# REPUBLIC OF KENYA

**THE NATIONAL TREASURY**

**MEDIUM TERM**

# 2018 BUDGET POLICY STATEMENT

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

**19th January 2018**

To obtain copies of the BPS, please contact:

The National Treasury
Treasury Building
P. O. Box 30007-00100
**NAIROBI, KENYA**

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

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

# Foreword

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

This BPS is framed against a backdrop of improving global and regional economic prospects. Global growth is projected to improve to 3.7 percent in 2018 up from 3.6 percent in 2017. The positive global outlook reflects recovery in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. Similarly, growth in sub-Saharan Africa is projected to pick up, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by stable macroeconomic environment, on-going infrastructure investments and strong private consumption. On the domestic front, our economy has remained resilient, with growth supported by a stable macroeconomic environment, resilient domestic demand and ongoing public infrastructural investments.

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

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

The global and regional developments together with Kenya's investments in the "The Big Four" sectors, sustained ongoing infrastructural investments, and continued recovery in tourism, increased consumer confidence, supported by a conducive business environment will accelerate economic growth prospects through industrialization and consequently job creation. In addition, the Government will continue to provide an enabling environment for the private sector to thrive by preserving macroeconomic stability; expanding infrastructure; improving security; implementing business regulatory reforms; expanding access to finance and instituting governance reforms so as to achieve "The Big Four" Plan. The Government will also support higher levels of value addition in domestically produced goods, strengthen the fight against corruption and counterfeits, enhance the use of public procurement to promote Buy Kenya Build Kenya initiative and support Micro, Small and Medium Enterprises (MSME) sector.

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

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

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



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

# Acknowledgement

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

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

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

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

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

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

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***About the Budget Policy Statement***

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

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

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

The Budget Policy Statement contains:

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

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

# I. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK

## 1.1 Overview

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

2. The overall month on month inflation declined 4.5 percent in December 2017 from 6.4 percent in December 2016. Due to the fall in the prices of potatoes, kale, oranges and mangoes mainly attributed to favourable climatic conditions at end of 2017 and Government measures on prices of maize, powdered milk and sugar. The inflation of 4.5 percent in December 2017 was within Government's target range

3. The foreign exchange market has remained relatively stable supported by resilient tea and horticultural exports, strong diaspora remittances, and a continued recovery in tourism. The 12-month current account deficit stabilized at 7.0 percent of GDP in November and September 2017 and is expected to narrow to below 6.5 percent by December 2017 as the bulk of SGR-related imports are completed, while favourable weather conditions is expected to support food production and agricultural exports.

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

5. Kenya is ranked favourably in the ease of doing business and as a top investment destination. In 2017, the World Bank's Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poors Global Ratings affirmed its 'B+/B' long- and short-term foreign and local currency sovereign credit ratings on Kenya, with a stable outlook.

## 1.2 Recent Economic Developments and Outlook

***Global and Regional Economic Developments***

6. The pickup in global activity that started in 2016 gathered pace in the first half of 2017 supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. As such global growth is projected to increase to 3.8 percent in 2018 from 3.6 percent in 2017 and 3.2 percent in 2016 primarily driven by improving domestic demand in advanced economies and China and improved performance in other emerging market economies.

7. In advanced economies, growth is expected to pick up to 2.2 percent in 2017, up from 1.7 percent in 2016 reflecting stronger activity in the United States, Canada, the Euro area, and Japan. However, this growth is expected to slow down to 2.0 percent in 2018 mainly reflecting a slowdown in Japan and the euro area. On the upside, the US economy is projected to expand to 2.3 percent in 2018 up from a projected 2.2 percent in 2017, as a result of supportive financial conditions and strong business and consumer confidence.

8. Among emerging market and developing economies, higher domestic demand in China and continued recovery in key emerging market economies supported growth in the first half of 2017. Growth in emerging and developing economies is projected to increase from 4.3 percent in 2016 to 4.6 percent in 2017 and 4.9 percent in 2018. The projected growth is driven primarily by the strengthening of growth in commodity exporters; a gradual increase in India's growth rate and a lower but still high trend growth rate in China.

9. The broad-based slowdown in sub-Saharan Africa is easing and growth is expected to improve from 1.4 percent in 2016 to 2.6 percent in 2017 and further to 3.4 percent in 2018, partly supported by a recovery in growth of larger commodity exporters such as Nigeria and South Africa. In addition, the easing of drought conditions in the Eastern and Southern Africa have contributed to the positive outlook. However, downside risks have increased following policy uncertainties and delays in the implementation of policy adjustments in Nigeria and South Africa. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

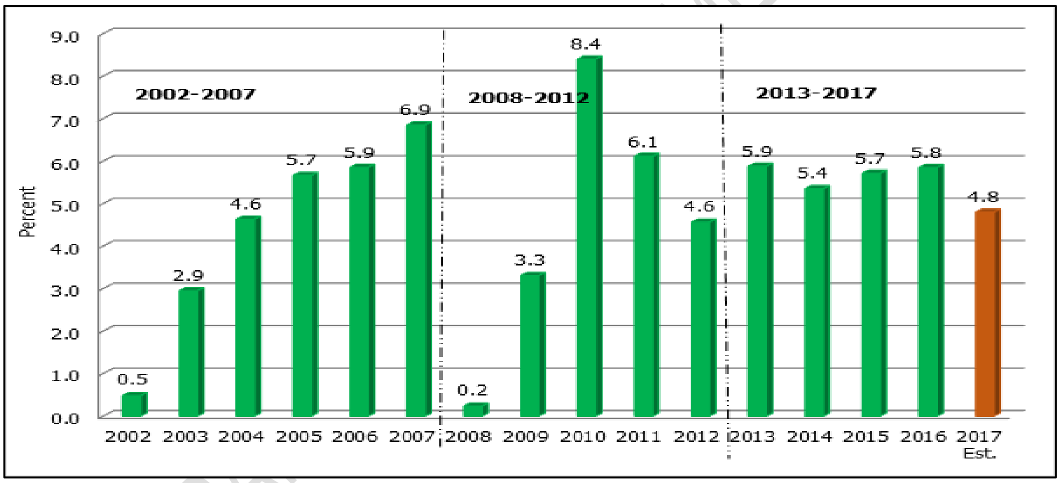
10. In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1 percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania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

***Domestic Economic Developments***

11. Growth of the Kenyan economy remained resilient, broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies **(Chart 1.1).** The economy, specifically, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012. The value of goods and services produced therefore raised the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017. The economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012.

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

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




***Source of data: Kenya National Bureau of Statistics***

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

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

15. Services remain the main source of growth, the sector grew from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favourable performance of ICT, real estate, wholesale and Retail Trade, Transport and Storage and

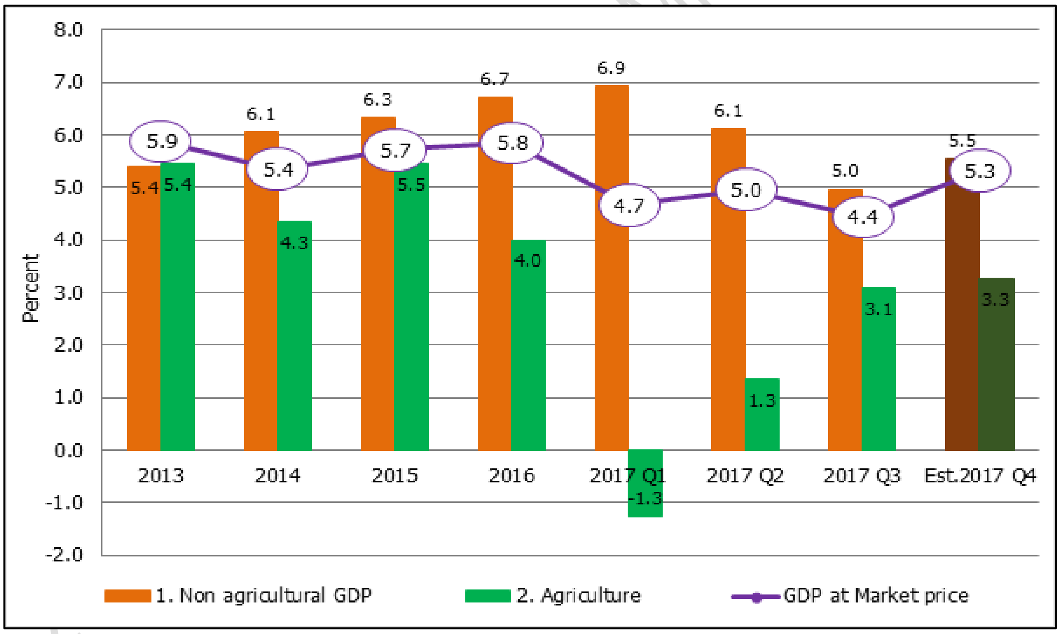
Accommodation and Restaurants. Accommodation and restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel alerts from major tourist originating countries.

16. The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. However, the sector slowed down to 6.9 percent in 2016 and is estimated at 3.2 percent in 2017 partly due low domestic credit to the private sector and a decline in the growth of interest income.

17. The industry sector grew from 3.5 percent in 2012 to 7.0 percent in 2015 supported by the construction sector as a result of public infrastructural development. The sector slowed down in 2016 and 2017 following subdued performance of the Manufacturing and Electricity and Water Supply sectors.

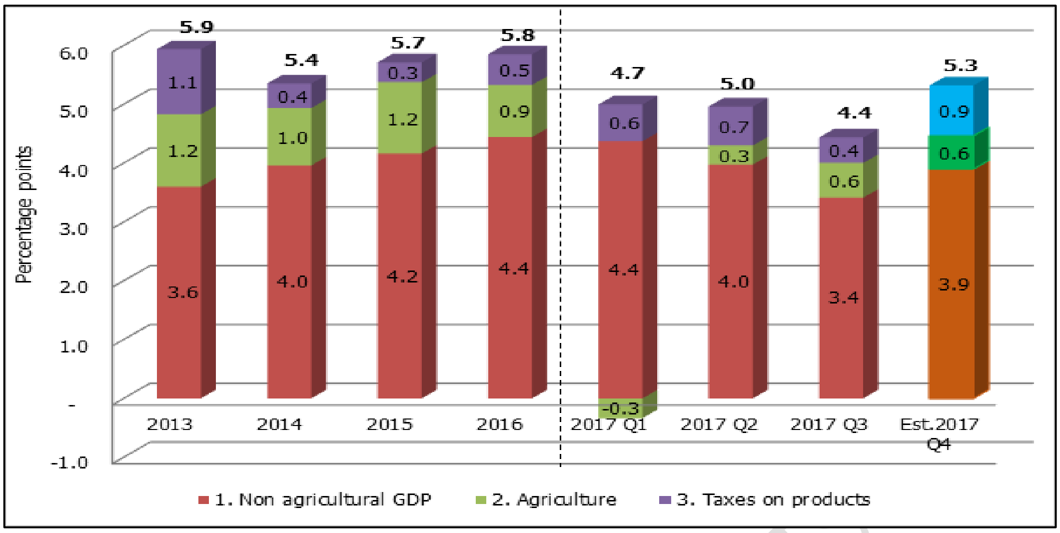
18. Meanwhile, growth of the agricultural sector rose from 2.8 percent in 2012 to 5.5 percent in 2015 but contracted to (-1.3) percent in first quarter of 2017 due to the prolonged drought that started in the fourth quarter of 2016. Growth in the sector recovered to 3.1 percent as weather conditions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

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




*Source of data: Kenya National Bureau of Statistics*

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



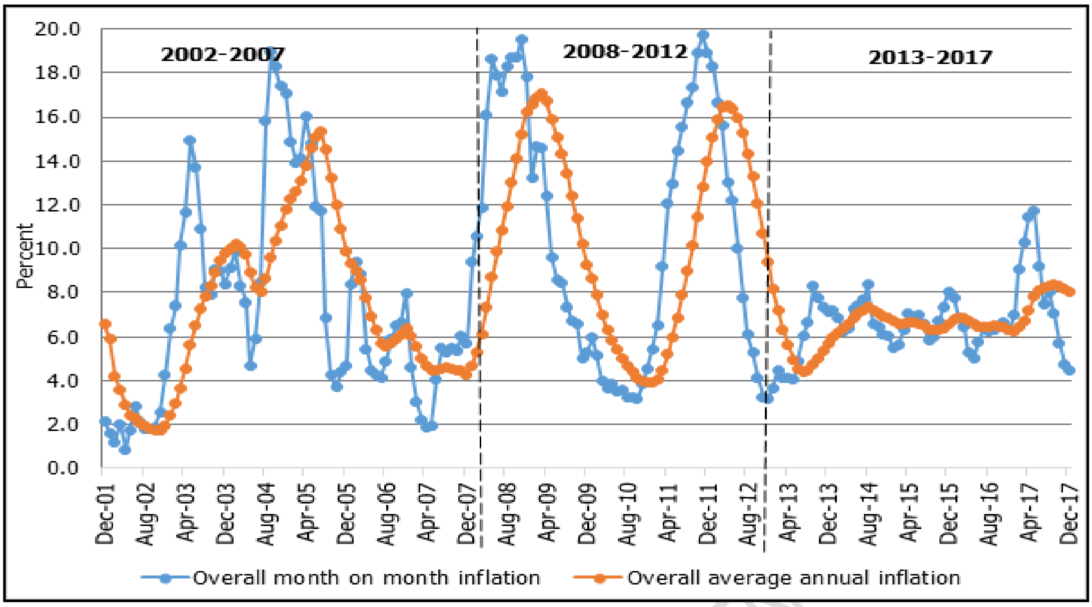

***Source of data: Kenya National Bureau of Statistics***

### *Inflation Rate*

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

20. However, inflation increased to above target in the first half of 2017 due to drought that affected food prices. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.5 percent in December 2017 from 6.4 percent in December 2016, and was within the Government's target range.

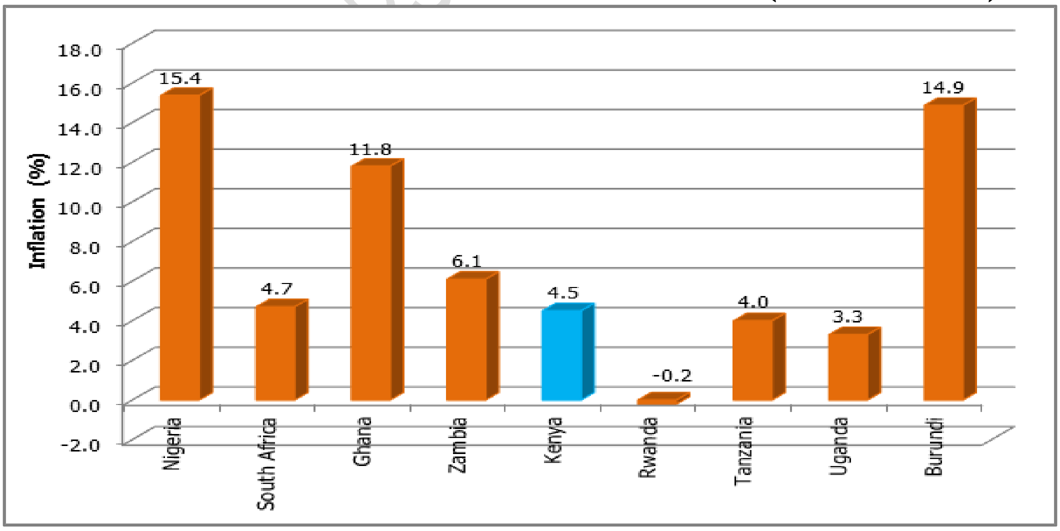
**Chart 1.3: Inflation Rate**




***Source of data: Kenya National Bureau of Statistics***

22. In the sub Saharan Africa region, the high inflation rates in Ghana and Nigeria reflect difficult economic conditions as a result of foreign currency shortages attributed to lower commodity revenues and slow policy adjustment. The low inflation rate in South Africa reflects improved weather conditions that led to a bumper crop harvest which resulted in lower food prices. In the EAC region all countries except the Republic of Burundi have low inflation rates (**Chart 1.4)**. Drought in the Republic of Burundi has put basic food prices under pressure.

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



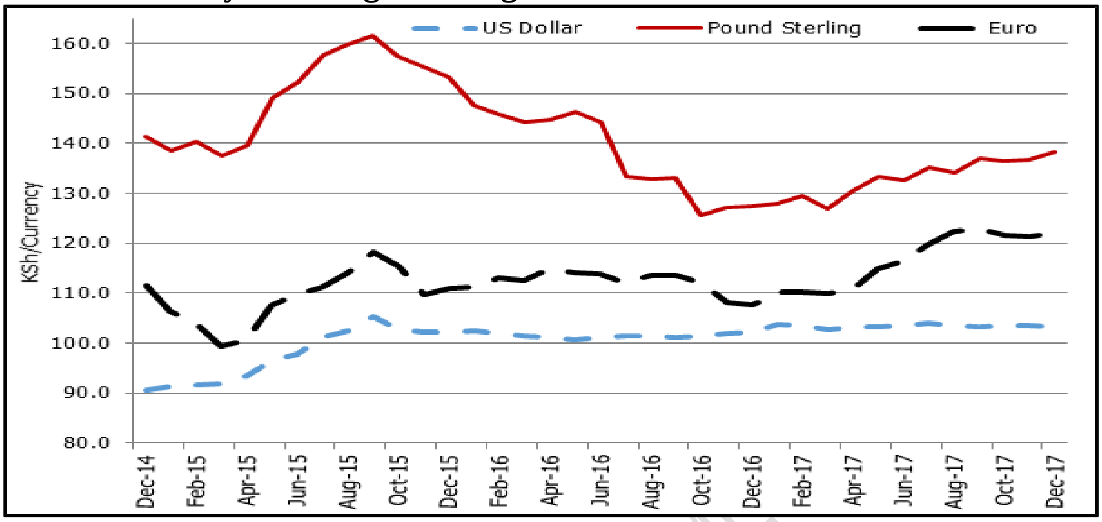

***Source of data: Various National Central Banks***

***Kenya Shilling Exchange Rate***

23. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2017, the shilling exchange rate against the Dollar was at Ksh 103.1 from Ksh 102.1 in December 2016. Against the Euro

and the Sterling pound, the Shilling weakened to Ksh 122.0 and Ksh 138.2 in December 2017 from Ksh 107.7 and Ksh 127.7 in December 2016, respectively **(Chart 1.5).**

**Chart 1.5: Kenya Shilling Exchange Rate**



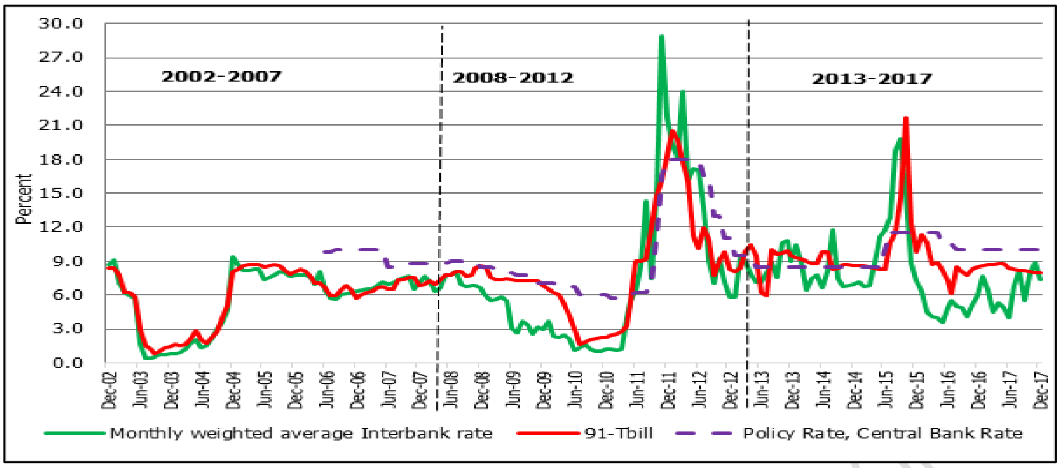

***Source of data: Central Bank of Kenya***

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

***Interest Rates***

25. Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The rate is currently (January 2017) at 10.0 percent since August 2016. The interbank rate has remained low at 7.7 percent in December 2017 from 5.9 percent in December 2016 due to ample liquidity in the money market **(Chart 1.6)**, while the 91-day Treasury bill rate declined to 8.0 percent from 8.4 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.1 percent in December 2017 from 10.5 percent and 11.0 percent in December 2016, respectively.

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




*Source of data: Central Bank of Kenya*

26. The interest rate spread narrowed to 6.0 percent in September 2017 from 6.4 percent in September 2016 with the Commercial banks' average lending interest stabilizing at 13.7 percent over the same period. Meanwhile, the average commercial banks' deposit rate increased to 7.7 percent in September 2017 from 7.3 percent in September 2016. Comparatively, Kenya has the lowest lending rates among the East African countries.

### *Money and Credit*

27. Broad money supply, M3, grew by 8.4 percent in the year to November 2017 compared to a growth of 6.2 percent in the year to November 2016 (**Table 1.1**). The growth in M3 was largely on account of an increase of net domestic credit to the Government and other public sectors. The contribution of net foreign assets declined.

