ensuring environmental sustainability.**

The specific objectives of the policy are to:

i. Direct government planning, budgeting and spending/procurement toward green production and consumption

ii. Provide a framework for fiscal incentives to attract private sector investment into a low-carbon emission, climate-resilient and environmentally sustainable economy
iii. Provide a framework for generating additional revenue streams for the government.

In seeking to achieve this goal, there are nine principles that have informed the development of the policy to date and will guide the implementation of the specific actions this policy framework identifies:

Predictability: The policy will provide greater certainty in government policy to encourage higher private sector investment in green growth. Sunset clauses for phasing out incentive schemes will be developed to provide certainty for the investors.

Cost-effectiveness:
The policy will promote fiscal measures that maximize value for money while ensuring sustainable growth.

Polluter-pays: The policy will provide ways of allocating the costs of pollution prevention and control to polluters to encourage the rational use of scarce environmental resources by evoking the Polluter Pays Principle (PPP).

Coherence: The individual actions developed under this policy will be additional. There will be a focus on both ensuring that all policies are aligned to achieve the same objective, and on avoiding unnecessary policy duplication or overlap.

Consultative: The policy and its individual actions are developed in a consultative manner, drawing on the full range of expertise within Kenya and internationally, allowing those who will be both positively and negatively affected by potential changes to express their perspective and to have an opportunity to suggest improvements.

Inclusiveness: The policy and its actions will promote the participation of private investors and communities, including small-, medium- and large-scale enterprises. This will, in turn, support the government's employment and wealth-creation initiatives. This is consistent with the BETA which lays emphasis on leaving no one behind.

Transparency and accountability: Spending on green fiscal policies and any revenues raised will be managed in line with the provisions of the Constitution of Kenya and the Public Finance Management (PFM) Act (2012) on sound public expenditures management.

Equity: The policy and its individual actions will promote reallocation and redistribution of resources while taking cognizance of the needs of the most vulnerable sectors and members of society.

Sustainability: The Policy will provide opportunity to meet economic, environmental and social needs of the present without compromising the ability of future generations to meet their own needs.

CHAPTER 3: SITUATIONAL ANALYSIS

Kenya has already created a strong foundation for low-carbon, climate-resilient growth through a range of fundamental documents and legislation. This starts with the country's Constitution which, under Article 42, guarantees every Kenyan the right to a clean and healthy environment and encourages participatory resource management and equitable benefits. This is reinforced by the Environmental Management and Coordination Act, 1999, which includes a provision (under Section 57) for fiscal incentives, disincentives or fees to induce or promote the proper management of the environment and natural resources or the prevention or abatement of environmental degradation. Similarly, the Climate Change Act, 2016 provides a regulatory framework for an enhanced response to climate change, allowing for mechanisms and measures to achieve low-carbon climate development, and for connected purposes. A range of strategies, policies, and action plans are detailed in subsequent government documents including the National Climate Change Framework Policy (2016), the National Policy on Climate Finance (2018), the NCCAP (2018–2022), and the Green Economy Strategy and Implementation Plan (2016–2030). They highlight the need for a fiscal incentives policy to accelerate transition to a green and circular economy through increased financing from alternative sources such as the private sector.

A critical document reflecting Kenya's domestic ambition in the international arena is its updated NDC. This was submitted in 2020 to the United Nations Framework Convention on Climate Change (UNFCCC), and specifies both mitigation and adaptation actions. It confirms Kenya's ambition to transition to a low-carbon society and reduce its greenhouse gas (GHG) emissions far beyond 32% by 2030 (with milestone targets at 2025) relative to the BAU scenario of 143 Million Tons of Carbon Dioxide Equivalent ($MtCO_2eq$) outlined in the updated NDC. Emission reductions are to be undertaken based on equity and in the context of sustainable development and efforts to eradicate poverty, which are critical development priorities for many developing countries including Kenya.

There have been a range of important fiscal developments and initiatives across many of Kenya's key economic sectors, which are detailed below. In each section, there is a brief discussion of the key challenges and opportunities that Kenya faces in that sector, a summary of the current fiscal policies that are encouraging green economic growth, as well as a summary of relevant international experience. A separate annex provides more detail on the international experience.

The 11 sectors considered in this section are:

- Disaster risk management
- Water and the blue economy
- Health and sanitation
- Food, agriculture and nutrition security
- Forests, wildlife and tourism

- Human settlements and infrastructure
- Electricity
- Clean cooking
- Manufacturing
- Transport
- Waste management

3.1 Disaster risk management

Situational context

Disasters significantly impact lives, livelihoods and economies across the globe and impede progress toward sustainable development. Disaster risk associated with natural hazards, including extreme climate events continue to attain elevated levels often leading to, for example, to a loss of life and property from floods and landslides, the destruction of infrastructure by floods, and a loss of life and livelihoods because of drought.

Kenya is particularly vulnerable to diverse disasters, some of these have had a significant negative impact on GDP as outlined in Table 1 with the trend for droughts showing increasing frequency since 2011. Widespread environmental degradation together with the emergence of new pests and diseases as well as the resurgence of others all contribute to further expansion of the disaster risk dimensions. All these push factors represent likely consequences of climate change.

Table 1: Damages and losses from selected climate-related shocks as recorded by different sources

Year	Event	Damages and losses US$ billion	Annual GDP (%)
1997–1998	El Niño floods	0.8–1.2	2.9–4.4
1999–2002	Drought	2.5	4.8
2005–2006	Drought	0.45	1.0
2008	Drought	1.4	3.9
2009	Drought	4.1	11.1
2010	Drought	2.8	7.0
2011	Drought	3.7	8.8

Source: Government of Kenya, 2012

Current fiscal and other policies

The government has made significant strides in strengthening disaster risk management systems in the country. The Disaster Risk Financing Strategy outlines the various disaster risk financing instruments that are available for responding to the vagaries of drought, floods and other disasters. These disaster risk financing instruments include the Kenya Livestock Insurance Program (KLIP), Kenya Agriculture and Crop Insurance Management Program (KAIRMP), Hunger Safety Net Program (HSNP), Contingencies Fund, County-Level Emergency Funds, and the Development Policy Credit with a Catastrophe Deferred Draw Down Option (Cat DDO).

The government has also made significant investments in the development of drought-tolerant crop varieties and livestock breeds. Some public investments have been targeted at building flood control infrastructure such as that constructed in Budalangi, water storage and harvesting infrastructure of varied scales, such as Thwake Dam, to improve access to water for domestic and livelihood uses.

International experience

Kenya's experience largely matches the international experience, which has emphasized the role of national disaster funds, and developing plans for using those resources, with roles and responsibilities between different actors clearly stated and understood. Mexico's disaster fund, FONDEN, is often stated as a good practice example.[6]

Other approaches suggested by international experience include:

Purchase of insurance. Insurance products are increasingly available to preserve ecosystems in the event of natural disasters. For example, in 2019, the state government of Quintana Roo, Mexico, developed and financed a parametric insurance product to help maintain coral reefs and beaches along 160 km of its coastline. The state is currently developing a mechanism to extend the coverage to include mangrove protection as well.

Catastrophe bonds (CAT bonds). This security raises capital for a government in the same way as a normal government bond, but if an event protected by the bond occurs, the obligation to pay interest and repay the principal is either deferred or completely forgiven. In this way, the government pays interest on the principal in exchange for the possibility of claiming a payout from the bond in the case of a disaster. Mexico was the first country to issue CAT bonds and it has since become commonplace among countries vulnerable to natural disasters. Most recently, the

[6] Clarke,Daniel Jonathan; Dercon,Stefan (2016) Dull disasters? How planning ahead will make a difference (English). Washington, D.C. World Bank Group.
http://documents.worldbank.org/curated/en/962821468836117709/Dull-disasters-How-planning-ahead-will-make-a-difference

Philippines issued a CAT bond with US$150 million in tropical cyclone disaster insurance protection.[7]

Environmental Deposit Bond

An environmental deposit bond (EDB) is a financial instrument issued by a company or organization to ensure that they have the financial resources to carry out environmental remediation or rehabilitation activities in the future. EDBs serve as a guarantee that the company will be financially responsible for its environmental impacts and have the resources to address them in case of default or insolvency. EDBs have been implemented in several countries, including Australia, the United States, Canada, and South Africa, where they are required for industries such as mining and hazardous waste management.[8]

3.2 Water and the blue economy

Situational context

Kenya faces serious challenges regarding its current and future water resources and water service provision. According to the Kenya Water Services Strategy, these challenges include deterioration of existing facilities such as harvesting and storage facilities, and increased service demand due to population growth, particularly in many rural areas and the very rapidly growing settlements of the urban poor. Further to this, the National Water Master Plan 2030 points out that climate change will continue to affect water resources, including disruptions in rainfall patterns leading to frequent flooding and droughts in the country. Additionally, water resources are distributed unevenly in the country in terms of timing and geography therefore, usable water resources are considered limited and lower than the total amount of available water resources in Kenya.

Nevertheless, the blue economy offers huge potential. New sustainable ocean industries, such as sustainable fisheries, aquaculture and marine renewable energy, present opportunities to generate new sources of employment and growth, diversify the economy, build climate resilience, reduce dependency on fossil energy, and enhance food security.

However, the blue economy will need to be sustainably managed. Population growth and the resultant demand for seafood has led to uncontrolled and unsustainable fishing. A recent study found that 38% of the coral reefs surveyed in the region had fish stocks below sustainable levels.[9]

Current fiscal and other policies

---

[7] Evans, S, Philippines Gov requests cat bond loss calculation for typhoon Goni. 6 November 2020, Available: https://www.artemis.bm/news/philippines-gov-requests-cat-bond-loss-calculation-for-typhoon-goni/

[8] https://www.nema.go.ke/images/Docs/Regulations/EMC%20(Deposit%20Bonds)%20Regulations%202014-1.pdf

[9] McClanahan, T. R. (2019). Coral reef fish communities, diversity, and their fisheries and biodiversity status in East Africa. Marine Ecology Progress Series, 632, 175-191. doi:10.3354/meps13153

Fiscal considerations are crucial for protecting sensitive ecosystems and biodiversity hotspots in Kenya. The allocation of financial resources towards conservation efforts can provide the necessary support for research, monitoring, and implementation of conservation strategies. In addition, financial incentives can encourage local communities to engage in conservation activities, reducing the pressure on ecosystems and biodiversity hotspots.

Kenya has already taken some action to address water resource and quality issues. For example, the 2006 Environmental Management and Coordination (Water Quality) regulations prohibit discharge of effluent into the environment that is in breach of the established standards. The National Environment Management Authority (NEMA) regulates discharge of all effluent into the environment and issues effluent discharge licenses for a fee.

Similarly, the Fisheries Act (2016) requires registration and licensing for both local and foreign vessels for fishing in the Kenya fishery waters for a fee. It also imposes fines and penalties for fishing without a license or in contravention of conditions imposed by a license under the Act. This aims to ensure sustainable fishing practices to preserve the blue economy ecosystem, although, as noted above, challenges remain.

International experience

The international experience provides insights into potential fiscal policy options across a range of dimensions in the water and blue economy sector.

To promote efficient portable water provision, some countries have adopted a type of feebate system where richer, higher-use households are charged a higher rate to offset subsidies for poorer, subsistence-use households. This is the case in Colombia where, for example, the price of water depends on how the neighborhood ranks on a national six tier socioeconomic system. Households on the lowest tier receive a 70% subsidy, whereas those in the top tier pay a 165% surcharge.[10]

A range of countries use fees and taxes to protect their freshwater supplies from pollution by taxing industrial water pollutants. The Colombian government, for example, charges all polluters a fee per unit of biological oxygen demand (BOD) and total suspended solids (TSS), with regional enforcement agencies entitled to retain any pollution fee revenues. According to Colombia's environment ministry, nationwide BOD discharges from point sources covered fell by 27%, and TSS discharges fell by 45% in the first six years of the program.[11]

---

[10] https://www.acueducto.com.co/ (in Spanish)

[11] Olmstead, S and Zheng, J Policy Instruments for Water Pollution Control in Developing Countries, December 2019. Review of Environmental Economics and Policy. Available: https://sites.utexas.edu/olmstead/files/2019/12/Olmstead_Zheng_20191217.pdf

Payments for hydrological service schemes encourage the private sector to take account of the full, societal value of water resources. For example, the Payments for Hydrological Services Program (PESH), introduced by Mexico in 2003, aimed to conserve forests to improve water quality and quantity for downstream communities, as well as maintain rural incomes and reduce poverty. Between 2003 and 2009, approximately 2.27 million hectares of land, around 1.6% of Mexico's forests, were included in the program. Analysis of PESH's impacts found that it increased land cover management activities by around 50% and community social capital by 8-9% (Alix-Garcia et al., 2018).[12]

For fisheries, quota systems have been used to build sustainable stocks. In Namibia, the government has been setting total allowable catches (TACs) since 1992. The value of the fish industry has been steadily increasing year-on-year – from US$331 million in 2006 to US$595 million in 2012 (13% compound annual growth rate).[13]

Iceland takes this approach one stage further by allowing quotas to be traded between fishermen. This mechanism has the dual benefit of securing the future of the industry by making it more efficient and profitable and, from a just transition perspective, providing compensation through quota sales for those who exit. The system was successful, with the annual quota rental values in the Icelandic fisheries increasing almost twenty-fold between 1984 and 1999. While both the Icelandic and Namibian quota systems are budget-neutral, the auctioning of allowances could provide a source of government revenue.

Some countries have raised capital explicitly to support the blue economy. For example, the Seychelles' 2018 blue bond issuance was a world first for a sovereign government and raised the island nation US$15 million to advance its blue economy.[14] Proceeds went toward supporting marine protection areas, enhanced governance of fisheries, and investments that facilitated value-added in downstream industries.

3.3 Health and sanitation

3.3.1 Health

Health status is a critical dimension of human well-being. It is especially critical for children as childhood health determines not just educational attainment, but also adulthood health and

[12] Alix-Garcia, J.L. Sims, K., Orozco-Olvera, V.H. Costica, L., Jorge, D.F.M., Monroy, S.R., (2018) Payments for environmental services supported social capital while increasing land management, Proceedings of the National Academy of Sciences, 115 (27) 7016-7021; DOI: 10.1073/pnas.1720873115

[13] Chiripanhura, Blessing and Teweldemedhin, Mogos. 2016. An Analysis of the Fishing Industry in Namibia: The Structure, Performance, Challenges, and Prospects for Growth and Diversification. AGRODEP Working Paper 0021. Washington, D.C: International Food Policy Research Institute (IFPRI). http://ebrary.ifpri.org/cdm/ref/collection/p15738coll2/id/130791

[14] World Economic Forum, Blue bonds: What they are, and how they can help the oceans. 6th June 2019. Available: https://www.weforum.org/agenda/2019/06/world-oceans-day-blue-bonds-can-help-guarantee-the-oceans-wealth/

productivity.[15] Access to health is a basic social economic right of every Kenyan. Article 43 (1)(a) of the Constitution states that " Every person has the right to the highest attainable standard of health, which includes the right to health care services, including reproductive health care". However, health is also a devolved function where provision of the services is the responsibility of the counties.

The World Health Organization (WHO, 2016)[16] shows that health system activities exert significant impacts and pressures on the environment by generating hazardous and conventional wastewater and greenhouse gas emissions and through their high consumption of resources such as water and energy. Some of the key impacts are:

Health care waste: The health care system is one of the highest-waste-generating sectors. It is estimated that between 75% and 90% of waste produced from the health care system is comparable to domestic waste in terms of its composition and environmental implications. Increased use of disposable instruments and prepacked materials has led to increased waste generation. Clinical waste generation is also increasing among private households. Landfill is the least expensive means of disposal but poses high environmental and health risks. Incineration is a cheaper alternative of health care waste disposal but resulting ash has been found to contain high levels of heavy metals.

Wastewater: Water pollution can directly emanate from the health care facilities, the activities of patients, the healthcare supply-chain and from inadequate health care waste disposal. Frequent pollutants include pharmaceutical products, microorganisms, heavy metals, cleaning products and chemicals such as organic halogens or free chlorine.

Greenhouse gas emissions: Greenhouse gases arise from embedded emissions in procured goods, direct energy use in healthcare facilities and patient and staff travel.

Toxic chemicals: The healthcare industry is a major consumer of chemicals, some of which can have serious health and environmental impacts including mercury, polyvinyl chloride, flame retardants, phthalates, and volatile organic chemicals.

Resource consumption - water and energy: Even though direct water use by health systems is minimal compared to other sectors, indirect (embedded water consumption) is significant. For example, disposable cotton is derived from cotton crop which is highly water intensive.

Current fiscal policies

[15] KIPPRA (2020). Creating an Enabling Environment for Inclusive Growth In Kenya. Kenya Economic Report. https://kippra.or.ke/wp-content/uploads/2021/02/Kenya-Economic-Report-2020.pdf

[16] WHO (2016). Towards Environmentally Sustainable Health Systems in Europe, a Review of the Evidence. https://apps.who.int/iris/bitstream/handle/10665/340377/WHO-EURO-2017-2242-41997-57725-eng.pdf?sequence=3

There are no known fiscal incentive measures in Kenya meant to green the healthcare system. Nonetheless, they can be indirectly linked to sanitation (Section 3.3.2).

3.3.2. Sanitation

Situational context

Sanitation is a necessity that contributes to better human health, dignity, and quality of life. The economic and social benefits of sanitation interventions create more time for productive pursuits, higher productivity, better performance at school and work, lower medical costs. Closer access leads to a better living environment, dignity, safety, convenience, comfort, and status. However, in Kenya basic sanitation services are not accessible to most of the population. The result is that the poor are deprived of decent and dignified lifestyles leading to deterioration of health, wellbeing, and the human environment.

Kenya, under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to safe and affordable water for all; access to adequate and equitable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women and girls and those in vulnerable situations. Progress on drinking water, sanitation and hygiene is also critical for the achievement of other targets, including reducing poverty and achieving universal access to basic services; ending all forms of malnutrition; ending preventable deaths of newborn and children under 5 years of age, combating neglected tropical diseases and waterborne diseases, and achieving universal health coverage; providing safe and inclusive learning environment.

Kenya has a vision of achieving 100% access to basic sanitation services by 2030. This is particularly ambitious for rural areas where the coverage to basic level services stands at 31%.[17] Progress requires participation from the communities to ensure open defecation is eliminated. Additionally, access to sanitation services is significantly lower in poorer communities and among vulnerable groups.

The Constitution of Kenya (2010) under Article 42 gives every person a right to a clean and healthy environment, which includes sanitation. The Constitution also devolved sanitation services to County Governments and subsequently the Government has enacted, the Water Act (2016), bringing the water and sanitation sector in line with the constitution. The Kenya Environmental Sanitation and Hygiene Policy (KESHP) 2016-2030 provides broad guidelines to both state and non-state actors at all levels to work towards universal access to improved sanitation leading to improved quality of life for the people. Primarily, the KESH policy aims to increase the proportion of the population with access to improved sanitation to 100 percent by 2030 and ensure a clean and healthy environment for all in Kenya. To manage hazardous waste in the Health Sector,

[17] Government of Kenya (2016). Kenya Environmental Sanitation and Hygiene Policy 2016 – 2030. Ministry of Health.

KESHP seeks to ensure that all health facilities have reliable water supplies and environmental sanitation and hygiene facilities; ensure that all health staff are trained on medical waste management; and ensure there is adequate budgetary allocation for management of medical waste among others.

According to KESP (2016 – 2030), one of the reasons why sanitation remains a low investment priority is institutional fragmentation, with different elements of the sanitation supply chain being the responsibility of different players. This fragmentation has led to lack of proper coordination of sanitation services and hindered a holistic approach to sanitation financing. The development of a sanitation and hygiene investment plan has been a pending priority within Kenya's Country Priority Action Plan on Sanitation, but progress is constrained by a lack of specific capacity in the sector. Thus, despite financial support and donor interest for sanitation in Kenya, sustainable financing remains a key bottleneck to accelerated progress.

Current fiscal and other policies

The Ministry of Water & Sanitation and Irrigation is currently focusing on resource mobilization, innovative financing mechanisms and investment planning to achieve universal access by 2030. Some of the initiatives in place towards this mission include pro-poor initiatives by the ministry aimed at ensuring the progressive realization of the human right to safe drinking water and sanitation for all, in a non-discriminatory manner. Other initiatives by both national and county governments that will enhance access to safe drinking water include: (i) Allocation of more resources by both National and County governments to expand water infrastructure; (ii) Community sensitization programs on water treatment; and (iii) Investing in water harvesting technologies (KEPI 2020).

International experience

Improving sanitation can be particularly reliant on government spending but there are examples of very strong progress being made when fiscal policy is used to align incentives. Peru's Incentives Program for the Improvement of Municipal Management (MIP) provides an example. MIP makes direct transfers to local governments, on condition of the achievement of set ecological goals, which are monitored twice a year. Between 2015 and 2019, 15,901 rural water and sanitation operators were registered, 31,917 water systems were built, 2,500 rural water systems were rehabilitated, and 1,997 chlorinated systems were installed.

3.4 Agriculture, food and nutrition security

Situational context

Approximately 25% of Kenya's population is food-insecure.[18] This is due to low and falling productivity of agricultural land, reliance on rain-fed agriculture, low levels of mechanization and high post-harvest losses including pets and diseases. The prevalence of climate change impacts such as droughts and floods have compounded the food insecurity problem and such events are projected to intensify in the coming years. Subsequently, the number of people who will be rendered food-insecure is bound to increase (National Food and Nutrition Security Policy Implementation Framework, 2017).[19]

At the same time, the agriculture sector is the leading source of emissions in the country, accounting for 40% of the national total of 93.7 $MtCO_2e$ in 2015.[20] Much of this is driven by dairy cattle: Kenya has an estimated 4.3 million dairy cattle producing 3.4 billion litres of milk per year. The dairy cattle sector is responsible for about 12.3 $MtCO_2eq$. In addition, the use of synthetic and organic fertilizers adds nitrogen to soils, increasing natural emissions of nitrous oxide. Other agricultural soil management practices such as irrigation, tillage, fallowing of land, also affect the flow of gases to and from the soil, since soils are both a source and a sink for GHGs.

The Kenya Agricultural Sector Extension Policy (2022) points out several challenges in the delivery of extension services. These include: Institutional weaknesses in capacity building, technology development and dissemination; Weaknesses in research–extension–clientele linkages, packaging and disseminating technologies; Harmonizing extension approaches and methods; Commercializing and privatizing public extension services without compromising public interest; Managing pluralistic extension service for effective service delivery; Developing private sector operated extension services to complement public extension services; Creating functioning institutional frameworks to coordinate and provide linkages among stakeholders and mainstreaming cross-cutting issues in extension messages. Estimates as of 2014 indicate that the ratio of agricultural extension officers to farm household was 1:1093 against 1:400 recommended by FAO[21]. This makes it difficult for extension officers to reach farmers.

---

[18] Food and Agricultural Organization (FAO), United Nations Economic Commission for Africa (ECA) and African Union Commission (AUC) (2020). Africa Regional Overview of Food Security and Nutrition 2019. ISBN 978-92-5-132051-8, Food and Agricultural Organization (FAO).

[19] Ministry of Agriculture, Livestock and Fisheries (2017). National Food and Nutrition Security Policy Implementation Framework. http://extwprlegs1.fao.org/docs/pdf/ken170761.pdf

[20] Government of Kenya (2015), Kenya Second National Communication to the United Nations Framework Convention on Climate Change. National Environment Management Authority (NEMA)

[21] Odongo, D. (2014). Agricultural Information Access among Smallholder: Comparative Assessment of Rural and Peri-Urban Settings in Kenya.

Current fiscal and other policies

The government's 2009–2020 Agricultural Sector Development Strategy has multiple objectives. These include establishing a central authority for recording animals and regulating breeding programs, enhancing animal feeding and nutrition practices, strengthening livestock extension services, and improving livestock disease and pest control. The Climate Smart Agriculture (CSA) Framework Program 2015–2030 targets a reduction in agricultural GHG emissions by increasing livestock productivity alongside the adoption of improved adaptive technologies which minimize carbon emissions and enhance soil carbon sequestration. It also aims to develop a national carbon accounting and measurement, reporting and verification system, and promote efficiency in dairy and livestock manure management and in paddy rice management, for example.

Furthermore, food and nutritional security is one of the key pillars of the BETA. Consequently, several projects are under implementation including the construction of several dams for water conservation, flood prevention and to support irrigation; the Galana Kulalu food security model farm; a fertilizer subsidy program to lower the cost of farming; and, as noted above, the introduction of Kenya Livestock Insurance Program (KLIP).

In terms of legislation, the Value Added Tax (VAT) Act of 2013 and the Income Tax Act (CAP 470) lay the groundwork for policy in this area. The VAT Act provides value added tax (VAT) exemptions for all unprocessed agricultural products and agricultural pest-control products (and inputs for their production), as well as a duty exemption for agricultural machinery (and inputs for their production), fertilizer, storage facilities and seeds. In combination, these exemptions vastly reduce the costs of agriculture and contribute to incentivizing increased production and enhanced food security. The Income Tax Act's provision for a 50% capital deduction for investment in farm works will have a similar effect.

However, not all incentives and programs are climate-smart or geared toward promotion of a green sustainable economy. Some pesticides can contaminate soil, water and other vegetation Similarly, the use of chemical fertilizers can have negative effects on the environment, for instance the emission of methane, nitrous oxide and ammonia into the atmosphere. This policy takes into cognizance these challenges and attempts to balance the interventions towards achieving NDC targets while addressing food security.

International experience

Internationally, there are many examples of fiscal policies that provide subsidies to farmers to engage in more sustainable practices, with the funding for these subsidies met through a re-allocation of existing agricultural subsidies. Examples include Brazil and the UK, whose experience points to ***the importance of robust monitoring to ensure impact***. Direct subsidies and tax exemptions have also been shown to be important levers in encouraging sustainable farming. For example, in India, following the removal of these trade barriers at the beginning of 2017, the

value of organic agricultural exports grew by 70% and 41% in 2017 and 2018, respectively, after four years of stagnation.[22]

There are also examples of command-and-control expansionary green fiscal policies in this sector. South Africa launched the ***Working for Water (WfW)*** program which resulted in over 350,000 hectares of newly cleared farmland, improved water quality and security, the development of secondary industries based on cleared land, and the employment of 24,000 previously unemployed people from marginalized groups.

In terms of nutrition, international experience illustrates ***the role of fruit and vegetable subsidies or tax reductions***. For example, Fiji and Tonga have removed import tariffs on fruit and vegetables, while the UK and US have provided targeted subsidies for vulnerable groups.[23] However, there are no current examples of such consumption subsidies being tied to the sustainability of the associated production practices.

Finally, international experience also points to the opportunities for raising capital by governments to support green activity in this sector. For example, in 2018, the Mexican Trust Fund for Agricultural Development launched a green bond worth roughly US$135 million to support ventures in four categories: protected agriculture, efficient use of water, energy efficiency, and renewable energy.[24] The funds from this bond have allowed sustainable farmers to scale up their production while propagating practices like reforestation, water capture, soil retention and the installation of solar panels and pumps.

3.5 Forestry, wildlife and tourism

Situational context

Kenya has a total of 5,226,191.79 ha (52,261 km^2) of forest cover which translates to 8.83% of the total area and has tree cover of 12.3% (KFS, 2020). According to Kenya National Bureau of Statistics (KNBS) economic survey of 2019, forestry and logging contributes 1.3% to the Gross Domestic Product (GDP) of the country. The value of the economic output of the forest sector is currently estimated at KES 78.5 billion (USD 785,440,000), (Cheboiwo et al., 2018). The sawmilling sector is the largest primary wood processing undertaking in the country. According to Timber Manufacturers Association (TMA) their investment in the sector is large with assets valued at KES 550 billion. The furniture industry in Kenya is an important source of livelihood, as it employs over 160,000 people and produces approximately 452 USD million worth of furniture per year and exports 22 USD million worth of furniture (World Bank, 2015).

---

[22] FiBL Statistics (2020), Available: https://statistics.fibl.org/

[23] Thow, A. M., Downs, S. M., Mayes, C., Trevena, H., Waqanivalu, T., & Cawley, J. (2018) Fiscal policy to improve diets and prevent noncommunicable diseases: from recommendations to action. Bulletin of the World Health Organization, 96(3), 201–210. https://doi.org/10.2471/BLT.17.195982

[24] Inter-American Development Bank. Available: https://www.iadb.org/en/improvinglives/financial-innovation-revived-one-poorest-areas-mexico

Montane forests regulate more than 75% of the country's renewable water resources, which is critical for the sustainable development of many sectors such as agriculture, forestry, fisheries, electricity, water, hotels and other tourist facilities, public administration, and defence. They also prevent soil erosion and provide habitats for many plant and animal species. In addition, montane forests supply fuelwood that meets over 75% of Kenya's overall energy requirements.

Kenya's updated NDC identified the forest sector as having a mitigation potential of 40.2 million tons of CO2 by 2030 of which 20.8 million tons CO2 is committed in the NDC. The UNFCCC framework for Reducing Emissions from Deforestation and Forest Degradation (REDD+) appreciates the role of conservation, sustainable management of forests and enhancement of forest carbon stocks. In the Kenya the REDD+ Strategic Options; Improving the productivity of public plantations through PPPs, scaling commercial forestry investment on private lands, enhance efficiency, effectiveness and skills across the value chain and mobilise private sector finance. Commercial Forestry mitigation actions include +80,000ha agroforestry +150,000ha commercial plantations and replanting 31,000ha of unstocked public plantations.

Kenya has embarked on an ambitious national and forest and landscape strategy aiming to triple its forest cover by planting 15 billion trees by the year 2032 which entails improving production of 15 Billion high quality seedlings; and restoration of 10.6 million ha of degraded landscapes; and enhance protection of the 5.2 million ha of available forests. Improve productivity and management of public forest plantations by restocking of planting backlogs; Maintain 5,240 Km fire breaks and 8,236 Km of forest roads. The proposed intervention areas include restocking 54,000 hectares of the plantation area using 86.4 million seedlings through various strategies including Public-Private partnerships (PPPs), establishment of commercial private forest plantations (450,000 hectares using 450 million seedlings), growing of fruit trees and woodlots in schools, colleges universities and other institutions (40,000 hectares using 40 million seedlings), promote bamboo growing, implement mangrove management plan and growing of agroforestry trees on farmlands (7 million hectares using 2.8 billion seedlings. The estimated cost to implement this strategy is KES 500 billion.