**Table 1.1: Money Supply and Credit, Ksh billion**

| | | | | Absolute Change | | percent change | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2015-2016 | 2016-2017 | 12 months to | 12 months to |
| | NOV | NOV | NOV | NOV | NOV | Nov-16 | Nov-17 |
| **Money supply, M3 (1+2)** | **2,616.2** | **2,777.6** | **3,012.3** | **161.4** | **234.7** | **6.2** | **8.4** |
| **1. Net foreign assets (1.1+1.2)** | **446.1** | **562.0** | **553.1** | **115.9** | **-8.9** | **26.0** | **-1.6** |
| 1.1 Central Bank | 580.6 | 645.0 | 635.6 | 64.4 | -9.4 | 11.1 | -1.5 |
| 1.2 Banking Institutions | -134.5 | -82.9 | -82.4 | 51.6 | 0.5 | -38.3 | -0.6 |
| **2. Net domestic assets (2.1+2.2)** | **2,170.1** | **2,215.6** | **2,459.2** | **45.5** | **243.6** | **2.1** | **11.0** |
| **2.1 Domestic credit (2.1.1+2.1.2+2.1.3)** | **2,815.9** | **2,925.8** | **3,172.3** | **109.9** | **246.5** | **3.9** | **8.4** |
| 2.1.1 Government (net) | 568.4 | 565.0 | 740.7 | -3.4 | 175.7 | -0.6 | 31.1 |
| 2.1.2 Other public sector | 81.4 | 103.6 | 112.4 | 22.2 | 8.8 | 27.3 | 8.5 |
| 2.1.3 Private sector | 2,166.2 | 2,257.3 | 2,319.3 | 91.1 | 62.0 | 4.2 | 2.7 |
| **2.2 Other assets net** | **-645.8** | **-710.2** | **-713.1** | **-64.4** | **-2.9** | **10.0** | **0.4** |

*Source of data: Central Bank of Kenya*

28. Net Foreign Assets (NFA) of the banking system in the year to November 2017 contracted by 1.6 percent from a growth of 26.0 percent over a similar period in 2016. Meanwhile, the Net Domestic Assets (NDA) improved to a growth of 11.0

percent in the year to November 2017 from the growth of 2.1 percent over a similar period in 2016. The pickup in growth in 2017 is due to an improvement in the growth of net domestic credit. Domestic credit improved to an annual growth of Ksh 246.5 billion (8.4 percent) in the year to November 2017 compared to a growth of Ksh 109.9 billion (3.9 percent) in the year to November 2016.

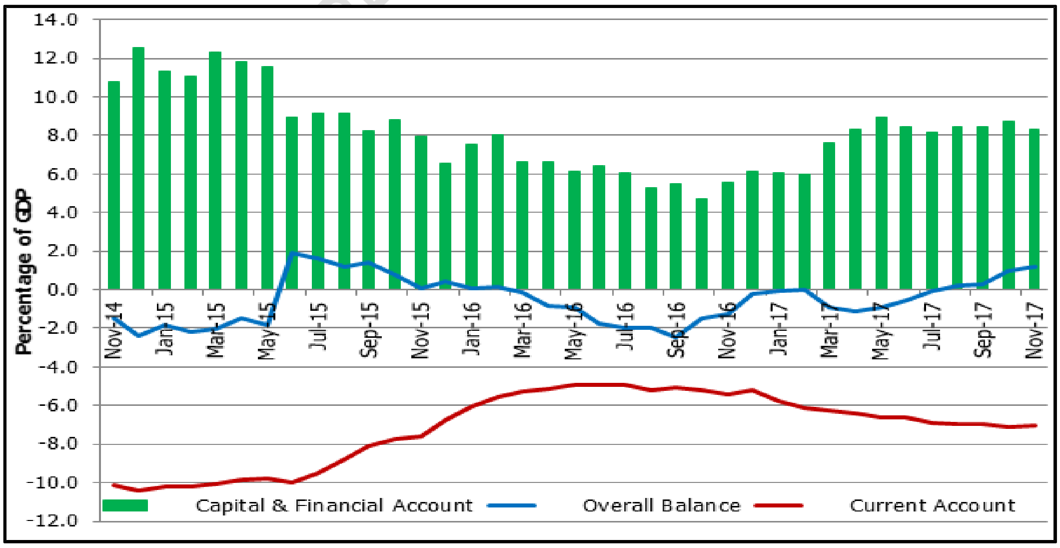
29. Private sector credit increased to 2.7 percent in November 2017 from 2.0 percent in October 2017 and 1.7 percent in September 2017, reversing the downward trend witnessed since August 2015. However, this was a slowdown compared to the 4.2 percent growth in November 2016. The real estate, manufacturing, trade, consumer durables and private households have continued on a net basis to receive credit flows from the banking sector since January 2017.

### *Balance of Payments*

30. The overall balance of payments position improved to a surplus of US$ 879.7 million (1.2 percent of GDP) in the year to November 2017 from a deficit of US$ 821.4 million (1.3 percent of GDP) in the year to November 2016 **(Chart 1.7** due to the improvement in the financial account that more than offset the widening current account deficit.

31. The current account balance registered a deficit of US$ 5,110.1 million (7.0 percent of GDP) in the year to November 2017 from a deficit of US$ 3,452.5 million (5.4 percent of GDP) in the year to November 2016. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

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




*Source of data: Central Bank of Kenya*

32. The deficit in the merchandise account widened by US$ 2,477.7 million to US$ 10,243 million in the year to November 2017 reflecting increase in payments for import of oil on account of the rebound in international oil prices and the

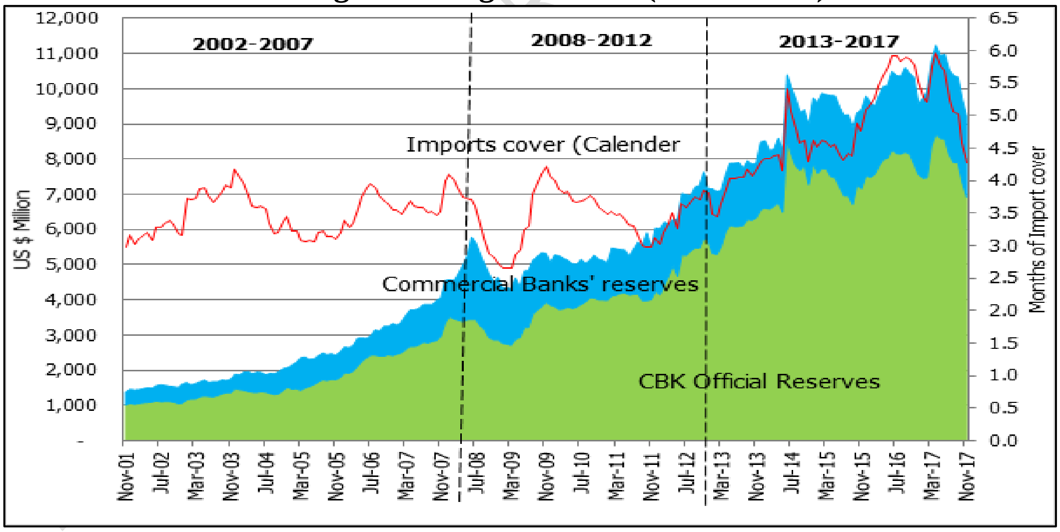
increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined generally reflecting lower global demand for exports of manufactured goods; raw materials; chemicals and related products; and miscellaneous manufactured articles.

33. Flows in the Financial Account increased to US$ 5,870.6 million in November 2017 compared with US$ 3,298.5 million in November 2016, with the surplus reflecting higher liabilities compared to assets. The financial inflows were mainly in form of Foreign Direct Investments and other investments which stood at US$ 360.6 million and US$ 6,439.6 million, respectively in November 2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

### *Foreign Exchange Reserves*

34. The banking system's foreign exchange holding was at US$ 9,202 million in November 2017 from US$ 10,327 million in November 2016 **(Chart 1.8)**. The official foreign exchange reserves held by the Central Bank remained strong at US$ 6,919.5 million (4.6 months of import cover) in November 2017 compared with US$ 7,872.1 million (5.2 months of import cover) in November 2016 while commercial banks holdings was at US$ 2,282.8 million in 2017 from US$ 2,454.6 million in 2016.

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




***Source of data: Central Bank of Kenya***

### *Capital Markets*

35. Activities at the stock market picked up in November 2017 from a slowdown in September and October 2017 as the long electioneering period came to an end. The NSE 20 Share Index improved to 3,805 points in November 2017 from 3,730 points in October 2017 while Market Capitalization improved to Ksh 2,562 billion from Ksh 2,346 billion over the same period.

36. However, as of 29th December 2017, activities in the stock market had slowed down reflecting the effects of the holiday season. The NSE Share Index was at 3,712 points and market capitalization at Ksh 2,523 billion.

## 1.3 Fiscal Performance

37. Implementation of the FY 2017/18 budget is on course although performance is lagging behind targets. In the first five months of the year, revenues collection have consistently lagged behind targets due to the under performance of the main revenue tax heads. On the other hand, there has been elevated expenditures pressures as a result of the adverse spillover effects of the prolonged drought, the repeat of the Presidential Election and salary awards for Universities Staff and Nurses.

38. By end November 2017, the total cumulative revenues including A-I-A collected amounted to Ksh 558.4 billion against a target of Ksh 611.0 billion. The recorded shortfall of Ksh 52.6 billion was as a result of an under performance of the ordinary revenues by Ksh 29.7 billion and the ministerial A-I-A by Ksh 22.9 billion. The shortfall in ordinary revenue was on account of underperformance in all the broad categories of ordinary revenues except import duty.

39. Total expenditures and net lending amounted to Ksh 720.2 billion against a target of Ksh 824.2 billion falling below target by Ksh 104.0 billion at the end of November 2017. The shortfall was as a result of lower than projected disbursements to County Governments due to the delayed enactment of the County Revenue Allocation Act as well as below target absorption of development expenditures despite the faster spending in the recurrent expenditures by the National Government. Recurrent expenditure amounted to Ksh 510.2 billion against a target of Ksh 494.8 billion, representing above target spending of Ksh 15.4 billion. The faster-spending was mainly recorded in operations and maintenance which accounted for Ksh 35.6 billion and higher than programmed domestic interest payments of Ksh 12.0 billion.

40. The combined effect of the revenue and expenditure performance at end of November 2017, resulted to an overall fiscal deficit (excluding grants), of Ksh 161.8 billion (equivalent to 1.8 percent of GDP) against a targeted deficit of Ksh 213.3 billion (equivalent to 2.4 percent of GDP). Including grants, the fiscal balance recorded a deficit of Ksh 164.0 billion against a targeted deficit of Ksh 193.1 billion. This deficit was financed through net foreign borrowing amounting to Ksh 49.6 billion and net domestic financing amounting to Ksh 114.4 billion.

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

42. In the revised fiscal framework revenues are projected at Ksh 1,643.1 billion or 18.9 percent of GDP from Ksh 1,704.5 billion or 20.6 percent of GDP. Total expenditures and net lending are projected at Ksh 2,323.2 billion or 26.8 percent of GDP.

43. The deficit, inclusive of grants, is therefore projected at Ksh 620.8 billion (equivalent to 7.2 percent of GDP). Borrowing from the domestic market is projected at Ksh 293.8 billion and external borrowing at Ksh. 323.2 billion. The overall impact of these developments is reflected in **Table 1.2 and Annex Table 2 and Annex Table 3.**

**Table 1.2 Revised Fiscal Framework (Ksh Million)**

| | FY 2016/17 | | FY 2017/18 | | | FY 2016/17 | FY 2017/18 | |
|---|---|---|---|---|---|---|---|---|
| | Preliminary Actuals | Revised Budget II | Budget | BPS 2018 | Deviation | Preliminary Actuals | Budget | BPS 2018 |
| | Ksh Million | | | | | % share of GDP | | |
| **A. TOTAL REVENUE AND GRANTS** | **1,426,890** | **1,514,139** | **1,763,324** | **1,702,356** | **(60,968)** | **18.6** | **21.3** | **19.7** |
| **1. TOTAL REVENUE** | **1,400,578** | **1,455,355** | **1,704,503** | **1,643,110** | **(61,393)** | **18.3** | **20.6** | **19.0** |
| Ordinary revenue | 1,305,794 | 1,311,323 | 1,549,367 | 1,486,294 | (63,072) | 17.1 | 18.7 | 17.2 |
| Import Duty | 89,943 | 89,220 | 102,401 | 102,391 | (11) | 1.2 | 1.2 | 1.2 |
| Excise Taxes | 165,474 | 170,258 | 197,370 | 183,661 | (13,708) | 2.2 | 2.4 | 2.1 |
| Income Tax | 625,050 | 623,872 | 765,602 | 709,134 | (56,468) | 8.2 | 9.2 | 8.2 |
| VAT | 339,034 | 337,570 | 383,522 | 383,698 | 175 | 4.4 | 4.6 | 4.4 |
| Investment Income - Others | 28,524 | 28,322 | 18,162 | 23,111 | 4,949 | 0.4 | 0.2 | 0.3 |
| Other Revenue | 57,769 | 62,081 | 82,310 | 84,300 | 1,990 | 0.8 | 1.0 | 1.0 |
| Ministerial Appropriation in Aid | 94,784 | 144,032 | 155,136 | 156,816 | 1,680 | 1.2 | 1.9 | 1.8 |
| **GRANTS** | **26,312** | **58,784** | **58,821** | **59,246** | **425** | **0.3** | **0.7** | **0.7** |
| Programme Grants/AMISOM Receipts | 6,787 | 6,440 | 6,100 | 6,100 | - | 0.1 | 0.1 | 0.1 |
| Projects Grants(Revenue) | 9,485 | 18,745 | 12,536 | 13,726 | 1,190 | 0.1 | 0.2 | 0.2 |
| Projects Grants(AIA) | 9,632 | 32,677 | 40,184 | 39,419 | (765) | 0.1 | 0.5 | 0.5 |
| Italian Debt Swap | - | 500 | - | - | - | - | - | - |
| County Health Facilities - DANIDA | 408 | 422 | - | - | - | 0 | - | - |
| **TOTAL EXPENDITURE AND NET LENDING** | **2,109,976** | **2,327,033** | **2,298,775** | **2,323,151** | **24,376** | **27.6** | **27.7** | **26.8** |
| **1. Recurrent Expenditure** | **1,179,497** | **1,238,337** | **1,347,280** | **1,404,815** | **57,535** | **15.4** | **16.3** | **16.2** |
| Domestic Interest | 212,865 | 181,789 | 210,148 | 215,243 | 5,095 | 2.8 | 2.5 | 2.5 |
| Foreign Interest due | 58,368 | 62,387 | 70,572 | 88,841 | 18,269 | 0.8 | 0.9 | 1.0 |
| Pensions etc | 63,958 | 65,091 | 76,173 | 76,173 | - | 0.8 | 0.9 | 0.9 |
| Wages & Salaries | 336,636 | 341,155 | 409,206 | 401,003 | (8,202) | 4.4 | 4.9 | 4.6 |
| Defense and NSIS | 130,194 | 129,914 | 130,178 | 123,520 | (6,658) | 1.7 | 1.6 | 1.4 |
| Others | 377,477 | 458,000 | 451,003 | 500,035 | 49,032 | 4.9 | 5.4 | 5.8 |
| **2. Development** | **645,771** | **803,974** | **640,295** | **607,136** | (33,160) | **8.4** | **7.7** | **7.0** |
| Domestically Financed (Gross) | 389,613 | 430,295 | 373,360 | 327,380 | (45,980) | 5.1 | 4.5 | 3.8 |
| Foreign Financed | 247,714 | 365,236 | 256,821 | 269,642 | 12,821 | 3.2 | 3.1 | 3.1 |
| Net Lending | 2,443 | 2,443 | 2,398 | 2,398 | - | 0.0 | 0.0 | 0.0 |
| 3. Equalization Fund | 6,000 | 6,000 | 7,716 | 7,716 | - | 0.1 | 0.1 | 0.1 |
| 4. County Allocation (Equitable Share) | 284,708 | 284,722 | 306,200 | 306,200 | - | 3.7 | 3.7 | 3.5 |
| 5. Contingency Fund | - | - | 5,000 | 5,000 | - | - | 0.1 | 0.1 |
| **C. BALANCE EXCLUSIVE OF GRANTS** | **(709,398)** | **(871,678)** | **(594,272)** | **(680,040)** | **(85,768)** | **- 9.3** | **- 7.2** | **7.9** |
| **D. BALANCE INCLUSIVE OF GRANTS** | **(683,086)** | **(812,895)** | **(535,451)** | **(620,795)** | **(85,343)** | **- 8.9** | **- 6.5** | **- 7.2** |
| | | | | | - | - | - | - |
| E. Adjustments to cash basis | - | | - | - | - | - | - | - |
| | | | | | - | - | - | - |
| **F BALANCE INCLUSIVE OF GRANTS (CASH BAS** | **(683,086)** | **(812,895)** | **(535,451)** | **(620,795)** | **(85,343)** | **- 8.9** | **- 6.5** | **- 7.2** |
| | | | | | - | - | - | - |
| Discrepancy | 14,169 | - | 0 | 0 | - | **0.2** | - | - |
| | | | | | - | - | - | - |
| **TOTAL FINANCING** | **697,255** | **812,895** | **535,451** | **620,795** | **85,343** | **9.1** | **6.5** | **7.2** |
| NET FOREIGN FINANCING | 385,745 | 463,850 | 255,954 | 323,219 | 67,266 | 5.0 | 3.1 | 3.7 |
| Disbuserments | 421,667 | 507,472 | 405,000 | 472,496 | 67,496 | 5.5 | 4.9 | 5.4 |
| Commercial Finanacing | 186,303 | 186,303 | 200,000 | 250,000 | 50,000 | 2.4 | 2.4 | 2.9 |
| Export Credt- Commercial Finanacing | 0 | 0 | 0 | 11,495 | 11,495 | - | - | 0.1 |
| Project Loans AIA | 86,322 | 146,832 | 117,255 | 117,499 | 244 | 1.1 | 1.4 | 1.4 |
| Project Loans Revenue | 30,908 | 42,340 | 32,830 | 33,487 | 657 | 0.4 | 0.4 | 0.4 |
| Project Loans SGR _ AIA | 111,367 | 124,643 | 54,015 | 54,015 | - | 1.5 | 0.7 | 0.6 |
| Programme Loans | 6,767 | 7,355 | 900 | 6,000 | 5,100 | 0.1 | 0.0 | 0.1 |
| Debt repayment - Principal | (35,922) | (43,622) | (149,046) | (149,277) | (230) | - 0.5 | - 1.8 | - 1.7 |
| Other Domestic Financing | 1,751 | 2,114 | 3,809 | 3,809 | - | 0.0 | 0.0 | 0.0 |
| **NET DOMESTIC FINANCING** | **309,760** | **346,931** | **275,689** | **293,767** | **18,078** | **4.0** | **3.3** | **3.4** |
| **Nominal GDP (Fiscal Year)** | **7,658,138** | **7,658,138** | **8,284,284** | **8,681,200** | **396,916** | **100.0** | **100.0** | **100.0** |

***Source: National Treasury***

## 1.4 Fiscal Policy

44. The fiscal policy stance over the medium term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. The fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union Protocol's fiscal targets. That is, the EAC targets of a fiscal deficit ceiling including grants of 3 percent of GDP and excluding grants 6 percent of GDP.

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

46. In an effort to boost domestic revenue mobilization, the Government is going to undertake a combination of policy and administrative reforms to bolster revenue yields going forward. These efforts will reverse the revenue losses experienced in the recent past where ordinary revenues have declined about 1.6 percent of GDP from 18.1 percent in FY 2013/14 to 17.1 percent in FY 2016/17. In the medium term, ordinary revenues is projected to increase to 17.7 percent of GDP in FY 2021/22 from 17.1 percent of GDP in FY 2016/17. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.0 percent of GDP by FY 2021/22 from the projected 7.2 percent of GDP in FY 2017/18. Some of the reforms to be undertaken include:

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

47. Total expenditures and net lending is projected to decline from 26.8 percent of GDP in FY 2017/18 to 25.4 percent of GDP in FY 2018/19 and below 23.0 percent of GDP over the medium term. This takes into account the Government's efforts to increase the efficiency, effectiveness, transparency, and accountability of

public spending, in order to ensure that there is sufficient fiscal space for priority social and investment projects.

48. The overall fiscal deficit inclusive of grants is therefore projected to decline from 8.9 percent of GDP in FY 2016/17 to 7.2 percent of GDP in FY 2017/18, 6.0 percent in FY 2018/19 and further to 3.0 percent of GDP by FY 2021/22. Excluding expenditures related to SGR, the deficit declines from 7.5 percent of GDP in FY 2016/17 to 6.5 percent of GDP in FY 2017/18 and 2.5 of GDP by FY 2021/22. The lower deficit reflects the projected completion of key infrastructural projects being implemented by the Government, enhanced revenue collection and prudent public spending.

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

## 1.5 Economic Outlook

50. Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and Sub-Saharan Africa growth recovery. The growth projection takes into account the strategic objectives of the Government as outlined in the third MTP of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.8 percent by FY 2020/21 **(Table 1.3 and Annex Table 1)**. This growth will be supported by sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability.

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

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

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

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

balance reflects lower petroleum products import bill reflecting lower international oil prices and improved performance of tea and horticulture exports; strong diaspora remittances; recovery in tourism, and increased foreign direct investment in infrastructure.