Increasing efficiency in charcoal production can reduce the pressure on forests: instead of using 10 kg of wood to produce 1 kg of charcoal, improved technologies can cut the use of wood down to 3 to 6 kg according to the technology used and best practices applied. Considering the high proportion of non-renewable biomass used to produce charcoal (between 90% and 95%), these measures could lead to 5.7 million cubic meters of Renewable Wood Equivalent (RWE) of non-renewable biomass savings per year from dry forests, generating about 16.5 million tCO2e per year of emission reductions from deforestation and forest degradation

Forests are also crucial for the protection of water towers in ensuring the quality, quantity and reliability of water resources contribute to the well-being of both human and natural ecosystems. Forests act as natural sponges, absorbing rainwater and slowly releasing it into streams and rivers which helps to regulate water flows, reduce the risk of flash floods and ensuring a constant supply of water downstream. Trees and other vegetation help to bind soil together, reducing soil erosion and landslides, especially in hilly and mountainous areas where water towers are typically located Forests also act as natural water filters by absorbing and holding rainwater, reducing runoff and soil erosion thus preventing sediment and other pollutants from entering the streams, rivers and other water bodies.

Nevertheless, more than 90% of Kenya's landscapes facing some form of degradation; 61% and 27% facing high and severe degradation respectively; The deforestation and degradation of these ecosystems remove a critical carbon sink from Kenya and cause significant problems. Deforestation has been mainly driven by clearance for agriculture that is linked to rural poverty and rapid population growth, unsustainable utilization of forest products (including timber harvesting, charcoal production, and grazing in forests), and past governance and institutional failures in the forest sector (NCCAP 2018–2022).

Wildlife and Tourism

The tourism sector is a highly climate sensitive sector. Climate change affects tourism destinations, their competitiveness and sustainability. Hence tourism demand is affected directly, through interference of choice of destination and period of trip, or indirectly by affecting the quality of experience, adverse perception after some extreme event and insecurity about the destination.

Coastal rainforests, marine ecosystems, wildlife and Mt. Kenya's glaciers make Kenya one of the top tourist destinations in the world and in the continent. In 2019, Kenya received 2.05 million international tourists and in 2019 the tourism industry contributed approximately 8.8% to GDP down from 14% in 2012.

Humans and wildlife face new challenges of survival due to climate change. More frequent and intense drought, storms, heat waves, rising sea levels melting glaciers and warming oceans can directly harm animals. This poses a threat to wildlife tourism and its contribution to GDP, as well as sustainability of our biodiversity.

Current fiscal and other policies

Sustainable and productive land management and preserving land resources are enshrined in Chapter 5 of the Constitution of Kenya. The Constitution stipulates that the state should work to achieve tree cover of at least 10% of total land area.

The Forest management and conservation act 2016, provides that a person who establishes or owns a private forest may apply to the relevant authorities for exemption from payment of all or part of the land rates and such other charges as may be levied in respect of the land on which the forest is established.

Forest Management and Conservation Act 2016 (44. (1)) provides that Kenya Forestry Service if satisfied can permit utilization of a public forest through the granting of a concession for conservation of biodiversity, cultural or recreational use.

The Government decision to zero rate duty on imported timber from 10% in July 2019, led to increased regional timber trade arising from development of new networks by local importers, clearing agents and transporters leading to reduced lead-time in meeting timber needs.

International experience

Internationally, a common fiscal approach to countering deforestation is direct government spending on the planting of trees. Ethiopia has been a prominent example in this regard, claiming to have planted 350 million trees in a single day in 2019 as part of the National Green Development Program.[25] This is part of a plan to plant 20 billion seedlings by 2024, which is expected to cost the Ethiopian government over US$ 117 million (Getachew, 2020).[26]

Spending directly on afforestation can be effective if planting and growing trees are conducted correctly. However, providing offsetting opportunities for companies covered by a carbon tax or emissions trading system (ETSs) would support positive ecological activity without creating a drain on fiscal resources. There are international precedents for this approach. As of July 2020, GHG emitters in South Africa can fund afforestation and reforestation projects as a means of offsetting their carbon tax obligations (SA National Treasury, 2020).[27]

An expansionary measure which has become increasingly widespread is that of ***payments for ecosystem services (PES)***. Under this approach, the government pays landowners in exchange for their adherence to pre-agreed sustainable practices on their land. In Ecuador, the Socio Bosque program pays individual landowners and local communities who agree to conserve their ecosystems through ***voluntary conservation agreements (VoCA)*** that are monitored on a regular basis for compliance. For the first 50 hectares of the conservation area, the incentive is US$37 per hectare per year; from 51 to 100 hectares, the incentive is reduced to US$25 per hectare, and

[25] World Economic Forum, The African country that inspired more and more countries to plant billions of trees. 11th June 2020. Available: https://www.weforum.org/agenda/2020/06/ethiopia-trees-forests-deforestation-worldwide-climate-change/

[26] Getachew, S. (2020). Ethiopia will plant 5 billion trees this year to tackle climate change, but it comes at a steep price. Retrieved from: https://qz.com/africa/1866532/ethiopia-to-plant-5-billion-trees-in-2020-to-beat-climate-change/

thereafter decreases further for additional hectares.[28] Similar schemes have been developed in Costa Rica and Uganda.

In other federal countries, ecological fiscal transfers (EFTs) have been used to tie federal payments to states/provinces, etc. according to performance on conservation metrics like forest cover. In 2015, India established the world's largest system of EFTs when its 14th Finance Commission added forest cover to the formula that determines the amount of tax revenue the union government distributes annually to each state. The government distributed 7.5% of the divisible central tax revenue that is devolved to states according to the proportion of states' areas of 'very dense' or 'moderately dense' forest cover (Busch et al., 2020).[29] Initial challenges with the scheme's implementation have led to clarification and raising the share of revenue tied to forest cover to 10%. Other national and sub-national jurisdictions have also adopted EFTs.

In Uruguay, pension plans have successfully investments in forestry assets by domestic institutional investors. Following governance and investment challenges, the securities regulator created special purpose vehicles (SPVs), set up as financial trusts to manage investment in real assets, through which pension plans have to invest. The SPVs can invest in a range of direct assets, from infrastructure to private equity – including forestry. Six forestry funds – five domestic and one international manager – now form the market, with $750 million collectively under management, and the largest fund dominating with investments of over $500 million. International pension funds have also invested in Uruguay: the New Zealand Superannuation Fund, for example, has had some investments via a global forestry fund. The pension plans have been attracted to the asset class by the low correlation to the rest of their portfolios and the relatively attractive returns, with approximately 9 percent nominal return annually.

In Uganda, the government through the National Forestry Authority (NFA) provided concession to private sector investors in 2004 for plantation development. The Sawlog Production Grant Scheme (SPGS) was also set up. The combination of concessions and financial and technical support through SPGS led to an increase in private investments in commercial forestry in the country increasing the area under commercial forestry from 4,000 ha to approximately 100,000 ha of plantation. The scheme attracted huge interest and substantial investment from private sector entrepreneurs mostly SMEs (avg. 50 ha each). This has proven to be a successful and replicable cost-effective way of plantation establishment for a country. The performance-based grant schemes enabled the country increase its commercial forest plantations from less than 3,000ha to more than 100,000 ha.

---

[28] de Koning, F., Aguinaga, M., Bravo, M., Chiu, M., Lascano, M., Lozada, T. and Suarez, L. (2011). Bridging the gap between forest conservation and poverty alleviation: the Ecuadorian Socio Bosque program. Environmental Science & Policy, 14(5), 531–542.

[29] Busch, J et al (2020) Did India's ecological fiscal transfers incentivize state governments to increase their forestry budgets? Environ. Res. Commun. 2 031006

3.6 Human settlements and infrastructure

Situational context

The country's infrastructure network is already affected by the physical impacts of climate variability and change. Roads, bridges, water pipelines and powerlines play a pivotal role in supporting the economy but are susceptible to damage from floods and other climate-related disasters. In 1997 and 1998, for example, water supply infrastructure and transport networks in Kenya were damaged by El Niño-related flooding.[30] Additionally, settlements in riparian areas, wildlife corridors; clearing for infrastructure without greening the environment, rising sea levels in the Indian Ocean have caused destruction of coastal infrastructure such as ship docking ports, a naval base in Kipini, hotels and beachfront houses, and (in combination with extreme weather events) intensified flooding in the coastal areas.

Buildings used for housing and commerce can also have significant negative climate change and environmental impacts, despite serving a vital societal purpose. Responding to these concerns, a 'green' building is one that, in its design, construction or operation, reduces or eliminates negative impacts, and can create positive impacts, on the climate and natural environment.[31] Several features can make a building 'green', including:

- Efficient use of energy, water and other resources
- Use of renewable energy, such as solar energy
- Pollution- and waste-reduction measures, and the enabling of re-use and recycling
- Good indoor environmental air quality
- Use of materials that are non-toxic, ethical and sustainable
- Consideration of the environment in design, construction and operation
- Consideration of the quality of life of occupants in design, construction and operation
- A design that enables adaptation to a changing environment

Green buildings preserve precious natural resources and improve the quality of life for residents. Their objective is to decrease the overall impact of the built environment on human health and the natural environment by efficiently using energy, water, and other resources. By doing this, green buildings protect occupant health, improve employee productivity and enhance climate resilience, while reducing waste, pollution and environmental degradation.

Kenya has made progress in developing local voluntary green building rating schemes such as the 'GreenMark Standard' and the Safari Green Building Index. There is also a growing interest and adoption of voluntary green building certification tools such as the IFC's EDGE.

Current fiscal and other policies

[30] Government of Kenya (2016). *Kenya National Adaptation Plan*. Nairobi: Ministry of Environment and Forestry.
[31] World Green Building Council. Available: https://www.worldgbc.org/what-green-building

Kenya lacks harmonized guidelines regulating the development and maintenance of green buildings. There are no clear regulations or legislation prescribing the requirement that new buildings comply with a set standard geared toward achievement of energy-efficient and environmentally friendly structures. Accordingly, construction in Kenya gives little or no consideration to green practices, the use of recycled materials, reducing carbon footprints, or developing adaptable and environmentally friendly designs.

However, considerable effort has been realized in certain initiatives such as the Building Efficiency Accelerator program. This is a public–private sector collaboration that leverages global expertise to accelerate local implementation of building efficiency policies. This program has been adopted by Nairobi, Nakuru, Kisii and Homabay Counties.

International experience

Fiscal policies are often aimed at improving building sustainability. Subsidizing the costs of energy-efficient building technologies, either via direct subsidies or tax exemptions, is a common approach for both upgrading current building stocks and ensuring that new builds meet high energy efficiency standards. China, Colombia, Ghana, and Argentina all provide incentives for new builds to adopt energy-efficient technologies. For example, in Ghana, 'green-certified' buildings are eligible for a 30% reduction in building permit fees (Ghana Broadcasting Corporation, 2019).[32] In terms of retrofits, the UK Green Deal scheme provides grants and loans for homeowners to improve energy efficiency.

The use of ***Sovereign Green Bonds*** can be an effective way to finance these energy activities. Lithuania, for example, has earmarked the first tranche (€20 million) of its sovereign green bond program to provide energy efficiency upgrades to about 160 apartment buildings (IFC, 2019).[33]

Given the importance of effective infrastructure to economic development and wellbeing, finance ministries also have an obvious interest in ensuring that such infrastructure is as climate-resilient as possible. The best practice role for finance ministries is in ensuring that a comprehensive and strategic approach to infrastructure development, encompassing life cycle assessments, is undertaken prior to the development of specific infrastructure assets, and that in deciding on the optimal portfolio of infrastructure assets, the changing climate in which that infrastructure will need to operate is taken into account.[34]

---

[32] https://www.gbcghanaonline.com/general/takoradi-green-buildings-to-receive-30-reduction-in-permit-fees/2019/

[33] IFC (2019) Green Buildings: A Finance and Policy Blueprint for Emerging Markets.

[34] ADB (2021) A System Wide Approach for Infrastructure Resilience. Available at: https://www.adb.org/publications/system-wide-approach-infrastructure-resilience

3.7 Electricity

Situational context

Kenya has made great progress in generating electricity from green sources. As of 2019, the electricity installed capacity from renewable sources, including geothermal, hydro, wind, solar and co-generation, stood at 73.4%, compared to 67% in 2008 (KIPPRA, 2020).[35] Consequently, the percentage of electricity generated from thermal declined considerably from 33.2% in 2008 to 11.5% in 2019 because thermal generation has been on a declining trend over time, electricity generation is currently 92% green and will be 100% green by 2030.

There is considerable scope to expand geothermal electricity in Kenya, with a proven potential of over 10,000 MW. Of this potential, only 860 MW has so far been exploited for electricity generation. Currently, exploitation of geothermal energy is almost wholly owned by the public, with a small proportion of plants financed through public–private partnerships or private finance only. The high costs of field development, coupled with the high risks associated with resource exploration and drilling, still pose a significant barrier to private sector financing. Siting geothermal projects carefully is also important – for example, discouraging geothermal development in areas with rich biodiversity. This would avoid new geothermal resources creating other environmental issues.

Despite the improved capacity in electricity generation in Kenya, approximately 3 million households still lack access to electricity. Installing off-grid solutions including mini-grids and solar home systems is one of the options for electrifying these non-connected households and ensuring access to sustainable energy for all. In some instances, off-grid solutions are more economical than extending the national grid. Investment in the off-grid renewables sector has grown strongly as deployment has accelerated. The total installed capacity in 2016 was approximately 25.3 MW, most of which consists of public-operated mini-grids.[1] Despite the impressive growth, the investment gap in the off-grid sub-sector remains large. The overarching strategy for Kenya's electricity sector, the 2018 Kenya National Electrification Strategy, focuses primarily on national grid extension. Mini-grids are included but significantly under-represented. Currently, discussions are being advanced towards investments in battery energy storage as energy storage technologies are advancing fast and are becoming cost competitive. Both public and private sources of financing have an important role to play in bridging the financing gap.

Current fiscal and other policies

There is a range of measures already in place that help support the continued expansion of the low-carbon power sector in Kenya.

[35] KIPPRA (2020). Kenya Economic Report 2020: Creating a Conducive Environment for Inclusive Growth in Kenya, Nairobi, Kenya.

VAT is exempted for inputs or raw materials supplied for the manufacture of solar equipment or deep cycle-sealed batteries which exclusively use or store solar power, as well as for inputs or raw materials locally purchased or imported by manufacturers of clean cook stoves. Similarly, under the East Africa Customs Management Act 2004 there is an exemption from Customs Duty on specialized solar and wind energy equipment. Specialized equipment for generation of wind and solar energy are exempted from both import duty and VAT

To support de-risking geothermal development, the government established the Geothermal Development Company to carry out surface exploration, exploratory and production drilling, and sales of steam to third parties, including independent power producers.

Several government and development partner initiatives have attempted to lower the initial electricity connectivity cost. Currently, the government is operating a 'Last Mile Connectivity Project', providing support of KES 15,000 per household. This is granted as a loan on connectivity and recovered over a maximum of 36 months through the billing system.

In addition, there is an exemption of interest income from all listed bonds, notes or other similar securities used to raise funds for infrastructure, projects and assets defined under Green Bonds Standards and Guidelines (bonds, notes or securities that have a maturity of at least three years. While this exemption is general as it covers a broad range of infrastructure projects, power sector projects have been a common focus for green bond issuance.

International experience

There is a wide range of international experiences of using fiscal policy to promote low-carbon power generation.

While carbon taxes can operate across many sectors, their focus (and impacts) are often concentrated in the power sector. Several middle-income countries have implemented taxes of varying degrees of ambition over the last decade. South Africa was the first African country to introduce one in 2019 when it set a price of US$8.35 per tonne of CO_2e (World Bank, 2020).[36] The tax covers 80% of GHGs and the rate will increase annually with inflation plus 2% until 2022, and annually with inflation thereafter. To allow for a period of adaptation, significant industry-specific tax-free emissions allowances ranging from 60% to 95% have been included which will result in a modest initial net carbon tax rate ranging from US$0.40 to US$3.16 per tonne of CO_2e.

Latin American countries have also adopted carbon taxes, with Colombia, Chile and Mexico applying taxes of US$4, US$5 and <US$1–2, respectively, covering around 24%, 39% and 47% of respective national GHGs (World Bank, 2020).[37] These rates are lower than those of carbon

[36] World Bank (2020) State and Trends of Carbon Pricing 2020. Available at: https://openknowledge.worldbank.org/handle/10986/33809

[37] Ibid.

taxes in richer countries, which are generally over US$25 per tonne of CO_2e and can be as high as US$100 per tonne of CO_2e.

Electricity excise taxes can also be a powerful tool to both discourage wastage and generate government revenue. This is especially true in cases where taxes are combined with favorable regulatory treatment of energy from renewable sources. Costa Rica taxes residential electricity use at 5% while at the same time providing exemptions of excise tax, VAT, general sales tax and a special customs tax for renewable energy sources.[38]

While most policies in the energy sector are revenue-generating, there can be a value in subsidizing the adoption of newer renewable energy technologies such that they can become price-competitive against their 'brown' alternatives, although the need for this has diminished as renewable energy technology costs have fallen. In Mexico, the government has created several fiscal policy instruments intended to facilitate the fostering of clean energy projects and provide an attractive investment climate for the private sector. The most successful of these mechanisms was the accelerated 100% depreciation in one year of investments in renewable energy on a company's income tax (Peters, 2012).[39]

Green bonds have been successfully employed in funding both low-carbon transport and renewable energy projects. In 2020 Chile issued over US$3.5 billion in green bonds earmarked entirely for low-carbon transport (Whiley, 2020).[40] Egypt is one of the few African countries, and the first Arab country, to issue a green bond, and its 2020 issuance has provided US$750 million to finance projects in transportation, renewable energy and energy efficiency (Barbuscia and Ramnarayan, 2020).[41]

3.8 Clean cooking

Situational context

Currently, 59% of households in Kenya use the three-stone open fire (TSOF).[42] Although the proportion of household users of TSOF has dropped (76% of households used TSOF 20 years ago), the aggregate number has increased from 4.7 million to about 7.3 million households. In terms of primary cooking fuel, 64.7% (8.1 million) of households in Kenya still use wood as their primary

[38] Green Fiscal Policy Network, 2019 https://greenfiscalpolicy.org/policy_briefs/costa-rica-country-profile/

[39] Peters, S. (2012). The Role of Green Fiscal Mechanisms in Developing Countries: Lessons Learned. Retrieved from: https://publications.iadb.org/publications/english/document/The-Role-of-Green-Fiscal-Mechanisms-in-Developing-Countries-Lessons-Learned-Case-Study.pdf

[40] Whiley, A. (2020). Chile makes 3rd sovereign green issuance: Record rates for Jan 2020 Climate Bonds certified transaction. Retrieved from: https://www.climatebonds.net/2020/02/chile-makes-3rd-sovereign-green-issuance-record-rates-jan-2020-climate-bonds-certified

[41] Barbuscia, D. & A. Ramnarayan. (2020). Egypt becomes first Arab country to issue Green bonds with $750 million deal. Retrieved from: https://www.reuters.com/article/egypt-bonds-int/egypt-becomes-first-arab-country-to-issue-green-bonds-with-750-million-deal-idUSKBN26K1MJ?edition-redirect=in

[42] MOE, CCAK (2019). Kenya Household Cooking Sector Study: Assessment of the Supply and Demand of Cooking Solutions at the Household Level.

cooking fuel, followed by liquefied petroleum gas (LPG) at 19% (2.4 million) and charcoal at 10% (1.3 million). Only 3% of households own an electric cooking appliance such as mixed LPG-electricity stove, electric coil stove and microwave. (include a statement on high cost/ also update the statistics)

Exposure to harmful pollutants emitted from burning wood and charcoal is one of the largest health risk factors for mortality in Kenya, with about 21,560 deaths attributed to household air pollution (HAP) annually – more than the average number of deaths caused by road accidents. Kenya has committed to transition to clean cooking by 2028 by developing efficient cooking solutions as part of actions under the Sustainable Energy for All global initiative and SDG 7 (affordable and clean energy). The Kenyan updated NDC has projected an abatement potential of 7.3 $MtCO_2e$ by 2030 from improved cooking solutions as a means of mitigating climate change. Further, using clean cooking solutions will support the move by the government to restore Kenya's forest cover to 10%, up from the current 7.4%.

Current fiscal and other policies

The Finance Act 2020 reversed the VAT exemption on taxable goods locally purchased or imported by manufacturers or imported by manufacturers or importers of clean cooking stoves for direct and exclusive use in the assembly, manufacture or repair of clean cook stoves. The exemption was introduced by the Finance Act 2016. However, this was reversed under. The 2020 Act also reintroduced the VAT on biogas, plastic bag biogas digesters and leasing of biogas producing equipment.

International experience

A number of countries have used fiscal policies to support the deployment of cleaner cooking solutions. For example, the Uganda Domestic Biogas Program supported households in accessing loans to purchase a biogas digester, as well as finance to support biogas construction companies. The program has been successful in supporting over 13,000 biogas generators.

Similarly, in India LPG gas has been subsidized to encourage the switch from biomass for at least some cooking. This has been associated with the number of households with a registered LPG connection more than doubling over the past decade. However, the India case also illustrates some of the risks associated with untargeted subsidies with the growth in the subsidy bill leading the government to launch the 'Give it Up' initiative to encourage middle- and upper-class households to voluntarily stop receiving the LPG subsidy.[43] Despite this, the strain on the budget has been such that provisions for the LPG cooking fuel subsidies were halved in the federal budget for the fiscal year ending March 2022 to 124.8 billion rupees (US$1.7 billion) from 255 billion rupees a year earlier.

[43] https://www.givitup.in/about.html

3.9 Manufacturing

Situational context

Industry and manufacturing are among the most important sectors in Kenya's economy, contributing 7.2% of GDP according to the Economic Survey 2022.[44] The government aims to increase the manufacturing sector's contribution to GDP to 20% by 2030 (20BY30).[45]

The manufacturing sector contributes to climate change as it produces GHG emissions from the use of fossil fuels and other industrial processes. The sector was responsible for about 7% of Kenya's total emissions in 2015.[46] Energy conservation is key to the reduction of GHG emissions, as well as providing other benefits such as lower costs for consumers.

Examining the concept more broadly, in 2009, the United Nations Industrial Organization (UNIDO) coined the term 'Green Industry', with 'economies striving for a more sustainable pathway of growth, by undertaking green public investments and implementing public policy initiatives that encourage environmentally responsible private investments'. Greening industries involve taking care of materials, energy, water, waste and emissions.[47] This requires investment in technologies that enhance process efficiency in terms of optimizing raw materials, and energy and water use, while also reducing waste and emissions.

Kenya's industry sector relies heavily on a traditional linear model in which resources are extracted, processed, distributed, consumed, and eventually disposed of. The life cycle or circular economy concept instead advocates a circulation of resources within the economic system. Rather than disposing of waste it is reintroduced as a resource into the processing stage, thereby closing the circle.

Current fiscal and other policies

In 2006, the Ministry of Energy and Kenyan Association of Manufacturers (KAM) established the Centre for Energy Efficiency and Conservation (CEEC), which runs energy efficiency and conservation programs designed to help companies identify energy wastage, determine saving potential, and make recommendations on measures to be implemented.[48] Some of the key products offered by CEEC include energy audits, specialized training, and the Energy Management Award.

In addition, there is increased emphasis on promoting the reduction, re-use, recycling, recovery and repair of waste consistent with the sustainable waste management agenda.

---

[44] Kenya National Bureau of Statistics (2020) Economic Survey 2020. Available: https://s3-eu-west-1.amazonaws.com/s3.sourceafrica.net/documents/119905/KNBS-Economic-Survey-2020.pdf

[45] Government of Kenya (2019). Third Medium Term Plan III. The National Treasury and Planning general press release.

[46] Government of Kenya (2015). Kenya Second National Communication to the United Nations Framework Convention on Climate Change. National Environment Management Authority (NEMA)

[47] https://www.unido.org/our-focus-cross-cutting-services-green-industry/green-industry-initiative.

[48] https://kam.co.ke/energy-services/

International experience

Most countries that have introduced carbon pricing (as discussed in section 3.7) ensure that the coverage of the scheme includes emissions associated with industry and heavy manufacturing.

Beyond this, international experience tends to relate to providing tax reductions for environmentally sustainable activities. For example, VAT (or equivalent) exemptions to support green manufacturing outcomes have been particularly popular and successful in middle-income countries. In 2003, 11 Brazilian states and the Federal District agreed to grant a 60% ICMS (similar to VAT) exemption for businesses that deployed used polyethylene terephthalate (PET) bottles as input for adhesives in the plastics and packaging industry. The exemption made the use of used PET bottles 10–20% cheaper than previously (Denny et al., 2013).[49] The program led both to recycled PET bottles making up 63% of the plastics and packaging industry's PET input, and demonstrated the profitability of recycling policies. Denny et al. (2013) estimate that just one large factory's participation in the program saved its municipality US$362,000 in landfill fees over five years.

Similarly, in the South African city of eThekwini, businesses are given a tax rebate of US$0.07/kWh for energy savings they accrue (SA Green Building Council, 2019).[50] To claim the deduction, businesses must be able to show the energy savings over 12 consecutive months, when compared to the previous 12 months of baseline measurement. The program has been of particular interest to industry where, in some instances, customers save up to 30% on their energy bill in addition to the rebate.

3.10 Transport

Situational context

An efficient transport system and network is key in spurring national and regional integration, and promoting trade and economic development. Kenya's modes of transport include: road, rail, maritime and inland water, pipeline, aviation, and non-motorized and intermediate means of transport. Kenya's transportation is critical for economic growth. However, as discussed in section 3.6, its transport infrastructure is also increasingly exposed to the challenges of weather variability and climate change.

According to the Kenya Economic Survey (2020) (Government of Kenya, 2020), the transport and storage sector grew by 7.8% in 2019 compared to 8.5 % in 2018. However, the sector is heavily reliant on fossil fuels, especially road, rail and maritime and inland water transport. According to

[49] Denny, D. M. T., A. F. P. Pedro, K. C. Mekhitarian, E. M. Silva, K. Fiorini, I. Libardi, A. Onohara & Medici, F. (2013). Estímulos Fiscais para a Economia Verde. Retrieved from: http://www.advancesincleanerproduction.net/fourth/files/sessoes/5A/7/denny_et_al_work.pdf

[50] South Africa Green Building Council. (2019). Incentives to build green in South Africa. Retrieved from: https://gbcsa.org.za/incentives-to-build-green-in-south-africa/

Kenya's 2017 Emission Baseline Projections Report, the transport sector is the fourth largest GHG emitter after agriculture, electricity generation, and land-use change and forestry (LULUCF) (Government of Kenya, 2017).[51] A lack of efficient road and rail public mass transit systems means that private transport is most prevalent, which is the main driver of transportation GHG emission growth.

Current fiscal and other policies

Under the Excise Duty Act 2015, there is a graduated system of import duty for vehicles of different cylinder capacity. Fully electric-powered motor vehicles face only a 10% duty charge, rising for vehicles with internal combustion engines to 35% for imported vehicles of more than 2500cc engine capacity.

However, there are some transport measures in place that are not consistent with the objectives of the green economy. For example, relatively lower tax rates are applied to petroleum products than elsewhere in the economy. Additionally, there is a 50% capital expenditure deduction on the year of first use of a petroleum or gas storage facility. These are externalities which need to be corrected through the introduction of carbon taxes.

International experience

Transport fuel taxes are already very common in many countries. However, given that the carbon intensity of diesel is roughly 13% higher per liter than that of petrol, a more environmentally aligned tax system involves taxing diesel at the same rate as or higher than petrol is needed. South Africa is a rare example of a nation which taxes the two fuels at close to parity, at US$0.38 and US$0.37 per liter of petrol and diesel, respectively (SA Revenue Service, 2020a).[52]

As well as altering the consumer price of fuels, fiscal policies can influence the price of vehicles. In Mauritius, for example, a vehicle feebate means that those purchasing vehicles with a fuel economy above 150 gCO_2/km are taxed, whereas those purchasing vehicles below the threshold are granted a rebate (UNEP, 2017).[53] Mauritius has also waived a 50% import duty on electric and hybrid cars, as well as the registration fee. These incentives have led to the importation of more fuel-economy vehicles, with the number of hybrid cars being imported doubling each year between 2010 and 2013. The average fuel economy of the national fleet improved from 186 gCO_2/km in 2005 to 169 gCO_2/km in 2013.

---

[51] Suswatch Kenya, (2017) Emissions Baseline Projections Report. Available: https://www.inforse.org/africa/pdfs/PIPA_Kenya_Baseline_Report_May_8_2017.pdf

[52] South African Revenue Service. (2020b). Taxation in South Africa. Retrieved from: https://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-Gen-G01%20-%20Taxation%20in%20South%20Africa.pdf

[53] UNEP. (2017). Global Trends toward More Fuel Economy Vehicles. Retrieved from: http://airqualityandmobility.org/PCFV/PDF/Namibia_GlobalTrends.pdf

3.11 Waste management

Situational context

The waste sector contributes to climate change, accounting for about 3% of total national GHG emissions in 2020.[54] This is a very small contribution in comparison to sectors such as agriculture, forestry, and energy. Waste management creates additional benefits, however, such as the need for adequate waste treatment to avoid polluted air, water, and soil that cause significant health and environmental problems. A growing population and industrialization mean that pressure on waste services will grow in future decades.

The waste sector is also a significant source of black carbon through open burning of uncollected or illegally dumped waste, and transport of waste by outdated heavy-duty vehicles. In addition, uncontrolled leachate contaminates groundwater and some of these contaminants are carcinogens. Waste in the environment harbors pathogens and increases the incidence of vector-borne diseases. It is therefore not only an important climate challenge, but also affects every aspect of life for millions of people in the country and around the world.

Moreover, waste management being largely devolved, most counties lack adequate infrastructure, governance mechanisms and dedicated funding for effective and sustainable waste management. Many have not set aside land for building waste management infrastructure. Initiatives to date have also not fully tackled the fundamental problems of waste minimization and re-use as core elements of the circular economy: waste collection, waste separation at source and recycling, compost production from organic waste, and final disposal of non-recyclable waste in secure engineered facilities.

Current fiscal and other policies

The government of Kenya's main guiding approach to waste management is the 'zero waste principle', as set out in the National Solid Waste Management Strategy which aims to protect human health and the environment. Recycling, composting, waste minimization, and industrial symbiosis are important elements of the Strategy.

Kenya has in place a sustainable waste management policy (2021) that aims to transition the waste sector in every county away from low collection rates, illegal dumping and unregulated dumpsites toward affordable waste collection, recycling and composting, and secure final disposal in engineered landfills for the remaining fraction of the waste stream. The policy also aims to increase the value of waste along the waste management value chain by deploying industrial processing activities that create new products or sources of energy through re-using, recycling, or composting waste.

---

[54]https://climateactiontracker.org/countries/kenya/policies-action/#:~:text=In%202020%2C%20the%20waste%20sector,industrialisation%20of%20the%20Kenyan%20economy.

Further, the Sustainable Waste Management Act 2022 was signed into law on 7th July 2022 to enforce the circular model. The SWM Act and Policy domesticates global best practices in waste management whereby producers are expected to invest in eco-design technologies and products that are reusable and recyclable and this contributes to reduction in waste. The producers are also expected to take back their products at the post-consumer stage. The SWM Act and Policy requires waste generators to segregate waste at source into different fractions and ensure appropriate transportation of the same by licensed waste service providers to a composting or a material recovery facility and not to the dumpsite.

The Government in collaboration with the private sector has also developed (draft) Extended Producer Responsibility (EPR) Regulations (2022). The EPR Regulations require producers to take care of their products and packaging at post consumer level through five categories of Producer Responsibility Organizations, to ensure eco-design of products, seamless collection, recovery of valuables, appropriate recycling as well as disposal in sanitary landfills. The SWM Act, Policy and EPR regulations aims to have additional financial resources available towards waste management as they are anchored on the polluter pays principle ensuring active participation by producers and waste generators.

The Kenya National Environmental Policy 2013 proposes the use of 'fiscal incentives to encourage waste minimization, recovery, reuse and recycling (the 3Rs)'. Similarly, the Kenya Waste Management Nationally Appropriate Mitigation Action (NAMA) 2017 underlines the importance of promoting 'the use of economic incentives to manage waste'.

A national ban on single-use plastic carrier bags has been successfully implemented, significantly reducing plastic bag waste, roadside litter, and the volume of plastic transported to Kenya's dumpsites.

International experience

Other countries around the world use fiscal policies to support more sustainable waste management practices. For example, Bangladeshi authorities have focused on improving the rate of waste recycling with a package of fiscal incentives including:

- Tax holidays for five–ten years for all waste treatment and recycling plants
- Reduced import or excise duties on relevant waste management equipment
- Use of its Climate Change Trust Fund to promote public awareness of the 3Rs[55]

These incentives are applied only to formally registered waste treatment and recycling enterprises. Concurrently, the government has tried to encourage composting of organic waste by introducing a sales tax exemption on sales of compost and tax breaks for composting companies, although the efficacy of this has been offset by continued subsidies for chemical fertilizers.

[55] https://www.uncrd.or.jp/content/documents/7530Combined-Front%20page+report-Bangladesh.pdf

3.12 Cross-cutting issues

Green Investment

The banking sector in Kenya is an important source of investment finance for green projects. In 2018, for example, it provided KES 27 billion in climate finance. Financing includes lending to renewable energy projects, providing credit lines for energy efficiency (like solar installation for lighting and water heating) and wastewater management in the hospitality industry, and financing tree planting projects.[56]

Foreign Direct Investment (FDI). Kenya is one of the largest recipients of FDI in Africa, totaling US$1.3 billion in 2019.[57] The largest share of FDI was directed to ICT, health and the extractive sector (oil exploration and production). However, about a third was directed to climate-related investments, mainly renewable energy.[58]

Green Bonds: Kenya has made significant efforts to develop its Green Bond market, including initiating the Kenya Green Bond agenda in 2014 and collaborating with the Kenya Bankers Association and Capital Markets Authority to implement the Kenya Green Bonds Program. This led to the development of Nairobi Security Exchange listing rules and the issuance of Kenya's first corporate Green Bond in 2019. In 2017, the Kenya Green Bonds Market Program was launched to accelerate the market acceptance of green bonds, facilitate climate change mitigation and adaptation investments, and improve regulatory and market capacity and knowledge on sustainable investments. It is worth noting that, despite the progress made, there are currently limited opportunities for Green Bond issuances in the immediate term in Kenya. Furthermore, further transformations are required for Green Bonds to be issued at scale in the country.

Capital Markets. To date, Kenyan pension funds and other domestic institutional investors have been hesitant to invest in green products originating in Kenya. However, Kenyan green financial products such as the first corporate green bond have attracted interest from foreign institutional investors. This suggests that there is significant potential to engage the interest of domestic institutional investors and make Nairobi a hub for green capital markets in the region. As a source of long-term finance, capital markets, both public and private, have an important role to play in the financing of green investment in the country.

More private sector participation in the national climate change discourse is needed. The private sector needs to be made more aware of existing green investment opportunities. There is a

[56] CPI (2021) The Landscape of Climate Finance in Kenya. Available at: https://www.climatepolicyinitiative.org/publication/the-landscape-of-climate-finance-in-kenya/
[57] UNCTAD (2020). World Investment Report: International Production Beyond the Pandemic. United Nations, New York.
[58] CPI (2021) The Landscape of Climate Finance in Kenya. Available at: https://www.climatepolicyinitiative.org/publication/the-landscape-of-climate-finance-in-kenya/

particular need to diversify the projects which are attracting private finance: a recent report by the National Treasury and Climate Policy Initiative showed that over 97% of private sector funds were directed to renewable energy generation projects.

Another challenge is promoting new green innovation investment. Despite the progress Kenya has made on institutionalizing research, technology and innovation – such as the National Commission for Science, Technology and Innovation (NACOSTI), the Kenya National Innovation Agency (KENIA), and the National Research Fund (NRF), the National Environmental Trust Fund (NETFUND) and the World Bank-sponsored Kenya Climate Innovation Center (KCIC) – challenges still exist. These primarily relate to the fragmented approach where research institutions work disjointedly among themselves and not with industry. These weak linkages contribute to a mismatch between industry needs and what the academia and research system produces. In addition, technologies take too long to move through the innovation stage as innovators lack the capacity to develop technology, enter the market and commercialize products. The current structure has not sufficiently supported Kenyan innovators, resulting in most green technologies being produced overseas and imported.

To engage the interest of domestic institutions and attract private sector participation in green investment, the government is committed to developing a green bank referred to be referred to as Kenya Green Investment Bank (KeGIB). The bank will provide a range of funding instruments and associated incentives to support the private sector in overcoming barriers to making green investment at scale.

Carbon tax and Carbon trading

By 2022 and 2030, Kenya's combined GHG emissions from Forestry, Electricity generation, Energy demand, Transportation, Agriculture, Industrial Processes, and waste is projected to grow to about 100 and 143 million tons of carbon dioxide equivalent ($MtCO_2e$). In 2030, the highest amount of emissions would come from the energy sector (electricity generation) followed closely by Transportation and Agriculture. Out of the total 143 $MtCO_2e$, the National Climate Change Action Plan (NCCAP) of 2018-2022 projects that Kenya has the technical potential to reduce 60% of 85.8 $MtCO_2e$ by 2030. The actual mitigation potential of each of the key sectors depends on a number of factors that range from policy, resources, priorities, to the practical implementation practically of the potential mitigation.

To facilitate the switch to clean energy and foster the 'polluter pays principle, the government should consider implementing a carbon tax. Correct carbon pricing will send a right signal to markets and private investors which is pivotal in creating an enabling environment for private investment. Carbon trade provides opportunity and impetus for gainful establishment and maintenance of carbon sinks. To promote efforts to cut down carbon emissions, concessionary incentives reward adoption of technologies and processes that limit greenhouse gas emissions and

reduce carbon-miles should be considered. Developing and naturing strategic mechanisms that offer opportunity for carbon trade and incentives for reducing the carbon emissions will translate to sustainable socioeconomic gains.

International experience

More than 40 governments globally have implemented a form of carbon pricing, whether it be through direct taxation on fossil fuel producers or cap-and-trade programs[59]. European Countries have been the frontrunners in implementing CO_2 taxes that are now implemented throughout the world. The first CO_2 taxes were implemented at the beginning of the 1990s in the Nordic and other European countries. Particularly, Sweden, France, and Canada have made the greatest efforts to introduce carbon taxes and provide an interesting, albeit successful, contrast in their experiences over the past decade. From the 1990s through 2020, all three countries recorded a clear decoupling of CO_2. Additionally, from 2005 to date, the total primary energy and CO_2 emission for the three countries have decreased by 10% and 15% respectively.

On the regional front, South Africa recently introduced carbon taxes to achieve national CO_2 emissions reductions targets set for 2025. While South Africa's tax rate of R46/tCO_2e is considered extremely low under global standards, the government considers the move a good starting point and projects to increase the scope of taxable emissions going forward. Ethiopia has equally shown considerable interest in pursuing carbon taxes to help meet ambitious GHG mitigation commitments in its NDCs. However, the country is yet to concretize the ambition through a legislative framework.

[59] A government regulatory program designed to limit, or cap, the total level of emissions of certain chemicals, particularly carbon dioxide, as a result of industrial activity.

CHAPTER 4: GREEN POLICY ACTIONS

This chapter sets out a series of green fiscal policy actions of particular interest to the government of Kenya. In the coming months and years, the government will look to develop specific recommendations in these different areas, building on the international experience and current Kenyan context described in Chapter three (3), while recognizing the goals, objectives and principles described in Chapter two (2).

The actions described in this chapter are split into two sections. The first sets out the areas of focus for each of the individual sectors described in Chapter 3, while the second describes some key cross-cutting policy actions that can have an important impact in supporting Kenya's green development agenda in many different sectors.

4.1 Sector-specific fiscal actions

Specific green fiscal policies are required for specific sectors.
This section outlines policy actions in the 11 sectors identified in Chapter 3.

4.1.1 Disaster risk management

The national and county government will pursue the following actions to reduce the devastating impact of climate-related disasters in Kenya.

Flood control measures. To address the problem of perennial floods and related risks, the government will put in place measures to increase funding and strategically preventative resilience measures for flood control projects such as dikes, dams, catchment and riparian reserves.

Promote crop and livestock insurance. To cushion farmers from loss of crops and livestock, the government, in collaboration with insurance providers, will put in place measures to scale-up climate-oriented insurance programs. This will include a consideration of whether to provide additional subsidies to reduce the cost of insurance for farmers without discouraging appropriate risk-reduction behavior. It will also include options for the design of innovative weather-based insurance products. The government will also consider options for increasing awareness, education and training around the role and value of crop and livestock insurance, especially in the provision of agricultural extension services at the county level.

Disaster risk financing. To ensure that it has sufficient funds to respond to inevitable disasters, the government will promote the use of innovative disaster risk-financing instruments like catastrophe (CAT) bonds, risk pools and contingency bonds as well as sovereign and subnational level disaster management funds. This will be complemented by the Kenya Sovereign Green Bond

Framework, which provides a clear set of protocols for identifying the responsibilities of different stakeholders in relation to the use of such financing in the event of a disaster.

Climate information services. To enhance climate information services, the national and county governments will increase funding for meteorological services and Early Warning Systems (EWS) and climate information systems including dissemination of weather information, and provision of tax incentives for early warning equipment.

Compensation fund for climate impacts. To cushion the vulnerable and marginalized communities from the extreme weather and climate-related events, the government will increase funding for resilience building and safety net programs.

4.1.2 Water and the blue economy

To both reduce the risks that climate change poses to the country's water resources and to exploit its huge blue economy potential, the national and county governments will undertake the following actions.

Enhance water harvesting and storage. To address water shortages, the national and county governments will implement fiscal measures to enhance acquisition, affordability and access of equipment used for water harvesting and storage including roof catchment, water storage tanks, ensure strict quality controls on water storage tanks, construction of underground tanks, dikes and gabions in flood-prone areas.

Promote water use efficiency. To ensure sustainable use of the available water resources, the national and county governments will institute fiscal measures for innovations and equipment that promote water saving, efficient use, and industrial waste water recycling and treatment. The governments will also explore the current system of water charging, with the intention of developing a set of water tariffs that provide the right incentives for water use efficiency.

Elimination of invasive species. The national and county governments will support research technology and innovations in the sustainable management of invasive species such as water hyacinth

Promote sustainable fishing and restoration of coastal and freshwater ecosystems. To address the challenge caused by uncontrolled and unsustainable fishing, the government will impose tax measures on large-scale fishing companies and trawlers. Additionally, the government will introduce fishing quotas to establish quantitative upper limits for fishing catches with quota rights either being non-tradable or tradable. In addition, along the, the government will put in place fiscal measures for restoration of shallow coastal water ecosystems, such as mangroves, tidal marshes and sea grass beds to. Second, the government will promote sustainable fishing along the Kenyan

coast by. Quotas would establish quantitative upper limits for fishing catches with quota rights either being non-tradable (as is the case in Namibia) or tradable (as is the case in Iceland). Quota policies would be budget-neutral if distributed for free, or a source of government revenue if auctioned. Similar measure will be instituted on the fresh water lakes such as Victoria, Naivasha, L. Baringo, L. Turkana, among others.

Restore degraded deltas and wetlands. Wetlands are essential life-support systems and play a vital role in controlling water cycles. However, a growing population, together with the need for increased agricultural production, has led to substantial pressure on the deltas and wetlands. In view of this the government will develop fiscal instruments such as PES to promote private sector participation in the restoration of degraded deltas and wetlands.

Protect riparian land in arid and semi-arid areas
In order to promote sand storage dams and water pans for livestock and small-scale cultivation, the government will provide an enabling environment through incentives towards these adaptation programs.

Provide green shore power as a viable alternative to contribute to emissions reductions at Kenya's seaports.
In order to promote investment in cold ironing as an alternative marine power to cover the energy demands of ships calling at the ports, the government will consider providing incentives to investors in green shore power supply

Provision of appropriate reception facilities for the control of emissions from ships
To control GHG emissions from the anticipated increase in the number of vessels coming to Kenya due to the expansion of the Port of Mombasa and the construction of the Lamu Port, the government will promote the establishment of vessel reception facilities that will ensure ozone depleting substances and vessel equipment containing such are handled and disposed appropriately.

Promote investments into low carbon ship bunkering infrastructure

4.1.3 Health and sanitation

Recognizing the threats that climate change and other environmental risks are posing to the health of Kenyans the government will undertake the following actions.

Combat increased incidence of malaria and other vector borne diseases. Climate change has resulted in an increase in the number of cases of malaria. The national and county governments will provide funding for research and innovation to control mosquitoes in an environmentally friendly manner, to help combat the increased malaria incidence.

Handling & disposal of hazardous & toxic waste. Hazardous waste poses a threat to both human health and the environment when handled improperly.[60] The national government, working with county governments, will put in place and/or implement more financially punitive measures for improper handling of hazardous materials such as mercury, cyanide and lead.

Promote energy efficiency in health facilities. Energy is a prerequisite to quality healthcare, given that most life-saving medical equipment requires power to operate. Having energy-efficient medical equipment will help improve access and availability of quality and affordable healthcare. The government will provide fiscal incentives for the importation of energy-efficient medical equipment. Additionally, the national and county governments will support in the installation of renewable energy standalone mini off-grid systems in health facilities.

Promote use of organic pesticides. The excessive use of inorganic/harmful pesticides poses a threat to human health and the environment, especially with prolonged use and exposure. In addition, using such pesticides contributes to an increase in acute respiratory infections from the resulting air pollution. Promoting the use of environmentally friendly bio-degradable pesticides will help reduce the effects of inorganic/harmful pesticides. The national and county governments will therefore provide fiscal incentives to promote production, preferential procurement and use of organic pesticides such as pyrethrum based (pyrethrin).

Support surveillance of climate-related health risks. The effects of climate change will lead to increased emergence and re-emergence of disease outbreaks such as Malaria, Rift Valley Fever and the East Coast Fever. In response, the national and county governments will provide financial support by allocating funds to the surveillance of climate-related health risks.

4.1.4 Agriculture, Food, and Nutrition Security

The agriculture sector is both exceptionally sensitive to climate change, which in turn threatens the food security of Kenya's vulnerable population, and a significant source of GHG emissions. It is also a source of, and is exposed to, a range of further environmental risks. The government will therefore explore a range of fiscal policy response measures, as follows:

Water-saving irrigation systems and strategies. Overreliance on rain-fed agriculture and outdated non-water-saving irrigation technologies hampers adaptability to climate change for farmers. The Government will support innovations in the development of water harvesting and irrigation infrastructure including drip irrigation systems and strategies like deficit irrigation[61] and

[60] Hazardous substances or waste are defined as substances or waste that pose a threat or cause harm to the environment and/or human health.

[61] Deficit irrigation is an optimization strategy in which irrigation is applied during the drought-sensitive growth stages of a crop. Outside these periods, irrigation is limited or even unnecessary if rainfall provides a minimum supply of water.

partial root zone drying[62] are technologies with potential for saving water which will be beneficial compared with the sprinkler irrigation system currently used by farmers. The government will therefore provide incentives to promote technologies for water-efficient irrigation systems

Reduction of post-harvest losses:
A lack of adequate storage of agricultural produce and poor post-harvest practices translate into low commodity prices, poor access to credit, and an inefficient agricultural value chain for small-scale farmers in Kenya. The result is to exacerbate food insecurity and increase the hunger risks posed by climate change.

To reduce post-harvest losses, the government will promote agro-processing and provide incentives that are aimed at increasing adoption of post-harvest storage technologies and equipment such cooling plants, on-farm storage technologies such as hermetic bags.

Green technology in crop production. The full potential of arable land productivity in Kenya has not yet been realized. Moreover, it is rare across Kenya to apply and utilize green technologies and strategies to promote sustainable productivity, even though these measures would improve food security. The government will incentivize the use of green technology and applying sustainable strategies in agricultural production. In particular, the policy will promote through fiscal policy interventions the use of ***integrated crop management technology, organic farming and the use of low carbon emission equipment for cultivation***.[63]

Livestock production. The government will explore opportunities and fiscal incentives to promote the adoption of improved adaptive and resilience technologies to increase livestock production and productivity by 2030. Additionally, the PES, discussed in section 4.25, will also have a strong impact on the land-use decisions and practices of farmers across the country.

Cooperative development and climate smart agricultural practices. Kenya faces ever growing fluctuations in climate and food prices which directly affect households' food acquisition and allocation. This raises food safety concerns. Additionally, population growth puts increasing pressure on land that is available for cultivation, thus exacerbating food insecurity in the country. In particular, population pressure has led to arable land fragmentation which translates into inefficient allocation of resources (labor and capital) leading to increased cost of production, and unsustainable farming.[64] To support advancements including land consolidation and mechanization and, hence, promote large-scale crop, livestock and fisheries production and value

---

[62] Casa, R. and Rouphael, Y. (2014). Effects of partial root-zone drying irrigation on yield, fruit quality, and water-use efficiency in processing tomato. *The Journal of Horticultural Science and Biotechnology*, 89(4), 389-396.
[63] Deere & Company. (2017). Incentivizing sustainability in Agriculture. Press release. Retrieved 18th February 2021 from https://digital.hbs.edu/platform-rctom/submission/a-deere-world-incentivizing-sustainability-in-agriculture/
[64] Giertz, A., Caballero, J., Galperin, D., Makoka, D., Olson, J., and German, G. (2015). Kenya Agricultural Sector Risk Assessment.

addition, this policy will incentivize cooperative development and prudential management through provision of performance based cooperative grants and concessional loans.

Degraded land rehabilitation

The government will also explore and introduce the opportunities for government programs to protect and rehabilitate degraded lands such as degraded landscape restoration deal scheme (DELARES), so that they can be used for sustainable agriculture. A similar program in South Africa was designed to tackle the proliferation of invasive alien plants, which crowd out native species, overwhelm ecosystems, impede agriculture, and exacerbate drought. Since its introduction, the program has led to the clearing of such plants from over 3 million hectares of land, improved water quality and security, and the employment of over 300,000 people.

4.1.5 Forestry, wildlife and tourism

Forestry, wildlife and tourism is at the forefront of both Kenya's mitigation and adaptation efforts. The proposed fiscal actions for the forestry sector include the following:

Incentivize tree growing and management. The government will promote tree growing, management and protection of gazetted forests to increase forest cover to 10%. This would also restore and conserve water towers. The government recommends planting on both public and private land. Options include: a tree-growing guarantee scheme (T2GS), permitting the cost of seed preparation, certification, nursery registration and tree planting on public land to be an allowable expense for the purpose of tax computation; awarding tradable carbon credits for companies that invest in tree planting; creating incentives for commercial plantations which can be used as a sustainable source of raw materials in the future; awards and recognitions by government for firms that participate in tree planting; concessionary loans to support business operations for those that invest in tree planting; and government grants to growers. On the private land, the law requires that at least 10% of the land to be under tree cover. Diversified trees grown and managed on more than 10% of an individual land will be verified and compensated based on graduated scheme/scale i.e., the higher the percentage the higher the amount of carbon credit to be earned to a maximum of 50% of the owned land.

Ecological fiscal transfers (EFTs). The National Treasury and the Ministry of Environment and Forestry will work with the CRA to come up with an EFT parameter in the revenue sharing formula for allocating more resources to strengthen the capacity of the counties in preserving environmental and ecological functions. This EFT approach has been used in India and a range of other countries to provide sub-national administrations with a stronger incentive to preserve and/or restore forests.

Payment for ecosystem services (PES). The Government shall promote responsible for environment and ecosystem matters in collaboration with relevant sector ministries will fast track

incentives that support the adoption of bioengineering[65] for road infrastructure through the private and public sector (county and national) collaboration.

Integrate the circular economy into infrastructure development
The use of recycled materials in Kenya's infrastructure remains low yet these materials present significant social economic benefits and opportunity to enhance sustainability and resilience of infrastructure. To realize the sustainable development benefits, the government will provide fiscal incentives in the use of recycled materials in infrastructure development.

Support the circular economy in construction. To encourage the use of recycled materials within the construction sector (see the example below of Australian state of Victoria), the government will provide incentives for building materials locally manufactured using more than 40% recycled content in their production. The government will also provide incentives to encourage the establishment of facilities for the collection for resale and re-use of construction waste and materials. The government will also impose fees or levies on contractors to fund construction waste disposal that does not meet prescribed procedures of re-use and re-sale.

Support green building development. The government will provide incentives to developers that meet the requirements for green buildings specifications/codes. These include the design, production, importation and sale of alternative green building and construction technologies and materials. This will also include solar passive architecture to improve aeration and lighting in buildings (Energy Management Regulation, 2012). In addition, the government will incentivize research and development, for innovative technologies on green buildings and sustainable.

Supporting Adoption of Water and Energy Efficient Infrastructure: The government will incentivize construction of water and energy efficient buildings. In addition, all the design of new public buildings will integrate water and energy efficient measures in their construction and functioning.

4.1.7 Renewable Energy

To promote Renewable energy production and deployment and increase consumer connectivity the government will:

Phase-out fossil-fuel-based thermal electricity. The government will provide fiscal incentives needed to lower the cost of renewable energy relative to fossil fuel intensive energy sources. This

[65] A subset of green infrastructure that uses vegetation to serve an engineering function. The most common uses of bioengineering include soil surface protection against erosion, soil stabilization, and improved drainage functions.

the development of PES schemes to incentivize scaling up of conservation and restoration programs. In developing PES proposals schemes, the government will shall ensure that the schemes benefit sharing mechanism is inclusive, transparent and equitable for all actors including are designed to benefit the poorest households' communities engaged in conservation efforts. The proceeds of carbon pricing will be used to fund these schemes. This has been demonstrably successful in scaling up ecosystem conservation and restoration schemes in developing countries, especially in Latin America.

Integrate afforestation and reforestation into REDD+ and Carbon trading design. As part of the design proposals for a carbon tax scheme (discussed in section 4.1.2 above), the government will consider opportunities for companies to reduce their tax liability by purchasing offsets from forestry projects. This has the potential to extend a carbon price signal through more sectors of an economy and can help leverage the existing forestry project management capacity in the country. As discussed in the previous section, a range of other jurisdictions have integrated these opportunities within their carbon pricing schemes.

Concessions and Public Private Partnerships: The government will provide incentives and long-term concessions for promoting tree planting and growing on public and private lands; improve saw milling technologies, production of high-quality seedling and mass timber technologies.

Commercial Forestry: The government will provide incentives to spur for investments in commercial forestry and importation of sustainable timber.

4.1.6 Human settlements and infrastructure

The approach that Kenya takes to designing, constructing and using its buildings and infrastructure can make a substantial difference to its resilience to climate hazards and further support Kenya's NDCs ambitions. The fiscal policy and other measures that the government will pursue to ensure that these infrastructure and buildings support low-carbon, climate-resilient development are as follows.

Enhance the climate resilience of roads. Kenya's road network is vulnerable to climate change impacts such as floods due to structural imbalance between the natural ecosystem and the built-in infrastructure considerations. To climate proof the road network, the National Treasury will include climate-resilience criteria within Public Investment Management (PIM) Guidelines for funding infrastructure projects and enhance the incorporation of the concept of 'roads for water' in the design and construction of roads (see box below). The government will also provide

Development of alternative transport fuels. Incentivize production of alternative transport fuel sources such as bio fuels (biogas, bioethanol, bioLPG, biodiesel) and green hydrogen.

4.1.11 Waste management

The government's actions in greening waste management value chain will be consistent with the Sustainable Waste Management Policy of 2021 and Sustainable Waste Management Policy Act, 2022. The government will provide the following fiscal actions:

Development of Material Recovery Facilities (MRF). Provide incentives for waste recovery facilities, circular economy, incentivize sanitary landfills and disincentivize dumpsites

Incentives for private sector engagement in waste management. The government will provide incentives to promote private sector involvement in the waste management sector, including tax incentives, removal of investment barriers, creation of a conducive investment climate, and incentivize access to finance.

Encouraging circular business models. The government is keen in providing a range of incentives to promote circular business models. These include incentivizing adoption of EPR regulations, encourage recycling, offering preferential use of recovered materials over virgin materials, and promote the procurement and use of recycled goods. Support innovative waste to energy technologies

4.2 Enhanced green financial intermediation actions:

4.2.1 Green investment bank

The government will develop a green investment bank that will provide a range of funding instruments and associated incentives to support the public and private sector in overcoming barriers to making green investments at scale. The institution will help address the perception and/or reality that the capital costs and risks of green investments are too high, and the returns too low. It would provide a range of financial instruments which could potentially include ***credit guarantees, risk-reduction facilities, debt equity and blended finance***. It could also offer support and expertise to financing recipients and provide incentives to develop innovative financial instruments such as green bonds, blue bonds, resilience bonds and transactions using carbon credits.

The government will consult closely on the institutional design of a green investment bank. Considerations include which sectors it might focus on, the extent to which it might provide concessional versus market-priced capital, the products it might provide, and its appropriate institutional home and governance arrangements. The government currently expects that the new

4.1.9 Manufacturing

The policy seeks to incentivize greening of industries and investments in manufacturing and production of green products to reduce the emissions intensity of the manufacturing sector. Incentives will be provided to manufacturers to undertake the product ***Life Cycle Assessment (LCA) Impact Report*** to access green financing. In addition, the following fiscal incentives will be considered:

Promote efficient management of production systems. The government will provide fiscal incentives to the private sector for innovative production, acquisition and use of efficient machinery to optimize the use of energy, materials and reduce waste.

Develop eco-labelling schemes. An eco-label identifies products or services that meets prescribed environmental criteria. The government will prioritize procurement of products and services that are eco-labeled.

4.1.10 Transport

The Kenya government aims to use fiscal policy to promote sustainable transportation, both public and private. The following are fiscal incentives to green the transportation sector.

Promote mass rapid transit: The government will develop a national transitional plan to e-mobility as well as other green transport systems. This will include shifting public expenditure in the transport sector toward sustainable mass rapid transport infrastructure. This will contribute to reducing emissions from the sector as well as reducing congestion and inefficiency in the public transport system. This will be complemented with efforts to ensure that it is well-understood by the lead implementors and the general public.

Incentives for electric vehicles. The government will provide incentives for import, manufacture and assembly of electric and hybrid motor vehicles, electric motorcycles, spare parts and EV batteries. This will be necessary to support the transition toward low-emission and clean transport systems. Options include tax incentives for electric vehicles, and the operationalization of a feebate system. The Government will shift to procurement of electric vehicles over the medium term.

Expansion of e-mobility infrastructure. The government will put in place fiscal measures to develop and expand infrastructure across the country to support e-mobility and non-motorized transport.

Congestion charging. The government will explore development of a congestion charging scheme in the cities.

Clean cooking targeting to achieve Universal Access to Modern Energy Cooking Services by 2028.

To expand the clean cooking market and ensure clean cooking for all, partial subsidies and performance-based incentives are required to support affordability and pay for public benefits; explore fiscal instruments that catalyse and spur market innovations that can deliver affordable clean-cooking solutions at scale.

A range of incentives are desired to unlock and accelerate the transition to modern and clean cooking. The options that will be considered include:

Incentives for clean cooking fuels and technologies. The government will incentivize and encourage the production, access and use of clean cooking fuels and technologies. This will include targeted incentives across the clean cooking supply and demand value chains. The intervention measures will aim to enhance affordability, availability, safety, efficiency while reducing exposure to household air pollution. Examples of appropriate innovative approaches include "pay-as-you-go" or "pay-as-you-consume" models, and other innovative models such as the "Mwananchi gas" program and smart metering for LPG. These incentives will also support efficient biomass conversion technologies and reduction of upfront costs of clean cooking solutions.

Enabling Markets for clean cooking services: To ensure a sustainable and inclusive market system for clean cooking solutions, there is need to develop standards, establish stove testing infrastructure across the country to support voluntary labelling and certification system and regulations to incentivize local production of cooking products and curb the proliferation of counterfeit imported products.

Investment in R&D of renewable energy: The Government will support investment in Research, Development and innovation on renewable energy as a means to close inherent information gaps and embrace informed policy and decision making. This will also include incentive options for private sector to conduct R&D.