**Table 1.3: Macroeconomic Framework**

| | 2015/16 | 2016/17 | 2017/18 | | | 2018/19 | | 2019/20 | | 2020/21 | | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Act | Prel. Act | Budget | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BPS'18 |
| | Annual percentage change | | | | | | | | | | | |
| **National Account and Prices** | | | | | | | | | | | | |
| Real GDP | 5.8 | 5.3 | 6.2 | 5.7 | 5.3 | 6.5 | 5.9 | 6.9 | 6.3 | 7.1 | 6.8 | 6.9 |
| GDP Deflator | 8.8 | 8.4 | 5.5 | 7.9 | 7.3 | 6.8 | 6.8 | 6.4 | 6.6 | 6.8 | 6.4 | 6.4 |
| CPI Index (eop) | 6.7 | 6.6 | 5.0 | 5.9 | 5.6 | 5.2 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| CPI Index (avg) | 6.4 | 6.9 | 5.0 | 6.6 | 6.3 | 5.3 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Terms of Trade (-deterioration) | -0.1 | 4.5 | 1.5 | 3.2 | 1.1 | 1.9 | -0.3 | 0.7 | 0.3 | 0.4 | 0.1 | 1.1 |
| | Percentage of GDP | | | | | | | | | | | |
| **Investment and saving** | | | | | | | | | | | | |
| Investment | 19.5 | 17.5 | 24.4 | 20.0 | 19.6 | 22.4 | 21.5 | 22.6 | 22.8 | 25.5 | 24.9 | 25.8 |
| Gross National Savings | 16.2 | 12.4 | 18.3 | 14.1 | 13.5 | 16.5 | 16.1 | 16.7 | 17.3 | 20.0 | 20.1 | 21.6 |
| **Central Government Budget** | | | | | | | | | | | | |
| Total revenue | 18.4 | 18.3 | 20.6 | 18.7 | 19.0 | 18.8 | 18.9 | 19.0 | 19.0 | 19.4 | 19.2 | 19.4 |
| Total expenditure and net lending | 26.6 | 27.6 | 27.7 | 26.8 | 26.8 | 25.2 | 25.4 | 24.2 | 23.9 | 24.4 | 23.0 | 22.5 |
| Overall balance (commitment basis) excl. grants | -8.2 | -9.3 | -7.2 | -8.1 | -7.9 | -6.4 | -6.5 | -5.1 | -4.8 | -5.0 | -3.8 | -3.4 |
| Overall balance (commitment basis) incl. grants | -7.4 | -8.9 | -6.5 | -7.4 | -7.2 | -5.9 | -6.0 | -4.7 | -4.3 | -4.6 | -3.4 | -3.0 |
| Overall balance (commitment basis) incl. grants, excl. SGR | -6.6 | -7.5 | -5.8 | -6.8 | -6.5 | -5.4 | -5.5 | -4.3 | -3.9 | -4.1 | -2.8 | -2.5 |
| | 47.9 | 51.9 | 54.4 | 52.5 | 53.0 | 52.1 | 52.8 | 50.7 | 51.0 | 49.9 | 48.3 | 43.7 |
| **External sector** | | | | | | | | | | | | |
| Current external balance, incl. official transfers | -3.2 | -5.0 | -6.1 | -5.9 | -6.1 | -5.9 | -5.4 | -5.9 | -5.5 | -5.5 | -4.8 | -4.2 |
| Gross international reserve in months of imports | 6.2 | 6.5 | 5.3 | 6.7 | 6.7 | 6.8 | 6.8 | 6.9 | 6.9 | 7.0 | 7.0 | 7.1 |

***Source: National Treasury***

## 1.6 Risks to the Economic Outlook

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

56. Domestically, the economy is exposed to risks including any occurrence of adverse weather conditions and public expenditure pressures especially recurrent expenditures.

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

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

## 2.1 Preamble

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

59. Specifically, the economy has expanded growing at an average of 5.5 percent per year in the last five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the 2008 to 2012. The value of goods and services produced therefore increased raising the per capita income from Ksh 104,700 in 2013 to an estimated Ksh 174,200 in 2017. In addition, the economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 2008-2012.

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

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

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

63. On the social services, the Government has equipped hospitals with specialized medical equipment, and expanded access to maternal health care in all public hospitals. In the education sector, the Government abolished examination fees for both standard eight and form four candidates and increased capitation. Thousands of orphans and vulnerable children, people living with disabilities and the elderly in our society continue to receive cash transfers through the social safety net program.

64. Under the Economic Transformation Agenda therefore, the Government has laid a solid foundation for Kenya's industrialisation as envisaged in the Kenya Vision 2030. The Government notes that much more can be done. Building on the progress made thus far and with the desire to decisively confront the three perennial challenges unemployment, poverty and income inequality that this economy continues to face, the Government has identified four key strategic areas of focus over the next five years that will accelerate broad based economic growth. This will help transform the lives of all Kenyans. The strategic areas under "The Big Four" Plan includes:

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

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

66. The policies in this BPS also seek to provide an enabling environment for the attainment of "The Big Four" Plan and to enable private sector to thrive. Thus, particular focus will be on enhancing macroeconomic stability, improving the ease of doing business, expanding of infrastructure, improving security, expanding access to finance, and instituting governance reforms. The policies in this BPS are also aligned to the medium-term priorities and strategies outlined in the Third Medium-Term Plan (2018-2022) of the Kenya Vision 2030.



## 2.2 "The Big Four" Economic Plan

67. "The Big Four" Plan of the Government for the FY 2018/19 and over the medium term are discussed as follows:

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

68. The Government target to increase the contribution of manufacturing sector from 9.2 percent in 2016 to 15 percent of GDP by 2022 by adding USD 2 to 3 billion to our GDP; and to increase formal manufacturing sector jobs to approximately 400,000 **(Chart 2.1a and Chart 2.1b).**

## Chart 2.1a: Increase Manufacturing Sector Share to 15% of GDP

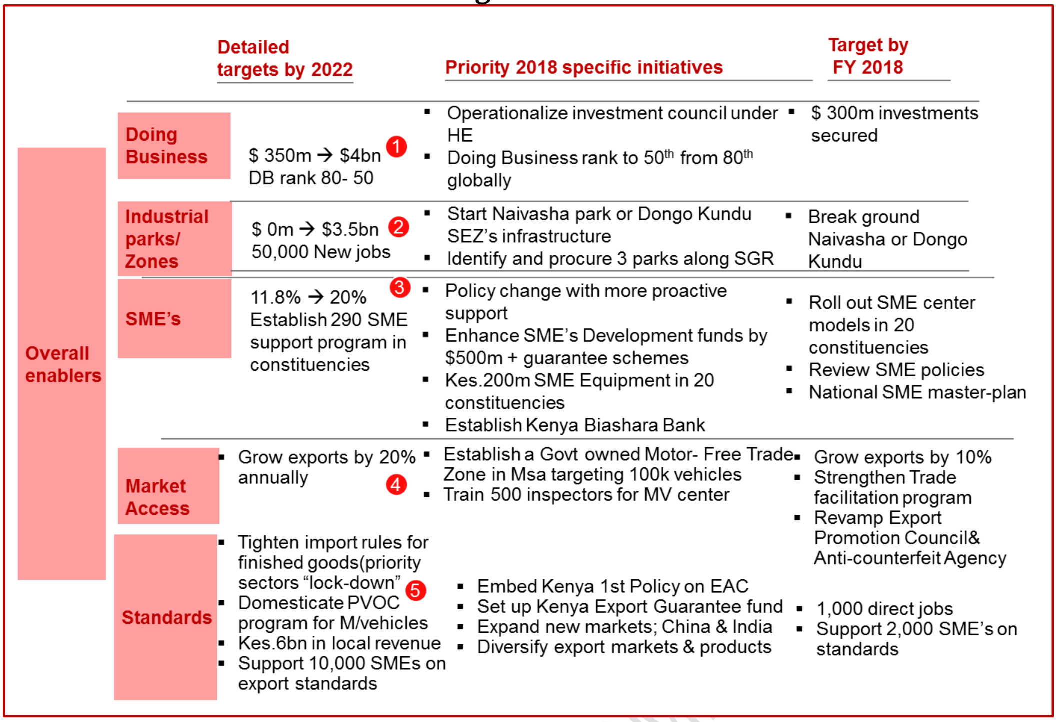
**Manufacturing from 9% to 15% by 2022**

| Sector | Detailed targets by 2022 | # | Priority 2018 specific initiatives | Target by FY 2018 |
|---|---|---|---|---|
| Textile/ apparel/ Cotton | $350m → $2bn<br>500,000 cotton jobs; New Apparel jobs 100,000 | 1 | ▪ Policy reviews for sector & incentives<br>▪ 5m sq ft of Industrial Sheds<br>▪ 200,000 ha of BT Cotton<br>▪ Train 50,000 youth & women | ▪ $200M exports<br>▪ 10K apparel jobs<br>▪ 50,000 cotton jobs |
| Leather | $140M → $500m exports<br>50,000 New jobs<br>20m shoes made | 2 | ▪ Train & set up 5,000 cottage industries<br>▪ Complete Machakos Leather park<br>▪ Change policies esp.in stopping imports<br>▪ Identify 3 other parks | ▪ $70M exports<br>▪ 5,000 new jobs |
| Agro-processing | 16% → 50%<br>1000 SME's<br>200,000 jobs | 3 | ▪ Map tea, dairy, meat & crops value chains<br>▪ Attract 2 global tea processors in Mombasa<br>▪ Regulate milk hawking business in Kenya<br>▪ Develop warehousing and cold chain sites<br>▪ Progress Mombasa food value add hub | ▪ $200M in value add<br>▪ 20,000 jobs |
| Construction materials | $ 470m → $1bn<br>10,000 New jobs | 4 | ▪ Identify key housing components<br>▪ Identify manufacturers<br>▪ Buy Kenya policy (70% of total) for housing materials | ▪ $30M output<br>▪ 2,000 jobs |
| Oil, Mining & Gas | Attract 1 global scale player in Mining value add | 5 | ▪ Conclude policy direction for value Addition<br>▪ Attract at least 1 International investor<br>▪ Refine vs crude export for Turkana oil | ▪ Conclude policies & engage investors |
| Iron & Steel | $1bn in new investments | 6 | ▪ Develop Policy & incentive framework<br>▪ Establish coal & iron ore deposits<br>▪ Conclude JV with manufacturer<br>▪ Commit Govt share of at least 30% | ▪ Sign MOU agreement with 1 global JV investor |

**Manufacturing from 9% to 15 % by 2022**

| Sector | Detailed targets by 2022 | # | Priority 2018 specific initiatives | Target by FY 2018 |
|---|---|---|---|---|
| ICT | Phone, laptop, TV assembly plants<br>5 BPO players<br>10,000 jobs | 7 | ▪ Develop IT Entrepreneurship Program to support sector<br>▪ Computer, light electronics & IT related parts assembly/ manufacture<br>▪ Strengthen Innovation Ecosystem (Incubators & Accelerators) | ▪ Attract 2 BPO players ( jobs 1000)<br>▪ Sign at least 2 investors for electronics assembly |
| Fish Processing | $ 20m fish feed Mill investment<br>20,000 jobs | 8 | ▪ Identify 2 aquaculture investors<br>▪ Identify key local/ foreign investors to invest in fish feed mill<br>▪ Develop blue-ocean policy with MOLAF<br>▪ Designate acqua-culture SEZ in Lake victoria | ▪ Attract 1 fish feed mill investor<br>▪ Attract 2 processors to invest in Marine and Fresh water fish processing |

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




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

70. To boost the growth of manufacturing, the Government will focus on the following sub-sectors; agro-processing, leather, textiles/apparels, oil, mining and gas, and iron and steel as well as production of construction materials. Other key areas will include investing in ICT; promote ease of doing business; industrial parks/Zones; promote market access and fish processing. Specific measures and incentives will be implemented to boost these sub-sectors and increase job creation.

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

72. To promote growth of the agro-processing sector, the Government will support value addition to agricultural produce across the value chain. This will involve processing tea, coffee, meat, sugar, dairy, fruits and vegetables locally in order to obtain more value and create additional 200,000 jobs and wealth for Kenyans. In addition, the Government targets to more than triple the amount of

processed agricultural exports from the current annual growth of 16 percent to 50 percent by 2022. This will create additional jobs and increase export revenue for Kenya.

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

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

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

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

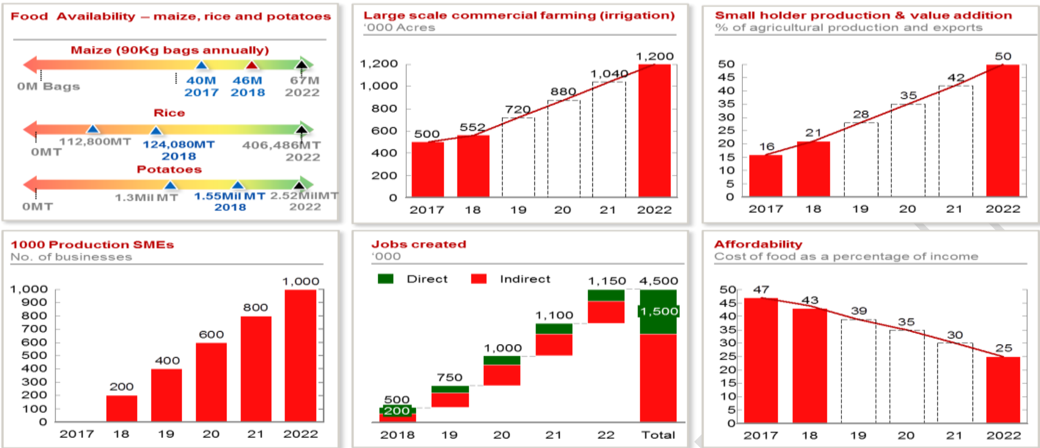
77. In addition to the above measures, the Government will continue to develop industrial infrastructure such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and industrial parks across the country. More specifically, priority will be given to establishment of a Modern Industrial Park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

78. Further, the Government will continue to enhance value addition to domestically produced goods towards job creation; expansion of infrastructure and land access, development of skills and capabilities; enhancement of access to quality inputs and markets, reduction of cost of operation; promotion of "Buy Kenya Build Kenya" initiative to expand production for local consumption; strict enforcement of the 40 percent local content for all government projects; and creating an enabling environment to accelerate industrial development.

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

79. The Government targets to ensure that all citizens enjoy food security and proper nutrition by 2022 **(Chart 2.2).**

**Chart 2.2: 100% Food and Nutrition Security by 2022**




80. To achieve food security and improved nutrition, the Government will focus on three broad areas in 2018, namely: enhancing large-scale production; boosting smallholder productivity; and reducing the cost of food. Over the next five years, specific initiatives will be implemented across the three broad areas **(Chart 2.3).**

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

| Focus areas | Detailed Initiatives | Target 2018 |
|---|---|---|
| 1 Enhance large scale production | ▪ Place **additional 700,000 Acres through PPP** (including idle arable land) under maize, potato, rice, cotton, aquaculture and feeds production. | 2.76 Million bags (52,000 Acres) |
| | ▪ Form an Agriculture and Irrigation Sector Working Group **(AISWAG) to provide coordination for irrigated Agriculture** | March |
| | ▪ Use **locally blended fertilizer** on a 50/50 basis and **implement liming** e.g. maize. | 1 Million bags |
| | ▪ Avail **incentives for post-harvest technologies** to reduce post-harvest losses from 20% to 15% e.g. **waive duty** on cereal drying equipment, hematic bags, grain cocoons/silos, fishing and aquaculture equipment and feed | 2 Million (Maize) |
| 2 Drive small holder productivity | ▪ **Establish 1,000 targeted production level SMEs** using a performance based **incentive model** in the entire value chain | 200SMEs |
| | ▪ Improve access to credit/input for farmers through **Warehouse Receipt System** and **strengthen commodity fund** | 20K farmers access credit |
| | ▪ **Establish commercialized feed systems** for **livestock, fish, poultry and piggery** to revolutionize feed regime and **traceability of animals** to **access export markets**. | 10 PPPs negotiated & actioned |
| | ▪ Secure **investors to construct a Shipyard** (in 2018 – site existing) and increase **domestic fishing fleet by 68 Vessels** in the Coast. | Investors secured 10 fleet in place |

| Focus areas | Details initiatives | Target 2018 |
|---|---|---|
| 3 Reduce cost of food | ▪ **Contract farmers for Strategic Food Reserve** (price stabilization) and other commercial off-takers. | 500,000 Bags |
| | ▪ **Redesign subsidy model** to maximize impact by focusing on specific farmer needs (flexible voucher and incentive based model) | Pilot new model |
| | ▪ Secure investments through PPP in **post-harvest handling** (storage, cold storage for fish, aggregation) and **market distribution infrastructure to reduce losses** | 2 seed potato stores *(Nyandarua, Molo)*<br>1 potato ware store *(Nyandarua)*<br>3 fish storage in *(Migori)* |
| | ▪ Rehabilitate and operationalize fish landing sites in Lake Victoria (Migori, HomaBay and Busia) | 3 landing sites operational |
| | ▪ **Eliminate multiple levies across counties** in the agriculture value chain (enforce laws on roads) | Roads levy regulation enforced |



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

82. On agro-processing, the strategy will involve establishment of 1,000 SMEs focused on food processing to improve value addition; redesign of the subsidy model by focusing on specific farmers' needs; establishment of commercialized feedlots for livestock, fish, poultry and piggery to revolutionize feed regime and traceability of animals; and increasing access to credit or input for farmers through warehouse receipt system.

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

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

85. To promote the growth of the livestock sub-sector, the Government in collaboration with the County Governments, will continue to enhance the provision of extension services to the farmers in the Counties. In addition, the control of

notifiable livestock diseases in the dairy sector will be a priority of the Government. Livestock disease free zones have the potential for ensuring sustainable increased livestock and agricultural productivity and cushioning the farmers and livestock from endemic diseases such as the tsetse fly transmitted Trypanasomiasis which affects 38 out of 47 counties putting 11 million people at risk. Further, the Government will waive duty on feeds, establish and revolutionize commercialized feedlots and traceability of animals.

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

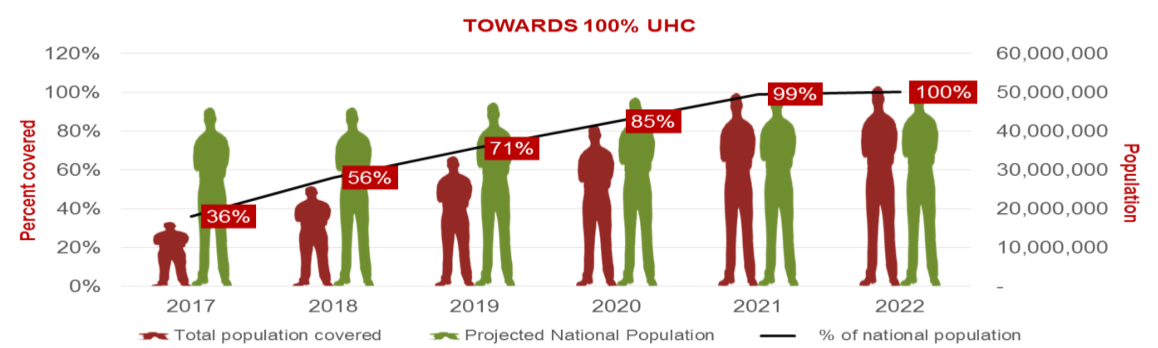
87. To revitalize the coffee and tea subsectors, the Government will build on the ongoing efforts including: reforming the legal and policy frameworks, promotion of value addition; supporting debt waiver for growers to ease their debt burden; and using locally blended fertiliser on a 50/50 basis and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

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

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

89. Over the next five years, the Government targets 100 percent Universal Health Coverage (UHC) for all households **(Chart 2.4).** This will guarantee access to quality and affordable health care to all Kenyans.

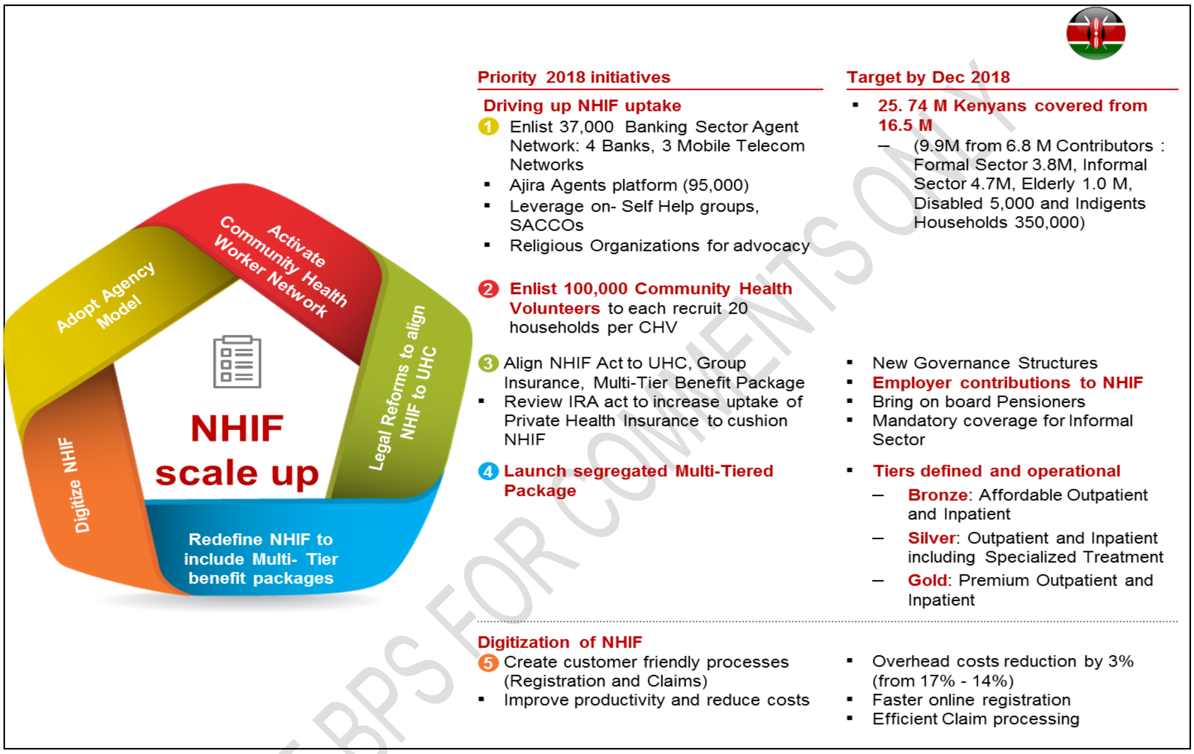
**Chart 2.4: Achieving 100% Universal Health Coverage**




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Total population covered | 16,538,982 | 25,740,788 | 33,517,183 | 41,616,322 | 49,813,085 | 51,572,636 |
| Projected National Population | 46,000,000 | 46,000,000 | 47,334,000 | 48,706,686 | 50,119,180 | 51,572,636 |

90. In order to realise this objective, the Government will focus on reconfiguring the National Hospital Insurance Fund (NHIF) and reforming the governance of private insurance companies. In particular, the Government will review and amend the NHIF Act to align it to the universal health coverage as well as review the laws governing private insurance companies to encourage investment by private health insurers and bring the cost of cover within the reach of every Kenyan **(Chart 2.5).**

**Chart 2.5: Five Innovative Initiatives that will Drive NHIF Scale up**

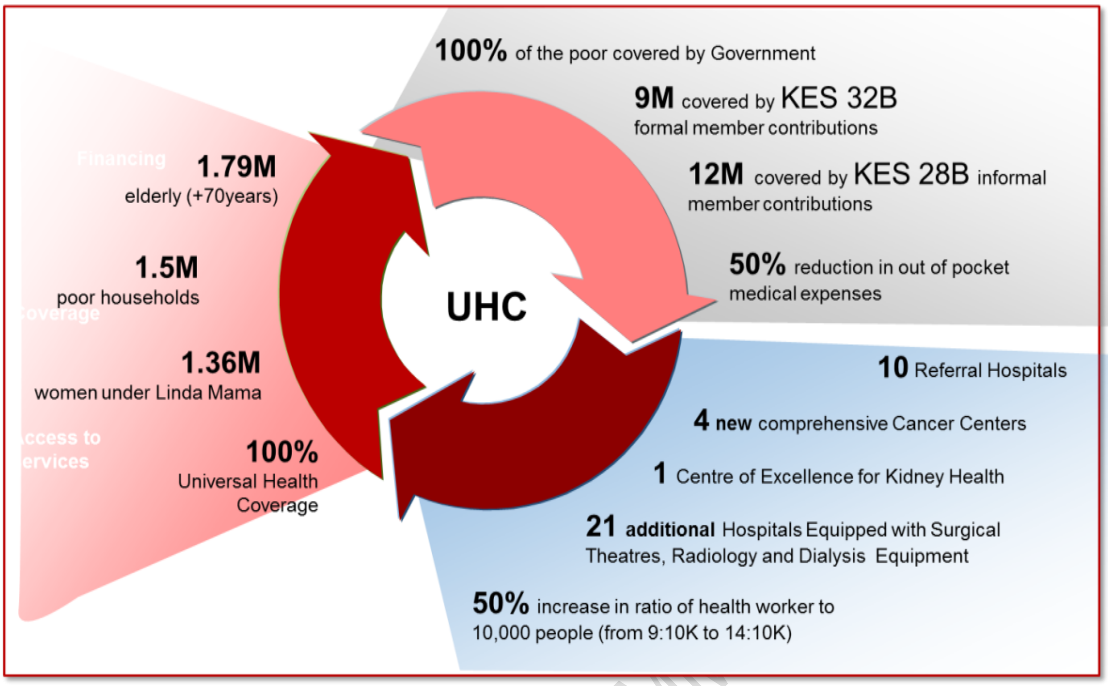





91. The Government will continue to scale up the provision of specialized medical equipment and increase the number of health facilities at the community level including mobile health services in order to increase the number of Kenyans who access specialized healthcare. The Government will also continue with the digitization of the health information management especially NHIF, an endeavour that will increase efficiency and reduce overhead costs by 3 percent and foster faster online registration. To further enhance service delivery, the Government will establish national data centres (NDC)/Radiology Hubs at Kenyatta National Hospital and Moi Teaching and Referral Hospital **(Chart 2.6).**

92. Additional efforts to support achievement of universal health coverage, will include the expansion of the "Linda Mama" programme (free maternity programme) to mission hospitals and private hospitals and enlisting 100,000 Community Health Volunteers to help in healthcare service provision at the grassroots.

**Chart 2:6 Key Deliverables to Achieve UHC in Five Years**

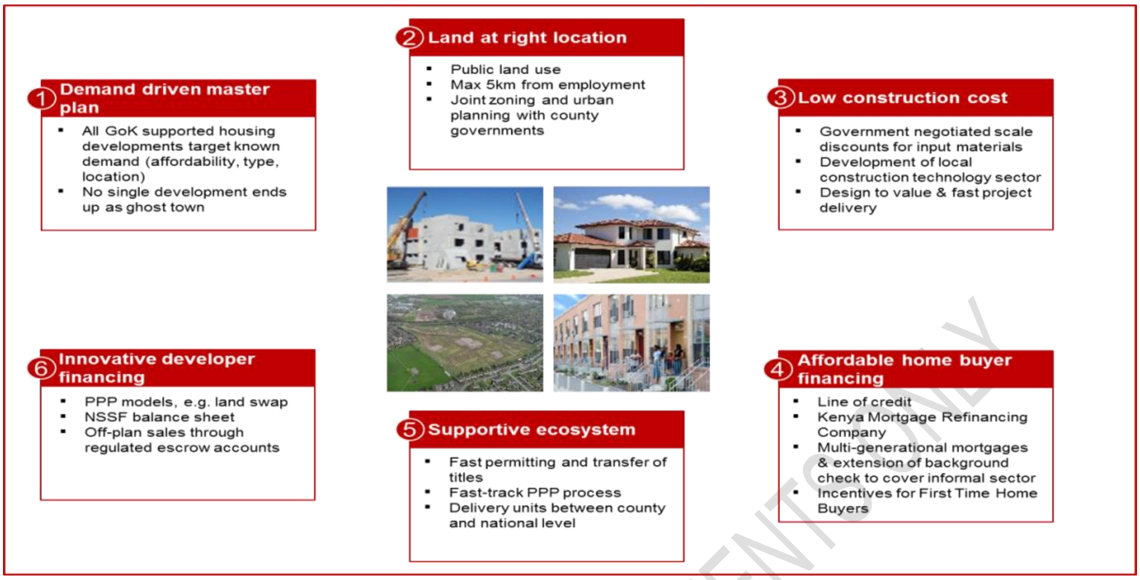



### 2.2.4 Provision of Affordable and Decent Housing for All Kenyans

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

94. To achieve this objective, the Government will implement policy and administrative reforms which are targeted at lowering the cost of construction and improving accessibility of affordable mortgages. The focus will be on raising low-cost funds from public and private sectors for investment in large-scale housing production **(Chart 2.7).**

**Chart 2.7: The Housing Program Combines Innovative Ideas on All Dimensions**




95. To enable the construction of decent low cost housing units, the Government has developed a comprehensive housing package that will incentivize the private sector in low cost housing. One of the incentives is the reduction of corporate tax rate for developers who construct at least 400 units per year. Additionally, the Government plans to establish a National Social Housing Development Fund that will provide alternative financing strategies to finance low cost housing and the associated social and physical infrastructure.

96. To expand access to affordable and decent housing, the Government has established a Taskforce on Expanding Affordable Housing Finance in Kenya. The Taskforce has embarked on the process of establishment of Kenya Homes Refinance Company (KHRC) which would be a wholesale financial institution that issues bonds in the local capital markets, and with the proceeds extend long term loans to financial institutions secured against mortgages. KHRC will be set up as a Public Private Partnership (PPP) between the Government and the private sector. It is expected to operate as a private sector driven company with a public purpose of developing the primary and secondary mortgage markets by raising long term funds from capital markets thus providing access to affordable housing finance in Kenya.

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

## 2.3 Enablers for the "The Big Four" Economic Plan

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

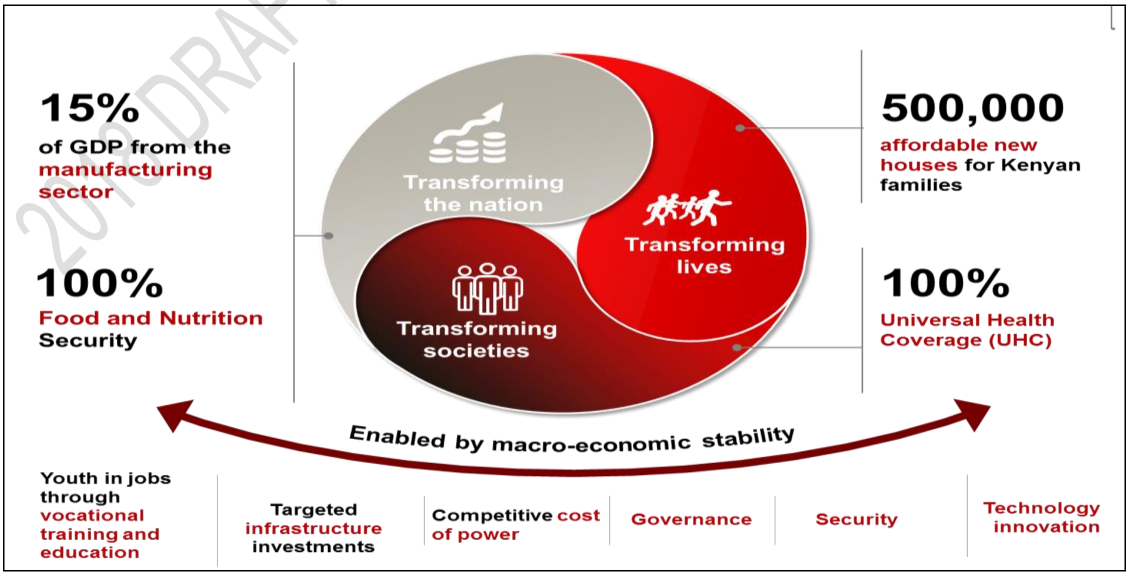
99. Building on the progress made, the Government will continue with the implementation of programmes and policies under the Economic Transformation Agenda. As such raft of policies will be implemented under the five thematic areas of the Transformation Agenda namely: i) Creating conducive business environment for investment and job Creation; ii) investing in infrastructure to unlock growth potential; iii) investing in sectoral transformation for food security and broad based sustainable economic growth; iv) investing in quality and accessible social services (health, education and social safety net); and v) consolidating gains in devolution for services delivery and enhanced rural development.

100. The strategy going forwarded will therefore, target to implement "The Big Four" Plan enabled by the remaining pillars under the Economic Transformation agenda as follows:

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

101. This thematic area continues to focus on sustaining conducive business environment **(Chart 2.8)** by maintaining macroeconomic stability, supporting business regulatory reforms, and enhancing security so as to attract and encourage investment and job creation under "The Big Four" Plan.

**Chart 2.8 Critical Enablers of "The Big Four " Plan**



#### 2.3.1.1 Macroeconomic Stability

102. Maintaining macroeconomic stability is necessary to create a conducive environment for private sector investments as a basis for sustained economic growth. As such, the Government will continue to pursue prudent fiscal and monetary policies that support the attainment of “The Big Four” Plan, strong economic growth and maintain public debt at sustainable levels.

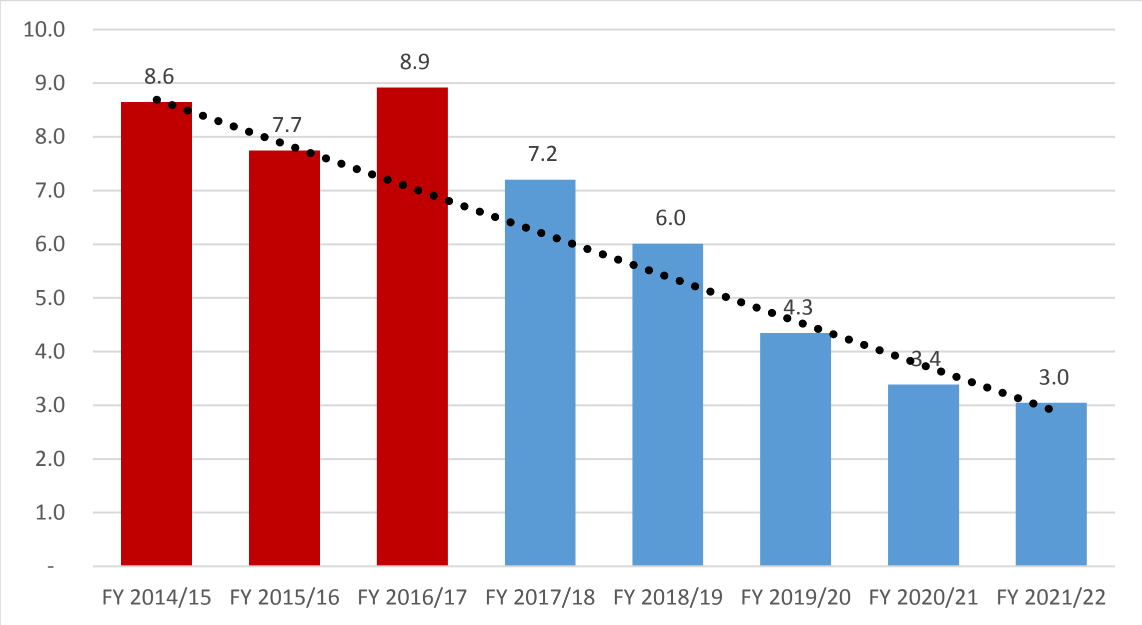
103. In this regard, monetary policy will target to keep inflation within the band of 2.5 percent on either side of the 5.0 percent target. To further reinforce price stability, monetary policy supported by the proposed fiscal policy will help keep interest rates low and stable and the exchange rate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

104. On the other hand, the Government will continue with fiscal consolidation efforts. Deliberate steps will be undertaken to narrow the primary budget deficit and stabilise public debt, prioritize development expenditures while protecting social spending and investments. In addition, the Government will implement various measures to boost revenue mobilization. These measures will include: complete overhaul of the current Income Tax Act, strengthening tax administration and expansion of the tax base.

105. Inherent in the medium term fiscal policy, is the Government’s commitment to the fiscal consolidation program which began in FY 2014/15. The deficit dropped from 8.4 percent of GDP in FY 2014/15 to 7.4 percent of GDP in FY 2015/16, however on account of one off expenditures to deal appropriately with drought mitigation measures and the general election the fiscal deficit expanded to 8.9 percent of GDP in FY 2016/17 and is projected to decline slightly to 7.2 percent in FY 2017/18. The deficit is projected to further decline to 3.0 percent of GDP by FY 2021/22 (**Chart 2.9**).

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

**Chart 2.9: Fiscal Consolidation Path, Fiscal Deficit a % of GDP**




***Source: National Treasury***

### 2.3.1.2 Deficit Financing Policy

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

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

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

### 2.3.1.3 Business Regulatory Reforms

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

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

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

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

### 2.3.1.4 Improving National Security

114. National security remains critical to economic stability and attracting investments, accelerating growth and in turn creating employment, especially for the youth. In light of this, the Government has in the last four years invested in better equipment, training and working tools as well as strengthened coordination among security agencies. The Government has also increased the numbers of Police Officers through annual recruitments. This has raised the ratio of police officers to citizens to one officer for every 800 citizens.

115. Going forward, the Government will build on the on-going security reforms by scaling-up investments in security infrastructures such as housing, patrol vehicles, training facilities, modern security equipment which are aimed at enhancing security operations and strengthening security of our borders and throughout the country; build capacity for effective and faster investigation; and strengthen partnership with communities.

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

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

#### 2.3.2.1 Further Expanding Road Network

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

118. The Government will also focus on developing urban roads to decongest cities and major towns. For instance, the decongestion of Nairobi is ongoing with dualling of outer-ring road almost completed and the dualling of Ngong Road Phase one which is on course.

#### 2.3.2.2 Rail, Marine and Air Transport

***Standard Gauge Railway***

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

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

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

***Sea Ports***

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

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

***Airports***

124. The recent Category one status (CAT 1) awarded to Jomo Kenyatta International Airport (JKIA) emphasizes the Government’s commitment to cement Kenya’s position as the regional aviation hub. This is a historic milestone in the growth and development of civil aviation here in Kenya and in the East African region. With this new status airline operators in Kenya and USA will now realise their long awaited ambition to operate directly to/from the USA. This will similarly be convenient to passengers who can now fly for longer distances in a shorter time.

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

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

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

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

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

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

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

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

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

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

### 2.3.3 Promoting Environmental Conservation and Water Supply

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

134. For this reason, the Government working with County Governments will continue to invest in clean water supply, prioritize on construction of large-scale

dams across the country to increase water storage, complete ongoing water projects in urban and rural areas in order to increase the number of people connected to safe piped water, protect wetlands and water towers and construct water harvesting and storage infrastructure across the country. In addition, the Government will continue to expand sanitation infrastructure in the urban areas by connecting more households with sewerage and establish proper waste management system.

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

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

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

### 2.3.4 Stimulating Tourism Recovery, Sports, Culture, and Arts

138. Tourism transformation and its integration with sports, culture and arts are critical for revenue generation, inclusive growth and employment creation. Kenyan youth have continued to demonstrate immense talents, especially in sports and arts and will be nurtured as catalyst for growth and development

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

140. Going forward, in order to ensure sustainability in the tourism sector, the Government in partnership with key stakeholders will continue implementing the following strategies: development and diversification of tourism products with key focus being on niche tourism such as eco-tourism; Meetings, Incentives, Conferences and Exhibitions (MICE); sports adventure and home stays; supporting environment friendly practices such as eco-labeling and eco-warriors awards by Eco-tourism Kenya; development of infrastructure especially in tourism areas; and marketing of Kenya as a viable tourism destination, both locally and internationally.

141. In addition, the Government will continue to train and nurture talented youths in various sports discipline and sensitize them on anti-doping. In arts and culture, the Government will continue to disseminate heritage knowledge, enhance film monitoring and enforcement by issuing film regulatory licenses; and conducting random inspections to ensure inappropriate content is not distributed to the public.

142. To foster inclusive growth, reduce poverty and inequality, the Government will continue investing in quality and accessible healthcare, relevant education and strengthen the social safety net.

## 2.3.5 Enhancing Service Delivery through Devolution

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

### 2.3.5.1 Enhanced Financing for County Governments

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

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

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

**2.3.5.2 Development of Legal and Regulatory Frameworks for Public Finance Management**

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

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

**2.3.5.3 Technical Support and Capacity Building for County Governments**

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

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

147. At the moment, a major capacity building/performance grant programme, which aims to strengthen institutions and systems for devolved service delivery at both levels of Government is under implementation. The Kenya Devolution Support Programme (KDSP) is anchored under the National Capacity Building Framework (NCBF), and it targets results in four priority areas namely: i) strengthening PFM systems; ii) strengthening County human resource management; iii) improving County planning and M&E systems; and, iv) civic

education and public participation. A major focus of capacity building moving forward is on budgeting and financial reporting.

### 2.3.6 Investing in Quality and Accessible Social Services (Health, Education and Social Safety Net)

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

#### 2.3.6.1 Investing in Quality and Relevant Education for all Kenyans

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

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

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

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

#### 2.3.6.2 Strengthening the Social Safety Nets

153. The Government continues to address the various challenges facing vulnerable groups so as to build resilience and promote affirmative action for all. Over the medium term, the Government will continue building capacities of communities and register Self Help Groups and Beneficiaries Welfare Committees

(BWCs) providing them with formal recognition and opportunities to link with Micro Finance Institutions (MFIs) and non-state actors; develop infrastructure of 12 Vocational Rehabilitation Centres (VRCs); establish the National Development Fund for Persons with Disabilities (PWDs) decentralization of the single registry for the National Safety Net Programme; and finalise integration of the existing Information Management Systems for the CT-OVC, OPCT and PWSD-CT programs into a one-stop system.

#### 2.3.6.3 Empowering Youth, Women and Persons with Disabilities

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

155. The Government will also continue expanding opportunities for the youth in procurement and designate resources for the establishment of youth empowerment centers to mentor the youth on leadership, national values, and entrepreneurship skills.

### 2.3.7 Entrenching Structural Reforms to Support "The Big Four" Plan

#### 2.3.7.1 Strengthening Governance and the Fight Against Corruption

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

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

#### 2.3.7.2 Deepening Public Financial Management Reforms

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

159. The focus will be to fast track consideration of reports on budget implementation, audited accounts of the National Government, County Governments and State Corporations; expansion of automation of public service

delivery systems; digitization of all payments for public services; review of taxation, duty and customs frameworks to ensure predictable, fairer and transparent tax system. These activities will go a long way in entrenching good governance in public institutions and ensuring accountability of public resources.

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

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

#### 2.3.7.3 Fostering Financial Sector Developments and Reforms

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

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

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

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

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

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

168. To exploit Kenya's established lead in digital finance, the Government will create a national digital infrastructure that will provide financial solutions across all parts of the economy. This infrastructure will involve strengthening of the national digital identity system; real-time money transfer; enhancing retail infrastructure for cashing in and cashing out of digital money; enhancing of cash conversion; development of new universal national payments addressing system and single payments; and digitisation of government payments.

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

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

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

## 3.1. Fiscal Framework Summary

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

**Revenue Projections**

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

173. In the FY 2018/19 revenue collection including Appropriation-in-Aid (AiA) is projected at Ksh 1,849.4 billion (18.9 percent of GDP) from Ksh 1,643.1 billion (19.0 percent of GDP) in the FY 2017/18 **(Annex Tables 2 and 3)**. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues are projected at Ksh 1,684.0 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in FY 2017/18.

**Expenditure Projections**

174. In the FY 2018/19, overall expenditure and net lending are projected at Ksh 2,488.4 billion (25.4 percent of GDP) from the estimated Ksh 2,323.1 billion (26.8 percent of GDP) in the FY 2017/18. These expenditures comprises among others, recurrent of Ksh 1,509.1 billion (15.4 percent of GDP).

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

176. The ceiling for development expenditures including foreign financed projects (including net lending) in nominal terms amounts to Ksh 658.9 billion in the FY 2018/19. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, while the balance will be financed through domestic resources.

177. A contingency of Ksh 5.0 billion is provided for in the FY 2018/19 budget. In addition, Ksh 8.4 billion is provided for as conditional grants to marginal areas, an increase from the 7.7 billion provided in the FY 2017/18 budget.

**Deficit Financing**

178. Reflecting the projected expenditures and revenues, the fiscal deficit in the FY 2018/19 (excluding grants), amount to Ksh 639.0 billion (equivalent to 6.5

percent of GDP). Including grants, the overall fiscal deficit is projected at Ksh 588.5 billion (6.0 percent of GDP) in FY 2018/19 compared to the estimated overall fiscal balance of Ksh 620.8 billion (7.2 percent of GDP) in FY 2017/18. The deficit excluding SGR related expenditures in the FY 2018/19 is projected at 5.5 percent of GDP lower than the projected 6.5 percent of GDP in FY 2017/18.