Integration of cooking into national electrification programs: To support the mainstreaming of electric cooking, it is imperative that cooking is embedded into electrification programs to leverage from successes in both on and off-grid electrification. Towards this end, fiscal incentives could be considered to promote the uptake of electric cooking. These would include duty exemptions and VAT zero-rating for energy-efficient e-Cooking appliances (such as electric pressure cookers) and establishment of dedicated e-Cooking tariffs.

will therefore accelerate the development of green energy alternatives and technologies to allow the integration of all variable renewable energy power. (National Energy Policy, 2018).[66]

Accelerate geothermal development. The government will provide targeted incentives for private investment in geothermal electricity generation and other productive uses. The fiscal incentives envisage concessional funding and public support for early-stage investments in geothermal resource assessments, which will enable private investment where geothermal is most promising.

Expand off-grid electricity solutions. The government will incentivize off-grid renewable energy options to enable access in areas far from the national grid. Tax exemptions and credits will be considered.

Incentives for electricity connection. The government will provide consumer-level incentives to enable more households and MSMEs afford electricity connectivity through enhancing initiative such as the last mile connectivity.

Pursue an array of targeted clean cooking incentives. To scale up access to clean cooking solutions. The Government will: Continue to innovate RBF designs and applications for more targeted incentives to promote sustainable market development and advance access to clean cooking for all; Catalyze technology and business innovations by providing incentives to players across the clean cooking value chains; and link incentive payments with verified results at the output, outcome, and impact levels, thereby contributing to better health, gains in gender equality, environmental sustainability, and inclusive development. This could take the form of conditional or unconditional cash transfers or results-based grants that provide cash incentives to eligible households.

Continue to implement Feed-in-Tariff projects: These are projects below 20 MW capacity for all technologies except solar and wind. The latter are targeted to be procured through renewable energy auctions. The feed-in-tariff projects are incentivized by pre-set tariff and expedited procedures.

4.1.8 Clean cooking

The Government affirms clean cooking as an important and priority component of its development agenda. In light of this affirmation, and in response to various existing global and local commitments such as SDGs, SEforALL and the NDC, the GoK commits to accelerate actions in

[66] Government of Kenya (2018). National Energy Policy. Ministry of Energy. https://kplc.co.ke/img/full/BL4PdOqKtxFT_National%20Energy%20Policy%20October%20%202018.pdf

institution will be given a clear mandate to support climate change mitigation and adaptation and green growth, but it will be important to ensure coherence with existing and planned funding institutions in Kenya.

The government recognizes the importance of developing robust governance and accountability mechanisms, and appropriate staffing structures, if the institution is to be successful in gaining the confidence of the private sector and leveraging significant new capital flows. Throughout, we will look to build on the growing international experience of green investment banks observed across the world, and the critical factors supporting their success.

There is a range of other complementary fiscal actions that the government intends to explore to promote green investments.

To direct investment to products and projects that have positive environmental impact, the government will set up the Green Investment Register (GIR). The GIR will be a database of green investments (building from a recent report, The landscape of Climate Finance in Kenya on the road to Implementing Kenya's updated NDC, 2021[67]), comprising national priority projects in the green sector, flagship green projects and green public–private partnerships. Establishing this database, and the information management system enabling investors to access it and intensive resources mobilization, could potentially be early activities taken forward by Kenya Green Investment Bank (KeGIB).

The government will promote green public procurement at national and county government level by developing guidelines to include environmental parameters in procurement.

The government will reform and increase financial support of research and development in the innovation and production of green technologies. Public funds that support green research, such as NRF, NETFUND, and the National Climate Change Fund (NCCF), will be capitalized and expanded to support innovation and local production/assembly of green technologies, ensuring complementarity between these initiatives and KeGIB. Particular attention will be paid to research on and development of battery energy storage, energy optimization technologies, grid infrastructure, light electric train, electric vehicles, tree growing and management, water harvesting schemes, small to medium irrigation systems, green buildings, payment for ecosystem, credit guarantees based on investors nature capital potential, demonstration projects and field trials, and the expansion of charging infrastructure.

The government will work with industry leaders to identify green innovation and technology needs and review the research policies and strategies in order to align them with prioritized green

[67] CPI (2021) The Landscape of Climate Finance in Kenya. Available at: https://www.climatepolicyinitiative.org/publication/the-landscape-of-climate-finance-in-kenya/

research gaps and needs. The objective is to link companies and research institutions and deepen existing linkages and cooperation on projects.

The government will implement regulatory 'sandboxes' for innovators to cushion them during the early development phase. Such sandboxes can allow green technology firms to test innovative products, services or business models in a live market environment, while ensuring that suitable protections are in place.

The government will develop and provide financial and technical support to green innovation and incubation hubs for innovators and nascent green technologies.

The government will establish and finance Green Special Economic Zone in all the 47 counties through KeGIB.

4.2.2 Carbon tax

Recognizing the ability of carbon taxes to both cost efficiently reduce GHG emissions and also to provide a revenue stream that can be used to meet broader government objectives, the government will explore the viability and design of a carbon tax in Kenya.

CHAPTER 5: IMPLEMENTATION, GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

As the implementation of the green fiscal incentive policy takes effect, it is essential to establish a robust monitoring, evaluation, and learning framework. This framework will enable the policy's impact to be closely monitored, and its effectiveness periodically evaluated to draw essential lessons that will enhance its efficacy over time. The evolving market context requires a flexible and adaptable approach to governance and institutional arrangements, and the policy's success will depend on the ability to respond to changes and emerging challenges. The matrix below provides an overview of the policy's implementation process.

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
Cross-cutting	Green investment bank	• Design, develop and institute a green investment bank • Develop credit guarantee instruments and schemes to enhance access to finance by green investments • Develop financing mechanisms/instruments to support access to concessional credit lines for green investments • Consult on priority sectors for green investments • Develop a green register and information system of prioritized national green investments portfolio (legibility list)	• Amount (KES) mobilized and lent via green investment bank • GHG reductions attributable to green investment bank investments • Percentage increase in green investments • Number of resilient infrastructures • Number of beneficiaries accessing the investment • Capitalization levels	• NT • MOTI • MOEF	•	•
	Carbon tax	• Design and legislate for carbon tax in government budget • Decide carbon tax rate, coverage, and how to allocate revenues	• Revenues raised through carbon tax • GHG reductions achieved through carbon tax	• NT • MOEF	•	•

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
		raised and competitiveness provisions • Complete institutional architecture for monitoring and compliance				
Disaster Risk Management	Water and flood control measures	• Fund flood control projects in relevant counties	• Number of flood control projects implemented	• WWDA	•	•
	Promote of crop and livestock insurance	• Develop insurance products to augment existing crop and livestock insurance	• Number of insurance products available to farmers • Adoption rate of insurance by farmers	• IRA • NT • NDMA	•	•
	Disaster risk financing	• Include financing instruments in relevant guidelines for companies operating in relevant sectors	• Disaster risk financing instruments available to Kenyan businesses	• NT • DPs • Private sector	•	•
	Climate information services	• Allocate additional funding for climate information services	• National coverage for EWS and other systems	• MET • MEF	•	•
	Compensation fund for climate impacts	• Establish a compensation fund to provide funding to victims of climate impacts	• Budget allocated to fund • Percentage of vulnerable people with access to medical, livestock and weather-based index insurance • Percentage of vulnerable beneficiaries covered	• NDMA • Counties	• FY 22/ 23	•
	Support community-based weather monitoring for indigenous people	• Provide meteorological information services at the county level • Conduct farmer training on the use of meteorological information to plan their farming activities	• Number of established meteorological monitoring systems • Number of farmers trained	• MOALFC • MET	• FY 22/ 23	•

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
Water and the Blue Economy	Enhance water harvesting, storage and flood mitigation	• Implement fiscal measures to reduce acquisition/installation cost of equipment used for water harvesting, storage and flood-mitigation infrastructure	• Amount of new equipment sold to farmers and agricultural companies	• NWHSA • MOWSI • NT	•	•
	Promote water efficiency	• Institute fiscal measures for innovations and equipment that promote efficient use of water	• Sales of water-use efficient equipment	• MOWSI • MOTI	•	•
	Elimination of invasive species	• Develop fiscal policies to encourage research and innovations on the utilization of invasive species (such as hyacinth and mathenge weed) as raw materials	• Amount of grants commissioned for relevant research	• MEF, • MOTI • KIRDI	•	•
	Promote sustainable fishing and restoration of coastal ecosystems	• Impose tax measures on large-scale fishing companies and trawlers to promote sustainable fishing • Implement appropriate fiscal policies for the restoration of shallow coastal water ecosystems, such as mangroves, tidal marshes and sea grass beds	• Fish stock levels • Mangrove, tidal marsh and sea grass area and carbon sequestration	• State Dept for Fisheries • KFS • NT	•	•
	Restoration of degraded wetlands	• Develop fiscal instruments to encourage private sector participation in the restoration of degraded wetlands	• Number of private companies engaged in wetlands restoration	• MEF • NEMA • MOWSI	•	•
Health and Sanitation	Combat increased incidence of Malaria	• Research grants availed for bio-control of mosquitoes	• Research reports identifying methods and techniques for bio-control of mosquitoes	• MOH • KEMRI	21/22–26/27	TBD

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
	Discourage improper handling of hazardous waste	• Promote proper methods of waste disposal • Impose higher financial penalties for improper disposal of hazardous waste	• Increase in number of institutions adopting proper waste management • Increased collections per defaulter for improper handling of hazardous materials	• NEMA • MEF • KEBS	• 21/22–26/27	• TBD
	Promote energy efficiency in health facilities	• Tax exemption for importation of energy-efficient medical equipment	• Amount of imported energy-efficient medical equipment	• NEMA, • MOH • KEBS	21/22–26/27	TBD
	Promote use of plant-based pesticides	• Grants for research organic pesticides • Incentives for production of organic pesticides	• Increased local production of organic pesticides and reduced production of inorganic pesticides • Growing annual proportion of market share using organic pesticides and reduced proportion using inorganic pesticides	• KEBS • PBK • MOALFC	21/22–26/27	TBD
	Support surveillance of climate-related health risks	• Increased allocation for surveillance infrastructure capacity	• Studies completed documenting results of surveillance of climate-related health risks • Public investments in surveillance infrastructure	• MOH • KEMRI	21/22–26/27	TBD
Food, Agriculture and Nutrition security	Water-saving irrigation systems and strategies	• Conduct county extension training for farmers on drip irrigation systems and strategies including deficit irrigation and partial root drying	• Number of county governments that adopt the agricultural training under their extension activities	• MOWSI	FY 2022/2023	TBD

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
	Green technology in crop production	• Incentivize the use of green technology in agricultural production – electric trucks, integrated crop management technology, organic farming	• Number of county governments that adopt the agricultural training under their extension activities • Sales of electric tractors	• NT • MOALFC	FY 2022/2024	TBD
	Cooperative development for sustainable agriculture	• Incentivize cooperative development that supports strategies including land consolidation and mechanization and, hence, promotes large-scale crop production and value addition	• Number of farmers trained in sustainable agriculture • Acres of land consolidated under cooperatives	• NT • MOALFC	FY 2022/2024	TBD
	Land rehabilitation	• Explore government programs to protect and rehabilitate degraded lands	• Acres of land rehabilitated	• MOEF, MOALFC	•	•
	Livestock production	• Explore policies and fiscal incentives to promote adaptive technologies	• Agricultural productivity (production per acre of pasture)	• MOALFC	•	•
Forests, Wildlife and Tourism	Promote tree planting	• Consider options for promoting tree planting on public and private lands, to reach 10% of land covered by forest	• Forest cover percentage of total land	• MOEF	•	•
	Reduce pressure on forests	• Promote investments in sustainable bioenergy and clean cooking fuels	• Market share of bioenergy as cooking and heating fuel	• MOEF	•	•
	Ecological fiscal transfers	• Explore EFTs as part of funding strategy for county governments	• Change in deforestation rate by county	• MOEF • NT	•	•

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
	Payment for ecosystem services	• Investigate development of PES program for Kenya	• Percentage of forested land restored or under formal protection	• MOEF • NT	•	•
	Integrate afforestation and reforestation into carbon tax design	• Evaluate inclusion of afforestation or reforestation projects in national carbon tax (see above)	• GHGs reduced through carbon offset projects used to meet carbon tax liability	• MOEF • NT	•	•
	Further support ecotourism	• Review ecotourism policies for new incentives to further promote ecotourism	• Tourists surveyed as visiting Kenya for ecotourism	• MTW	•	•
Human Settlements and Infrastructure	Enhance the climate resilience of roads	• Amend the roads design to include 'roads for water' concept • Sensitization of road contractors to new construction approaches	• Amended roads design to include for 'roads for water' concept • Percentage of road contractors adopting resilient construction and maintenance methods	• NT • State Departments for Infrastructure	FY 2022/2023	TBD
	Integrate the circular economy into infrastructure development	• Provide tax incentives for building materials locally manufactured using more than 50% recycled content in their production	• Use of recycled content in new building construction	• NT • State Departments for Infrastructure	FY 2022/2023	TBD
	Support the circular economy in construction	• Inclusion of climate-resilience criteria in Public Investment guidelines for funding infrastructure projects	• Climate-resilience criteria established in the Public Investment guidelines and rate of adoption by infrastructure developers	• NT and implementing agencies	FY 2021/2022	0
	Support green building development	• Provide incentives to meet green buildings specifications and code • Develop tax incentives to facilitate solar passive structures	• Budgetary allocation toward green building incentives • Percentage of new building developments consistent with green specifications and code	• NT • KRA • East African Community	•	•

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
		• Fiscal incentives to encourage setting construction waste/ materials re-use facilities • Incentives for importation/ local manufacture and sale of water-saving devices				
Electricity	Phase out fossil-based thermal energy.	• Ministry of Energy to identify thermal power plants that require phase-out • Negotiate with independent power poviders for a mutual plan for phase-out • Accelerate development of green power generation options • Accelerate the process of hybridization of the existing isolated power stations with solar/wind	• Number of power plants with agreed timelines for phase-out	• MOE • MOITE • NT • County governments	•	•
	Support geothermal development	• Provide concessional funding or public support to pre-investment geothermal resource assessments	• Funds mobilized/ allocated for geothermal developments	• MOE • MOITE • NT		
	Expand off-grid electricity solutions	• Consider tax exemptions and credits for off-grid renewable energy installations	• Off-grid renewable energy installed and connected capacity	• MOE • MOITE • NT		
	Incentives for electricity connection	• Design consumer-level incentives that promote electricity connectivity	• Number of households connected to electricity grid	• MOE • NT		

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
Clean Cooking	Incentives for clean cooking fuels and technologies	• Consider tax exemptions or waivers for companies producing clean cooking technologies	• Clean cooking technologies as a percentage of household cooking fuel use	• NT		
	Enhance public awareness	• Build consumer awareness campaign about benefits of clean cooking technologies	• Consumer adoption of clean cooking technologies	• MOE		
	Harness innovative financial models	• Design pay-as-you-go or pay-as-you-consume models for clean cooking appliances	• Sales of clean cooking appliances using innovative financing	• NT • MOE		
Manufacturing	Promote efficient management production systems	• Promote private sector use of energy-efficient machinery	• Adoption of energy-efficient machinery models	• MOITE		
	Develop eco-labelling schemes	• Develop green standards and eco-labelling for products and services	• Green standards developed and implemented	• KEBS		
	Develop Eco-Industrial Parks (EIPs) or green zones	• Provide fiscal incentives to promote EIPs	• Designated zones for EIPs or green zones	MITI		
	Develop a national green manufacturing strategy	• Develop a policy to green Kenyan industries	• Green industrial policy developed	MITI		
	Green Public Procurement	• Integrate green procurement into procurement laws	• Integration of green procurement into existing law on procurement	National Treasury		
Transport	Promote electric mass transit	• Shift public expenditure toward electric mass transit	• Government investment in electric public transportation	• MOT		
	Incentives for electric vehicles	• Provide incentives for the import, manufacture and assembly of electric and hybrid motor	• Electric vehicle sales • Manufacturing capacity within electric vehicle supply chain	• MOT • NT		

GREEN FISCAL ACTIONS TO REDUCE EMISSIONS						
Policy Area/Sector	**Policy (Fiscal) Action**	**Policy (Fiscal) Activities**	**Key Performance Indicator**	**Lead Actors (see table legend)**	**Time Frame**	**Cost**
		vehicles, motorcycles and their spare parts				
	Support for charging infrastructure	• Offer incentives for electric vehicle and e-mobility infrastructure	• Number of electric vehicle chargers installed	• MOT • NT		
	Congestion charging	• Explore congestion charging in major cities	• Congestion charging schemes adopted • Changes in traffic following implementation of congestion charge	• NT • City governments		
	Transport fuel taxation	• Consider changes in transport fuel tax rate, particularly in combination with carbon tax	• Fuel-use changes compared to growth in vehicle miles traveled	• NT • MOT		
Waste management	Develop a comprehensive financing strategy	• Establish a waste management fund mechanism to incentivize sustainable approaches as part of a broader finance strategy	• Funds distributed to sustainable waste management companies	• MOEF • NT		
	Incentives for private sector engagement in waste management	• Explore incentives to encourage private sector firms into waste management sector	• Number of private firms operating in waste management and meeting sustainability criteria	• MOEF • NT		
	Effluent fee charges	• Consider effluent fees to promote greener waste management	• Revenue raised through effluent charges	• MOEF • NT		
	Encouraging circular business models	• Explore circular business model incentives	• Rate of recycling among Kenyan households and businesses	• MOEF • NT		

GLOSSARY

BAU	Business As Usual
BOD	Biological Oxygen Demand
Cat DDO	Catastrophe Deferred Draw Down Option
CEEC	Center for Energy Efficiency and Conservation
CIDPs	County Integrated Development Plans
CO_2	Carbon Dioxide
CSA	Climate Smart Agriculture
DP	Development partner
EFTs	Ecological Fiscal Transfers
FDI	Foreign Direct Investment
FLLoCA	Financing Locally-led Climate Action
GDP	Gross Domestic Product
GHG	Green House Gas
HAP	Household Air Pollution
HSNP	Hunger Safety Net Program
IFC	International Finance Corporation
IRA	Insurance Regulatory Authority
KAIRMP	Kenya Agriculture and Crop Insurance Management Program
KAM	Kenya Association of Manufacturers
KEBS	Kenya Bureau of Standards
KEGIB	Kenya Green Investment Bank
KEMRI	Kenya Medical Research Institute
KENIA	Kenya National Innovation Agency
KES	Kenya Shillings
KESP	Kenya Environmental Sanitation and Hygiene Policy
KFS	Kenya Fisheries Service
KIPPRA	Kenya Institute of Public Policy Research and Analysis
KIRDI	Kenya Industrial Research and Development Institute
KLIP	Kenya Livestock Insurance Program
KRA	Kenya Revenue Authority
LPG	Liquified Petroleum Gas
LULUCF	land-use change and forestry
ME	Ministry of Energy
MET	Kenya Meteorological Department
MIP-	Incentives Program for the Improvement of Municipal Management
MoALFC	Ministry of Agriculture, Livestock, Fisheries and Cooperatives
MoEF	Ministry of Environment and Forestry

MoH	Ministry of Health
MoITE	Ministry of Industrialization, Trade and Enterprise
MoT	Ministry of Transport
MoTI	Ministry of Trade and Industry
MoWSI	Ministry of Water, Sanitation and Irrigation
MTPs	Medium Term Plans
MTW	Ministry of Tourism and Wildlife
NACOSTI	National Commission for Science, Technology and Innovation
NAMA	National Appropriate Mitigation Action
NCCAPs	National Climate Change Action Plans
NDC	Nationally Determined Contributions
NDMA	National Drought Management Authority
NEMA	National Environment Management Authority
NEMA	National Environment Management Authority
NRF	National Research Fund
NT	National Treasury
NWHSA	National Water Harvesting and Storage Authority
PBK	Pyrethrum Board of Kenya
PET	polyethylene terephthalate
PIM	Public Investment Management.
R&D	Research and Development
SDG	Sustainable Development Goals
T2GS	Tree Growing Guarantee Scheme
TACs	Total Allowable Catches
TSOF	Three Stone Open Fire
TSS	Total suspended Solids
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Organization
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
VoCA	Voluntary Conservation Agreements
WFW	Working for Water
WHO	World Health Organization
WWDA	Water Works Development Agency



THE ETHICS AND ANTI-CORRUPTION COMMISSION

SECOND QUARTERLY REPORT COVERING THE PERIOD

1ST APRIL, 2024 TO 30TH JUNE, 2024

PREAMBLE

The Ethics and Anti-Corruption Commission (Commission) is required under Section 36 of the Anti-Corruption and Economic Crimes Act, 2003, to prepare quarterly reports setting out the number of reports made to the Director of Public Prosecutions (DPP) under Section 35 of the Anti-Corruption and Economic Crimes Act, 2003 as read with Section 11(1) (d) of the Ethics and Anti-Corruption Commission Act, 2011.

Section 36 provides that;

1. *The Commission shall prepare quarterly reports setting out the number of reports made to the Director of Public Prosecutions under Section 35 and such other statistical information relating to those reports, as the Commission considers appropriate.*

2. *A quarterly report shall indicate if a recommendation of the Commission to prosecute a person for corruption or economic crime was accepted or not accepted.*

3. *The Commission shall give a copy of each quarterly report to the Attorney General.*

4. *The Attorney General shall lay a copy of each quarterly report before the National Assembly.*

5. *The Commission shall cause each quarterly report to be published in the Gazette.*

This report is therefore made pursuant to Section 36 of the Anti-Corruption and Economic Crimes Act, No. 3 of 2003(ACECA). The report covers the Second Quarter and is for the period commencing 1st April, 2024 to 30th June, 2024.

INVESTIGATION REPORTS COVERING THE PERIOD FROM 1ST APRIL, 2024 TO 30TH JUNE, 2024

---

1. **EACC/PI/INQ/2/2023**

ALLEGATIONS OF IRREGULAR AWARD OF TENDERS WORTH KES. 45M BY THE NG-CDF TO COMPANIES ASSOCIATED WITH AN INTERNAL AUDITOR AT NG-CDF DURING THE FINANCIAL YEARS 2018-2022.

The Ethics and Anti-Corruption Commission **(EACC)** commenced these investigation following a report received on allegations of irregular award of tenders by the National Government Constituency Development Fund Board (**NG-CDF**) to companies associated with an Internal Auditor at NG-CDF Board during the financial years 2018/2019 - 2021/2022.

Investigation established that the suspect was seconded to the Constituency Development Fund Board on 26th July 2011 as an Internal Auditor. Subsequently, she was absorbed to the Constituency Development Fund Board and appointed as the Principal Internal Auditor on 4th August, 2022.

In 2016, the Head of Internal Audit tasked the suspect to audit projects undertaken by the the Constituency Development Fund in Kajiado East Constituency (**CDF**) in the 2014/2015 and 2015/2016 Financial years.

Investigation established that immediately after the completion of the audit exercise, the suspect started undertaking projects in Kajiado East Constituency project using four companies associated with her. She is the Director of OneTouch Professional Limited, Opulence Africa Merchants, Pyramid Concepts East Africa Ltd and a bank signatory to Braimo General Merchants. She is also the sole Bank Signatory to all the bank accounts held in respect of the four companies.

Investigation revealed that between 2017 and 2022, the four companies received a total of **Kshs. 59,045,580** being payments from NG-CDF funded projects in Kajiado East Constituency with the assistance of the Funds Account Manager. The suspect held a private interest in the contracts awarded to the companies associated to her by the Project Management Committee. Further, the suspect, upon receiving payments from NG-CDF, transferred money to the Funds Accounts Manager, the Quantity Surveyor and Clerk of Works both from Kajiado County. The amounts of cash were received during the implementation phase of the projects in the constituency awarded to the Principal Internal Auditor that were being supervised by the Quantity Surveyor and Clerk of Works.

On 23rd May, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the Internal Auditor, Fund Account Manager, Quantity Surveyor and the said contracted companies with the following offences:

i. Conspiracy to commit an offence of corruption contrary to Section 47A (3) as read with Section 48(1) of the Anti -Corruption and Economic Crimes Act No. 3 of 2003.
i. Five counts of conflict of interest contrary to Section 42(3) as read with Section 48 of ACECA.
ii. One count of willful failure to comply with the law relating to procurement contrary to Section 45(2) as read with Section 48(1) of the Anti-Corruption and Economic Crimes Act No.3 of 2003.
iii. Three counts of fraudulent acquisition of public property contrary to Section 45 (1) (a) as read with Section 48 of ACECA.
iv. Four counts of uttering false documents contrary to Section 353 of the Penal Code

Awaiting DPP's response.

2. **EACC/FI/INQ/29/2023**

INQUIRY INTO ALLEGATIONS OF IRREGULAR PROCUREMENT OF GOODS BY THE NAIROBI CITY COUNTY GOVERNMENT IN TENDER NO. NCC/MWKRS/T/109/2022-2023 FOR SUPPLY AND DELIVERY OF ELECTRICAL MATERIALS FOR STREET LIGHTING THROUGH ISSUANCE OF EIGHT (8) LPOS, TO EIGHT (8) DIFFERENT COMPANIES, AMOUNTING TO KES. 313,844,035.00 IN THE FINANCIAL YEAR 2022/2023.

The Ethics and Anti-Corruption Commission (EACC) received a report on allegation of irregular award of tender no. NCC/MWKRS/T/109/2022-2023 for supply and delivery of street lighting electrical materials to eight (8) companies by the Nairobi City County Government at a cost of Kes. 313,844,035.00 during the financial year 2022/2023.

Investigation established that the letters of notification of intention to enter into a contract were written on 6th February 2023 and LPOs signed on the same day. This was a clear violation of the fourteen (14) day's waiting period which must lapse following a notification of award before contracts are signed.

It was also established that the LPOs were signed and issued out to the Suppliers without a preceding acceptance of the awards, in violation of the public procurement laws

In addition, the LPOs were irregularly signed without the Accounting Officer having approved the recommendation set forth in the professional opinion in violation of the procurement law and the procedures established therein.

On 3rd June 2024, a report was compiled and forwarded to the DPP with recommendations to charge the Chief Officer, Works and Mobility, Head of Procurement, Procurement Officer (secretariat of Tender Opening/ Evaluation Committee), Finance Officer, Procurement Officer, Chair – Tender Evaluation Committee, Chair- Tender Opening Committee, Member (TEC), Member (TEC), Director of Waylin Gen. Ltd, Director - Fidelity Telecom Services and the contracted companies with the following offences;

i. Conspiracy to commit an offence of corruption contrary to Section 47A (3) as read with Section 48(1) of the Anti -Corruption and Economic Crimes Act No. 3 of 2003.

ii. Neglect of official duty contrary to Section 128 as read with Section 36 of the Penal Code.

iii. Two counts of willful failure to comply with the law relating to procurement contrary to Section 45(2) as read with Section 48(1) of the Anti-Corruption and Economic Crimes Act No.3 of 2003.

iv. Six counts of corrupt practice in a procurement proceeding contrary to Section 66(1) and (2) of the Public Procurement and Asset Disposal Act, 2015.

v. One count of uttering false documents contrary to Section 353 of the Penal Code.

vi. Two counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.

vii. One count of financial misconduct contrary to Section 197 (1) (h) as read with Section 199 of the Public Finance Management Act No.18 of 201.

The Commission also recommends for the cancellation of the signed contract (LPO), disciplinary proceedings against the members of the Evaluation Committee and an advisory to issue to Nairobi City County Government on the need to adhere to procurement procedures

On 26th July, 2024 the DPP returned the file with recommendation for administrative action to be taken against the suspect in lieu of prosecution.

3. EACC/BGM/FI/INQ/14/2020

INVESTIGATION INTO ALLEGATIONS OF MISAPPROPRIATION OF KSH 11 MILLION PUBLIC FUNDS SET ASIDE TO FACILITATE PUBLIC AWARENESS CAMPAIGN ON COVID-19 (CORONA VIRUS) BY THE COUNTY GOVERNMENT OF BUNGOMA

The Commission received a complaint that officials of the County Government of Bungoma misappropriated Kshs.11 Million borrowed from the Bungoma County Referral Hospital (Hospital) that was meant to facilitate public awareness campaign on Covid-19 sensitization (Covid campaign).

Investigation established that on 17th February, 2020 the County sought for funds (Kshs. 50 Million) from the National Treasury to initiate measures to address the looming Covid-19 emergency. On 14th April 2020, Kshs. 50 Million from the National Treasury was disbursed to the County Emergency to address the looming Covid 19 emergency.

In the intervening period, the CEC for Public Service Management & Administration approved a budget of Kshs. 6,986,000 for Covid campaign from the Director Special Programmes. The CEC Finance approved for the said funds to be transferred from the hospital's Revenue Collection Account (Hospital's Account) to conduct the Covid campaign.

The said funds were released form the Hospital's Account to nine (9) County staff attached to different Departments at the County. Each of the nine (9) officers received Kshs. 776,223 on 18th March 2020 after making imprest applications and made surrender at different periods thereafter.

The funds were utilized thereafter by the imprest holders in procurement of goods and services for Covid campaign, paying of MCA's while some funds were not properly accounted for.

Investigation established that the CEC Finance approved transfer of funds from the Hospital which had been set aside for the hospital's budgeted use. She never identified the vote from which funds were to be reallocated from before she approved expenditure/ reallocation. In addition, the reallocation/ transfer was beyond what was allowed under Section 154 of PFMA

Investigation established that the imprest holders procured goods by themselves without involving the department of supply chain.

The Chief Officer Health, the Medical Superintendent, an Accountant and the Administrative Officer of the hospital jointly authorized the utilization of a total sum of Kshs. 11,986,000 for an activity that was not within the hospital's budget.

The Chief Officer Health issued instructions to the Medical Superintendent of the hospital that led to irregular withdrawal of funds from the hospital's Account without seeking requisite approvals from the Chief Officer Finance and Economic Planning or CEC Finance. This led to mismanagement or misappropriation of public funds.

The Medical Superintendent and the Accountant at the hospital approved or allowed incomplete imprests to nine (9) imprest holders for activities which were not within budgeted activities of the hospital and to personnel not employed within the hospital.

The Health Administrative Officer and the Accountant unlawfully committed funds of the hospital by signing imprest applications without ensuring that there was a Vote available for the activity.

The use of the emergency fund and the hospital's fund was not properly managed and the funds utilized from the hospital were misappropriated.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspects with six counts of misappropriation of public funds contrary to Section 198(1) (b) as read with Section 199 of the Public Finance Management Act 2012.

Awaiting DPP's response.

4. EACC/ISL/PI/INQ/12/2017

ALLEGATIONS OF CORRUPTION AND PROCUREMENT IRREGULARITIES AGAINST THE PRINCIPAL AND THE MANAGEMENT BOARD OF MERU TEACHERS TRAINING COLLEGE IN THE PROCUREMENT AND AWARD OF TENDER TO RE-CARPET THE ENTRANCE OF THE COLLEGE USING CARBROS

The Commission commenced investigation following a complaint received in February 2017 at the Commission's Upper Eastern Regional, Isiolo on allegations of irregularities and corrupt conduct in the procurement and award of tender to re-carpet the entrance of Meru Teachers Training College (MTTC) using cabros.

Investigation established that the Board of Management Meru Teachers Training College met on 14th July 2016 and approved the re-carpeting project. Subsequently, the Principal who is the Accounting Officer of the College initiated the procurement process for works, services and supplies in regard to the project.

Investigation further revealed, inter alia, that during the procurement process, the Principal and the Procurement Officer did not follow the lawful procurement procedures as per the Public Procurement Law and Regulations. It was also established that the contractor who was awarded the tender, did not have requisite qualifications to undertake the works. Further, it was established that there were fraudulent practices during the tendering process.

On 18th April, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the Principal, the Procurement Officer of MTTC and the contractor with the following offences;

i. Five counts of willful failure to comply with the law and applicable procedures relating to procurement contrary to Section 45(2) (b) as read with Section 48(1) (a) of the Anti-Corruption and Economic Crimes Act, 2003.
ii. Fraudulent practice in procurement proceeding contrary to Section 66(2) as read with as read with Section 177(a) of PPADA.
iii. Abuse of office contrary to Section 46 as read with Section 48 of the Anti-Corruption and Economic Crimes Act (ACECA), 2003.
iv. Carrying on the business of a contractor without registration contrary to Section 15(1) as read with Section 15(3) of the National Construction Authority Act No. 41 of 2011.

Awaiting DPP's response.

5. EACC/MCKS/FI/INQ/22/2021

INQUIRY INTO ON ALLEGATIONS THAT THE VICE CHANCELLOR (VC) AT SOUTH EASTERN KENYA UNIVERSITY (SEKU) RECEIVED DOUBLE PAYMENT FOR HIS GRATUITY FOR THE PERIOD BETWEEN MARCH 2012 AND MAY 2013

The Commission commenced investigation following a report received on 25th November 2021 on allegations that the Vice Chancellor of South Eastern Kenya University (SEKU) received double payments for his gratuity for the period between March 2012 and May 2013.

Investigation established that the suspect was appointed as the Principal, South Eastern University College for a period of five years as from March 2010. In May 2013, while serving in the said position, he was appointed as the VC, SEKU. In both positions, he was employed on contractual basis and was entitled to gratuity at the rate of 31% of the basic salary paid in arrears every two years.

Investigation further established that in April 2012, the suspect was paid gratuity for the period 15th March 2010 to 14th March 2012. In July 2013, he was paid gratuity for the period between 15th March 2012 to 19th May 2013, a total sum of **Kshs. 714,267.80/=** (Kshs. 499,987.20/= as gratuity and Kshs. 214, 280.60/= as tax on gratuity). This was a one-year gratuity given that his term as the Principal for SEKU had ended on 19th May 2013 and there was need to pay all his dues including the said one-year gratuity.

Investigation revealed that there was an overpayment of Kshs. 714,267.84/= as gratuity that was deducted from the suspect's service gratuity of 15th March 2016

to 14th March 2018. There was no evidence to prove that he engineered the double payment as the payment went through the system checks.

On 18th April, 2024 a report was compiled and forwarded to the DPP with recommendations to close the inquiry file and an advisory be issued to SEKU University on the need to upgrade their payment system.

On 13th June 2024, the DPP returned the inquiry file with recommendation for closure.

6. EACC/ELD/FI/INQ/17/2019

INQUIRY INTO ALLEGATIONS OF CONFLICT OF INTEREST AGAINST THE CLERK OF THE COUNTY ASSEMBLY OF TURKANA IN THE PROCUREMENT OF AIR TRAVEL AGENCY SERVICES FROM REAPAK TRAVEL AGENCY LIMITED.

The Commission received a report on allegations of conflict of interest, abuse of office and procurement irregularities at Turkana County Government. It was alleged that the Clerk of the County Assembly of Turkana was trading with the County Government of Turkana (both the Assembly and the County Executive) through Reapak Travel Agency Ltd in the provision of Travel Agency Services

Investigation established that the County Assembly irregularly procured the services of Reapak Travel Agency to offer Air Travel services.

It was further established that the Clerk of the County Assembly of Turkana was the Accounting Officer of the County Assembly and a Director of Reapak Travel Agency Ltd, a Company incorporated on 3rd February 2014.

Investigation also revealed that the officers in the Finance Department jointly approved and processed payment for the subject tender without confirming that the requisite supporting documents were available.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the Clerk of Turkana County Assembly, a Procurement Officer, the Deputy Clerk, the Principal Finance Officer, the Principal Internal Auditor, the Senior Accountant, the Director Finance, an agent of Reapak Travel Agency Ltd, Reapak Travel Agency Limited and its Directors with the following offences;

i. Conspiracy to commit an economic crime contrary to Section 47a as read with Section 48 of the Anti-Corruption and Economic Crimes Act, 2003.
ii. Five counts of abuse of office contrary to Section 46 as read with Section 48 of the Anti-Corruption and Economic Crimes Act (ACECA), 2003.
iii. Unlawful acquisition of public property contrary to Section 45(a) as read with Section 48 of the Anti- Corruption and Economic Crimes Act, 2003
iv. Conflict of interest contrary to Section 42(3) as read with Section 48 of the Anti- Corruption and Economic Crime Act, no. 3 of 2003

Awaiting DPP's response.

7. EACC/MCKS/F1/INQ/8/2022

INQUIRY INTO ALLEGATIONS OF ILLEGAL SALE OF CALCIUM HYPOCHLORITE (CHLORINE) BY YATTA WATER SERVICES COMPANY TO KITUI WATER AND SANITATION COMPANY (KITWASCO).

The Commission received a report on 14th July 2022, on allegations of illegal sale of Calcium Hypochlorite (commonly referred to as Chlorine) by Yatta Water Services Company to Kitui Water and Sanitation Company (KITWASCO) at a cost of Kshs. 743,850.

Investigation established that in February 2022, KITWASCO was in need of chlorine to be used at the Masinga Water Treatment Works. The only prequalified company (KEL Chemicals Limited) which had been contracted to supply and deliver water treatment chemicals was not able to supply the chlorine as it was out of stock.

Investigation established that the Managing Director of KITWASCO requested the Managing Director, Yatta Water Services Company to supply fifty (50) buckets of Calcium Hypochlorite (Chlorine) in 45 Kg buckets at a cost of Kshs. 330.60 per kg; totaling Kshs. 743,850. The chlorine that Yatta Water Services sold to KITWASCO had been supplied to Yatta Water Services by the Government of Kenya and had been marked 'Not for Sale'. In the course of its Investigation, the Commission established that this matter was investigated by the Directorate of Criminal Investigation vide Yatta Criminal Inquiry File No.2/2022.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations that the Commission institutes a civil recovery suit against the Managing Director Yatta Water Services for the sum of Kshs 743,850/= that could not be accounted for.

On 24th July 2024, the DPP returned the inquiry file with the recommendation for administrative action.

8. EACC/ELD/FI/INQ/21/2020

INQUIRY INTO ALLEGATIONS OF PROCUREMENT IRREGULARITIES IN THE AWARD OF TENDER NO. CDFMBN/1/2018/2019 FOR CONSTRUCTION OF A CLASSROOM AT ST. ANN & JOACHIM SECONDARY SCHOOL IN MOIBEN CONSTITUENCY IN THE FINANCIAL YEAR 2018/2019.

The Commission received a report on allegations of Procurement irregularities in the award of a tender for the construction of a classroom at St. Ann & Joachim Secondary School. It was alleged that the Principal of St. Ann & Joachim Chepkosom Secondary School was unilaterally requesting for Company Profiles from contractors, and preparing or filling bids on their behalf with the intention of awarding the NG-CDF funded project Tender No. (CDFMBN/1/2018-2019) to a company of her choice.

Investigation established that St. Anne & Joachim Chepkosom Secondary school had an approved procurement plan and budget for the classroom project in accordance with Section 53 (2) and Section 45 (3) of the PPDA.

Investigation further established that the Principal executed her mandate as the Accounting Officer by appointing ad hoc committees in compliance with the law, as espoused in Section 78(1) of the PPDA.

The Tender Opening Committee prepared minutes in compliance with Section 78(10) of the PPDA. The Evaluation Committee prepared a Report in accordance with Section 80(4) of the PPDA recommending that the Tender be awarded to the lowest evaluated responsive bid submitted by M/s Endo Builder (K) Ltd at a tender sum of Kshs. 842,288 in accordance with Section 86(1) (a) of the PPDA.

Investigation revealed that the construction of the classroom was completed satisfactorily and it is now in use. However, there were procedural irregularities during the tender opening which recommended use of prequalified list of suppliers for an open tender.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations that the school or relevant Ministry takes administrative action against the public officers.

Awaiting DPP's response.

9. EACC/NKR/FI/INQ/08/2021

INQUIRY INTO ALLEGATIONS OF MISAPPROPRIATION OF MORTGAGE SCHEME FUND AMOUNTING TO KSHS. 200,000,000.00 BY THE LOAN MANAGEMENT COMMITTEE OF THE COUNTY GOVERNMENT OF BOMET IN THE FINANCIAL YEAR 2018/2019 AND 2019/2020.

The Commission received and registered a complaint that the County Government of Bomet Loans Management Committee misappropriated the

County Assembly mortgage scheme funds amounting to Kshs.200, 000,000 in the Financial Years 2018/2019 and 2019/2020.

Investigations established that on diverse dates from October 2017, the Members of the County Assembly and Staff made applications for mortgage attaching relevant documents such as a valuation report, title deed and search certificate, being a requirement under regulation 10(2) of the Public Finance Management (Bomet County Assembly (Members) Scheme Fund) Regulations, 2017. Consequently, the Committee met on various dates deliberated and approved the respective Mortgage applications.

Investigations revealed that the MCA's had completed their loan repayments and have since been issued with a loan clearance certificate.

Investigations also revealed that there was no misappropriation or fraud by the Loan Management Committee in the Management of the Bomet County Mortgage Scheme Fund.

On 13th June 2024, a report was compiled and forwarded to the DPP with recommendations to close the inquiry file.

Awaiting DPP's response

10. EACC/FI/INQ/70/2015

INQUIRY INTO ALLEGATIONS OF DOUBLE PAYMENTS MADE IN THE OFFICE OF THE DEPUTY PRESIDENT DURING FINANCIAL YEAR 2013/2014 FOR THE RENOVATION OF THE DEPUTY PRESIDENT'S KAREN RESIDENCE WHICH HAD BEEN DONE IN THE FINANCIAL YEAR 2012/2013.

The Commission commenced Investigation following a complaint received on allegations that massive double payments were made in the Office of the Deputy President (DP) in the financial year 2013/2014 for the renovation of the DP's Karen Residence that had been done in the Financial Year 2012/2013.

Investigation established that the project was initially meant for the Vice President's residence and had been carried out by two contractors. The first contract was terminated for non-performance and the second one undertook works to completion.

It was further established that in the year 2013, the Deputy President was supposed to move into the official residence. However, upon visiting the Karen Residence, he recommended certain changes, which informed the renovation of the whole house. It was further established that the Ministry of Lands and Housing, Directorate of Public Works was in charge of the renovations and hence were the implementers of the project.

Investigation also established that the renovations were justified and that there were no double payments made to the contractors as alleged. The renovations were carried out and no public funds were lost.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations to close the inquiry file.

Awaiting DPP's response

11. EACC/PI/INQ/40/2023

INQUIRY INTO AN ALLEGATION OF PROCUREMENT IRREGULARITIES AT THE STATE DEPARTMENT FOR WILDLIFE IN TENDER NO. SDW/RFP/015/2022-2023 FOR CONSULTANCY SERVICES FOR REVIEW OF WILDLIFE CONSERVATION AND MANAGEMENT BILL, 2023 AT A COST OF KSHS. 6.6 MILLION DURING FY 2022-2023.

The Commission received a report that the Principal Secretary, State Department for Wildlife had irregularly cancelled a Kshs. 6 billion tender for consultancy services for review of the Wildlife Conservation and Management Bill.

Investigation established that the said tender was for Kshs. 6 million and not the Kshs. 6 billion as reported.

Investigation also established that in the FY 2022/2023, the subject tender was planned and funds were available from the Global Environment Facility at a budget of Kshs.20,000,000/=. The procurement method used was request for proposals.

The procurement process commenced with six bidders expressing their interest. At the Technical Evaluation stage, three bidders were successful. At the Financial Evaluation, Munyao, Muthama and Kashindi Advocates & Commissioner of Oaths was recommended for award at a tender sum of Kshs. 6,960,000.00.

Investigation established that the Principal Secretary at the State Department of Wildlife directed that the procurement process for the subject tender be cancelled based on an Executive Directive that all natural resources Departments first develop conservation policies from which laws are to emanate.

The State Department of Wildlife informed the Public Procurement Regulatory Authority and all the bidders of the termination of the procurement proceedings for the subject tender.

Investigation established that the procurement process and termination of the procurement process for the subject tender was well within the law and that there was no procurement irregularity as alleged. It was further established that there was no loss of public funds.

On 9th May, 2024 a report was compiled and forwarded to the DPP with recommendations to close the inquiry file.

On 4th July, 2024 the DPP returned the file with recommendation for closure.

12. EACC/GSA/AT/INQ/06/2022

INQUIRY INTO ALLEGATION OF IRREGULAR LEASE OF PARCEL OF LAND PLOT NO. 10 BLOCK 4 BELONGING TO THE STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT IN GARISSA MUNICIPALITY BY THE GARISSA MUNICIPAL MANAGER

The Commission conducted investigations into the allegation of irregular lease of parcel of land Plot No. 10 Block 4 (the land) belonging to the State Department of Housing and Urban Development (SDHUD) within Garissa Municipality.

Investigations established that the land belonged to SDHUD and the management of the Municipality was vested with the Garissa Municipality Board.

Investigations further established that a business man operating a hotel in Eastleigh had applied for lease of the land and his application was not tabled before the Garissa Municipality Board.

Investigations revealed that instead, the Garissa Municipality Board Manager forged the board minutes for a meeting purportedly held on 12th May, 2022. The minutes alluded to a deliberation on the business man's application for lease and approved it. All the board members denied having attended the said meeting nor did they approve the application for the lease.

Investigations further established that the lease was signed by the Garissa Municipality Board Manager on 24th May, 2022 for a term of five years at an annual fee of Kshs.30,000/=.

Investigations further revealed that the business man proceeded to apply for the necessary approvals to establish a car wash business. A site visit by the Commission established that the car wash was built and it is in operation.

On 13th June 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. Forgery contrary to Section 349 of the Penal Code.
ii. Abuse of office contrary to section 46 of the ACECA.

The Commission also recommends that an advisory to issue to the Garissa Municipality Board to terminate the lease irregularly entered in respect to parcel of land Plot No. 10 Block 4.

Awaiting DPP's response.

13. EACC/GSA/AT/INQ/03/2022

INQUIRY INTO ALLEGATIONS OF ABUSE OF OFFICE AND FRAUDULENT ACQUISITION OF PUBLIC PROPERTY BELONGING TO THE NATIONAL CEREALS AND PRODUCE BOARD (NCPB), AGAINST THE DEPOT MANAGER NCPB, GARISSA OFFICE.

The Commission received a complaint on allegations of abuse of office and fraudulent acquisition of public property against the Manager of NCPB, Garissa Office.

Investigation established that the Manager, NCPB advertised on the Garissa Depot notice board an open space on the property for lease measuring 200 by 100 square feet (the facility) in line with its Leasing Policy.

In response to the advertisement, Sunny Link Agencies Limited (the tenant) submitted an application to lease the facility for Kshs. 40,000/- a month inclusive of VAT.

It was also established that NCPB's Regional and Central Processing Committee processed the tenant's application in line with NCPB's Leasing Policy and recommended a lease to the tenant for the facility at Kshs. 40,000/- per month inclusive of VAT.

The Investigation revealed that the provisions of NCPB's Leasing Policy do not fully align with the provisions for disposal under the PPADA, 2015 to the extent that the Policy does not provide for planning, need for an expert report and setting of a reserve price of the assets to be disposed as conditions relevant in the procurement processes.

Nonetheless, the Managing Director approved the recommendation to lease the facility to a tenant at Kshs. 40,000/= and NCPB entered into an agreement for lease with the tenant on 7th July 2020.

The lease was not registered against NCPB's property. Nonetheless, the agreement created a tenancy relationship between NCPB and the tenant. The tenant has been making the agreed payments to NCPB.

On 9th May, 2024 a report was compiled and forwarded to the DPP with recommendations to close the inquiry file and an advisory be issued to NCPB to align its policy with the Public Procurement and Asset Disposal Act 2015.

On 3rd July, 2024 the DPP returned the inquiry file with recommendations for closure.

14. EACC/EL/INQ/36/2021

INVESTIGATION INTO ALLEGATIONS THAT A DISABILITY SERVICE OFFICER, AT NATIONAL COUNCIL FOR PERSONS WITH DISABILITY (NCPWD) USED A FORGED BACHELOR DEGREE CERTIFICATE FROM MT. KENYA UNIVERSITY TO SECURE EMPLOYMENT

The Commission received a report on 23rd March 2012 that the suspect, a Disability Service Officer, at National Council for Persons with Disability (NCPWD) used a forged bachelor degree certificate from Mt. Kenya University to secure employment.

Investigation established that the suspect forged a Bachelor of Arts (Sociology) Degree Certificate purporting to be a genuine certificate issued by Mt. Kenya University and a KCSE certificate to secure employment as a Disability Service Officer, at NCPWD.

Investigation further revealed that the said officer unlawfully earned a sum of Kshs. 1,476,328.40 during the period as salary on account of the fraud.

On 15th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. Two counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. One count of presentation of forged certificate contrary to Section 34(a) of Kenya National Examination Council Act no. 29 of 2012.
v. One count of giving false information to a person employed in public service contrary to Section 129 (a) of the Penal Code.
vi. One count of making a false statutory declaration contrary to Section 11 of the Oaths and Statutory Declarations Act.

Awaiting DPP's response.

15. EACC/EL/INQ/06/2022

INVESTIGATION INTO ALLEGATIONS THAT A SCHOOL BURSAR AT NJORO GIRLS HIGH SCHOOL USED FORGED ACADEMIC CERTIFICATES TO GET EMPLOYMENT

The Commission received a report on 12th January 2022 that the suspect presented a fake certificate from KASNEB to secure employment at Njoro Girls High School. It was further alleged that the suspect continued earning salary and benefits with the Principal's full knowledge.

Upon subjecting the academic certificates belonging to the suspect for authentication, it was established that the certificates held by the suspect, for Kenya Accounting Technicians Certificates (KATC) results notifications for intermediate level and final level were forgeries. The suspect registered for KATC and attempted the intermediate level exams and failed.

Investigation established that the CPA Part II (Section 3 & 4) and Part III (Section 5) examination result notifications held by the suspect were also forgeries. The suspect has never registered for CPA nor attempted any CPA examinations.

Investigation also revealed that the suspect fraudulently earned salary amounting to Kshs 3,759,851/= for the period from 25th September 2012 to 21st December 2020 and that she tendered her resignation on 10th November 2020 after she was invited to appear before the Board of Management to respond to the allegation of fake certificates.

On 20th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. Four counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Four counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. One count of deceiving principal contrary to Section 41(2) as read with as read with Section 48(1) of ACECA.

On 24th July 2024, the DPP returned the file with recommendation for further investigations.

16. EACC/ISL/EL/INQ/3/2020

INVESTIGATION INTO ALLEGATIONS OF IRREGULAR RECRUITMENT OF PUBLIC HEALTH OFFICERS AND DIRECTORS BY THE COUNTY PUBLIC SERVICE BOARD OF ISIOLO BETWEEN FEBRUARY AND JUNE 2020.

The Commission received a complaint on 10th August 2020 into allegations of irregular recruitment of Public Health Officers and Directors by the County Public Service Board of Isiolo between February and June 2020.

Investigation established that the members of Isiolo County Public Service Board used the authority of their office to arbitrarily shortlist and recommend for appointment, Public Health Officers who did not have practising licenses.

On 8th May, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspects with abuse of office contrary to Section 46 as read with Section 48 of the Anti-Corruption and Economic Crimes Act (ACECA), 2003.

The Commission will also institute civil recovery suit for the sum of Kshs. 4,821,255.3 being salaries paid unlawfully to the Public Health Officers. Further, an advisory will be issued to the Public Health Officers and Technicians Council (PHOTC) to take action against the officers who were practicing without being registered as provided in Section 28(1) of the act.

On 1st July, 2024 the DPP returned the file with recommendation for further investigations.

17. EACC/ISL/EL/INQ/5/2022

INVESTIGATION INTO ALLEGATIONS OF FORGERY AGAINST THE DEPUTY PRINCIPAL MARALAL VOCATIONAL TRAINING CENTRE.

The Commission commenced Investigation following a report that the suspect, the Deputy Principal Maralal Polytechnic used forged academic certificates to secure his employment as an Arc Welding and Plumbing Instructor at the Samburu County Government.

Investigation established that the suspect never studied nor sat for his Kenya Certificate of Primary Education (KCPE) examinations at Barsaloi Primary School. Investigation also established that the suspect did not study nor was he issued with

a Kenya Certificate of Secondary Education (KCSE) from Baragoi Boys High School. The KCPE and Kenya National Examination Council (KNEC) certificate presented to Samburu County Government by the suspect in support of declaration of head count was forged. The suspect used the said certificates to secure employment as an Arc Welding and Plumbing Instructor at the County.

On 15th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. Two counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Two counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. One count of presentation of forged certificate contrary to Section 34(a) of KNEC Act no. 29 of 2012.
v. One count of providing false information to the Samburu County Government contrary to Section 46(1)(d) as read with Section 46(2) of the Leadership And Integrity Act,2012

On 22nd July, 2024 the DPP returned the file with recommendation for further investigations.

18. EACC/EL/INQ/025/2023

INVESTIGATION INTO ALLEGATIONS THAT A FORMER EMPLOYEE OF NATIONAL SYNDEMIC DISEASES CONTROL COUNCIL (NSDCC) IS SUSPECTED TO HAVE FORGED A BACHELORS DEGREE FROM THE UNIVERSITY OF NAIROBI TO GAIN EMPLOYMENT AT (NSDCC)

The Commission received a report on 26th June 2023 that the suspect used forged Bachelor's degree from University of Nairobi (UoN) to secure employment at

National Syndemic Diseases Control Council(NSDCC formerly National Aids Control Council .

Investigation established that the suspect was enrolled at the University as a student with registration number C01/6061/2002 and a Bachelors of Arts Student in the Faculty of Arts and Social Sciences.

Investigation revealed that the suspect first registered for his course in academic year 2002/2003 and the last time he registered was in academic year 2006/2007. Due to lapse of academic progress, he was deregistered from the University.

Investigation further revealed that the copy of the degree and academic transcripts used by the suspect to secure employment were not genuine and were not issued by the UON. The certification in the certificate and transcripts was also forged.

On 13th May 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following counts;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. Two counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Three counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. Two counts of deceiving principal contrary to Section 412) as read with as read with Section 48(1) of ACECA.

Awaiting DPP's response.

19. EACC/KIS/ EL/INQ/2/2020

INVESTIGATION INTO ALLEGATIONS THAT THE DEPUTY CLERK OF THE COUNTY ASSEMBLY OF KISII EMPLOYED HIS NIECE AS A CLERICAL OFFICER WITHOUT FOLLOWING EMPLOYMENT PROCEDURES.

The commission commenced Investigation following a complaint that the Deputy Clerk, Kisii County Assembly irregularly appointed his niece as an employee of the County Assembly in the year 2017.

Investigation established that the suspect appointed his niece to a permanent and pensionable position without the Board's approval and without following established procedures in the human resource manuals.

Investigation revealed that the conduct of the suspect fell short of the moral and ethical requirements as stipulated under Chapter Six of the Constitution and the Leadership and Integrity Act, 2012.

On 15th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with one count of abuse of office contrary to Section 46 as read with Section 48 of the Anti-Corruption and Economic Crimes Act (ACECA), 2003.

The Commission also recommended that a caution be issued to the Speaker of the County Assembly for failing to adhere to the Circular on Appointment of Personal Staff. It was also recommended that an advisory to issue to the County Assembly of Kisii to open and maintain a conflict of interest register in compliance with the Leadership and Integrity Regulations, 2015

On 22nd July, 2024 the DPP returned the Inquiry file with recommendations for further investigations.

20. EACC/EL/INQ/043 (b)/2021

INQUIRY INTO ALLEGATIONS OF FORGERY OF A BACHELORS OF ARTS DEGREE IN SOCIOLOGY FROM MOUNT KENYA UNIVERSITY BY A SENIOR MEDICAL SOCIAL WORKER AT THE WAJIR COUNTY GOVERNMENT.

The Commission commenced investigation following a report that the suspect, a Senior Medical Social Worker at County Public Service Board of Wajir forged documents from Mount Kenya University (MKU) to secure employment.

Investigation established that the suspect was never a bona fide student at MKU and that the degree certificate and academic transcripts never used to secure the employment at Wajir County Government were not genuine.

Investigation established that for the period June 2016 to January 2023, the suspect earned a total of Kshs. 6,794,893.25 in salary.

The County Public Service Board terminated his employment contract with effect from 5th June 2023 after conducting an administrative inquiry into his academic qualifications and establishing that he was employed based on a forged degree certificate.

On 20th June 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following counts;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Four counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.

The Commission further recommended that it issues an advisory to the County Government of Wajir through the County Public Service Board to conduct due

diligence when recruiting staff in all cadres to avoid employing staff with falsified academic certificates.

On 24th July, 2024 the DPP returned the file with recommendation for further investigations.

21. EACC/KSM/EL/INQ/06/2023

INQUIRY INTO ALLEGATIONS THAT THE DIRECTOR ICT AT THE COUNTY GOVERNMENT OF KISUMU USED FORGED ACADEMIC CERTIFICATES (KCSE AND DEGREE CERTIFICATE) TO SECURE EMPLOYMENT AT THE COUNTY GOVERNMENT.

The Commission commenced investigation following a report that the suspect, a Director ICT at the County Government of Kisumu forged academic certificates to secure employment.

Investigation established that the degree certificate that the suspect presented to Kisumu County Public Service Board during recruitment was not genuine.

Investigation revealed that the KCSE Certificate that he presented to Kisumu County Public Service Board purporting to have attended Ngere Boys High School was not genuine as it had been altered from mean grade C- to C+.

The suspect fraudulently earned a net salary of Ksh.4,656,211.45 for the period September 2020 and August 2023 from Kisumu County Government.

On 20th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the aforesaid suspect with the following counts;

i. One count of fraudulent acquisition of public property contrary to Section 45(1) (a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act.
ii. Two counts of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Two counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.

iv. Two counts of giving false information to a person employed in public service contrary to Section 129(a) of penal code cap 63 laws of Kenya.

v. One count of false declaration contrary to Section 11 of the Oaths and Statutory Declarations Act cap 15 laws of Kenya.

Awaiting DPP's response.

22. EACC/ EL/INQ/57(i)/2023

AN INQUIRY INTO AN ALLEGATION THAT AN INVESTIGATION & MONITORING OFFICER AT NAIROBI CITY WATER AND SEWERAGE COMPANY LTD (NCWSC) USED A FORGED BACHELOR OF LAWS DEGREE CERTIFICATE FROM MOI UNIVERSITY TO SEEK EMPLOYMENT.

The Commission received a report on 22nd September 2023 from the Managing Director Nairobi City Water & Sewerage Company that several officers from the organization were in possession of fake academic certificates and among them was an Investigation/Monitoring Officer (the suspect).

Investigation established that the Degree certificate in Bachelor of Laws, Second Class Honours (Lower Division) submitted to the Company, allegedly awarded to the suspect by Moi University on 19th October 2007, is not authentic and was not issued by the university.

Investigation confirmed that the suspect was a student at the University having been admitted under the Privately Sponsored Students Programme (PSSP) successfully pursued a degree course leading to the award of a Bachelor of Laws Degree whereby she obtained a Pass and not a Second Class Lower Division.

The suspect drew a net salary of Kshs. 8,998,710.10 from August 2017 to November 2023.

On 20th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following counts;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act.
ii. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. Two counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. One count of deceiving principal contrary to Section 412) as read with as read with Section 48(1) of ACECA.

The Commission further recommended that an advisory be issued to the Nairobi Water and Sewerage Company to conduct due diligence when recruiting staff in all cadres to avoid employing staff with falsified academic certificates.

Awaiting DPP's response.

23. EACC/EL/INQ/57(viii)/2023

INQUIRY INTO AN ALLEGATION THAT A COMMUNITY DEVELOPMENT ASSISTANT AT NAIROBI CITY WATER & SEWERAGE COMPANY USED A FORGED DIPLOMA IN COMMUNITY DEVELOPMENT AND SOCIAL WORK CERTIFICATE FROM ZETECH COLLEGE TO SECURE EMPLOYMENT.

The Commission commenced investigation following a report that the suspect, a Community Development Assistant at Nairobi City Water & Sewerage Company forged academic certificates to secure employment.

Upon subjecting the academic certificates for authentication, it was established that the Diploma in Community Development and Social Work certificate purportedly awarded by Zetech College on 6th November 2015 was not genuine.

Investigation established that the suspect deceived and gave false information to NCWSC that she held a Diploma in Community Development and Social Work certificate from Zetech College.