179. The fiscal deficit in FY 2018/19, will be financed by net external financing of Ksh 214.7 billion (2.2 percent of GDP), net domestic borrowing of Ksh 369.6 billion (3.8 percent of GDP) and other net domestic receipts of Ksh 4.2 billion.

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

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

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

| | Details | Printed Estimates 2017/2018 | 2018/2019 | 2019/2020 | 2020/2021 |
|---|---|---|---|---|---|
| 1 | National Government | 1,579,259.1 | 1,664,929.8 | 1,717,247.3 | 1,741,560.3 |
| 2 | Parliament | 36,043.0 | 31,768.9 | 32,797.5 | 34,546.4 |
| 3 | The Judiciary | 18,050.0 | 17,783.2 | 20,073.7 | 17,575.2 |
| 4 | The County Government | 306,200.0 | 315,386.0 | 324,847.6 | 334,593.0 |
| | **Total** | **1,939,552.0** | **2,029,867.9** | **2,094,966.0** | **2,128,274.9** |

***Source: National Treasury***

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

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

182. In this regard, resource allocations will be aligned to development programmes/projects under the "The Big Four" Plan of the Government as follows:

183. The four areas will transform lives by creating the much needed jobs enabling Kenyans meet their basic needs, improve living conditions, lower cost of living, and reduce poverty and inequality. Resources earmarked for these interventions will be ring-fenced over the medium term.

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

- **Social Protection, Culture and Recreation** – resources to double the number of vulnerable citizens supported through the cash transfer programme (Inua Jamii); and provision of health insurance cover through the NHIF for all citizens above the age of 70. The allocation to this sector is expected to increase by an overall 20.0 percent in FY 2018/19 and the medium-term.

- **Education** – enhancement of the free primary education programme to include free day public secondary schools; and establishment of a government sponsored apprenticeship programme for all university and TVET graduates. The allocation to this sector is expected to increase by an overall 15.2 percent in FY 2018/19 and over the medium-term.

- **Health –** expansion of the free maternity programme to include NHIF cover for postnatal care for one year. In FY 2018/19 and over the medium term, the allocation to this sector is expected to increase by an overall 4.2 percent.

- **Agriculture, Rural and Urban Development** – expansion of food and agricultural production and increase the fertilizer subsidy initiative to reduce the cost to farmers; and support to small-holder agricultural irrigation by constructing large-scale dams. The allocation to this sector is expected to increase in FY2018/19 and over the medium-term.

**Allocation Baseline Ceilings**

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

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

- *On-going projects:* emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.

- *Counterpart funds:* priority was also given to adequate allocations for donor counterpart funds. Donor counterpart funds are the portion that the Government must finance in support of the projects financed by development partners.

- *Strategic policy interventions:* further priority was given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

**Finalization of Spending Plans**

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

- Interventions identified during the stakeholders consultation for 2018/19 MTEF budget;
- Strategic interventions in the areas of manufacturing, food security enhancing programmes, affordable housing, health coverage and public facilities and other policy interventions to enhance regional integration and social equity; and
- Specific consideration to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

## 3.3 Details of Sector Priorities

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

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

| SECTOR | | BUDGET ESTIMATES 2017/18 | CEILING 2018/19 | Projection 2019/20 | Projection 2020/21 | % Share of the Total Expenditure: Estimates 2017/18 | Ceiling 2018/19 | Projections 2019/20 | Projections 2020/21 |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture, Rural & Urban Development** | **Sub_Total** | **38,397** | **38,882** | **40,510** | **41,471** | **2.4%** | **2.3%** | **2.3%** | **2.3%** |
| | Rec. Gross | 17,312 | 16,897 | 17,676 | 18,476 | 1.1% | 1.0% | 1.0% | 1.0% |
| | Dev. Gross | 21,085 | 21,985 | 22,835 | 22,996 | 1.3% | 1.3% | 1.3% | 1.3% |
| **Energy, Infrastructure & ICT** | **Sub_Total** | **415,743** | **401,583** | **415,522** | **416,613** | **25.5%** | **23.6%** | **23.8%** | **23.6%** |
| | Rec. Gross | 67,222 | 67,364 | 68,224 | 68,922 | 4.1% | 4.0% | 3.9% | 3.9% |
| | Dev. Gross | 348,521 | 334,218 | 347,298 | 347,691 | 21.3% | 19.6% | 19.9% | 19.7% |
| **General Economic & Commercial Affairs** | **Sub_Total** | **19,794** | **16,364** | **18,086** | **18,665** | **1.2%** | **1.0%** | **1.0%** | **1.1%** |
| | Rec. Gross | 9,610 | 9,250 | 9,646 | 9,790 | 0.6% | 0.5% | 0.6% | 0.6% |
| | Dev. Gross | 10,185 | 7,114 | 8,440 | 8,875 | 0.6% | 0.4% | 0.5% | 0.5% |
| **Health** | **Sub_Total** | **61,700** | **64,300** | **64,822** | **65,146** | **3.8%** | **3.8%** | **3.7%** | **3.7%** |
| | Rec. Gross | 30,722 | 32,421 | 32,718 | 33,025 | 1.9% | 1.9% | 1.9% | 1.9% |
| | Dev. Gross | 30,979 | 31,879 | 32,104 | 32,121 | 1.9% | 1.9% | 1.8% | 1.8% |
| **Education** | **Sub_Total** | **374,987** | **431,475** | **448,896** | **462,124** | **23.0%** | **25.3%** | **25.7%** | **26.2%** |
| | Rec. Gross | 350,148 | 403,967 | 420,306 | 433,450 | 21.4% | 23.7% | 24.1% | 24.5% |
| | Dev. Gross | 24,839 | 27,508 | 28,589 | 28,674 | 1.5% | 1.6% | 1.6% | 1.6% |
| **Governance, Justice, Law & Order** | **Sub_Total** | **202,551** | **197,411** | **199,643** | **201,398** | **12.4%** | **11.6%** | **11.4%** | **11.4%** |
| | Rec. Gross | 176,137 | 170,365 | 172,773 | 174,516 | 10.8% | 10.0% | 9.9% | 9.9% |
| | Dev. Gross | 26,414 | 27,046 | 26,870 | 26,881 | 1.6% | 1.6% | 1.5% | 1.5% |
| **Public Administration & International Relations** | **Sub_Total** | **270,191** | **290,660** | **282,797** | **280,996** | **16.5%** | **17.0%** | **16.2%** | **15.9%** |
| | Rec. Gross | 165,720 | 174,191 | 176,989 | 175,296 | 10.1% | 10.2% | 10.1% | 9.9% |
| | Dev. Gross | 104,471 | 116,469 | 105,808 | 105,699 | 6.4% | 6.8% | 6.1% | 6.0% |
| **National Security** | **Sub_Total** | **130,223** | **134,742** | **139,733** | **143,845** | **8.0%** | **7.9%** | **8.0%** | **8.1%** |
| | Rec. Gross | 130,178 | 134,697 | 139,688 | 143,800 | 8.0% | 7.9% | 8.0% | 8.1% |
| | Dev. Gross | 45 | 45 | 45 | 45 | 0.0% | 0.0% | 0.0% | 0.0% |
| **Social Protection, Culture & Recreation** | **Sub_Total** | **46,180** | **54,765** | **57,065** | **57,393** | **2.8%** | **3.2%** | **3.3%** | **3.2%** |
| | Rec. Gross | 20,650 | 29,999 | 30,666 | 30,847 | 1.3% | 1.8% | 1.8% | 1.7% |
| | Dev. Gross | 25,530 | 24,766 | 26,399 | 26,546 | **1.6%** | **1.5%** | **1.5%** | **1.5%** |
| **Environment Protection, Water & Natural Resources** | **Sub_Total** | **73,587** | **74,852** | **76,754** | **79,208** | **4.5%** | **4.4%** | **4.4%** | **4.5%** |
| | Rec. Gross | 22,788 | 21,341 | 21,751 | 21,924 | 1.4% | 1.3% | 1.2% | 1.2% |
| | Dev. Gross | 50,798 | 53,511 | 55,003 | 57,283 | 3.1% | 3.1% | 3.2% | 3.2% |
| **TOTAL** | **TOTAL** | **1,633,355** | **1,705,034** | **1,743,828** | **1,766,857** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| | **Rec. Gross** | **990,487** | **1,060,492** | **1,090,437** | **1,110,046** | **60.6%** | **62.2%** | **62.5%** | **62.8%** |
| | **Dev. Gross** | **642,867** | **644,542** | **653,391** | **656,811** | **39.4%** | **37.8%** | **37.5%** | **37.2%** |

***Source: National Treasury***

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

### Agriculture, Rural and Urban Development Sector

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

191. During the FY 2018/19-2020/21 MTEF period, the sector will continue to implement policies aimed at cushioning the agriculture sector and ensuring food security. The focus will be redesigning subsidies to ensure they target improvements in food yields and production quality; facilitating large scale commercial agriculture to help diversify staples; addressing arable land ownership and utilization; expansion of irrigation schemes and securing water towers and river ecosystems. In addition, fisheries, aquaculture and Blue Economy policies, infrastructure and capacities will be developed and implemented.

192. In order to implement the prioritized programmes, the Sector has been allocated Ksh 38.9 billion, Ksh 40.5 billion and Ksh 42.5 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is Ksh 16.9 billion, Ksh 17.7 billion and Ksh 18.5 billion for FY 2018/19, FY 2019/20 and FY 2020/21 respectively, whereas Development expenditure for the same period is Ksh 22.0 billion, Ksh 22.8 billion, and Ksh 24.0 billion.

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

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

194. Some of the major projects for the sector targeted for implementation in FY 2018/19-2020/21 include: 2,946 MW of additional installed electricity generation capacity; Connection of electricity to all Kenyans; Northern Corridor Transport Improvement Project; Lamu Port Southern Sudan and Ethiopia Transport corridor (LAPSSET); Phase 1B Standard Gauge Railway; Konza Technopolis City; E-Commerce Hub; National Optic Fiber Backbone Infrastructure (NOFBI) Phase II, promotion and development of the maritime sector; East African Trade and Transport Facilitation Projects and County Connectivity; exploration and appraisals in oil blocks and Early Oil Monetization of Crude Oil to enhance early commercialization of the crude oil discoveries; and Kenya Petroleum Technical Assistance Project (KEPTAP).

195. In order to implement the prioritized programs, the Sector has been allocated Ksh 401.6 billion, Ksh 415.4 billion and Ksh 416.5 billion for the financial years 2018/19, 2019/20 and 2020/21 respectively. Recurrent expenditure for the medium-term is Ksh 67.4 billion, Ksh 68.1 billion and Ksh 68.8 billion respectively. The development expenditure for the same period is Ksh 334.2 billion, Ksh 347.3 billion, and Ksh 347.7 billion respectively.

**General Economic and Commerce Affairs Sector**

196. During the FY 2018/19 – 2020/21 MTEF period the sector focus will be, among others, to: Operationalize the Special Economic Zones (SEZ) Act 2015; develop new standards by KEBS; Increase KIE credit disbursed; install new milk processing machinery and equipment at New KCC; Develop Risk Based Supervision system (RBS) for Sacco Societies Regulatory Authority (SASRA);Develop an Integrated information management system for co-

operatives; Improve accessibility of agricultural products/commodities to markets; equip Weights & Measures laboratories; Investigate and prosecute contraband and counterfeit cases; Facilitate potential and existing enterprises including youth and women in export business to increase exports; Comply with harmonized EAC tariffs and Common External Tariff; Reduce Non-Tariff Barriers; Commission One Stop Border Posts (OSBP) and establish a Monetary Institute for the East African Community; tourist establishments; Hold cultural tourism festivals; Construct Ronald Ngala Utalii College; and promote tourism to increase earnings.

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

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

199. To implement the prioritized programmes, the Sector has been allocated Ksh 16.4 billion, Ksh 18.1 billion and Ksh 18.7 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation for FY 2018/19, FY 2019/20 and FY 2020/21 is Ksh 9.3 billion, Ksh 9.6 billion and Ksh 9.8 billion respectively. The Development expenditure for the same is Ksh 7.1 billion, Ksh 8.4 billion, and Ksh 8.9 billion respectively.

**Health Sector**

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

201. Some of the key projects that will be implemented in the 2018/19 to 2020/21 MTEF period will be geared towards the following: scaling up Universal Health Coverage (UHC) initiatives including the Linda Mama (free maternity health services), subsidies for the poor, elderly and vulnerable groups and reducing out of pocket/catastrophic health expenditures through reforming the provider payment mechanisms; improving quality of healthcare through the revamping and expansion of health infrastructure, including expanding the categories of specialized medical equipment to include other components and areas not covered

in Phase 1 of MES and establishment of centres of excellence in health, health commodity storage centres, new specialized health facilities and laboratories; building capacity in human resources for health at all levels of the healthcare system, including transforming the KMTC into a centre of excellence in training middle level health workers and the strengthening of the community health components.

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

203. In order to implement the prioritized programmes, the Sector has been allocated Ksh 64.3 billion, Ksh 64.8 billion and Ksh 65.1 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. The recurrent expenditure allocation for FY 2018/2019, 2019/2020 and 2020/2021 is Ksh 32.4 billion, Ksh 32.7 billion and Ksh 33.0 billion, while development expenditure allocation for the same period is Ksh 31.9 billion, Ksh 32.1 billion, and Ksh 32.1 billion respectively.

**Education Sector**

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

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

206. In order to implement the prioritized programmes, the Sector has been allocated Ksh 431.5 billion, Ksh 448.9 billion and Ksh 462.1 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. The recurrent expenditure allocation for FY2018/19, 2019/20 and 2020/21 is Ksh 404.0 billion, Ksh 420.3 billion and Ksh 433.5 billion, while development expenditure allocation for the same period is Ksh 27.5 billion, Ksh 28.6 billion, and Ksh 28.7 billion respectively.

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

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

208. Some of the Sector's critical and priority areas in the 2018/19 to 2020/21 MTEF period include: centralized housing in both prisons and police, strategic intervention in provision of legal services to Government, installation of National Surveillance and Control System, continuous improvement of inmates and prison staff welfare, adoption of ICT, modernization of the criminal justice system, anti-corruption measures, economic crime and unethical conduct, ensuring constitutional compliance, partnerships and stakeholder engagements, civic education and public sensitization and decentralization of services to the counties.

209. In order to implement the prioritized programmes, the Sector has been allocated Ksh 197.5 billion, Ksh 199.9 billion and Ksh 201.8 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. The recurrent expenditure allocation for FY2018/19, FY2019/20 and FY2020/21 is Ksh 170.5 billion, Ksh 173.1 billion and Ksh 174.9 billion, while development expenditure allocation for the same period is Ksh 27.0 billion, Ksh 26.9 billion, and Ksh 26.9 billion respectively.

**Public Administration and International Relations Sector**

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

211. During the 2018/19 – 2020/21 MTEF budget period the Sector will implement thirty-two (32) programmes. The Kenya Vision 2030 and its flagship projects and the Third Medium Term Plan (2018 – 2022) were the main policy documents informing resource allocation to the programmes for the MTEF period. Resource allocation was also guided by Government's focus on poverty reduction, youth and women empowerment, the need to create jobs for the youth in the areas of Manufacturing & Industrialization and food security. Consequently, programmes with high inclination towards the above were given priority for purposes of stimulating economic growth and development in order to address existing poverty to transform the lives of Kenyans.

212. To implement the prioritized programmes, the Sector has been allocated Ksh 290.7 billion, Ksh 282.8 billion and Ksh 281.0 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure for the medium-term is Ksh 174.2 billion, Ksh 177.0 billion and Ksh 175.3 billion respectively. The development expenditure for the same period is Ksh 116.5 billion, Ksh 105.8 billion, and Ksh 105.7 billion respectively.

**National Security**

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

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

215. In order to implement the prioritized programmes, sector has been allocated Ksh 134.7 billion for FY 2018/19, Ksh 139.7 billion for FY 2019/20, and Ksh 143.8 billion for the FY 2020/21.

**Social Protection, Culture and Recreation Sector**

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

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

218. In order to implement the prioritized programmes, the Sector has been allocated Ksh 54.8 billion, Ksh 57.1 billion and Ksh 57.4 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. The recurrent expenditure allocation for FY2018/19, 2019/20 and 2020/21 is Ksh 30.0 billion, Ksh 30.7 billion and Ksh 30.8 billion, while development expenditure allocation for the same period is Ksh 24.8 billion, Ksh 26.4 billion, and Ksh 26.5 billion respectively.

**Environment Protection, Water and Natural Resources**

219. During the 2017/18 – 2019/20 MTEF period, the sector managed to enact Mining Act 2016, Water Act 2016, Forest Conservation and Management Act 2016 and Wildlife Conservation and Management Act 2013. Forest cover increased from 6.9% to 7.2% and poaching was reduced from 80% to 40%. A total of 20 automatic weather stations were installed. Area under irrigation increased by 150,623 acres with a production of 114,083 tons of cereals. The proportion of people with access to clean water increased from 56.9% to 59.9% while the proportion with access to sewerage services increased from 10.2% to 15%.

220. For the 2018/19 to 2020/21 MTEF period the sector has prioritized programmes intended to; provide policy and legal framework for efficient and effective management of the environment; sustainably manage and conserve

environment; provide reliable weather and climate information for decision making; sustainably manage and conserve forests and water towers; sustainably conserve and manage Kenya's wildlife; provide policy and legal framework for efficient and effective management of the natural resources; promote good governance in the management of water resources; increase availability of safe and adequate water resources; enhance accessibility of water and sewerage services; enhance utilization of land through irrigation, drainage and land reclamation; increase per capita water storage capacity for irrigation and other uses; provide efficient and effective support services for delivery of the State Department's programmes; develop and manage geological and mineral resources database; generate geo-spatial data and information for sustainable development; and provide efficient and effective support services for management of mineral and geo-information data. The Government will also strengthen early warning systems in order to enable farmers to make appropriate farming decisions."

221. In order to implement the prioritized programmes, the Sector has been allocated Ksh 74.9 billion, Ksh 76.8 billion and Ksh 79.2 billion for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. The recurrent expenditure allocation for FY2018/19, 2019/20 and 2020/21 is Ksh 21.3 billion, Ksh 21.8 billion and Ksh 22.0 billion, while development expenditure allocation for the same period is Ksh 53.5 billion, Ksh 55.0 billion, and Ksh 57.3 billion respectively.

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

222. Public participation provides an all-inclusive avenue for identifying and prioritizing Government projects and activities under the budgeting process by key stakeholders and the general public. This process commenced early in the budget preparation process with the launch of Sector Working Groups (SWGs) in September 2017, finalization of the 2017 Budget Review and Outlook Paper by end of September 2017 and engagement in all sector activities and meetings thereafter. This process culminated with the Public Sector Hearings in January 2018.

223. Further, the PFM Act, 2012 section 25 (5) requires the National Treasury while preparing the Budget Policy Statement to seek views of various Stakeholders, Institutions and the public. In this regard, the 2018 Budget Policy Statement has been subjected to comments from various Stakeholders, Institutions and the public.

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

224. We have separately provided a separate Annex Table 6 to this BPS a detailed report with information on programmes outputs, key performance indicators, and the set targets for the 2018/19 – 2020/21 MTEF period.

# IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

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

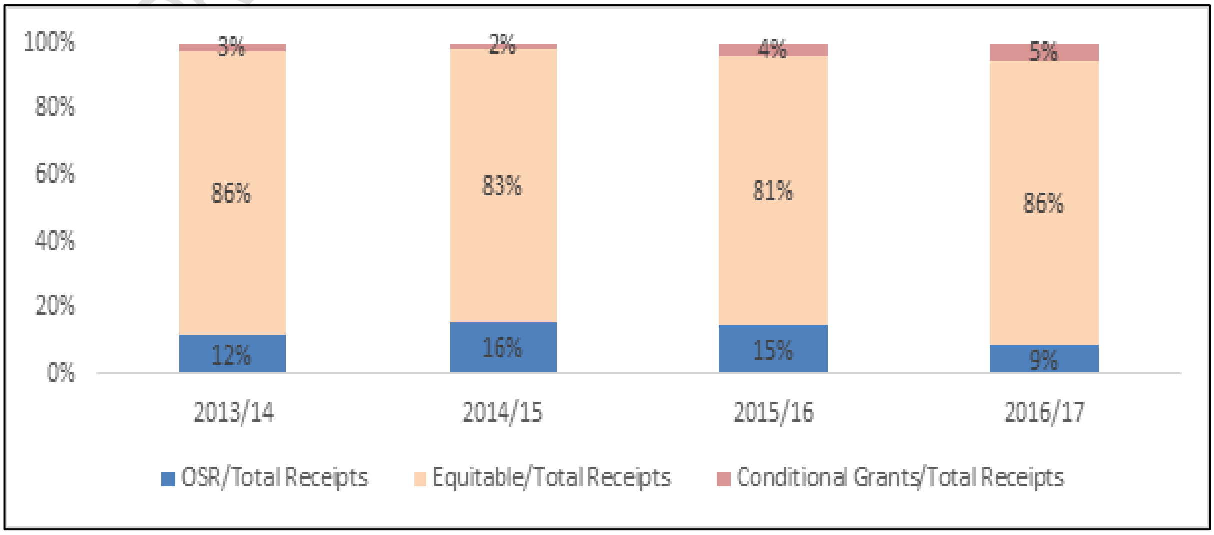
225. In FY 2016/17, approved budgets for County Governments amounted to Ksh 399.2 billion, reflecting an increase of 8.7% from FY 2015/16. This comprised of Ksh 240.9 billion (or 60.3%) recurrent budget and Ksh 158.4 billion (or 39.7%) development budget. The budget was to be financed by: i) Ksh 280.3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

### 4.1.1 County Revenues

226. County Governments are increasingly relying on equitable share transfers from National Government which forms over 80% of the Counties' total revenue (***Chart 4.1***). Between FY 2014/15 and 2016/17, OSR collection deteriorated, with a significant drop in actual collection being registered in FY 2016/17, even though the economy grew by 5.8%. The underperformance could be attributed to administrative inefficiencies as well as gaps in policy and legislation in respect of County OSR.