On 20th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
ii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iii. One count of deceiving principal contrary to Section 412) as read with as read with Section 48(1) of ACECA.

On 24th July, 2024 the DPP returned the file with recommendation for further investigations.

24. EACC/EL/INQ/57(IX)/2023

INQUIRY INTO ALLEGATION THAT AN ICT ASSISTANT USED A FORGED DIPLOMA IN INFORMATION AND TECHNOLOGY CERTIFICATE FROM ELDORET NATIONAL POLYTECHNIC TO SECURE EMPLOYMENT AT NAIROBI CITY WATER & SEWERAGE COMPANY.

The Ethics and Anti- Corruption Commission (EACC) received a report on 22nd September 2023 from the Managing Director Nairobi City Water & Sewerage Company that several officers from the organization were in possession of fake academic certificates and among them was the suspect herein who was an ICT Assistant.

During the pendency of investigation, the suspect was issued with a show cause letter dated 8th August 2023 and later suspended from work vide a letter dated 24th August 2023. He left employment after the dismissal of a petition that he had filed in court challenging the disciplinary process.

Investigation established that the suspect was employed at Nairobi City Water & Sewerage Company as an ICT Assistant on 13th August 2016 on the strength of the Diploma in ICT which he purported to have been obtained from Eldoret National Polytechnic.

Investigation established that the Diploma certificate in Information Technology purportedly awarded by the Eldoret National Polytechnic on 13th September 2010 is not genuine.

Investigation further established that the suspect was a registered student at the Eldoret National Polytechnic pursuing Diploma in Information Technology. He only sat for Module 1 exams in July 2007 instead of the requisite three modules for the award of a Diploma.

For the period that the suspect served at NCWSC, he had fraudulently earned a net salary of Kshs. 7,173,963.60.

On 20th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act

ii. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.

iii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.

iv. One count of deceiving principal contrary to Section 412) as read with as read with Section 48(1) of ACECA.

On 22nd July, 2024 the DPP returned the Inquiry file and concurred with the recommendation to prosecute.

25. EACC/ EL/INQ/57(14)/2023

INQUIRY INTO AN ALLEGATION THAT A SPORTS SUPERVISOR AT NAIROBI CITY WATER AND SEWERAGE COMPANY LTD SUBMITTED A FORGED DIPLOMA CERTIFICATE IN SPORTS SCIENCE MANAGEMENT FROM JOMO KENYATTA UNIVERSITY OF AGRICULTURE & TECHNOLOGY.

The Ethics and Anti- Corruption Commission (EACC) received a report on 22nd September 2023 from the Managing Director Nairobi City Water & Sewerage Company that several officers from the organization were in possession of fake academic certificates and among them was the suspect herein who was a Sports Supervisor.

Investigation established that on 30th June 2021, the suspect submitted a Diploma Certificate in Sports Science Management purporting to have been obtained from Jomo Kenyatta University of Agriculture and Technology awarded on 30th November 2018.

Investigation by the Commission established that the Diploma Certificate was a forgery and not issued by JKUAT. Investigation further established that the fake Diploma Certificate was not used to confer any benefit to him hence no recovery of salary.

On 19th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following counts;

i. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
ii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.

The Commission to issue an advisory to the Nairobi Water and Sewerage Company to conduct due diligence when recruiting staff in all cadres to avoid employing staff with falsified academic certificates.

On 25th July, 2024 the DPP returned the file with recommendation for further investigations.

26. EACC/EL/INQ/008(i)/2024

INQUIRY INTO ALLEGATION THAT A DRIVER AT THE COMMISSION ON REVENUE ALLOCATION USED A FORGED KCSE CERTIFICATE TO SECURE EMPLOYMENT.

The Commission commenced investigation following a report from the Commission Secretary of the Commission on Revenue Allocation (CRA) that the suspect, a driver at the Commission on Revenue Allocation used a forged KCSE certificate to secure employment.

Investigation established that the suspect had altered the grades for two subjects in his KCSE certificate when seeking employment.

Investigation further revealed that for the period the suspect worked at CRA, from August 2023 to November 2023, the suspect had earned a net salary of Kshs. 223,809/=.

On 26th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.

The Commission also recommended that an advisory be issued to the Commission for Revenue Allocation to conduct due diligence by conducting verification of staff academic certificates periodically.

On 24th July, 2024 the DPP returned the Inquiry file with recommendations for further investigations.

27. EACC/EL/INQ/008(ii)/2024

INQUIRY INTO ALLEGATION THAT A DRIVER AT THE COMMISSION ON REVENUE ALLOCATION USED A FORGED KCSE CERTIFICATE TO SECURE EMPLOYMENT.

The Ethics and Anti-Corruption Commission commenced investigation following a report from the Commission Secretary on Revenue Allocation (CRA) that the suspect, a Driver at the Commission on Revenue Allocation used a forged KCSE certificate to secure employment.

Investigation established that the suspect had altered his KCSE certificate mean grade from D (plain) to B (plain) and that the grades for six subjects had been altered.

Investigation further established that for the period that the suspect had worked at CRA, from May 2023 to September 2023, he earned a net salary of Kshs. 262,498.60.

On 24th April 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. One count of fraudulent acquisition of public property contrary to Section 45(1)(a) as read with Section 48 of the Anti-Corruption and Economic Crimes Act
ii. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
iii. One count of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iv. One count of presentation of forged certificate contrary to Section 34(a) of KNEC Act no. 29 of 2012.
v. One count of giving false information to a person employed in public service contrary to Section 129 (a) of the Penal Code.

On 24th July, 2024 the DPP returned the file with recommendation for further investigations.

28. EACC/EL/INQ/56(iv)/2023

INQUIRY INTO ALLEGATIONS THAT AN ASSISTANT ELECTION OFFICER AT INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION (IEBC) USED A FORGED

BACHELOR OF BUSINESS MANAGEMENT (HUMAN RESOURCE MANAGEMENT OPTION) DEGREE CERTIFICATE FROM MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY TO SECURE EMPLOYMENT.

The Commission commenced investigation following a report that the suspect, an Assistant Election Officer at Independent Electoral and Boundaries Commission (IEBC) forged academic certificates to secure employment.

Investigation established that the suspect, an Assistant Election Officer submitted a copy of a Bachelor of Business Management (Human Resource Option) Degree Certificate from Masinde Muliro University of Science and Technology (MMUST) purporting to have been awarded on 17th December 2021 together with four Undergraduate Academic Transcripts all dated 9th November 2021.

Investigation established that the suspect has never been a student at MMUST and that the Bachelor of Business Management (Human Resource Option) Degree Certificate was forged.

The investigation further established that the certificate, transcripts, and graduation booklet are forgeries.

On 24th June 2024 a report was compiled and forwarded to the DPP with recommendations to charge the aforesaid suspect with the following counts;

i. One count of forgery contrary to Section 345 as read with Section 349 of the Penal Code.
ii. Six counts of uttering a false document contrary to Section 353 as read with Section 349 of the Penal Code.
iii. Six counts of deceiving principal contrary to Section 41(2) as read with as read with Section 48(1) of ACECA.

Awaiting DPP's response.

29. EACC/EL/INQ/136/2017

INQUIRY INTO ALLEGATIONS THAT THEN DEPUTY DIRECTOR KENYA SCHOOL OF LAW DID NOT RESIGN FROM HIS POSITION WHEN HE CONTESTED IN THE AUGUST 8TH2017 GENERAL ELECTION AND RESUMED AFTER LOSING THE ELECTION.

The Commission received a complaint that the former Deputy Director of the Kenya School of Law vied for the Mwatate Constituency Parliamentary seat in the general elections of 08/08/2017 without resigning from his position in contravention of the Election Act, No. 24 of 2017.

Investigation established that the suspect was a former Deputy Director of the Kenya School of Law and that he sought unpaid leave from 10/07/2017 to 11/08/2017 to participate in the 2017 general election and thereafter resumed his duties on 14/08/2017 after losing the election.

Investigations further established that the School's Financial and General Purpose Committee resolved that the suspect was deemed to have resigned and the decision was upheld by the full Board.

Investigations also established that the matter was a subject of the Employment and Labour Relations Court in Nairobi ELRC No.119 of 2018 Morris Kiwinda Mbondeyi vs Kenya School of Law in which the suspect had prayed for benefits including salary arrears, gratuity, and airtime allowance and general damages all totaling to Kshs. 13,321,584.00. The court dismissed the suit filed by the claimant as well as the School's counterclaim.

Investigation established that in light of the dismissal of the suspect's petition and the counterclaim by the Kenya School of Law, it was not viable to file a recovery suit against the suspect since the issue is res judicata.

On 18th April, 2024 a report was compiled and forwarded to the DPP with recommendations to close the inquiry file.

On 10th July, 2024 the DPP returned the file with recommendation for closure.

30. EACC/NYR/OPS/INQ/14/2021

INVESTIGATION ON CORRUPTION ALLEGATIONS AGAINST THE DEPUTY DCIO, ATTACHED TO MATHIRA WEST, NYERI COUNTY.

The Commission commenced Investigation following a complaint that the Deputy DCIO Mathira West, demanded Kshs. 200,000 from the complainant in order to drop alleged land fraud charges against him.

Investigation established that indeed there were various applications in court touching on land parcel no Kirimukuyu/Mbogoini/225 and Kirimukuyu/Gachuiro/536 registered in the name of the complainant and another person relating to succession proceedings that were ongoing in Court.

Investigation further established the complainant was being investigated by the DCI for fraud in regard to the above mentioned parcels of land.

Investigation revealed that the complainant was arrested on 18/10/2021 at 6pm by the suspect and taken to Karatina Police Station where he was booked on 19th October 2021 at 0050hrs.

Investigation further established that on 19th October 2021, the suspect released the complainant after demanding Kshs 200,000/= in order to drop the land fraud charges against him.

On 9th May, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016.

On 26th July, 2024 the DPP returned the file with recommendation for further investigations.

31. EACC/ISL/OPS/INQ/12/2023

INQUIRY INTO BRIBERY ALLEGATIONS AGAINST A POLICE OFFICER AT MUTUATI POLICE STATION.

The Commission commenced Investigation following receipt of a complaint from a motor cycle operator, that a Police Officer based at Mutuati Police Station had demanded a bribe of Kshs. 10,000/= from him so that he could release his motor cycle which had been detained by the police officer on 20th May 2023 for lack of registration documents..

On 15th June, 2023, EACC Officers organized a trap operation that resulted to the arrest of the suspect after he had received the bribe of Kshs. 5,000/= from the complainant.

Investigation revealed that the suspect demanded for a bribe of Kshs.10,000/= from the complainant and received a bribe of Kshs. 5,000/=.

On 18th April, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016.

On 1st July, 2024 the DPP returned the file with recommendation for administrative action to be taken against the suspect in lieu of prosecution.

32. EACC/OPS/INQ/149/2019

INQUIRY INTO ALLEGATIONS OF ABUSE OF OFFICE AND CONFLICT OF INTEREST BY THE PRINCIPAL OF RUTHIMITU GIRLS HIGH SCHOOL.

The Commission received a report on 3rd September 2019 that the Headmistress/Principal of Ruthimitu Girls High School, supplied foodstuffs to the said school between 2013 and 2019 through her business entity, Kawisa Suppliers.

Investigation established that the suspect was the Principal of Ruthimitu Girls High School and also the sole proprietor and bank signatory of Kawisa Suppliers. She conspired with another individual by signing a memorandum of understanding in which the Principal allowed the individual to use Kawisa Suppliers to trade with the School. Kawisa Suppliers supplied foodstuffs to Ruthimitu Girls High School from 2013 to 2018 and was paid a total amount of Kshs. 11, 600,531/=.

Investigation further revealed that there was conflict of interest on the part of Principal who failed to disclose her direct private interest in Kawisa Suppliers, which was trading with Ruthimitu Girls High School and unlawfully acquired public funds totaling to Kshs 11,600,531/= from Ruthimitu Girls High School. On 18th April, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with;

i. One count of conspiracy to commit an offence of corruption contrary to Section 47A (3) as read with Section 48 of the ACECA
ii. One count of conflict of interest contrary to Section 42 (3) as read with Section 48 of the ACECA
iii. One count of unlawful acquisition of public property contrary to Section 45 (1)(a) as read with Section 48 of the ACECA
iv. One count of abuse of office contrary to Section 46 as read with Section 48 of the ACECA.

On 5th June 2024, the DPP returned the file declining the Commission's recommendation for prosecution and recommending that the subject matter be pursued by filing civil recovery suit of monies paid to the suspect.

33. EACC/OPS/INQ/96/2023

INQUIRY INTO BRIBERY ALLEGATIONS AGAINST TWO EMPLOYEES OF KENYA POWER AND LIGHTING COMPANY LIMITED.

The Commission commenced Investigation upon receipt of a report from the complainant that two employees of Kenya Power and Lighting Co Ltd (KPLC) had requested for a bribe of Kshs. 100,000 from her so as to strike out a bill amounting to Kshs. 250,000 and reconnect back power which had been disconnected at her family residence.

Investigation established that the suspects requested and agreed to receive a financial advantage of Kshs. 50,000/= so as to improperly facilitate the

reconnection of electricity that had been disconnected at the complainant's premises.

On 3rd June 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspects with two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016 and one count of conspiracy to commit an offense of corruption contrary to Section 47A (3) as read with Section 48 of Anti-corruption and Economic Crimes Act.

On 26th July, 2024 the DPP returned the file with recommendation for administrative action to be taken against the suspect in lieu of prosecution.

34. EACC/OPS/INQ/130/2023

INVESTIGATION INTO ALLEGATIONS OF BRIBERY AGAINST THE OFFICER COMMANDING RUAI POLICE STATION.

The Commission commenced investigation following a complaint that the OCS Ruai Police Station had requested for a bribe of Kshs. 5,000/= from the complainant in order to release three suspects who had been arrested for the offence of being drunk and disorderly.

Investigation established that the suspect was the OCS at Ruai Police Station and had arrested and detained three suspects allegedly for being drunk and disorderly. Investigation established that the suspect requested for and received a bribe of Kshs. 3,000.

On 24th July 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspect with two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016.

On 5th June 2024, the DPP returned the file declining the Commission's recommendation for prosecution and recommended closure.

35. EACC/OPS/INQ/112/2023

INVESTIGATION INTO BRIBERY ALLEGATIONS AGAINST POLICE OFFICERS MANNING TRAFFIC ALONG THIKA – MATUU – GARISSA ROAD.

The Commission commenced Investigation following numerous complaints by members of the public concerning widespread solicitation for bribes by Police Officers from Matuu Police Station, Machakos County, in charge of traffic along Thika – Matuu – Garissa Road.

Investigation established that the traffic police officers manning the said road were engaged in corrupt practices of collecting bribes from motorists.

Upon completion of investigation and review of the available evidence, it was observed that the same could not satisfy the necessary threshold required for a criminal prosecution.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations that the National Police Service Commission takes administrative action against the suspects.

On 22nd July, 2024 the DPP returned the inquiry file with recommendations for administrative action.

36. EACC/OPS/INQ/01/2023

INVESTIGATION IN RESPECT TO ALLEGATIONS OF CORRUPT CONDUCT AGAINST TRAFFIC OFFICERS ATTACHED TO NAIROBI AREA TRAFFIC HEADQUARTERS.

The Commission received a complaint on 11th January 2023 that a civilian was collecting bribes on behalf of police officers around the flyover from Muthurwa heading to the Country Bus Station in Nairobi at the Junction from Gikomba.

On 13th and 17th January, 2023, the investigation team carried out surveillance at Echo Roundabout and captured video recordings of the suspects who appeared to be taking bribes from public service vehicles.

This culminated to an arrest of a Police Officer alongside the suspected civilian who was collecting bribes on his behalf.

Investigation established insufficient evidence to sustain bribery charges against the suspects.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations that the National Police Service Commission takes administrative action against the suspect.

On 24th July, 2024 the DPP returned the inquiry file with recommendations for administrative action.

37. EACC/OPS/INQ/18/2024

INQUIRY INTO BRIBERY ALLEGATIONS AGAINST A POLICE OFFICER BASED AT KASARANI POLICE STATION

The Commission commenced investigation upon receipt of a complaint by the that a Police Officer based at Kasarani Police Station was demanding for a bribe of Kshs. 30,000/= in order to release two persons from police custody.

Investigation established that the suspect requested for and received a bribe of Kshs. 10,000. During the arrest, the suspect resisted arrest and damaged to property belonging to Red Plate Restaurant.

On 3rd June, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with the following offences;

i. Two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti- Bribery Act, 2016; and
ii. One count of obstruction contrary to Section 66(1)(a) read together with Section 66(2) of ACECA.

On 24th July 2024, the DPP returned the inquiry file and concurred with the recommendation to prosecute.

38. EACC/KSM/OPS/INQ/02/2023

AN INVESTIGATION ON CORRUPTION ALLEGATIONS AGAINST A POLICE OFFICER ATTACHED TO KISUMU COUNTY CRIMINAL INVESTIGATION OFFICE.

The Commission commenced investigations following a report by the complainant that the Investigating Officer in his case of stealing goods in transit demanded for a bribe of Kshs 500,000 in order to withdraw the charges against him and as well as discontinuing the investigations against two others.

Investigation established that the suspect is a Police Officer attached to CCIO, Kisumu as an Investigator who requested for a bribe of Kshs 500,000 from the complainant and received Kshs.200,000/=.

On 13th June, 2024 a report was compiled and forwarded to the DPP with recommendations to charge the suspect with three counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016.

On 26th July, 2024 the DPP returned the file with recommendation for further investigations.

39. EACC/OPS/INQ/17/2023

INQUIRY INTO BRIBERY ALLEGATION OF CORRUPT CONDUCT AGAINST A PUBLIC HEALTH OFFICER BASED AT ROYSAMBU SUB-COUNTY WORKING AT NAIROBI CITY COUNTY GOVERNMENT (NCCG).

The Commission commenced investigations upon receipt of a complaint that the suspect was demanding for a financial benefit of Kes.50,000/= so as not to charge the complainant in court for an offence of selling consumable food without labels and storage instructions.

Investigations established that the suspect is Public Health Officer from Nairobi City County Government who requested for a benefit of Kes.50,000 that was negotiated downwards to Kes.25,000/=.

On 13th June 2024, a report was compiled and forwarded to the DPP with recommendations to charge the suspect with two counts of receiving a bribe contrary to Section 6(1) as read with Section 18(1) of the Anti-Bribery Act, 2016.

Awaiting DPP's response.

STATISTICAL SUMMARY OF FILES FORWARDED TO THE DIRECTOR OF PUBLIC PROSECUTIONS

1.	Total No. of files forwarded to the Director of Public Prosecutions	**39**
2.	No. of files recommended for prosecution	**29**
3.	No. of files recommended for administrative or other action	**4**
4.	No. of files recommended for closure	**6**
5.	No. of files recommended for prosecution and the cases are already lodged before Court	**0**
6.	No. of files where recommendation to prosecute accepted	**2**
7.	No. of files where recommendation for administrative or other action accepted	**3**
8.	No. of files where recommendation for closure accepted	**4**
9.	No. of files returned for further Investigation	**11**
10.	No. of files where recommendation to prosecute not accepted	**1**
11.	No. of files where recommendation for administrative or other action not accepted	**0**
12.	No. of files where closure not accepted	**0**
13.	No. of files where prosecution declined but administrative action recommended	**4**
14.	No. of files awaiting the DPP's advice	**14**

Dated at Nairobi this 31st **Day of** July **2024**

DAVID OGINDE, PhD
CHAIRPERSON
/ioa

TWALIB MBARAK, MGH, CBS
SECRETARY/CHIEF EXECUTIVE OFFICER

REPUBLIC OF KENYA

2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

PREPARED BY PUBLIC DEBT MANAGEMENT OFFICE
THE NATIONAL TREASURY AND ECONOMIC PLANNING

FEBRUARY 2025

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 13 FEB 2025
DAY: Thursday
TABLED BY: Hon. Owen Baya (Deputy Leader of the Majority Party)
CLERK-AT-THE-TABLE: Irzafo Muvale

For comments and clarifications, please contact:

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

Tel: +254-20-2252-299
Email: pstnt@treasury.go.ke
pdmo@treasury.go.ke

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

Information in this publication may be reproduced without restriction provided that due acknowledgement of the source is made.

© 2025 Medium-Term Debt Management Strategy (MTDS)

TABLE OF CONTENTS

LIST OF FIGURES IV

LIST OF TABLES V

FOREWORD VII

ACKNOWLEDGEMENT IX

ABBREVIATION AND ACRONYMS XI

EXECUTIVE SUMMARY 1

I. INTRODUCTION 4

A) Objectives of the 2025 Medium-Term Debt Management Strategy 4
B) Scope of the MTDS 4
C) Organisation of the document 5

II. REVIEW OF THE EXISTING PUBLIC DEBT STOCK 6

III. ANALYSIS OF COSTS AND RISKS OF EXISTING PUBLIC DEBT 9

IV. REVIEW OF PERFOMANCE OF THE 2023 MTDS 11

V. KENYA'S DEBT SUSTAINABILITY 13

VI. CHALLENGES TO DEBT MANAGEMENT 15

VII. MACROECONOMIC ASSUMPTIONS AND KEY RISKS 16

A) Baseline Macroeconomic Assumptions 16
B) Key Risks to Macroeconomic Assumptions 17

VIII. POTENTIAL SOURCES OF FINANCING 18

IX. DEBT MANAGEMENT STRATEGY 19

A) Analysis of Cost and Risk Indicators Under Alternative Debt Management Strategies 19
B) 2025 Overall Debt Management Strategy 20
C) Deficit Financing Strategy (FY 2025/26-2027/28) 20
D) Expected Costs and Risks Indicators in 2028 20
E) Risks to the Strategy 21
(F) Approaches to Deal with Debt Management Challenges 21

X. STRATEGY IMPLEMENTATION, MONITORING AND EVALUATION 23

A) Domestic and External Borrowing Plan 23
B) Review of the Borrowing Plan 24
C) Monitoring and Review of Cost and Risk Indicator Outturn of the Strategy 24

ANNEXES 26

Annex 1: Average New Borrowing by Instrument under Alternative Strategies (in percent of gross borrowing by end of FY 2027/28) 26
Annex 2: Composition of Debt Portfolio by Instrument under Alternative Strategies, (in Percent of Outstanding Portfolio as at End of -FY 2027/28) 27
Annex 3: Redemption Profiles under Alternative Strategies Ksh. Million (End-FY2027/28) 28
Annex 4: Cost and Risk Characteristics under Alternative Strategies 29
Annex 5: Baseline Pricing Assumptions and Description of Shock Scenarios 31
Annex 6: Publication of the Debt Management Strategy 32

LIST OF FIGURES

Figure 1: Composition of External Debt as at end June 2024 7
Figure 2: Composition of Domestic Debt as at end June 2024 7
Figure 3: Redemption Profile as at end June 2024 (Ksh millions) 10

LIST OF TABLES

Table 1: Public and Publicly Guaranteed Debt in the MTDS end June 2024 6
Table 2: Outstanding Government Guaranteed Debt (End June 2024) 8
Table 3: Costs and Risks Indicators for Existing Debt 9
Table 4: Domestic Debt Securities by Maturity Profile, in USD Equivalent 10
Table 5: MTDS Targets against Borrowing Outturn (Percent of Total Public Borrowing) 11
Table 6: Gross Borrowing 11
Table 7: Average Terms of New External Debt 12
Table 8: External Debt Sustainability Analysis 13
Table 9: Public Debt Sustainability Analysis 14
Table 10: Baseline Macroeconomic Assumptions as per the 2025 Budget Policy Statement (BPS) 16
Table 11: Expected Costs and Risks Indicators Under Alternative Strategies 19
Table 12: Expected Costs and Risks Indicators of the Debt Management Strategy (2028) 21
Table 13: MTDS Implementation Work Plan 23
Table 14: Template for Evaluation and Updating of Costs and Risks Indicators Under Alternative Strategies 25

FOREWORD

The Medium-Term Debt Management Strategy (MTDS) is an annual publication that informs the Government decisions regarding public borrowing and public debt management as well as the desired structure of public debt portfolio in pursuit of cost minimization and risk management while ensuring debt remains sustainable over the medium-term.

The 2025 MTDS has been prepared pursuant to Section 33 of the Public Finance Management Act, 2012. The Strategy recognizes that a diversified public debt structure and deepening of the domestic debt market is necessary to mitigate against exchange rate risks on Kenya's external public debt.

Public and publicly guaranteed debt stock increased to Ksh 10,581.98 billion as of the end of June 2024 up from Ksh 10,278.88 billion as of the end of June 2023. The Ksh 10,581.98 billion comprises of external debt stock of Ksh 5,171.70 billion and domestic debt stock of Ksh 5,410.28 billion.

The 2025 MTDS has been prepared on the background of successful debt maturity management operation which involved prepaying USD 1.50 billion in February 2024 of the USD 2.00 billion 2024 Eurobond.

The National Treasury will continue to monitor and assess the macroeconomic and market developments to explore opportunities for diversifying sources of external borrowing in particular targeting Diaspora Bonds, and Environmental, Social and Governance (ESG) debt instruments.

Additionally, the National Treasury will continue to undertake domestic debt market reforms to reduce the cost and minimize risks inherent in public debt while also improving the institutional structure and policies to ensure efficient public debt management operations. Measures aimed at addressing public debt vulnerabilities, including liability management operations, prioritizing concessional borrowing and continuation of fiscal

consolidation will be pursued in the short and medium term with the aim of fostering public debt sustainability by reducing the pace of public debt accumulation.

The 2025 MTDS provides a firm foundation to enhance public debt management alongside funding the budget as stated in the Budget Policy Statement.

HON. FCPA JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY/THE NATIONAL TREASURY & ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2025 Medium-Term Debt Management Strategy (MTDS) has been developed to guide public debt management over the period 2025-2028. Analyses of costs and risks on both the domestic and external environments have been undertaken in line with the objectives of the Public Debt and Borrowing Policy and the Public Finance Management Act, 2012.

The projected borrowing is aligned with the objectives of the 2025 Budget Policy Statement including meeting maturities as they fall due and raising resources to fund the fiscal deficits. Emphasis will be on promoting the development of a sustainable domestic debt market and intergenerational equity.

The 2025 MTDS preparation has been subjected to public participation across all counties in Kenya. The 2025 MTDS contents were disseminated to members of the public during these public participation fora.

The National Treasury received invaluable inputs and comments from members of the public which helped shape the final version of the 2025 MTDS. I thank members of public for turning up in large numbers at the various public participation venues across the country and for the inputs and comments during these fora. I am also thankful for the inputs received in form of written memoranda on the 2025 MTDS.

The National Treasury will submit to Parliament a report on the public participation activities and inputs received from members of the public regarding the 2025 MTDS.

Additionally, the National treasury will continue to engage members of the public on matters of public finance management, including budget making and public debt management, so that the views of the citizens are taken on board in the design of public finance management policies and strategies.

The preparation of the 2025 MTDS, was collaborative efforts involving various Departments within the National Treasury. I thank all the officers from the various departments and directorates for their intensive efforts towards preparation of the 2025

MTDS. Moreover, I recognize the efforts of the Public Debt Management Office for providing the technical inputs towards developing this Strategy.

I appreciate the invaluable leadership and guidance provided by the Cabinet Secretary, the National Treasury and Economic Planning, towards the development of this Strategy.

The 2025 MTDS and previous years' versions of the Medium-Term Debt Management Strategies are available for reference and information on the National Treasury website: www.treasury.go.ke.

DR. CHRIS K. KIPTOO, CBS
PRINCIPAL SECRETARY/ THE NATIONAL TREASURY

ABBREVIATION AND ACRONYMS

ABP	Annual Borrowing Plan
APDMR	Annual Public Debt Management Report
BETA	Bottom-Up Economic Transformation Agenda
CBK	Central Bank of Kenya
CFS	Consolidated Fund Services
DSA	Debt Sustainability Analysis
EAC	East Africa Community
ESG	Environmental, Social and Governance
FCCL	Fiscal Commitments and Contingencies Liabilities
GDP	Gross Domestic product
IDA	Internatinoal Development Association
IBRD	International Bank for Reconstruction & Development
IMF	International Monetary Fund
KQ	Kenya Airways
KenGen	Kenya Electricity Generation Company
KPA	Kenya Ports Authority
LMOs	Liability Management Operations
MTDS	Medium-Term Debt Management Strategy
NSE	Nairobi Securities Exchange
ODA	Official Development Assistance
OTC	Over the Conter
PPG	Public & Publicly Guaranteed
PDMO	Public Debt Management Office
PFM	Public Finance Management
SDR	Special Drawing Rights
S&P	Standard and Poor's
PV	The present value
USD	United State Dollar

EXECUTIVE SUMMARY

The 2025 Medium-Term Debt Management Strategy (MTDS) has been prepared in accordance with Section 33 (2) of the Public Finance Management (PFM) Act, 2012. It serves as a roadmap for the management of the country's public debt for the period FY 2025/26-2027/28. It outlines the strategies and initiatives aimed at minimizing costs and management of risks of debt over the medium term.

Public and publicly guaranteed debt stock increased to Ksh 10,581.98 billion as of the end of June 2024 from Ksh 10,278.88 billion as of the end of June 2023. This comprises an external debt stock of Ksh 5,171.70 billion and a domestic debt stock of Ksh 5,410.28 billion.

The recent Debt Sustainability Analysis (DSA) reports Kenya's public debt to be sustainable but with a high risk of debt distress. The present value (PV) of public debt was 63.0 percent of GDP against the benchmark debt threshold of 55 percent of debt to GDP. The National Treasury has until 1st November 2029 to bring the present value of public debt within the threshold to comply with the law.

The MTDS has been prepared in an environment of improved domestic macroeconomic environment but uncertain financial markets globally. The domestic economy grew by 5.0 percent in the first quarter and 4.6 percent in the second quarter of 2024. Inflation has fallen from a recent peak of 9.6 percent in October 2022 to a low of 3 percent in December 2024. The Kenya shilling exchange rate has remained stable since February 2024, thereby improving external debt indicators. Kenya's economic performance is projected to remain stable over the medium term. Growth will be mainly driven by broad-based private sector activities and ongoing government interventions and strategies under the Bottom-Up Economic Transformation Agenda (BETA).