227. As a solution to the challenges highlighted above, the National Treasury through an interagency committee has drafted a national policy and a legal framework to support enhancement of County OSR. Both drafts have been subjected to public participation, and are now awaiting submission to the Cabinet and to Parliament for necessary approvals. As part of strategies to implement the above policy, the National Treasury will roll out capacity building programmes across all Counties on revenue forecasting and tax analysis starting from financial year 2017/18.

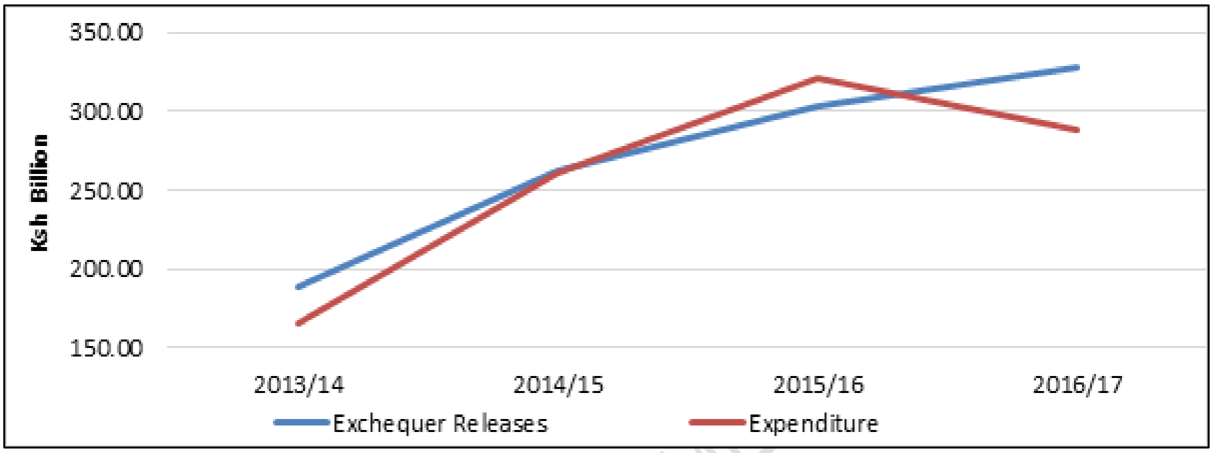
**Chart 4.1: Sources of County Governments' Revenues**




***Source of Data: Controller of Budget***

228. Exchequer releases to County Governments have been on an upward trend from 2013/14 to 2016/17. In FY 2015/16, County Governments' aggregate expenditure exceeded exchequer releases (***Chart 4.2***). This is an indication that some County Governments spent their OSR at source or they had other non-disclosed sources of revenue.

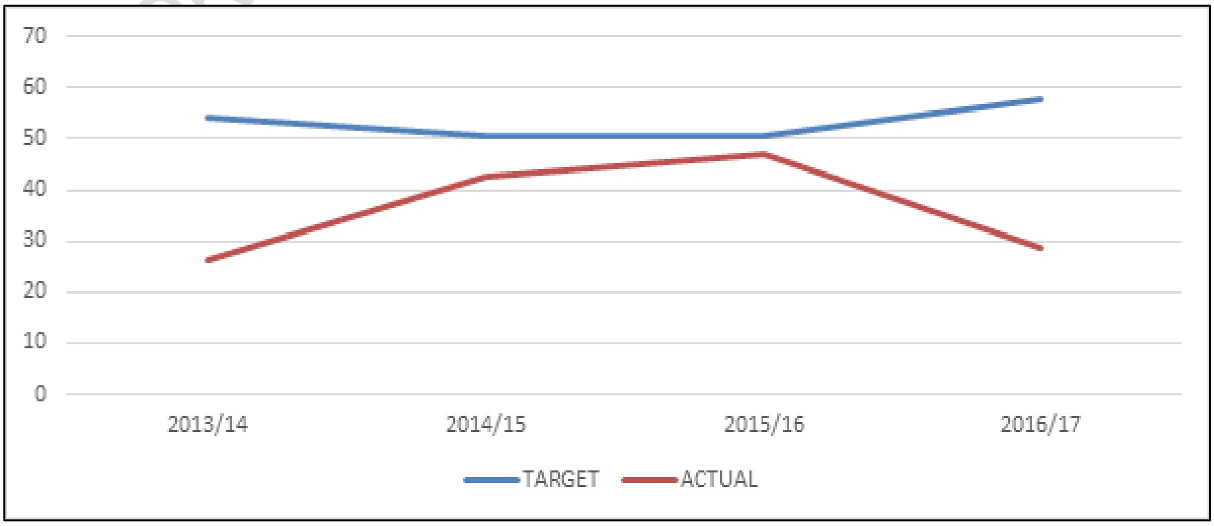
**Chart 4.2: Exchequer Releases and County Government Expenditure**




***Source of Data: Controller of Budget***

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

**Chart 4.3: Counties' Annual OSR Performance (Ksh Billion)**




***Source of Data: Controller of Budget***

### 4.1.2 County's Expenditures

230. Variances between County Governments' approved aggregate budgets and expenditure dropped from a high of 36.5% in FY 2013/14 to 12.6% in FY 2015/16 before rising again to 27.8% in FY 2016/17 (***Table 4.1***). The decline in County OSR could have aggravated the declining expenditures observed in 2016/17.

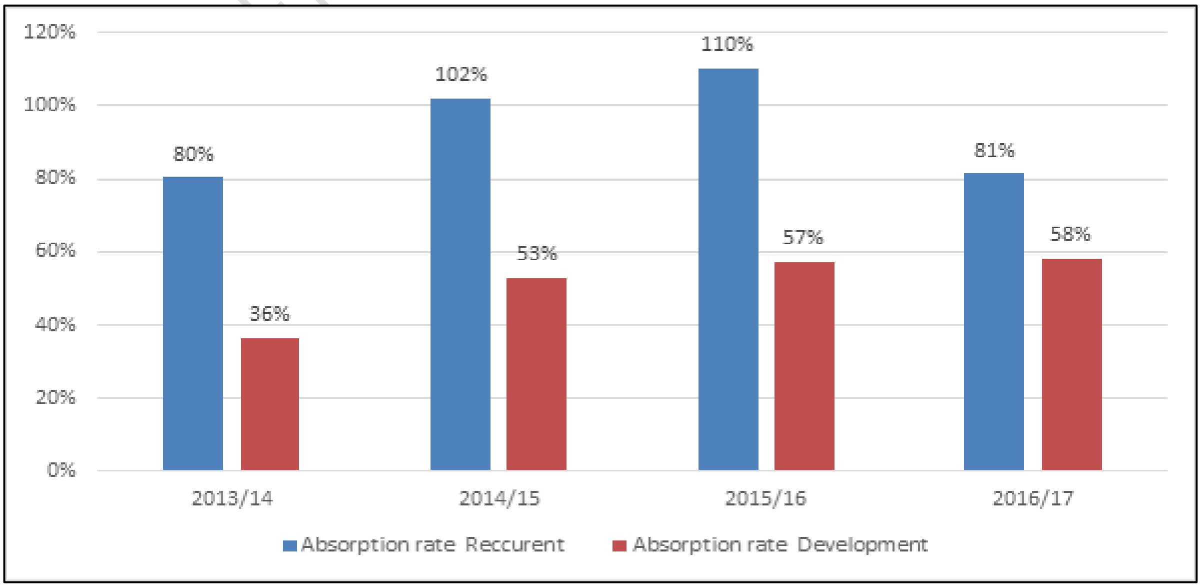
**Table 4.1: County Governments' Aggregate Budgets and Expenditures (Ksh billions)**

| Financial Year | Budget Allocations (B) | | | Expenditure (C ) | | | Absorption rate | |
|---|---|---|---|---|---|---|---|---|
| | Recurrent | Development | **Total** | Recurrent | Development | **Total** | **Reccurent** | **Development** |
| 2013/14 | 161 | 100 | **261** | 129 | 36.55 | **165.64** | **80%** | **36%** |
| 2014/15 | 181 | 145 | **326** | 185 | 76.94 | **261.74** | **102%** | **53%** |
| 2015/16 | 209 | 159 | **367** | 230 | 91.00 | **320.92** | **110%** | **57%** |
| 2016/17 | 241 | 158 | **399** | 196 | 92.33 | **288.17** | **81%** | **58%** |

***Source of Data: Controller of Budget***

231. The absorption rate for recurrent expenditure was relatively high for the four years — exceeding 80% in each year. The absorption rate was above 100% in FYs 2014/15 and 2016/17 which implies that the Counties reallocated funds from development budget to recurrent budget. Absorption rate for development expenditure, however, has been relatively low but improved from a low of 36% in FY 2013/14 to 58% in FY 2016/17. The low absorption rate is explained in large part by procurement challenges at the County Government level and capacity deficits, especially on planning. Ongoing implementation of the Kenya Devolution Support Program (KDSP), a capacity building initiative, is expected to address challenges faced by Counties in planning, procurement and budget execution, among other areas.

**Chart 4.4: Absorption Rates for Recurrent and Development Expenditure**



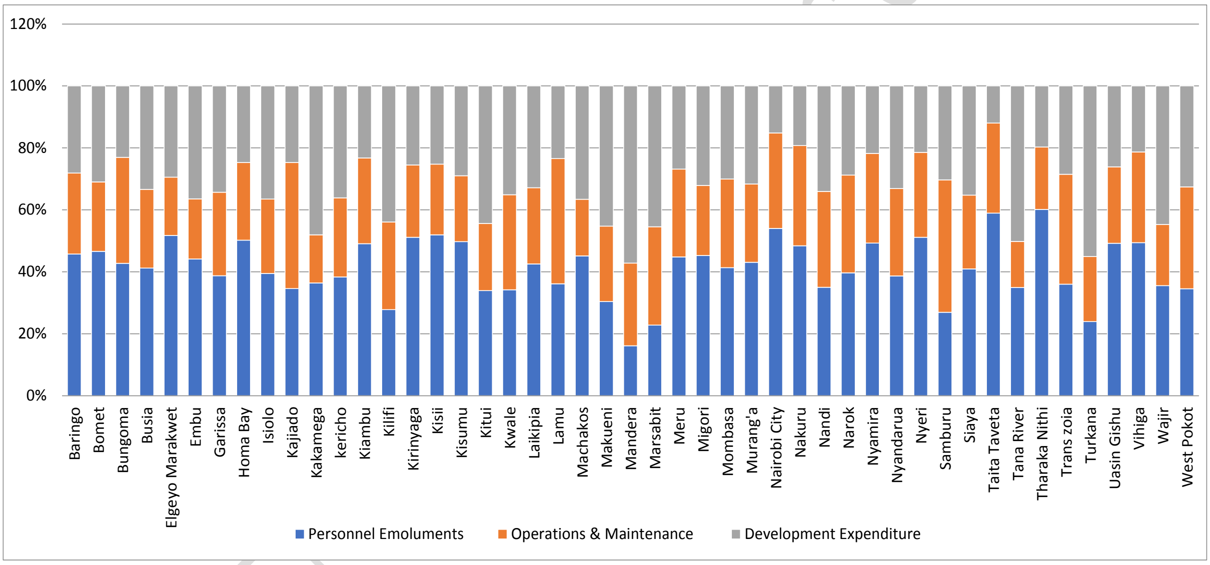

***Source of Data: Controller of Budget***

## 4.2 County Governments' Compliance with Fiscal Responsibility Principles

### 4.2.1 County's Expenditures by Economic Classification

232. In FY 2016/17, as in previous years, personal emoluments comprised a significant portion of the County Governments' total expenditure. (**Chart 4.5**). This is more pronounced in Counties that inherited comparatively more staff from the defunct Local Authorities, with some, such as, Nairobi, Nyeri, Embu, Kisumu, and Nakuru registering wage bills above 50% of total expenditure in FY 2016/17. Among the Counties with the least personal emoluments include Kilifi, Mandera. Marsabit and Turkana.

**Chart 4.5: County Expenditures by Economic Classification for Financial 2016/17**

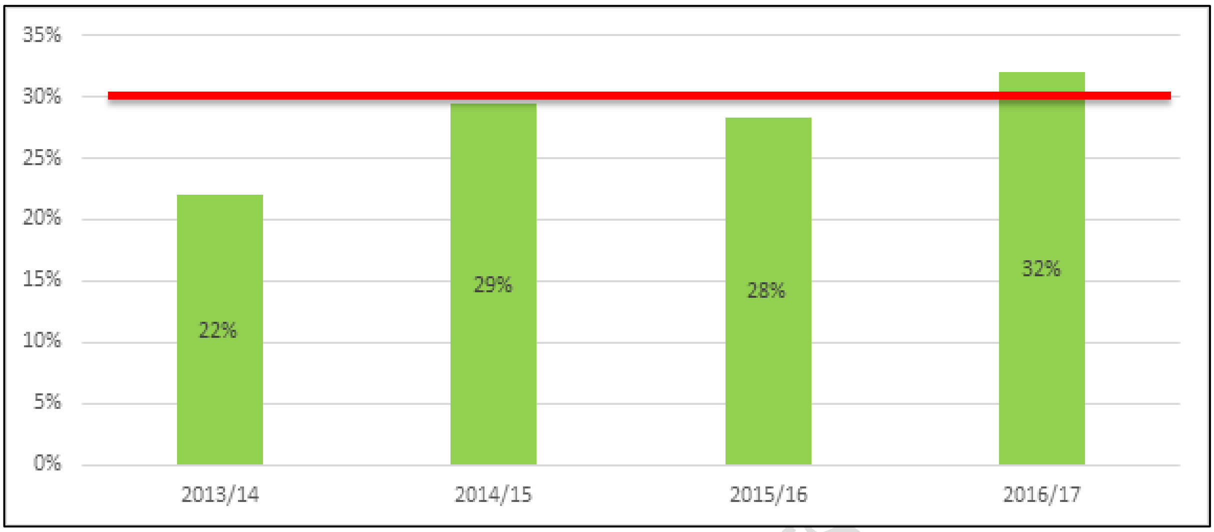



***Source of Data: CARA 2016, Controller of Budget***

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

233. Section 107(2) of the PFM Act 2012 requires that County Governments allocate a minimum of 30 percent of their budget to the development expenditure. However, the National Treasury is concerned that even though approved County budgets comply with this requirement, actual development expenditure for some Counties is below 30 percent. Figure 5.6 shows that on average, Counties only managed to spend over 30 percent towards development expenditure in the financial year 2016/17. The low development expenditure can be attributed to exaggerated OSR forecasts, which Counties tend to use as a balancing item to ensure compliance with Section 107(2) of the PFM Act. The range of measures proposed earlier (including implementation of KDSP, regulation of Counties' OSR projections and enhanced procurement planning support) are expected to result in improvements in Counties' development spending.

**Chart 4.6: Development Expenditure as a percentage of total expenditure**




***Source of Data: Controller of Budget***



### 4.2.3 Compliance with the requirement for wages expenditure

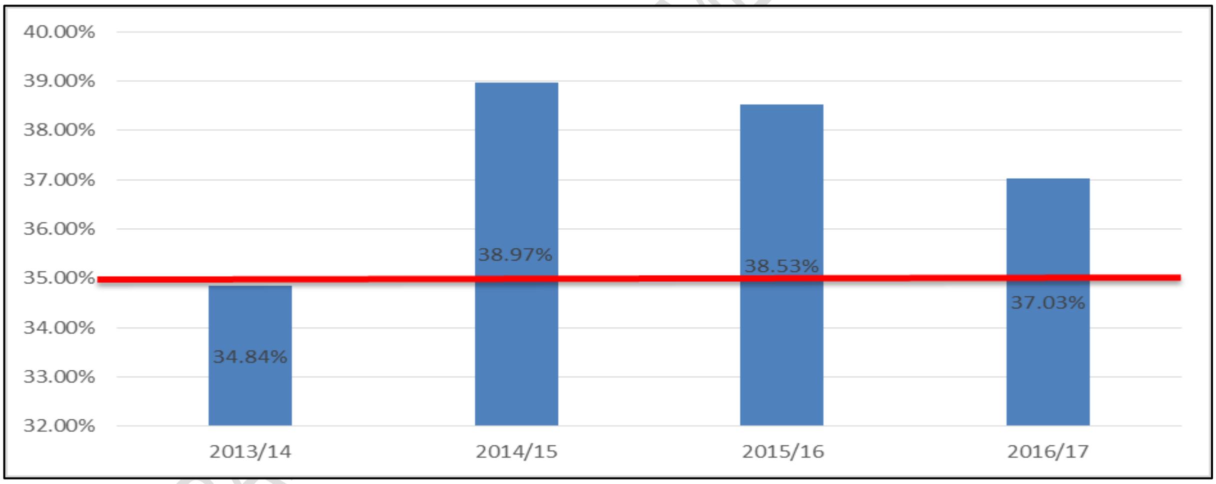
234. Regulation 25 (1)(b) of the PFM (County Governments) requires that County wage bill shall not exceed 35% of the total revenue. Some Counties, however, have not been complying with this requirement from 2014/15 to 2016/17 as shown in figure 5.7. This can be attributed in part, to irregular recruitment by County Governments. Some Counties are in violation of guidelines issued by Salaries and Remuneration Commission (SRC) on job grading, salary structures and compensation of employees as well as payment of sitting allowances. Nevertheless, a number of Counties (particularly those that hosted the former provincial headquarters) are disadvantaged by the current revenue distribution formula, which takes no account of inherited non-discretionary devolved costs, specifically personnel emoluments. Many Counties inherited bloated staff establishments from the defunct Local Authorities, whose recruitment policies did not have stringent regulations. Furthermore, in 2014, the SRC approved an upward adjustment of salaries for County Governments, State and public officers followed by further increases in 2015/16, benefiting certain cadre of County health professionals. These salary adjustments combined with new recruitments have contributed to the general rise in County wage bills.

235. A strong correlation exists between high wage bill and low development expenditures. It is therefore imperative that wage bill challenges be addressed to allow County Governments to increase development expenditure. To address the challenge of unsustainable wage bills, Counties are expected to adhere to guidelines provided by the SRC, control recruitment -- especially of non-core personnel as well as those not in the approved staff establishment. In addition, following measures contained in the report of the Capacity Assessment and Rationalisation of the Public Service Programme (CARPS), the National Treasury recommends that resolutions of the National and County Governments

Coordinating Summit be implemented, as they have the potential of easing County Governments' wage bill pressures.

236. Article 235 of the Constitution and the County Government Act, 2012 provides for the establishment of County Public Service Boards (CPSBs) and assigns human resource management functions to the Counties. However, most Counties continue to experience challenges in the management of their human resources. The challenges include high wage bills, payment of salaries and wages outside IPPD which creates internal control challenges, lack of staff establishments to guide recruitment of optimal staff levels, late or non-remittance of the statutory deductions to KRA attracting interest and penalties and irregular engagement of casuals beyond three (3) months. The Counties therefore, should develop strong human resource management framework including approved staff establishment, stop recruitment of non-essential staff, and ensure appropriate engagement of casuals and payment of salaries through IPPD to enhance efficiency in the management of the Human Resource. These measures will help Counties to manage their wage bill.

**Chart 4.7: Wages as a percentage of Total Revenue for FY 2016/17**




***Source of Data: National Treasury***

## 4.3 County Financial Reports

### 4.3.1 Intermittent use of IFMIS

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

### 4.3.2 Procurement

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

### 4.3.3 Management of Assets and Liabilities

239. Many County Governments do not maintain fixed asset register or include a summary of fixed assets in their financial statement contrary to section 149 (1) of the PFMA 2012. In addition, many County Governments failed to include assets and liabilities inherited from the defunct local authorities in their financial statements. Going forward Counties should maintain updated asset register.

### 4.3.4 Management of Public Funds

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

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

problematic. The County guidelines will be based on those for the National Government, which are in existence.

### 4.3.5 Planning and Budgeting

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

243. In partnership with the World Bank, the Government has developed a capacity building program (Kenya Devolution Support Program –KDSP) to provide technical assistance and additional financial resources to facilitate the development of County Governments' capacity in planning, monitoring and evaluation as well as human resource management; Public Finance Management; and, civic education and public participation.

### 4.3.6 Transparency and Accountability

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

## 4.4 Transfer of Assets and Liabilities to the Counties

245. To finalize the transfer of assets and liabilities from the defunct Local Authorities (LAs) to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are: i) pending bills; ii) tax arrears; and, iii) statutory deductions relating to the National

Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE.

246. County Assets and Liabilities committees were formed to identify, verify, and validate the assets and liabilities of the defunct local authorities as at 27th March 2013. This exercise has been concluded, and IGRTC is currently leading an exercise to validate the report as a basis to implementing its recommendations.

## 4.5 Prudent Management of Fiscal Rsks

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

### 4.5.1 Expenditure Arrears

248. Based on reports from the Controller of Budget and the Auditor-General, most County Governments have accumulated expenditure arrears related mainly to unremitted statutory deductions (including PAYE, employee pension contributions and withholding Value Added Tax - VAT), salary arrears, pending bills due to contractors and suppliers of goods and services as well as utility payment backlogs. These expenditure arrears have the potential of undermining budget execution in subsequent financial years. Moreover, non-payment of suppliers and contractors adversely affects other sectors of the economy like the financial sector by increasing non-performing loans.

249. To address the issue of expenditure arrears, there is need to strengthen Counties' capacity on proper planning and cash flow management. In addition, the County Governments should ensure that they budget within their resource envelopes. Going forward all Counties should remit employees' PAYE deductions at the time of paying salaries, and withholding VAT should be remitted at the time of paying suppliers and contractors since the Counties are required to budget for the full cost of works, goods and services. Further, it is necessary to put in place intergovernmental mechanisms (e.g. through IBEC) to ensure that Counties prioritize budgeting for pending bills once the bills are verified. Ideally, pending bills should be included in Counties' medium term fiscal frameworks and subjected to review through the proposed intergovernmental mechanism.

### 4.5.2 Duplication of Effort

250. In has emerged that some primary and secondary schools that were previously owned by Local Authorities are still being managed by County Governments, despite this being a National Government function. This represents a duplication of functions. Some County Governments are struggling with the financial burden of managing these schools. As a result infrastructures and amenities in these schools are deteriorating compromising significantly the quality of education. The National Treasury will engage with the IGRTC as well as the

Ministry of Education and all concerned County Governments through IBEC so as to formulate a sustainable solution to this issue.

### 4.5.3 Declining Share of the National Government

251. There is pressure from the County Governments and the public to increase transfers to the County Governments especially without an equivalent transfer of functions. From **Table 4.2,** it can be seen that after applying article 203 of the Constitution, the share of the money left to run national government operations has been declining over the years. This can compromise service delivery for the national government. In addition, this can create a risk of new vertical fiscal imbalances between the two levels of government. To avert the situation, the National Treasury has developed a draft Policy to Support Enhancement of County Governments' own Source Revenue and County Governments' (Revenue Raising Regulation Process) Bill, 2017. The draft policy and bill are at an advanced stage having been subjected to County Governments consultations, relevant institutions and the public for comments which have been duly reviewed, considered and incorporated and will be forwarded to the Cabinet and Parliament for approval and enactment respectively.

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

| # | ITEM DESCRIPTION *(Kshs. Millions)* | 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/19 |
|---|---|---|---|---|---|
| | **ORDINARY REVENUE (EXCLUDING AIA)** | **1,249,900** | **1,380,199** | **1,549,412** | **1,681,069** |
| A | **National Interest** [Article 203 (1)(a)], of which: | **79,189** | **79,685** | **81,722** | **98,795** |
| B | **Public debt (Art. 203 [1][b])** | **362,391** | **446,408** | **618,569** | **657,200** |
| C | **Emergencies** [Art. 203 (1)(k)], of which: | **7,245** | **7,245** | **6,200** | **6,681** |
| D | **Equalization Fund** [Art. 203 (1) (g) and (h)] | **6,000** | **6,000** | **7,727** | **8,585** |
| | **BALANCE TO BE SHARED BETWEEN THE NATIONAL AND THE COUNTY GOVERNM** | **470,492** | **469,118** | **436,606** | **491,168** |
| E | **County Government allocation from revenue raised nationally** | *273,073* | *294,021* | *314,205* | *324,865* |
| | **Balance left for the National Government** | **197,419** | **175,097** | **122,401** | **166,303** |
| | **National Governmmt's share (as % of ordinary revenue)** | 15.8% | 12.7% | 7.9% | 9.9% |

***Source of Data: National Treasury***

### 4.5.4 Contingent Liabilities

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

## 4.6 Vertical Division of Revenue

253. In the FY 2018/19, the National Treasury proposes that County Governments be allocated an equitable share of revenue raised national of Kshs. 311.1 billion, and that the National Government be allocated Kshs. 1,370.0 billion. County Governments' equitable share of revenue for the FY 2018/19 was arrived at by adjusting the equitable share allocation in FY 2017/18 by a growth factor of 3.0 percent. **(Table 4.3)**.

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

| Budget item | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| **Baseline** *(i.e. allocation in the previous FY)* | **196,000.0** | **226,660.0** | **259,774.5** | **280,300.0** | **302,000.0** |
| Baseline adjustments: | | | | | |
| *1. Baseline adjustments (Due to additional functions)* | 30,660.0 | 2,946.0 | | | |
| **Adjusted baseline:** | **226,660.0** | **229,606.0** | **259,774.5** | **280,300.0** | **302,000.0** |
| Additional revenue measures | | | | | |
| *1. Adjustment for revenue growth* | | 23,902.0 | 20,525.2 | 21,700.0 | 9,060.0 |
| *2. Other adjustments* | | 4,500.0 | | | |
| *3. Adjustments negotiated in Parliament post-BPS* | | 1,766.5 | | | |
| **Computed equitable revenue share allocation** | **226,660.0** | **259,774.5** | **280,300.0** | **302,000.0** | **311,060.0** |

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

- From the National Governments' equitable revenue share, Ksh 13.8 billion conditional allocations for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; and, iv) compensation for foregone user fees; v) Construction of County Head Quarters **(Table 4.4);**

- Equalization Fund to the marginalized areas amounting to Ksh 8.6 Billion;

**Table 4.4: Division of Revenue Raise National FY 2014/15 - 2018/19 (Ksh Million)**

| Type/level of allocation | | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| National Government | 799,650.0 | 991,892.0 | 1,099,899.0 | 1,247,412.0 | 1,370,009.0 |
| Of which: | | | | | |
| *Free maternal healthcare* | 3,320.0 | 4,298.0 | 4,121.0 | | |
| *Rehabilitation of Village polytechnics* | | | | 2,000.0 | 2,000.0 |
| *Leasing of Medical Equipment* | | 4,500.0 | 4,500.0 | 4,500.0 | 6,100.0 |
| *Compensation for user fees forgone* | | 900.0 | 900.0 | 900.0 | 900.0 |
| *Level 5 hospitals* | 1,863.3 | 3,600.5 | 4,000.0 | 4,200.0 | 4,200.0 |
| *Special Purpose Grant (Emergency Med. Serv.)* | | | 200.0 | | |
| *Supplement for construction of county headquarters* | | | | 605.0 | 605.0 |
| Equalization Fund | 3,400.0 | 6,000.0 | 6,000.0 | 7,727.0 | 8,585.1 |
| County equitable share | 226,660.0 | 259,774.5 | 280,300.0 | 302,000.0 | 311,060.0 |
| **Total shareable revenue** | **1,026,310.0** | **1,251,666.5** | **1,380,199.0** | **1,549,412.0** | **1,681,069.0** |

- Ksh 8.3 Billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2017/18 collections by the Kenya Roads Board (KRB); and

- Ksh 25.4 Billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant. **Table 4.5** shows the total disaggregation of revenues transferred to the County Government.

**Table 4.5: Disaggregation of County Governments' Allocation**

| | 2014/2015 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|
| County equitable share | 226,660.0 | 259,774.5 | 280,300.0 | 302,000.0 | 311,060.0 |
| Additional conditional allocations, of which: | | | | | |
| *Free maternal healthcare* | | 4,298.0 | 4,121.0 | - | - |
| *Leasing of medical equipment* | | 4,500.0 | 4,500.0 | 4,500.0 | 6,100.0 |
| *Compensation for user fees forgone* | | 900.0 | 900.0 | 900.0 | 900.0 |
| *Level 5 hospitals* | 1,863.3 | 3,600.5 | 4,000.0 | 4,200.0 | 4,200.0 |
| *Special Purpose Grant (Emergency Med. Serv.)* | | - | 200.0 | - | - |
| *Supplement for construction of county headquarters* | | | | 605.0 | 605.0 |
| *Rehabilitation of Village polytechnics* | | | | 2,000.0 | 2,000.0 |
| *Allocation from Fuel Levy Fund (15% of collections)* | 3,400.0 | 3,300.0 | 4,306.8 | 7,875.0 | 8,269.0 |
| *Allocations from loans and grants* | | 10,671.2 | 3,870.7 | 12,541.4 | 25,421.9 |
| **Total County Allocations** | **231,923.3** | **287,044.2** | **302,198.5** | **334,621.4** | **358,555.9** |

## 4.7 Horizontal Allocation of Revenue

255. Horizontal distribution of County Governments' equitable revenue share allocation for FY 2018/19 is based on the current formula, which uses six parameters with specific weights, namely: population (45 percent); basic equal share (26 percent); poverty (18 percent); land area (8 percent); fiscal responsibility (2 percent) and development factor (1 percent). Each additional conditional allocation is distributed based on its objectives, criteria for selecting beneficiary Counties and distribution formula. Accordingly, in FY 2018/19, the Counties will share an estimated Ksh 358.6 billion, which represents an increase of 7 percent over and above projected total transfers for 2017/18 of Ksh 334.6 billion. **Table 4.6** shows the projected transfer to each County in FY 2018/19.

# Table 4.6: Revenue Allocation for Each County Government

| County | 2018/19 | | FY 2017/18 | | FY 2018/19 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Old population | Population | Equitable Share | Total Allocations | Allocation Ratio | Equitable Share | Level-5 Hospitals | Compensation for user fees foregone | Rehabiliation of Village Polytechnics | Road Maintenance Levy Fund | Leasing of Medical Equipment | Supplement for construction of county headquarters | Loans & Grants | Total Allocations | Per capita allocation (Kshs) |
| Baringo | 555,561 | 555,441 | 5,013,200,000 | 5,379,889,996 | 1.62 | 5,038,164,367 | - | 13,191,000 | 34,753,936 | 133,931,014 | 129,787,234 | - | 393,695,552 | **5,743,523,103** | 10,338 |
| Bomet | 724,186 | 729,765 | 5,315,200,000 | 5,604,050,158 | 1.89 | 5,877,858,428 | - | 16,713,356 | 47,023,936 | 156,252,849 | 129,787,234 | - | 434,246,074 | **6,661,881,878** | 9,199 |
| Bungoma | 1,630,934 | 1,374,477 | 8,878,800,000 | 9,251,755,796 | 2.85 | 8,863,437,313 | - | 32,837,307 | 69,148,936 | 235,619,376 | 129,787,234 | - | 629,104,073 | **9,959,934,238** | 6,107 |
| Busia | 488,075 | 743,592 | 5,889,000,000 | 6,295,368,118 | 1.90 | 5,908,958,208 | - | 16,934,085 | 61,108,936 | 157,079,584 | 129,787,234 | - | 371,628,470 | **6,645,496,517** | 13,616 |
| Elgeyo/Marakwet | 369,998 | 369,902 | 3,654,200,000 | 3,932,497,385 | 1.20 | 3,731,973,605 | - | 8,788,919 | 40,948,936 | 99,208,158 | 129,787,234 | - | 307,505,019 | **4,318,211,871** | 11,671 |
| Embu | 516,212 | 515,959 | 4,137,400,000 | 4,679,558,660 | 1.42 | 4,416,168,766 | 301,040,462 | 10,724,225 | 37,048,936 | 117,396,321 | 129,787,234 | - | 364,692,990 | **5,376,858,935** | 10,416 |
| Garissa | 623,060 | 375,968 | 5,858,800,000 | 6,520,829,907 | 2.21 | 6,873,051,390 | 344,739,884 | 12,964,636 | 24,763,936 | 182,708,358 | 129,787,234 | - | 553,587,377 | **8,121,602,815** | 13,035 |
| Homa Bay | 963,794 | 963,441 | 6,583,600,000 | 6,995,734,622 | 2.13 | 6,624,253,149 | - | 22,185,346 | 45,823,936 | 176,094,481 | 129,787,234 | - | 416,987,531 | **7,415,131,678** | 7,694 |
| Isiolo | 143,294 | 143,211 | 3,805,200,000 | 4,146,891,178 | 1.25 | 3,887,472,505 | - | 3,472,461 | 20,383,936 | 103,341,832 | 129,787,234 | 121,000,000 | 361,523,006 | **4,626,980,974** | 32,290 |
| Kajiado | 687,312 | 686,992 | 5,828,600,000 | 6,149,947,916 | 1.91 | 5,940,057,988 | - | 16,955,365 | 39,493,936 | 157,906,319 | 129,787,234 | - | 510,628,184 | **6,794,829,026** | 9,886 |
| Kakamega | 1,660,651 | 1,698,576 | 10,207,600,000 | 11,141,307,292 | 3.29 | 10,231,827,634 | 427,283,237 | 37,789,290 | 73,558,936 | 271,995,701 | 129,787,234 | - | 702,938,880 | **11,875,180,912** | 7,151 |
| Kericho | 758,339 | 751,990 | 5,285,000,000 | 5,587,498,951 | 1.82 | 5,660,159,968 | - | 18,048,789 | 40,153,936 | 150,465,707 | 129,787,234 | - | 496,861,567 | **6,495,477,201** | 8,565 |
| Kiambu | 1,623,282 | 1,622,363 | 9,784,800,000 | 10,728,156,437 | 2.98 | 9,267,734,453 | 412,716,763 | 34,671,542 | 71,758,936 | 246,366,927 | 129,787,234 | - | 2,169,283,320 | **12,332,319,175** | 7,597 |
| Kilifi | 1,109,735 | 1,108,770 | 10,056,600,000 | 10,627,419,963 | 3.45 | 10,729,424,115 | - | 25,969,864 | 52,333,936 | 285,223,455 | 129,787,234 | - | 665,479,644 | **11,888,218,249** | 10,713 |
| Kirinyanga | 528,054 | 527,880 | 4,469,600,000 | 4,716,124,596 | 1.31 | 4,074,071,186 | - | 11,282,570 | 51,358,936 | 108,302,240 | 129,787,234 | - | 317,598,693 | **4,692,400,859** | 8,886 |
| Kisii | 1,152,282 | 1,151,898 | 7,519,800,000 | 8,359,680,228 | 2.46 | 7,650,545,891 | 417,572,254 | 26,138,997 | 73,738,936 | 203,376,725 | 129,787,234 | - | 527,494,070 | **9,028,654,107** | 7,835 |
| Kisumu | 968,909 | 968,451 | 6,613,800,000 | 7,351,951,182 | 2.20 | 6,841,951,610 | 369,017,341 | 21,299,489 | 40,798,936 | 181,881,624 | 129,787,234 | - | 1,119,551,579 | **8,704,287,813** | 8,984 |
| Kitui | 1,012,709 | 1,012,236 | 8,758,000,000 | 9,181,967,297 | 2.78 | 8,645,738,852 | - | 22,499,906 | 57,613,936 | 229,832,234 | 129,787,234 | - | 559,280,082 | **9,644,752,244** | 9,524 |
| Kwale | 649,931 | 649,588 | 7,308,400,000 | 7,730,961,711 | 2.40 | 7,463,947,211 | - | 15,209,593 | 39,508,936 | 198,416,317 | 129,787,234 | - | 408,658,212 | **8,255,527,502** | 12,702 |
| Laikipia | 399,227 | 398,992 | 4,530,000,000 | 4,815,397,053 | 1.32 | 4,105,170,966 | - | 9,968,208 | 27,673,936 | 109,128,974 | 129,787,234 | - | 380,285,005 | **4,762,014,323** | 11,928 |
| Lamu | 101,539 | 101,483 | 2,476,400,000 | 2,779,395,187 | 1.13 | 3,514,275,145 | - | 2,451,034 | 30,358,936 | 93,421,016 | 129,787,234 | 121,000,000 | 292,096,059 | **4,183,389,424** | 41,200 |
| Machakos | 1,098,584 | 1,097,816 | 7,489,600,000 | 8,223,442,899 | 2.65 | 8,241,441,712 | 383,583,815 | 24,129,039 | 53,443,936 | 219,084,683 | 129,787,234 | - | 1,308,952,409 | **10,360,422,827** | 9,431 |
| Makueni | 884,527 | 884,258 | 6,885,600,000 | 7,216,391,160 | 2.27 | 7,059,650,070 | - | 19,435,760 | 27,448,936 | 187,668,766 | 129,787,234 | - | 495,329,867 | **7,919,320,633** | 8,953 |
| Mandera | 1,025,756 | 618,966 | 8,365,400,000 | 8,742,195,265 | 3.23 | 10,045,228,954 | - | 25,474,920 | 20,728,936 | 267,035,293 | 129,787,234 | - | 517,146,113 | **11,005,401,450** | 10,729 |
| Marsabit | 291,166 | 291,075 | 6,613,800,000 | 6,914,252,611 | 2.23 | 6,935,250,950 | - | 6,643,714 | 25,423,936 | 184,361,828 | 129,787,234 | - | 451,058,372 | **7,732,526,034** | 26,557 |
| Meru | 1,356,301 | 1,355,359 | 7,821,800,000 | 12,496,272,735 | 2.55 | 7,930,443,911 | 373,872,832 | 31,648,428 | 68,173,936 | 210,817,337 | 129,787,234 | - | 387,083,948 | **9,131,827,626** | 6,733 |
| Migori | 917,170 | 916,665 | 6,523,200,000 | 6,939,323,997 | 2.14 | 6,655,352,929 | - | 21,655,884 | 30,898,936 | 176,921,216 | 129,787,234 | - | 900,080,000 | **7,914,696,199** | 8,629 |
| Mombasa | 939,370 | 938,500 | 8,244,600,000 | 9,005,328,644 | 2.62 | 8,148,142,372 | 388,439,306 | 23,385,934 | 39,043,936 | 216,604,479 | 129,787,234 | - | 130,671,225 | **9,076,074,486** | 9,662 |
| Muranga | 942,581 | 942,101 | 6,251,400,000 | 6,591,286,569 | 1.99 | 6,188,856,229 | - | 20,138,691 | 67,718,936 | 164,520,196 | 129,787,234 | - | 321,873,606 | **6,892,894,892** | 7,313 |
| Nairobi | 3,138,369 | 3,134,261 | 15,643,600,000 | 18,435,944,490 | 5.03 | 15,643,189,362 | - | 79,423,251 | 33,718,936 | 415,847,530 | 129,787,234 | - | 189,490,828 | **16,491,457,142** | 5,255 |
| Nakuru | 1,603,325 | 1,602,636 | 9,392,200,000 | 10,241,665,459 | 3.01 | 9,361,033,793 | 373,872,832 | 38,723,265 | 46,948,936 | 248,847,131 | 129,787,234 | - | 1,411,681,523 | **11,610,894,715** | 7,242 |
| Nandi | 752,965 | 752,665 | 5,164,200,000 | 5,444,319,000 | 1.71 | 5,318,062,388 | - | 18,086,363 | 36,403,936 | 141,371,626 | 129,787,234 | - | 476,558,655 | **6,120,270,202** | 8,128 |
| Narok | 850,920 | 850,292 | 6,583,600,000 | 6,941,624,271 | 2.03 | 6,313,255,349 | - | 20,595,297 | 29,968,936 | 167,827,135 | 129,787,234 | - | 386,247,494 | **7,047,681,445** | 8,282 |
| Nyamira | 598,252 | 598,029 | 4,650,800,000 | 4,933,194,446 | 1.52 | 4,727,166,567 | - | 13,175,221 | 52,063,936 | 125,663,667 | 129,787,234 | - | 363,015,478 | **5,410,872,103** | 9,044 |
| Nyandarua | 596,268 | 596,053 | 4,832,000,000 | 5,214,888,593 | 1.57 | 4,882,665,467 | - | 12,735,922 | 38,848,936 | 129,797,341 | 129,787,234 | 121,000,000 | 406,610,216 | **5,721,445,116** | 9,595 |
| Nyeri | 693,558 | 693,354 | 5,013,200,000 | 5,681,966,692 | 1.60 | 4,975,964,807 | 407,861,272 | 13,701,379 | 27,943,936 | 132,277,544 | 129,787,234 | - | 463,985,098 | **6,151,521,270** | 8,870 |
| Samburu | 223,947 | 223,897 | 3,805,200,000 | 4,062,728,430 | 1.41 | 4,385,068,986 | - | 5,235,578 | 20,053,936 | 116,569,586 | 129,787,234 | - | 409,667,125 | **5,066,382,445** | 22,623 |
| Siaya | 842,304 | 841,746 | 5,617,200,000 | 5,990,217,964 | 1.92 | 5,971,157,768 | - | 18,194,808 | 37,648,936 | 158,733,053 | 129,787,234 | - | 288,363,333 | **6,603,885,133** | 7,840 |
| Taita Taveta | 284,657 | 284,516 | 3,926,000,000 | 4,179,270,052 | 1.29 | 4,011,871,626 | - | 5,296,305 | 48,823,936 | 106,648,770 | 129,787,234 | - | 359,389,189 | **4,661,817,060** | 16,377 |
| Tana River | 240,075 | 240,008 | 5,345,400,000 | 5,729,602,445 | 1.77 | 5,504,661,068 | - | 5,682,537 | 23,638,936 | 146,332,034 | 129,787,234 | 121,000,000 | 441,925,092 | **6,373,026,900** | 26,546 |
| Tharaka Nithi | 365,330 | 365,142 | 3,714,600,000 | 4,069,422,629 | 1.16 | 3,607,574,485 | - | 8,218,119 | 39,238,936 | 95,901,220 | 129,787,234 | 121,000,000 | 267,888,581 | **4,269,608,574** | 11,687 |
| Trans Nzoia | 818,757 | 818,539 | 5,707,800,000 | 6,007,378,941 | 1.79 | 5,566,860,628 | - | 21,304,915 | 52,858,936 | 147,985,503 | 129,787,234 | - | 604,941,474 | **6,523,738,689** | 7,968 |
| Turkana | 855,399 | 854,991 | 10,147,200,000 | 10,551,964,913 | 3.43 | 10,667,224,555 | - | 25,634,941 | 24,433,936 | 283,569,986 | 129,787,234 | - | 434,671,254 | **11,565,321,906** | 13,520 |
| Uasin Gishu | 894,179 | 893,609 | 5,768,200,000 | 6,046,580,277 | 1.89 | 5,877,858,428 | - | 20,813,065 | 32,398,936 | 156,252,849 | 129,787,234 | - | 939,916,663 | **7,157,027,176** | 8,004 |
| Vihiga | 554,622 | 567,387 | 4,499,800,000 | 4,782,098,253 | 1.42 | 4,416,168,766 | - | 12,657,201 | 54,148,936 | 117,396,321 | 129,787,234 | - | 521,729,257 | **5,251,887,715** | 9,469 |
| Wajir | 661,941 | 399,432 | 7,248,000,000 | 7,611,174,514 | 2.70 | 8,396,940,612 | - | 15,784,997 | 20,443,936 | 223,218,356 | 129,787,234 | - | 541,331,487 | **9,327,506,622** | 14,091 |
| West Pokot | 512,690 | 512,572 | 4,771,600,000 | 5,097,886,154 | 1.57 | 4,882,665,467 | - | 12,128,484 | 28,033,944 | 129,797,341 | 129,787,234 | - | 419,206,096 | **5,601,618,565** | 10,926 |
| **GRAND TOTAL** | **38,610,097** | **37,724,844** | **302,000,000,000** | **329,126,805,036** | **100.0** | **311,060,000,000** | **4,200,000,000** | **900,000,000** | **1,959,860,000** | **8,269,000,000** | **6,100,000,000** | **605,000,000** | **25,421,939,770** | **357,910,799,770** | **11,762** |