The 2025 debt management strategy seeks to gradually reduce the stock of Treasury bills in the medium term while lengthening maturity of public debt instruments and deepening the domestic debt market through issuance of medium to long term debt securities accompanied by debt market reforms. From the external sources, the strategy targets a mix of concessional and commercial borrowing.

The strategy aims at 25 percent and 75 percent gross borrowing from external and domestic sources over the medium term, respectively. Net borrowing to finance fiscal deficits is structured into 65 percent and 35 percent from external and domestic sources over the medium term, respectively.

I. INTRODUCTION

1. The Medium-Term Debt Management Strategy (MTDS) is the policy framework that guides government borrowing and public debt management in Kenya. The framework guides the Government in pursuing a desired structure of the public debt portfolio which reflects costs and risks trade-off, to support the fiscal deficit path outlined in the Budget Policy Statement (BPS).

2. The preparation and submission of the 2025 MTDS to Parliament for the period FY 2025/26 to 2027/28 is in accordance with sections 33(2) and 63(c) of Public Finance Management Act, 2012.

3. The National Treasury is mandated to manage the levels and composition of public debt, including guarantees and other financial obligations as provided for in sections 12 (1) (b) and 62(b) of the Public Finance Management (PFM) Act, 2012.

a) Objectives of the 2025 Medium-Term Debt Management Strategy

4. The 2025 Medium Term Debt Management Strategy aims at:

    a) Reducing refinancing risks by reducing short maturities debt while lengthening the total portfolio Average Time to Maturity (ATM) by deepening the domestic bond market through issuance of more medium to long term instruments as the main source of domestic financing;

    b) Reducing the interest rate risk by increasing the Average Time to Refixing and reducing the amount of debt with variable interest rates;

    c) Reducing the foreign exchange risk through currency diversification; and

    d) Promoting intergenerational equity.

b) Scope of the MTDS

5. The MTDS analysis takes into account outstanding public debt and projected borrowing and debt service in the context of current and future macroeconomic environment and the conditions in the international and domestic capital markets. Performing guaranteed debt and other local debts and overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to Ksh 263.74 billion which includes Ksh100.17 billion uncalled guaranteed debts, Ksh 61.03 billion Government overdraft at CBK, Ksh.13.54 billion Suppliers credit, Ksh 83.54 billion IMF SDR Allocation and Ksh 5.47 billion Bank advances.

c) Organisation of the document

6. The succeeding sections comprise: Review of the Existing Public Debt Portfolio; Analysis of Costs and Risks of Existing Public Debt; Review of Performance of the 2023 MTDS; Kenya's Debt Sustainability; Challenges to Debt Management; Macroeconomic Assumptions and Key Risks; Potential Sources of Financing; Debt Management Strategy; Strategy Implementation, Monitoring and Evaluation; and Annexes.

II. REVIEW OF THE EXISTING PUBLIC DEBT STOCK

1. As at end June 2024, the stock of public and publicly guaranteed debt was Ksh 10,581.98 billion (65.7 percent of GDP), equivalent to USD 81.70 billion in nominal terms, of which domestic debt was Ksh 5,410.28 billion while external debt was Ksh 5,171.70 billion (**Table 1**).

2. The 2025 MTDS analysis takes into account debt stock of Ksh 10,318.25 billion or USD 79.66 billion excluding the performing guarantees debts, IMF SDR Allocation, Government overdraft at Central Bank of Kenya (CBK), Suppliers credit and Bank advances.

Table 1: Public and Publicly Guaranteed Debt in the MTDS end June 2024

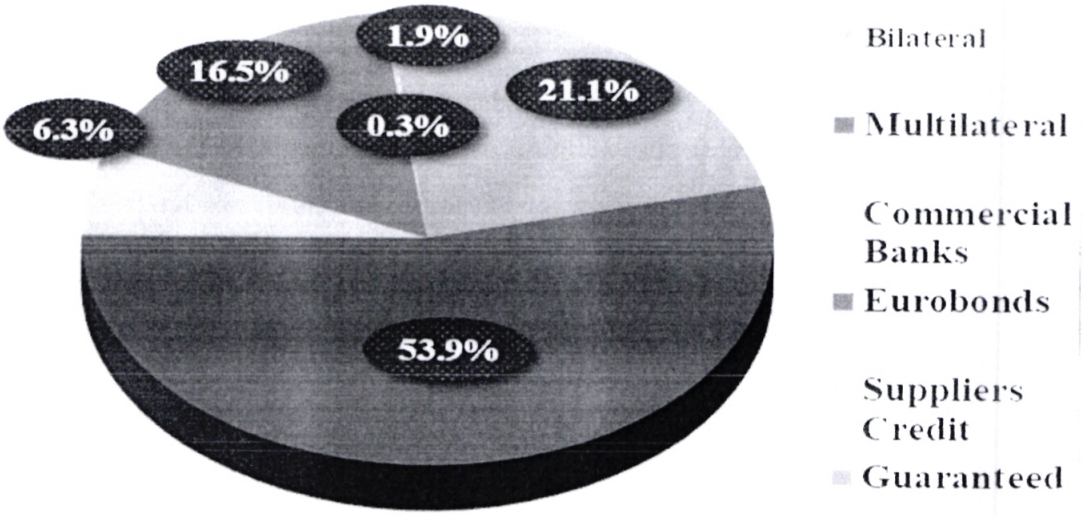
Description	Ksh billions	USD billions*
A. Domestic Debt (included in MTDS)		
Treasury Bills	615.89	4.75
Treasury Bonds	4,627.12	35.72
Pre-1997 Government Debt	17.23	0.13
Sub Total	**5,260.25**	**40.61**
B. External debt (included in MTDS)		
IDA/IBRD	1,786.03	13.79
ADF/AfDB	508.50	3.93
Bilateral	1,092.69	8.44
Multilateral	492.42	3.80
Commercial Banks	323.49	2.50
International Sovereign Bond	854.88	6.60
Sub Total	**5,058.00**	**39.05**
C. Excluded from MTDS		
Suppliers Credit (external)	13.54	0.10
CBK Overdraft (domestic)	61.03	0.47
IMF SDR Allocation (domestic)	83.54	0.64
Performing Guarantees (external)	100.17	0.77
Bank advances (domestic)	5.47	0.04
Sub Total	**263.74**	**2.04**
TOTAL DEBT Included in MTDS (A+B)	**10,318.25**	**79.66**
TOTAL DEBT (A+B+C)	**10,581.98**	**81.70**
Domestic	5,410.28	41.77
External	5,171.70	39.93

Source: *The National Treasury and Central Bank of Kenya*
**Exchange Rate (USD/Ksh) is 129.527*

3. External public debt comprises multilateral, bilateral and commercial creditors while the domestic debt comprise Treasury bonds and bills. As a proportion of total external debt, multilateral debt accounted for 53.9 percent (**Figure 1**). The high proportion of multilateral and bilateral debt reflects the Government's deliberate strategy of

maximizing the use of concessional financing and minimizing the use of commercial loans.

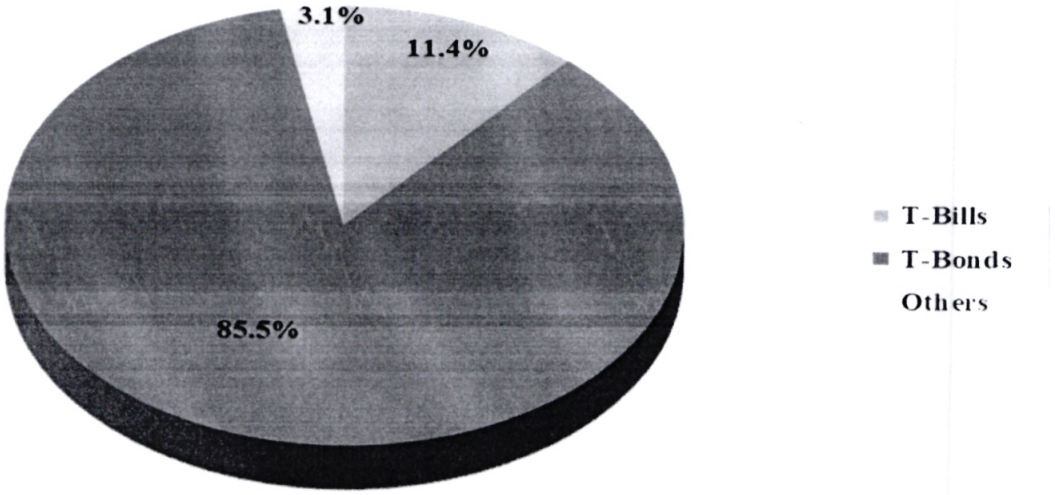
Figure 1: Composition of External Debt as at end June 2024



Source: *The National Treasury*

4. As at end June 2024, Treasury bonds accounted for 85.5 percent of total domestic public debt, while Treasury bills accounted for 11.4 percent of total domestic public debt. The other domestic public debt categories accounted for 3.1 percent of the total domestic debt **(Figure 2)**.

Figure 2: Composition of Domestic Debt as at end June 2024



Source: *The National Treasury*

5. Government guaranteed debt as at end June 2024 amounted to Ksh100.2 billion. The debts are held by Kenya Ports Authority (KPA), Kenya Electricity Generation Company (KenGen) and Kenya Airways (KQ) (**Table 2**).

Table 2: Outstanding Government Guaranteed Debt (End June 2024)

Agency	Project	Amount (Ksh Millions)
Kenya Electricity Generating Company	Mombasa Diesel Generating Power Plant	343
	Sondu Miriu Hydropower Project	819
	Sondu Miriu Hydro Power II	5,589
	Sondu - Miriu Hydropower Project Sangoro Power Plant	2,630
	Olkaria 1 Unit 4 and 5 Geothermal Power Project	15,528
	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	1,449
	DSSI Japan For KenGen Loans Phase I	709
	DSSI Japan For KenGen Loans Phase II	824
Kenya Ports Authority	Mombasa Port Development Programme (Mombasa Port A)	15,422
	Mombasa Port Development Programme (Mombasa Port)	1,393
	Kenya Port Development Project - Phase II (Principal I)	23,271
	Kenya Port Development Project - Phase II (Principal IIA)	2,574
	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase I	219
	DSSI Japan-Kenya Ports Authority (KE-P25) - Phase II	256
Kenya Airways	Kenya Airways Guarantee (for Local Banks)	29,139
Total		**100,165**

Source: *The National Treasury*

III. ANALYSIS OF COSTS AND RISKS OF EXISTING PUBLIC DEBT

1. This section highlights the costs and risk characteristics of the existing public debt portfolio as at end June 2024.

2. Nominal debt as a percentage of GDP declined to 65.7 percent in June 2024 from 72.0 percent in June 2023 due to appreciation of the Kenya shilling against major currencies while the present value of public debt to GDP declined to 63.0 percent from 68.7 percent in the same period (**Table 3**).

Table 3: Costs and Risks Indicators for Existing Debt

		External Debt		Domestic Debt		Total Debt		Remarks
Risk Indicators		2023	2024	2023	2024	2023	2024	
Nominal debt as percentage of GDP		38.2	32.1	33.8	33.6	72.0	65.7	High debt burden.
PV as percentage of GDP		32.1	29.8	36.6	33.2	68.7	63.0	
Cost of debt	Interest payment as percentage of GDP	1.4	1.2	3.8	4.3	5.2	5.4	Rising cost of debt due to high domestic interest rate
	Weighted Av. IR (percentage)	3.7	3.8	11.4	13.2	7.3	8.5	
Refinancing risk	ATM (years)	9.3	9.5	7.5	6.6	8.5	8.1	High refinancing risk due to increased uptake of short-term domestic debt
	Debt maturing in 1yr (percentage of total)	9.7	5.2	16.8	17.6	13	11.2	
	Debt maturing in 1yr (percentage of GDP)	3.6	1.9	5.6	5.7	9.2	7.5	
Interest rate risk	ATR (years)	7.7	7.9	7.5	6.6	7.6	7.3	Overall, the interest rate risk has reduced
	Debt re-fixing in 1yr (percentage of total)	33.9	31	16.8	17.6	25.9	24.6	
	Fixed rate debt incl T-bills (percentage of total)	73.2	71.8	100	100	85.7	85.2	
	T-bills (percentage of total)			13	10.7	6.1	5.1	
FX risk	FX debt (percentage of total debt)					51.5	49.3	Reduced foreign exchange rate risk
	ST FX debt (percentage of reserves)					49.9	27.5	

Source: *The National Treasury*

3. The domestic debt with maturity of 4 to 10 years improved as at end June 2024. The proportion of instruments with less than one year to maturity increased to 18.6 percent as at end June 2024 from 16.7 percent as at end June 2023 and this was attributed to the National Treasury uptake of short-term instruments. As a result, the proportion of instruments with maturity of 2-3 years and greater than 11 years as at end June 2024 reduced from 15.3 percent and 26.9 percent as at end June 2023 to 13.5 percent and 22.2 percent as at end June 2024, respectively (**Table 4**).

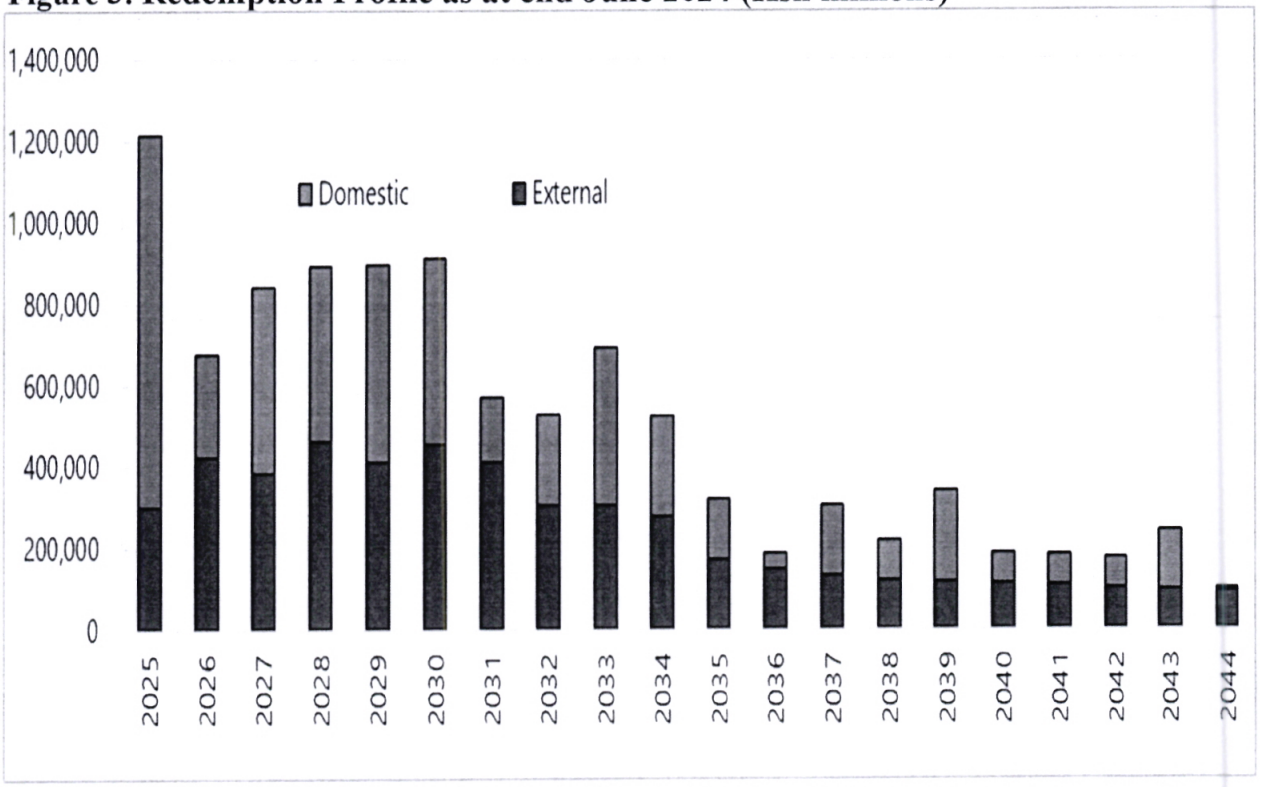
Table 4: Domestic Debt Securities by Maturity Profile, in USD Equivalent

Remaining Maturity in Years	End June 2023 In million USD	As Percent of Total	End June 2024 In million USD	As Percent of Total
Less than one year	5,645	16.7	7,525	18.6
2 to 3 years	5,143	15.3	5,482	13.5
4 to 5 years	5,407	16.0	7,113	17.6
6 to 10 years	8,465	25.1	11,377	28.1
Above 11 years	9,085	26.9	8,982	22.2
Total	**33,745**	**100.0**	**40,479**	**100.0**

Source: *The National Treasury*

4. The redemption profile shows that 18.6 percent of domestic debt will mature by June 2025, mainly due to short-term (treasury bills) government securities falling due. Overall, the repayment schedule is bunched for the next nine years due to large share of Treasury bills and near-term maturities treasury bonds, international sovereign bonds and syndicated loans. The public debt repayment schedule, as of June 2024, is shown below (**Figure 3**).

Figure 3: Redemption Profile as at end June 2024 (Ksh millions)



Source: *The National Treasury*

IV. REVIEW OF PERFOMANCE OF THE 2023 MTDS

1. The FY 2023/24 MTDS aimed at maximizing use of concessional funding and rollover of commercial debt from external borrowing accompanied by liability management operations whereas on the domestic borrowing front, the target was to lengthen the maturity profile and mitigate refinancing risk through issuance of medium to long term benchmark Treasury bonds.

2. Whereas the overall strategy was to minimize costs and risks through a net financing mix of 50 per cent from both external and domestic sources, the outcome was in the ratio 73:27 net domestic financing to net external financing, as reported in Budget Outturn (2024 Budget review and outlook paper) (**Table 5**).

Table 5: MTDS Targets against Borrowing Outturn (Percent of Total Public Borrowing)

Borrowing source		FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24
External	MTDS	38	28	27	25	50
	Actual	28	19	15	22	27
	Deviation	**10**	**9**	**12**	**3**	**23**
Domestic	MTDS	62	72	73	75	50
	Actual	72	81	85	78	73
	Deviation	**-10**	**-9**	**-12**	**-3**	**-23**

Source: *National Treasury*

3. The deviation was attributed to limited access to external financing which resulted in more uptake of borrowing from domestic sources to finance the fiscal deficit. In FY 2023/2024, Kenya's net domestic financing was Ksh 595.57 billion, or 89 per cent of the target. From external financing, the net amount was Ksh 222.75 billion, or 86 per cent of the target during the fiscal year.

Table 6: Gross Borrowing

	2023 MTDS (FY2023-2024) Targets (%)	FY2023-2024 Actual (%)	FY2023-2024 (Ksh. millions)
Gross domestic borrowing	65.0	75.0	2,341,234
Gross external borrowing	35.0	25.0	760,500
o/w Concessional and Semi-concessional	22.0	15.6	473,625
Commercial borrowing	13.0	9.4	286,875

Source: *National Treasury*

4. In February 2024, The National Treasury successfully refinanced USD 1.50 billion (75%) of the USD 2.00 billion Eurobond maturity through issuance of an international Eurobond, with the remaining USD 500 million repaid from the exchequer in June

2024. The actual gross external borrowing in the period was 25.0 percent of the total public borrowing, which was below 35.0 percent target (**Table 6**).

5. Global market rates have tightened and led to hardening of borrowing terms. Worsening market conditions were due to global and geopolitical economic shocks including monetary policy tightening in major economies and uncertainties related to the war in Ukraine.

6. New external debts average maturity lengthened to 20.5 years as at end June 2024 from 15.7 years in June 2023. The weighted average interest rate increased to 4.6 percent from 3.2 percent in June 2023. However, the grace period reduced to 4.4 years from 4.8 years during the same period (**Table 7**).

Table 7: Average Terms of New External Debt

Terms	2017	2018	2019	2020	2021	2022	2023	2024
Average Maturity (years)	17.6	20.8	15.3	26.1	23.3	25.9	15.7	20.5
Grace Period (years)	4.5	10.3	5.6	7.4	7.4	4.2	4.8	4.4
Average Interest Rate (%)	2.6	3.9	3.9	0.5	2.1	0.8	3.2	4.6

Source: *The National Treasury*

V. KENYA'S DEBT SUSTAINABILITY

1. The public debt[1] remains sustainable but with high risk of debt distress.

2. External Debt Sustainability Analysis (DSA) demonstrates that the Present Value (PV) of the external debt to GDP ratio is below the 40 percent sustainability threshold throughout the projection period. The PV of Public and Publicly Guaranteed (PPG) external debt-to-exports remains above the sustainability threshold of 180 percent through 2029.

3. The debt service to revenue ratio breaches the threshold of 18 percent from 2024 to 2028 due to heavy maturities during the period. Debt service-to-exports remains above the sustainability threshold of 15 percent through to 2029 (**Table 8**).

Table 8: External Debt Sustainability Analysis

Indicators	*Thresholds*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2034*	*2044*
		Actual					**Projection**				
PV of PPG external debt-to-GDP ratio	**40**	29.0	32.1	29.8	30.4	31.0	29.5	28.1	26.8	22.5	16.2
PV of PPG external debt-to-exports ratio	**180**	238.2	274.8	274.2	260.2	241.9	222.3	208.1	195.0	152.5	98.1
PPG debt service-to-exports ratio	**15**	21.4	26.9	40.5	31.9	29.8	27.3	27.0	22.0	16.7	11.6
PPG debt service-to-revenue ratio	**18**	15.4	18.8	25.2	20.6	20.4	18.9	18.6	15.5	12.6	9.8

Source: *The National Treasury & IMF country report*

4. The Present Value (PV) of total public debt-to-GDP ratio is projected to remain above the 55 percent benchmark through 2029 (**Table 9**), after which it is projected to decline to within the approved threshold.

5. Policy initiatives by the Government are necessary to diversify and/or expand export base and build gross international reserves to improve the external debt sustainability ratios.

6. The Government endeavours to sustain fiscal consolidation efforts over the medium term to create fiscal space and reduce debt related risks. The Government will also

[1] Debt Sustainability Analysis (DSA) conducted in October 2024.
External and domestic obligations covering Central Government debt, Central Bank debt taken on behalf of the Government, Social Security Fund and Government guaranteed debt.
Excluded non-guaranteed debt of the public sector and arrears disclosed in the regular reports.

continue to optimize the use of external concessional funding and lengthen the maturity profile of public debt through issuance of medium to long dated bonds.

Table 9: Public Debt Sustainability Analysis

Indicators	Benchmark	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044
		Actual		Projection							
PV of debt–to-GDP ratio	**55**	63.9	68.7	63.0	64.0	63.7	61.2	58.6	56.2	49.7	35.5
PV of public debt-to-revenue and grants ratio	n/a	370.3	406.2	356.2	348.4	334.3	313.8	296.0	282.9	249.9	179.4
Debt service-to-revenue and grants ratio	n/a	56.0	60.6	63.7	62.5	61.4	58.1	55.7	49.0	47.1	29.4

Source: *The National Treasury & IMF Country report*

7. The Government will explore possibility of Liability Management Operation (LMO) options with the aim of extending the maturity of existing debt to reduce near term refinancing risks and reduce the cost of debt service. In addition, measures to support a steady and strong outlook for exports will play a major role in supporting external debt sustainability.

8. For public debt to continue on a sustainable path, the government will continue the fiscal consolidation efforts to slow the rate of debt accumulation.

VI. CHALLENGES TO DEBT MANAGEMENT

1. Kenya's public debt management landscape has faced several challenges. These include sovereign credit rating downgrade that negatively impacted the financial terms of new commercial borrowing. Such rating downgrades may lead to increased borrowing costs, limited access to credit markets, low investor confidence, currency depreciation, and debt sustainability risk.

2. Another challenge is the external factors such as global market volatility, and interest rate fluctuations. These affect the timing and potential cost of debt management operations.

3. The high interest environment both globally and in the domestic debt market has also resulted in high debt service costs. The high interest on government securities was a result of a tight monetary policy environment, which is expected to ease since the macroeconomic environment has greatly improved. The high interest rates are projected to result in total interest payments in the FY 2024/2025 of more than Ksh 1 trillion. This consumes a very high proportion of the revenue collected and hence a big constraint to fiscal consolidation efforts.

4. At a technical level the methodology used to assess debt sustainability for countries like Kenya seems to have some weaknesses that should be addressed in future methodological reviews. Currently, while it is acknowledged that the debt sustainability framework considers remittances received, as one of the parameters for measuring the debt carrying capacity, it is not used in the computation of debt sustainability ratios where the sources of foreign exchange such as exports are used. This disadvantages sustainability measurement for countries like Kenya with large and sustained remittances. Inclusion of remittances in calculating the ratios would greatly improve the indicators.

5. Limited understanding of public debt management amongst major stakeholders has also been an issue. Public debt is both a highly technical and an emotive subject in the Kenyan political arena. Therefore, there is need for a sustained public engagement on public debt developments and management. The National Treasury has therefore undertaken to extensively engage stakeholders in public fora on public debt management reports and in formulation of debt management strategies.

VII. MACROECONOMIC ASSUMPTIONS AND KEY RISKS

a) Baseline Macroeconomic Assumptions

1. The 2025 MTDS is anchored on the macroeconomic assumptions outlined in the 2025 Budget Policy Statement (BPS).

2. The global economy has stabilized with global growth projected at 3.2 percent in 2024 and 3.3 percent in 2025 from 3.3 percent in 2023, supported by the easing of worldwide inflation and supply chain constraints. Growth in the advanced economies is projected to remain stable at 1.7 percent in 2024 and 1.9 percent in 2025 from 1.7 percent in 2023. At the regional level, growth in Sub-Saharan Africa is expected to rebound to 4.2 percent in 2025 from 3.8 percent in 2024. This growth is driven by improved economic activities as the adverse impacts of prior weather shocks subside and supply constraints gradually ease.

3. Over the medium term, economic growth is projected to remain at 5.4 percent, supported by broad-based private sector activities and ongoing government interventions and strategies under the Bottom-Up Economic Transformation Agenda (BETA). As shown Table 10 below.

Table 10: Baseline Macroeconomic Assumptions as per the 2025 Budget Policy Statement (BPS)

	Unit	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
		Pre-Act.		Projection			
Real GDP Growth	Percent	5.2	5.1	5.0	5.3	5.4	5.4
GDP Deflator	Percent	6.5	5.4	5.4	5.5	5.4	5.4
Inflation	Percent	6.9	5.4	4.9	5.0	5.0	5.0
Revenue	Percent of GDP	16.5	17.1	17.3	17.6	17.7	17.9
Expenditure	Percent of GDP	22.5	22.8	22.6	22.1	21.5	21.3
Overall Fiscal Balance including grants	Percent of GDP	(5.6)	(5.3)	(4.9)	(4.3)	(3.5)	(3.2)
Primary Budget Balance	Percent of GDP	(0.8)	0.1	0.8	1.5	1.8	1.8
Total Revenue	Ksh. Billion	2,355.1	2,702.7	3,015.4	3,385.8	3,758.7	4,201.2
Expenditure	Ksh. Billion	3,221.0	3,605.2	3,932.6	4,263.1	4,574.1	5,017.1
Overall Fiscal Balance including grants	Ksh. Billion	(805.8)	(835.1)	(862.8)	(831.0)	(751.7)	(749.1)
Primary Budget Balance	Ksh. Billion	(114.4)	22.4	133.0	298.3	390.8	424.5
GDP (Current Prices)	Ksh. Billion	14,299.2	15,826.4	17,434.5	19,272.8	21,285.6	23,529.5

Source: The National Treasury

4. Domestic Interest rates have declined in line with the easing of the monetary policy. The interbank rate declined to 11.5 percent in December 2024 compared to 11.7 percent in December 2023 and has remained within the prescribed corridor around the CBR

(set at CBR ± 150 basis points). The 91-day Treasury Bills rate also declined to 10.0 percent in December 2024 from 15.7 percent in December 2023.

b) Key Risks to Macroeconomic Assumptions

5. The risks to the 2025 MTDS strategy are:

a) Unpredictable weather conditions that may affect agricultural output and real GDP and inflation;

b) Tight fiscal space and potential increase in the projected financing needs;

c) Uncertainties in the global economic outlook;

d) Likely constraints in accessing concessional financing;

e) Underperformance of Government Securities auctions that may affect borrowing performance;

f) Failure to absorb external financing from creditors may lead to underfunding of the budget;

g) Underperformance in revenue collection leading to increased borrowing need;

h) The risk of depreciation of Kenya shilling against major currencies that may increase debt service costs resulting in fiscal pressure and pass-through to inflation;

i) Materialization of fiscal risks and contingent liabilities arising from state-owned enterprises debt obligations; and

j) Risk of credit rating downgrades.

VIII. POTENTIAL SOURCES OF FINANCING

1. The domestic and external markets are the main sources of Government deficit financing.

2. The government will raise funds from the domestic debt market through issuance of Treasury bonds and bills.

3. The National Treasury will spearhead key reforms that deepen the market and diversify the investor base. Riding on the use of DhowCSD, the government will continue to implement measures that attract diverse set of investors to the domestic debt market, including undertaking roadshows among relevant stakeholders.

4. The external borrowing will be majorly through concessional loans from multilateral, bilateral and limited commercial loans such as international bond issuances.

5. The Government will also explore emerging funding instruments such as debt swaps, diaspora bond, sustainability linked bonds and Environmental, Social and Governance (ESG) debt instruments to fund budget deficit and manage public debt.

IX. DEBT MANAGEMENT STRATEGY

a) Analysis of Cost and Risk Indicators Under Alternative Debt Management Strategies

1. The analysis of various borrowing mixes and strategies has been undertaken to identify the mix and the strategy that minimises public debt costs and reduces risks to overall public debt.

2. Table 11 shows the cost and risk indicators of the four alternative strategies and Annexes 1 to 4 show more details of the alternative debt management strategies.

Table 11: Expected Costs and Risks Indicators Under Alternative Strategies

Risk Indicators		2024	As at end 2028			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP[ii]		63.7[i]	57.9	57.8	57.8	57.6
Present value debt as percent of GDP		58.1[i]	53.6	52.8	53.6	53.0
Interest payment as percent of GDP		5.4	4.7	4.6	4.7	4.5
Implied interest rate (percent)		8.5	8.8	8.6	8.7	8.3
Refinancing risk	Debt maturing in 1yr (percent of total)	11.2	13.1	11.8	13.3	15.9
	Debt maturing in 1yr (% of GDP)	7.5	7.6	6.8	7.7	9.1
	ATM External Portfolio (years)	9.5	8.9	9.8	8.6	8.6
	ATM Domestic Portfolio (years)	6.6	8.0	8.3	7.7	6.2
	ATM Total Portfolio (years)	8.1	8.4	9.0	8.1	7.5
Interest rate risk	ATR (years)	7.3	8.0	8.6	7.7	7.1
	Debt refixing in 1yr (percent of total)	24.6	19.6	18.2	21.0	24.1
	Fixed rate debt incl T-bills (percent of total)	85.2	92.2	92.5	90.8	90.1
	T-bills (percent of total)	5.1	4.5	3.7	4.5	5.9
FX risk	FX debt as % of total	49.3	45.0	44.6	47.5	52.0
	ST FX debt as % of reserves	27.5	33.1	29.1	35.3	37.6

Source: *The National Treasury*

(i) ***Performing guaranteed debt, supplier credits and other local debts including overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to Ksh. 263.74 billion which includes Ksh.100.17***

billion uncalled guaranteed debts, Ksh. 61.03 billion Government overdraft at CBK, Ksh.13.54 billion Suppliers credit, Ksh. 83.54 billion IMF SDR Allocation and Ksh. 5.47 billion Bank advances.

(ii) The *difference* between ratios in Table 9 and 11 is due to the exclusion explained in (i) above

3. From an array of strategies analysed in Table 11, Strategy 2 (S2) provides more prospective benefits in terms of costs and risks of public debt than any other alternative strategy.

b) 2025 Overall Debt Management Strategy

4. The 2025 MTDS aims to reduce debt costs and risks by sourcing 25 percent gross borrowing from external sources and 75 percent from domestic sources over the medium term. From the domestic sources, the strategy is to gradually reduce the stock of Treasury bills while lengthening debt maturity and issuance of medium to long term debt securities. On the external end, the target is a mix of concessional optimisation and minimal commercial borrowing. Gross external financing would be composed of 14 percent concessional, 3 percent semi-concessional and 8 percent commercial borrowing. The expected composition of public debt at the end of the Strategy period will be 45 percent external and 55 percent domestic, as shown in Annex 2.

c) Deficit Financing Strategy (FY 2025/26-2027/28)

5. Based on the MTDS analytical tool analysis, a net borrowing mix of 65 percent and 35 percent from domestic and external sources over the medium term respectively will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2025/26-2028/29.

d) Expected Costs and Risks Indicators in 2028

6. The implementation of the strategy will reduce the cost of debt by reducing nominal debt to GDP to 57.8 percent from the current 63.7 percent and the present value of debt to GDP from 58.1 percent to 52.8 percent over the implementation period by FY2027/28 (**Table 12**).

7. The debt burden will reduce as shown in the reduced interest payment as a percentage of GDP to 4.6 per cent from the current 5.4 per cent by the end of projection period. Lower interest payments imply reduced pressure on the budget, which can free up resources for other priorities.

8. In terms of refinancing risks, the optimal strategy reduces the refinancing risk by lowering the debt maturing in 1 year as a percentage of GDP and lengthening the debt maturity both in the domestic and external portfolio.

9. The Strategy reduces the interest rate risk by increasing the average time to refixing to 8.6 years from 7.3 years, increasing the debt with fixed rate from 85.2 per cent to 92.5 per cent, and reducing the amount of Treasury bills in the portfolio to 3.7 per cent from the current 5.1 per cent.

10. In terms of exchange rate risk, it reduces the foreign exchange rate risk from 49.3 per cent to 44.6 per cent by focusing on borrowing more from the domestic debt market.

e) Risks to the Strategy

11. Factors that could lead to the optimal strategy not being fully implemented may include emergency conditions like auction failure, widening of the fiscal deficit, limited access to external funding which could disrupt financing plan, and default on guarantees.

Table 12: Expected Costs and Risks Indicators of the Debt Management Strategy (2028)

Risk Indicators		June 2024	As at end 2028
		Current	**Optimal Strategy**
Nominal debt as percent of GDP		63.7*	57.8
Present value debt as percent of GDP		58.1*	52.8
Interest payment as percent of GDP		5.4	4.6
Implied interest rate (percent)		8.5	8.6
Refinancing risk	Debt maturing in 1yr (% of total)	11.2	11.8
	Debt maturing in 1yr (% of GDP)	7.5	6.8
	ATM External Portfolio (years)	9.5	9.8
	ATM Domestic Portfolio (years)	6.6	8.3
	ATM Total Portfolio (years)	8.1	9.0
Interest rate risk	ATR (years)	7.3	8.6
	Debt refixing in 1yr (percent of total)	24.6	18.2
	Fixed rate debt incl T-bills (percent of total)	85.2	92.5
	T-bills (percent of total)	5.1	3.7
FX risk	FX debt as % of total	49.3	44.6
	ST FX debt as % of reserves	27.5	29.1

Source: *The National Treasury*

** Performing guaranteed debt, supplier credits and other local debts including overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to Ksh 263.74 billion which includes Ksh100.17 billion uncalled guaranteed debts, Ksh 61.03 billion Government overdraft at CBK, Ksh13.54 billion Suppliers credit, Ksh 83.54 billion IMF SDR Allocation and Ksh 5.47 billion Bank advances.*

(f) Approaches to Deal with Debt Management Challenges

12. Centralize the reporting of trades to a single Trade Repository platform to improve post-trade transparency which would facilitate better price discovery.

13. Operationalize the sinking fund.

14. Continuously undertake LMOs to lower costs and risks of public debt- requires sinking fund.

15. Improve on cash management to reduce use of the costly overdraft.

16. Sustain fiscal consolidation to reduce fiscal deficits and slow accumulation of public debt.

17. Develop government securities issuance policy to guide issuance and trading of government securities to reflect market evolution over time.

X. STRATEGY IMPLEMENTATION, MONITORING AND EVALUATION

a) Domestic and External Borrowing Plan

1. The Government will implement the debt management strategy through the Annual Borrowing Plan (ABP). The implementation work plan is shown in Table 13 below:

Table 13: MTDS Implementation Work Plan

NO.	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
1.	2025 MTDS	Review of 2024 MTDS, preparation and submission of 2025 MTDS to Parliament	2024 November to 2025 February	PDMO PS/NT CS/NT&P Cabinet Parliament	2025 BPS, 2024 BROPA CS Meridian CBK 2023 & 2024 MTDS
2.	Dissemination of the 2025 MTDS to the National Treasury Departments	Circulation of printed copies, clear dissemination of the information to implementing departments and training counties	2025 February	PDMO	2025 MTDS
3.	Consolidated Fund Services (Debt) Budget estimates	Prepare the debt service projections and CFS budget estimates	Annually as per Budget Calendar and during revisions	PDMO /BD MFAD /CBK PS/NT, CS/NT&EP Cabinet /Parliament	PDMO
4.	Quarterly MTDS monitoring and evaluation report	Technical Fora and peer review of implementation of the MTDS	Quarterly	PDMO; MFAD CBK; CoG	2025 BPS, 2024 BROP CS Meridian; CBK 2024 & 2025 MTDS
5.	Monthly debt management reports	Access of domestic and external borrowing and repayment data	Monthly	PDMO CBK	RMD CBK FMA/NT
6.	2025 MTDS half year performance review	Undertake half year review of performance of the 2025 MTDS	Every six months after effective date of the MTDS	PDMO CBK MFAD	RMD DRS CBK
7.	Fiscal Commitments and Contingency Liabilities (FCCL) Report	Undertake analysis of FCCL and FCCL assessment	Annually	PDMO; PPP Unit MFAD; CBK	MFAD PPP Unit
8.	Review of issuance calendar	Stakeholders Forums to review issuance calendar	Quarterly	PDMO AGD CBK MFAD Market Participants PS/NT CS/NT&EP	PDMO CBK AGD Market Participants

2. PDMO will prepare domestic and external borrowing plan comprising projected borrowing and settlement of maturities within the 2025/26 fiscal year.

3. The external borrowing plan will comprise of expected disbursements by each creditor, the disbursement period and currency of disbursement within the fiscal year as per the 2025 MTDS.

4. The ABP may be revised to include liability management operations to manage debt stock risks when market conditions allow.

b) Review of the Borrowing Plan

5. Review of the outcome of implementation of the Borrowing Plan will be done on weekly, monthly and on an annual basis to provide data for strategy evaluation and for public information.

6. The progress of implementation of the 2025 MTDS will be monitored and reported through monthly reports and the Annual Public Debt Management Report (APDMR) which is prepared and published after the end of the fiscal year.

c) Monitoring and Review of Cost and Risk Indicator Outturn of the Strategy

7. The costs and risks outcome characteristics in the 2025 MTDS will be evaluated semi-annually and annually against sustainability threshold indicators to determine deviations and suggest mitigation measures. Table 14 outlines the costs and risks parameters to be evaluated.

8. The evolving public debt structure and fiscal deficit will inform review of strategy for management of costs and risks of public debt going forward. In addition, any deviations will be used to inform strategy review and formulation of the MTDS in the next cycle.

Table 14: Template for Evaluation and Updating of Costs and Risks Indicators Under Alternative Strategies

Risk Indicators		Baseline June 2024	2025 MTDS (2028 Expected outcome)	Actual by month*	Deviation	Remarks
Nominal debt as % of GDP		63.7*	57.8			
Present value debt as % of GDP		58.1*	52.8			
Interest payment as % of GDP		5.4	4.6			
Implied interest rate (%)		8.5	8.6			
Refinancing risk	Debt maturing in 1yr (% of total)	11.2	11.8			
	Debt maturing in 1yr (% of GDP)	7.5	6.8			
	ATM External Portfolio (years)	9.5	9.8			
	ATM Domestic Portfolio (years)	6.6	8.3			
	ATM Total Portfolio (years)	8.1	9.0			
Interest rate risk	ATR (years)	7.3	8.6			
	Debt refixing in 1yr (% of total)	24.6	18.2			
	Fixed rate debt (% of total)	85.2	92.5			
FX risk	FX debt as % of total	49.3	44.6			

***December 2024 for Semi-Annual and June 2025 for Annual assessment**

* *Performing guaranteed debt, supplier credits and other local debts including overdraft are excluded from the proposed debt management strategies. Debts excluded amounts to Ksh. 263.74 billion which includes Ksh.100.17 billion uncalled guaranteed debts, Ksh. 61.03 billion Government overdraft at CBK, Ksh.13.54 billion Suppliers credit, Ksh. 83.54 billion IMF SDR Allocation and Ksh. 5.47 billion Bank advances.*

ANNEXES

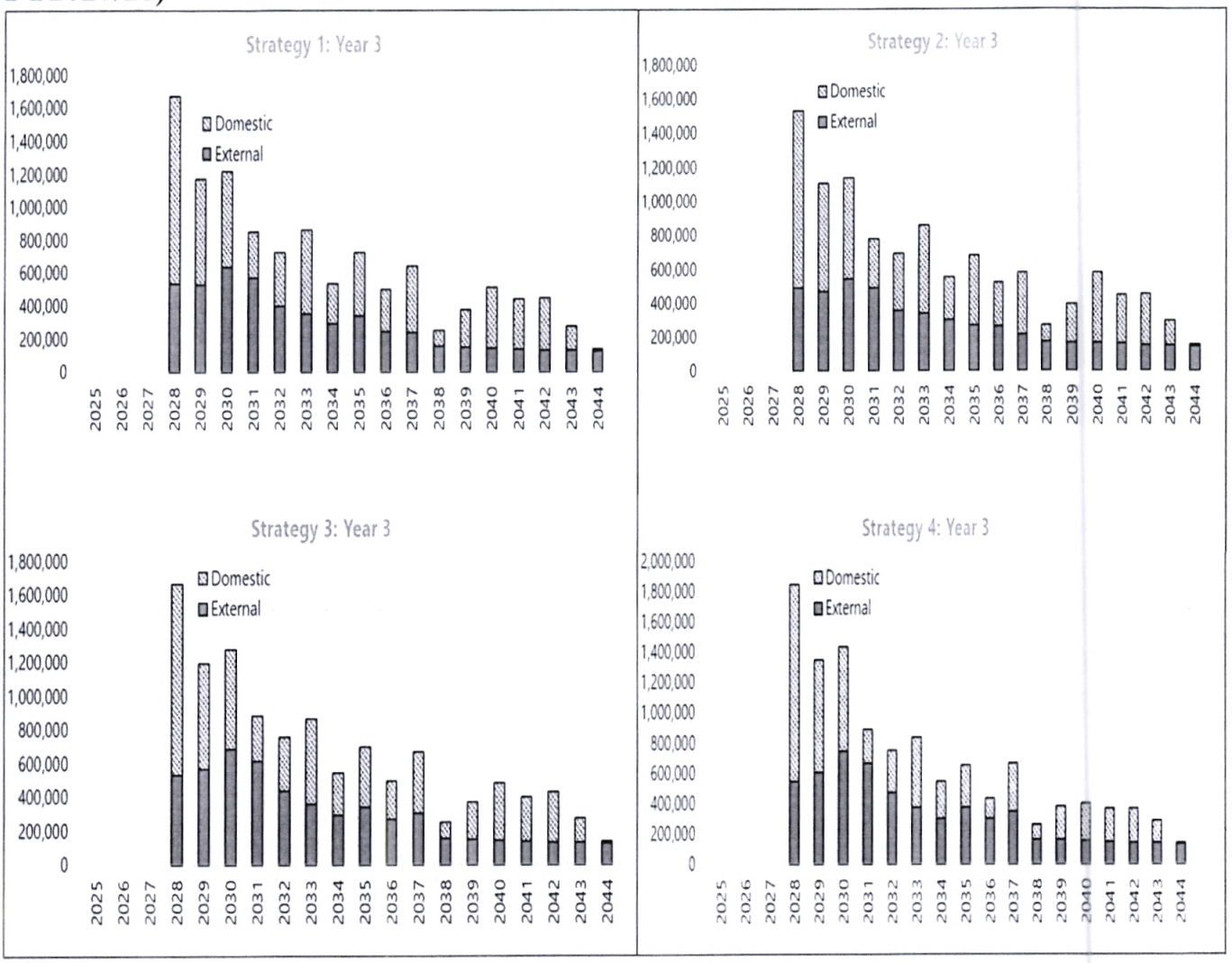
Annex 1: Average New Borrowing by Instrument under Alternative Strategies (in percent of gross borrowing by end of FY 2027/28)

New debt in % of Total Gross Borrowing	S1	S2	S3	S4
ADF	1	1	1	1
IDA/IFAD	4	6	4	4
Concessional	5	8	4	5
Semi-Concessional	1	3	2	2
Commercial/International Sovereign Bond	14	7	19	22
Treasury bills	29	25	29	36
Treasury bonds 2-3 Years	6	7	6	9
Treasury bonds 4-7 Years	6	7	6	3
Treasury bonds 8-12 Years	12	12	10	6
Treasury bonds 13-17 Years	12	13	11	7
Treasury bonds 18-22 Years	6	6	6	3
Treasury bonds 23-30 Years	4	5	3	1
External	**25**	25	**29**	**34**
Domestic	**75**	75	**71**	**66**
Total	**100**	100	**100**	**100**

Annex 2: Composition of Debt Portfolio by Instrument under Alternative Strategies, (in Percent of Outstanding Portfolio as at End of -FY 2027/28)

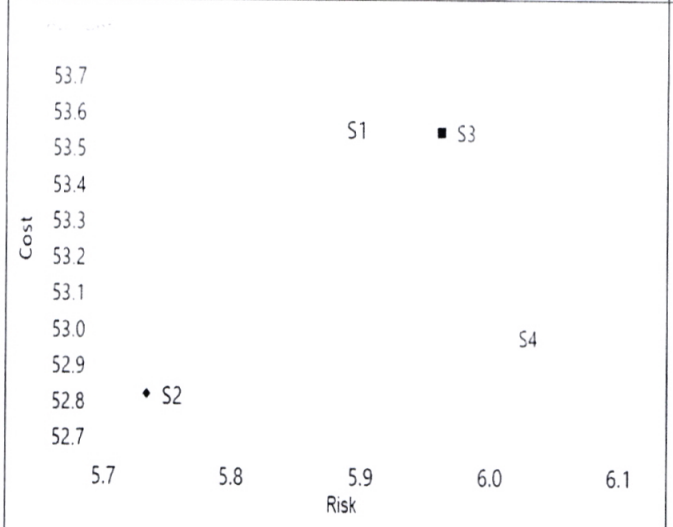
In Percent of Total	FY 2023/24	As at end FY2027/28			
Outstanding by Instrument	**Current**	**S1**	**S2**	**S3**	**S4**
ADF	3	3	2	3	3
IDA/IFAD	15	14	13	14	14
Concessional	3	5	6	4	5
Semi-Concessional	6	3	5	4	4
Commercial/International Sovereign Bond	23	21	16	23	26
Treasury bills	5	5	4	5	6
Treasury bonds 2-3 Years	3	3	3	3	6
Treasury bonds 4-7 Years	8	6	6	6	5
Treasury bonds 8-12 Years	11	13	13	12	10
Treasury bonds 13-17 Years	12	14	14	13	11
Treasury bonds 18-22 Years	9	10	10	10	9
Treasury bonds 23-30 Years	3	4	5	4	3
External	**49**	**45**	**45**	**47**	**52**
Domestic	**51**	**55**	**55**	**53**	**48**
Total	**100**	**100**	**100**	**100**	**100**

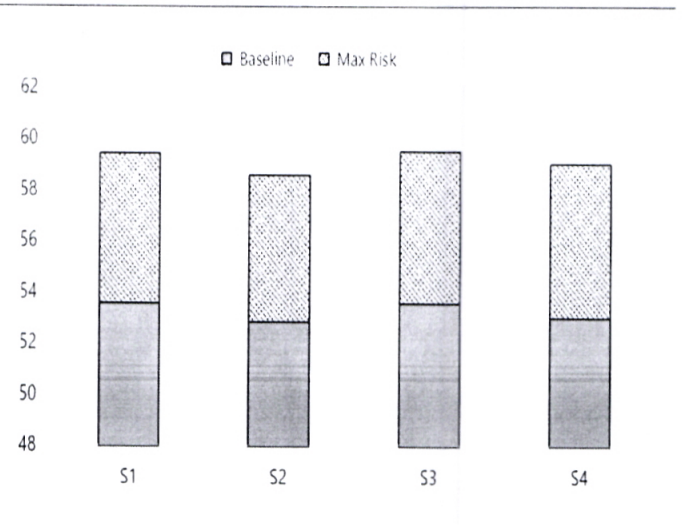
Annex 3: Redemption Profiles under Alternative Strategies Ksh. Million (End-FY2027/28)



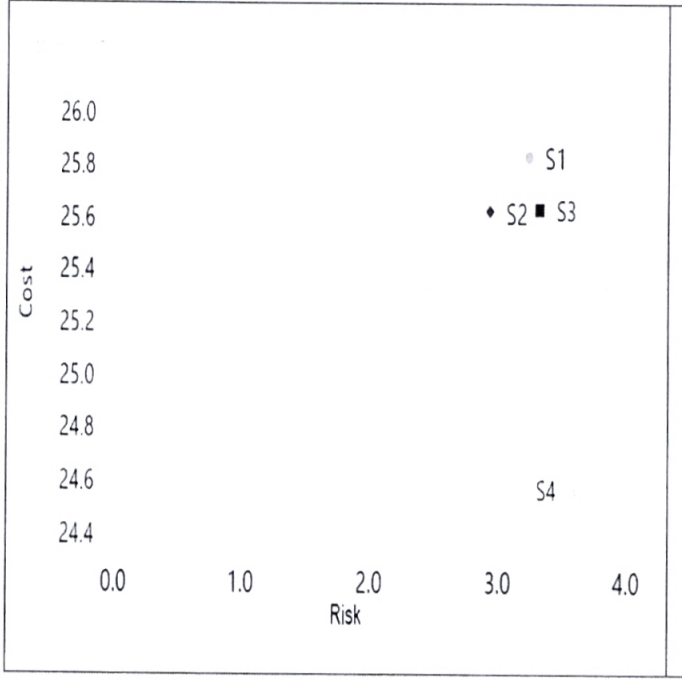
Annex 4: Cost and Risk Characteristics under Alternative Strategies

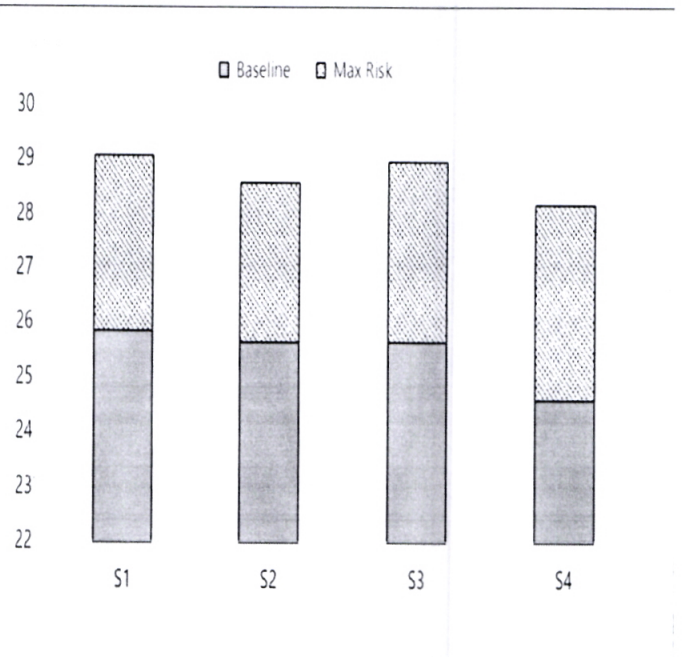
PV of Debt to GDP ratio



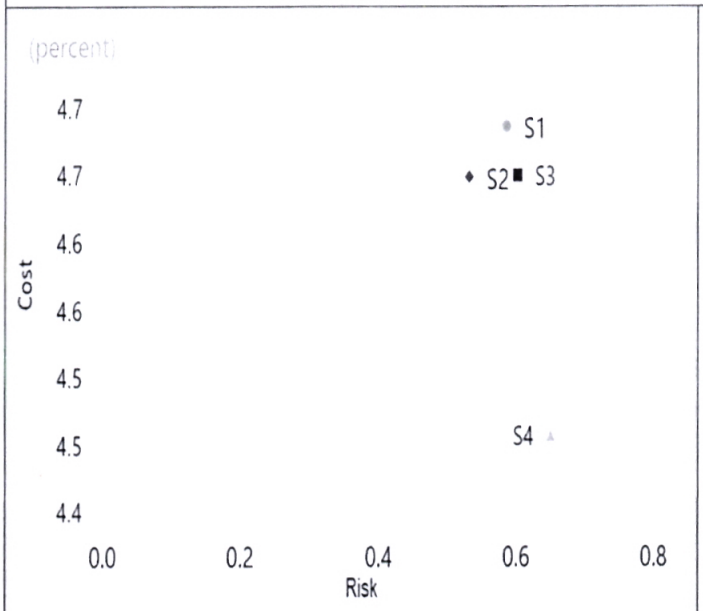


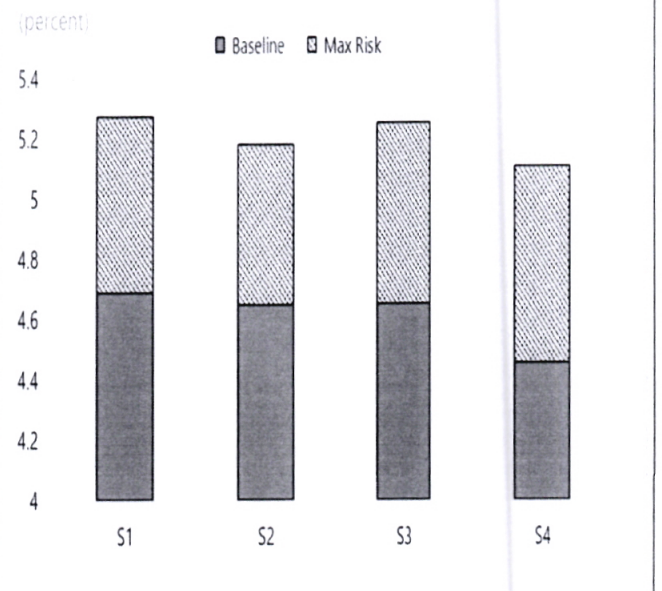
Interest to Revenue ratio



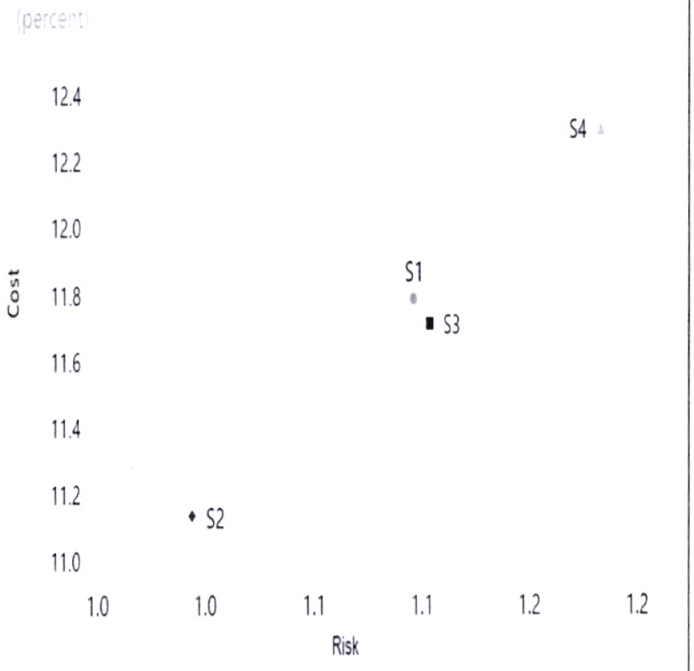


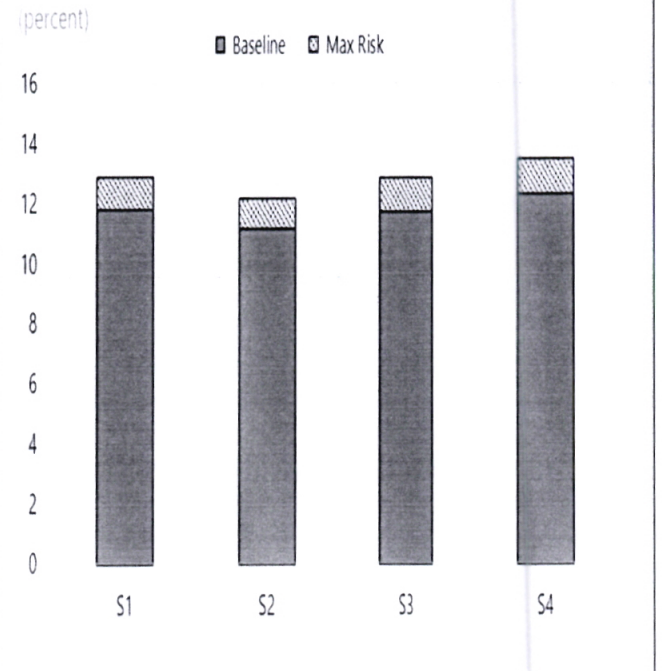
Interest to GDP ratio





Total debt service to GDP ratio





Annex 5: Baseline Pricing Assumptions and Description of Shock Scenarios

a) The pricing assumptions under the baseline scenario for interest rates and the exchange rates are as follows:

i. ADF loans are priced at an average fixed rate of 0.75 percent, with a 40-year tenor and up-to 10-year grace period.

ii. IDA/IFAD loans are priced at an average fixed rate of 2.0 percent, with a 30-year tenor and up-to 10-year grace period.

iii. Other concessional loans are priced at an average fixed rate of 2.0 percent, with a 28-year tenor and up-to 7-year grace period.

iv. Semi-concessional loans are assumed to be contracted at a fixed interest rate of approximately 3.0 percent and a maturity of 23 years including a grace period of up to 5 years.

v. Commercial borrowings and Export Credit Agencies financing with floating rates are contracted at a reference rate plus a margin.

vi. The pricing of Kenya's International Sovereign debt is based on US forward rates and credit spread.

vii. Pricing on the domestic debt instruments is based on US forward rates, credit spread and inflation differential.

b) The outlook on the baseline interest rates and exchange rates is based on the following considerations;

i. The Kenya shilling against the dollar exchange rate is assumed to depreciate annually at an average rate of 2.8 percent.

ii. The fixed interest rates of market-based instruments in the international capital markets were based on US forward rates and credit spread. The domestic market yields were based on US forward rates, credit spread and inflation differential.

iii. The interest rates for fixed rate loans are assumed to remain priced as per the existing portfolio.

c) Three risk scenarios are evaluated as follows:

i. The risk scenario for interest rates assumes moderate interest rate shock of 0.75 percent and 1.5 percent in 2026 and 2027 respectively and a stand-alone extreme shock of 1.5 percent and 3.0 percent over the same period.

ii. The risk scenario for exchange rate assumes a stand-alone extreme shock of 25 percent in 2026 which was applied on the baseline exchange rate projections.

iii. The combined exchange rate and interest rate risk shock scenario assumes an increase in interest rate by a moderate shock of 0.75 percent combined with a 12.5 percent exchange rate depreciation in 2026.

Annex 6: Publication of the Debt Management Strategy

Section 33 of the Public Finance Management Act, 2012 provides:

1) On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.

2) The Cabinet Secretary shall ensure that the medium-term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.

3) The Cabinet Secretary shall include in the statement the following information: -

   a) The total stock of debt as at the date of the statement;

   b) The sources of loans made to the national government and the nature of guarantees given by the national government;

   c) The principal risks associated with those loans and guarantees;

   d) The assumptions underlying the debt management strategy; and

   e) An analysis of the sustainability of the amount of debt, both actual and potential.

4) Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.

5) PFM Act 2012, 'General responsibilities of the National Treasury' Section 12. Provides that: (1) Subject to the Constitution and this Act, the National Treasury shall— (b) manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control.