## 4.8 Summary

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

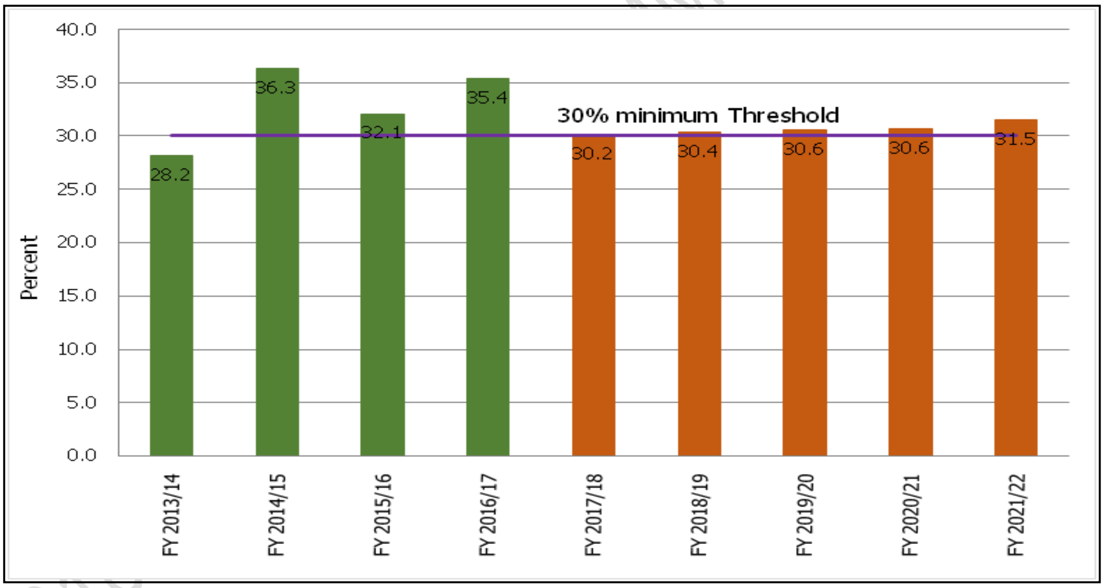
- Improved collection and efficiency of County Governments' own-source revenue (OSR) systems, including accounting and reporting;
- Improved capacity of Counties to formulate realistic and credible budgets, and hence better harmony between County Executive and County Assemblies in the budget process;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

# ANNEX 1: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

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

a) The National Government's development expenditure as a percent of total budget has been above the 30 percent minimum threshold set out in the PFM law. Despite the constraints in revenues, the development expenditures are expected to continue being above the threshold at 30.2 percent in FY 2017/18, 30.4 percent in FY 2018/19 and 31.5 percent over the medium term **(Chart 1.1).**

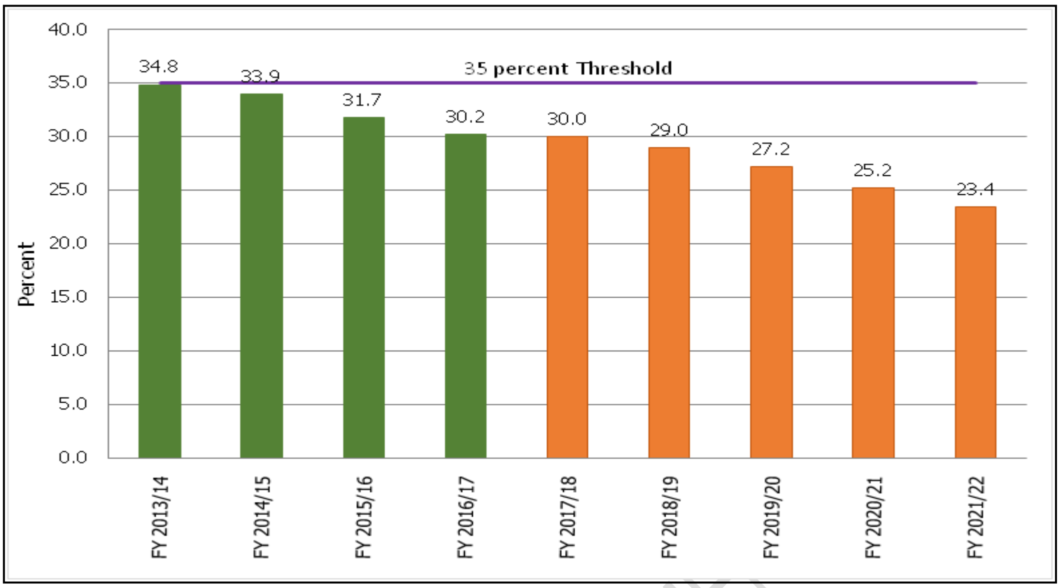
**Chart 1.1: Development Expenditures as a % of National Government Revenues**




***Source: National Treasury***

a) On compensation of employees, the share to National Government revenues was 30.2 percent in FY 2016/17, and is projected at 29.0 percent in FY 2018/19 and at 23.4 percent over the medium term. These ratios demonstrate the commitment to the fiscal responsibility principle of ensuring that the national government's expenditure on wages and benefits for public officers does not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution **(Chart 1.2).**

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




***Source: National Treasury***

b) PFM Act section 15(2) (c) requires that the national government`s borrowings be used only for the purpose of financing development expenditure and not for recurrent expenditure. The government has continued to adhere to this principle. Further, this borrowing is carried out within the context of the Medium Term Debt Strategy (MTDs) approved by parliament.

c) The National Government is required to maintain public debt at sustainable levels as set out in the Public Finance Management Act 2012, and its regulations. Our debt ratios compared with internationally recognized thresholds continue to show that our debt level remains sustainable **(Table 1.1).** The baseline public debt path remains consistent with the EAC convergence ceiling of 50 percent of GDP.

d) The external debt sustainability indicators illustrate that Kenya remains within the sustainable bounds. This is attributed to the large portion of debt that is on concessional terms in terms of low costs and long term maturity. This funding continues to play a key role in the development agenda of the National Government.

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

| Indicator (Threshold) | 2016 | 2017 | 2019 | 2021 | 2026 |
|---|---|---|---|---|---|
| PV of public sector debt to GDP ratio (74) | 48.7 | 49.0 | 48.6 | 43.2 | 35.6 |
| PV of public sector debt-to-revenue ratio (300) | 247.2 | 235.7 | 226.6 | 201.4 | 161.4 |
| Debt service-to-revenue and grants ratio (30) | 32.0 | 34.8 | 29.6 | 26.5 | 23.7 |

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

e) To manage fiscal risks prudently, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. A detailed annex on the Specific Fiscal Risks (**see Annex 2**) has been prepared as part of this Budget Policy Statement. The Government also takes into account the fiscal risks arising from contingent liabilities. Further, every year a contingency provision of Ksh 5.0 billion is factored in the budget to cater for urgent and unforeseen expenditure.

f) On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, in the FY 2014/15 Government simplified and modernized the VAT legislation and consolidated all the appeals in the tax legislation to a single legislation. Similarly in the FY 2015/16, modern and simplified Excise Duty and Tax Procedure legislations were enacted. A review of the Income Tax Act is ongoing and will be completed before June 2018. These reforms are intended to lock in predictability and enhance compliance with the tax system and ensure stability in tax revenue.

# ANNEX 2: STATEMENT OF SPECIFIC FISCAL RISKS

## Introduction

1. The Kenyan economy remains resilient with a robust growth outlook. However, the economy remains vulnerable to both domestic and external shocks. For prudent management of risks, the PFM Act, 2012 requires the preparation of a "Statement of Fiscal Risks".

2. The "Statement of Specific Fiscal Risks" outlines Kenya's exposure to fiscal risks that are associated with associated with macroeconomic assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by nature.

3. The Government remains committed to fiscal consolidation in order to assure on the long-term sustainability of public finances. Nevertheless, the Government will monitor the risks and take appropriate measures to safeguard macroeconomic stability.

4. In this respect, this Statement sets out the assessment of risks that can affect the achievement of the macroeconomic targets and strategic objectives outlined in this Budget Policy Statement. It also proposes a framework for responding to the risks. The Statement is intended to inform the Parliament and the public about the country's exposure to these various sources of risk and what more can be done to ensure fiscal viability in the event of the occurrence of the stated risks.

5. Overall, the Statement highlights the following: spending at current levels and low absorption of development funding, combined with low revenue collections, makes it more difficult for the government to achieve its fiscal targets; Shocks to the exchange rate could impact the size of debt servicing, the terms of trade, and inflation; the financial sector remains sound and is adequately capitalized; Contingent liabilities from key State Corporations present minimal fiscal risks; and risks from the devolved system of government remain a key concern.

## Risk in Changes in Macroeconomic Assumptions

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

7. Reduction in real GDP and depreciation of the exchange rate could result in reduced revenues against expenditures while an increase in inflation and value of imports in dollar terms results in higher revenue against expenditures.

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

8. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2.1**. Over the period 2014/15-2017/18, the average deviation between the assumed and provisional actual real GDP growth rates was 0.5 percentage point. With respect to inflation assumption, the largest deviation was in FY 2014/15 by 1.0 percentage point and over the period averaged 0.6 percentage point. The depreciation of the shilling exchange rate against major international currencies since the FY 2015/2016 was due to the strengthening of the US dollar but has since stabilized with less volatility.



**Table 2.1: Deviations in Macroeconomic and Fiscal Aggregates**

| | 2014/15 | | | 2015/16 | | | 2016/17 | | | 2017/18 | | | 2014/15-2017/18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (In percentage points; unless specified) | Proj. | Act | Dev. | Proj. | Act | Dev. | Proj. | Prel Act | Dev. | Proj. | Rev. | Dev. | Ave. Dev. |
| I. Key Macroeconomic Assumptions | | | | | | | | | | | | | |
| Real GDP | *6.1%* | *5.5%* | *-0.6%* | *5.8%* | *5.8%* | *0.0%* | *5.5%* | 5.3% | *-0.2%* | *6.6%* | 5.3% | *-1.3%* | -0.5% |
| Inflation rate (avg) | *5.7%* | 6.6% | *1.0%* | *5.7%* | 6.4% | *0.8%* | *6.6%* | 6.9% | *0.3%* | *5.8%* | 6.3% | *0.5%* | 0.6% |
| Exchange rate (Ksh/USD), Avg | | 91.4 | *91.4* | | 101.1 | *101.1* | | 102.5 | *102.5* | | 103.6 | | |
| Export growth | | 1.1% | *1.1%* | | -4.4% | *-4.4%* | | 5.3% | *5.3%* | | 12.0% | | |
| Import growth | | -1.0% | *-1.0%* | | -12.5% | *-12.5%* | | 11.7% | *11.7%* | | 15.9% | | |
| II. Fiscal Aggregates (in Ksh billion) | | | | | | | | | | | | | |
| Total Revenue | 1239.3 | 1135.9 | -103.4 | 1365.9 | 1262.2 | -103.6 | 1514.1 | 1426.9 | -87.2 | 1763.3 | 1702.4 | -61.0 | -88.8 |
| Tax and non-tax | 1180.5 | 1107.8 | -72.8 | 1299.9 | 1232.6 | -67.3 | 1455.4 | 1400.6 | -54.8 | 1704.5 | 1643.1 | -61.4 | -64.0 |
| Ordinary Revenue | 1086.4 | 1031.8 | -54.6 | 1184.4 | 1153.0 | -31.4 | 1311.3 | 1305.8 | -5.5 | 1549.4 | 1486.3 | -63.1 | -38.6 |
| AiA | 94.1 | 76.0 | -18.2 | 115.5 | 79.7 | -35.9 | 144.0 | 94.8 | -49.2 | 155.1 | 156.8 | 1.7 | -25.4 |
| Grants | 58.7 | 28.1 | -30.6 | 66.0 | 29.6 | -36.4 | 58.8 | 26.3 | -32.5 | 58.8 | 59.2 | 0.4 | -24.8 |
| Total Expenditure | 1597.8 | 1640.0 | 42.2 | 2032.5 | 1781.9 | -250.6 | 2326.9 | 2110.0 | -216.9 | 2298.8 | 2323.1 | 24.4 | -100.2 |
| Recurrent | 871.5 | 895.2 | 23.7 | 1085.3 | 1027.5 | -57.8 | 1238.3 | 1179.5 | -58.8 | 1347.3 | 1404.8 | 57.5 | -8.9 |
| Development | 492.0 | 510.5 | 18.5 | 678.0 | 485.4 | -192.6 | 803.9 | 645.8 | -158.1 | 640.3 | 607.1 | -33.2 | -91.3 |
| Domestic | 298.7 | 266.8 | -31.8 | 316.5 | 301.3 | -15.2 | 430.3 | 389.6 | -40.7 | 373.4 | 327.4 | -46.0 | -33.4 |
| External | 187.8 | 241.2 | 53.4 | 353.0 | 175.5 | -177.5 | 365.2 | 247.7 | -117.5 | 256.8 | 269.6 | 12.8 | -57.2 |
| Net Lending | 2.1 | 2.1 | 0.0 | 2.1 | 2.2 | 0.1 | 2.3 | 2.4 | 0.1 | 2.4 | 2.4 | 0.0 | 0.1 |
| Equalization Fund | 3.4 | 0.4 | -3.0 | 6.4 | 6.4 | 0.0 | 6.0 | 6.0 | 0.0 | 7.7 | 7.7 | 0.0 | -0.8 |
| Others | 5.0 | 5.0 | 0.0 | 5.0 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 | 5.0 | 0.0 | 0.0 |
| County Allocation | 229.3 | 229.3 | 0.1 | 264.2 | 264.0 | -0.2 | 284.7 | 284.7 | 0.0 | 306.2 | 306.2 | 0.0 | 0.0 |
| Balance | -358.6 | -504.1 | -145.6 | -666.6 | -519.7 | 146.9 | -812.8 | -683.1 | 129.7 | -535.5 | -620.8 | -85.3 | 11.4 |
| Financing | 358.6 | 471.5 | 112.9 | 666.6 | 474.6 | -192.1 | 812.8 | 697.3 | -115.5 | 535.5 | 620.8 | 85.3 | -27.3 |
| Net Foreign Financing | 165.8 | 217.5 | 51.7 | 419.0 | 269.9 | -149.1 | 463.9 | 385.7 | -78.1 | 256.0 | 323.2 | 67.3 | -27.1 |
| Other | 2.0 | 2.9 | 0.9 | 2.6 | 2.4 | -0.2 | 2.1 | 1.8 | -0.4 | 3.8 | 3.8 | 0.0 | 0.1 |
| Net Domestic Financing | 190.8 | 251.1 | 60.3 | 245.0 | 202.3 | -42.8 | 346.8 | 309.8 | -37.1 | 275.7 | 293.8 | 18.1 | -0.4 |
| Of which: Sovereign Bond Proceeds | 0.0 | 140.5 | *140.5* | 0.0 | 0.0 | *0.0* | 0.0 | 0.0 | *0.0* | 0.0 | 0.0 | *0.0* | 35.1 |
| Others | 190.8 | 110.6 | -80.2 | 245.0 | 202.3 | -42.8 | 346.8 | 309.8 | -37.1 | 275.7 | 293.8 | 18.1 | -35.5 |
| Memo items: | | | | | | | | | | | | | |
| Nominal GDP (Ksh billion) | 5,633.2 | 5,831.5 | 198.3 | 6,444.0 | 6,709.7 | 265.7 | 7,435.2 | 7,658.1 | 222.9 | 8,284.3 | 8,654.6 | 370.3 | 264.3 |

*Source: National Treasury*

***Source: National Treasury***

9. The actual performance of fiscal aggregates vis-à-vis target was below target. Total revenue between FY 2014/15 and FY 2017/18 underperformed its target by an average of Ksh 88.8 billion while ordinary revenue was blow target by an average of Ksh 38.6 billion. The underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments.

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

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

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

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

## SPECIFIC FISCAL RISKS

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

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

## Sustainability of Public Debt

15. The sustainability of Kenya’s debt depends on macroeconomic performance and prudence debt management. In addition, increased external financing on both

concessional and non-concessional terms pose an inherent foreign exchange risk which may worsen the PV of debt and therefore increases the risk of debt distress. Increased use of longer-term domestic debt instruments would help mitigate exposure of the Government debt portfolio to foreign currency risk and contribute to reducing domestic rollover risk.

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

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

18. Kenya's debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable **(Table 2.2).** Both the present value of public sector debt to GDP ratio and present value of public sector debt to revenue ratio are well within internationally recognized thresholds.

**Table 2.2: Public Debt Indicators**

| Indicator (Threshold) | 2016 | 2017 | 2019 | 2021 | 2026 |
|---|---|---|---|---|---|
| PV of public sector debt to GDP ratio (74) | 48.7 | 49.0 | 48.6 | 43.2 | 35.6 |
| PV of public sector debt-to-revenue ratio (300) | 247.2 | 235.7 | 226.6 | 201.4 | 161.4 |
| Debt service-to-revenue and grants ratio (30) | 32.0 | 34.8 | 29.6 | 26.5 | 23.7 |

***Source: IMF Staff Report for Kenya***

## State Corporations/State Owned Enterprises

### *Governance*

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

20. Over the years, major reforms premised on Government policy of a private sector led economy have resorted to privatization of some corporations. Successful privatized entities like Safaricom are playing a significant role in the economy by creating job opportunities, remitting reasonable dividends to the national exchequer and tax revenues. Further, the unbundling of the operations of infrastructure State Corporations to separate regulatory functions from commercial operations and create independent regulatory institutions has seen the country unlock the great potential in some sectors like the ICT, transport and energy that have made tremendous strides in the economy. Other reforms in the sector include a deliberate Government policy to embrace global best practices, enhance good corporate governance and accountability on the use of public resources to enable those Corporations deliver on strategic mandates on behalf of the Government.

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

*Public Debt*

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

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

## Explicit/Implicit Contingent Liabilities

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

25. Due to the strategic nature of those SOEs and other companies where Government has a stake and the overall impact of their collapse to the economy, the Government may be obligated to intervene through various measures. This may

include underwriting/guaranteeing contracted debts and other liabilities, and/or direct cash bailout through provision of budgetary resources and this poses potential fiscal risks. The Government will continue to put in place measures including appropriate legislation and policy directives to monitor and mitigate any potential fiscal risks as a result of Government stake in SOEs and other companies that are of strategic importance.

**Unfunded Pension Liabilities**

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

**Public Private Partnership (PPP) Projects**

27. Since 1996 and as a result of progressive legal, regulatory and institutional reforms of the economy, Kenya has attracted private investments into the country's economic infrastructure sectors including telecommunications, energy, transport, water and sewerage. The frontrunner sector to lock in private participation in public infrastructure development is the energy sector – which witnessed its first Independent Power Producers (IPPs) in electricity generation starting from 1996. Currently, all of the country's generated electricity is private sector-led, eleven (11) active IPPs that generate a total of 691MW out a total of 2341MW installed capacity in Kenya. In addition, before June 2018, 300MW from Lake Turkana project shall be put on the National Grid once the transmission line has been completed **(Annex Table 5).**

**Planned Infrastructure PPP Projects in Kenya**

28. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and County Governments. A total of 70 projects are in the National Priority List of PPP projects. These projects are in the

transport and infrastructure, energy, tourism, education, environment, health among others. In the **Table 2.3**, highlights of currently active transactions are provided. This pipeline of projects is currently under review and is expected to be realigned with projects to be implemented under the Government's "Big 4" agenda.

**Table 2.3: Planned PPP projects for the period 2018-2020 (USD Million)**

| **Sector** | **Project Value (US$ M)** |
|---|---|
| Road sector<br>• PPP Toll Road Projects:<br>*Procurement is ongoing for the following projects*<br>o 2nd Nyali Bridge<br>o Nairobi-Nakuru-Mau Summit road<br>*Preparation of tender documents is underway for the following projects*<br>o Nairobi-Mombasa road<br>o O&M Nairobi-Thika road | 2,500 |
| • Road Annuity Phase 1<br>*PPP Project agreements have been signed for the following projects;*<br>o Lot 3 (Samatar – Wajir, Rhamu – Mandera).<br>o Lot 33 (Kajiado – Imaroro, Ngong - Kiserian – Isinya). PPP project agreements have been signed<br>*Contract negotiations with private party have been concluded for the following projects;*<br>o Lot 8 (Bomas – Kiserian – Magadi, Bomas- Karen - Dagoret – Ruiru, Uplands-Githunguri-Ngewa-Ruiru)<br>o Lot 15 (select urban roads in Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi and Laikipia Counties.<br>o Lot 18 (select urban roads in Kakamega, Vihiga, Bungoma and Busia Counties<br>o Lot 32 (Illasit - Njukini – Taveta) | 1,702 |
| Energy<br>• 960MW Coal Power Plant in Lamu (*PPP Agreement has been signed*)<br>• 105 MW Menengai Phase 1 (3 *Power Purchase Agreements signed for a total of 105MW*)<br>• 140 MW Geothermal project at Olkaria (*Feasibility Study being finalized*)<br>• 600 MW of other 20 renewable energy projects (solar, wind)- (*PPAs initialled)* | 3,139 |

| Sector | Project Value (US$ M) |
|---|---|
| LAPSSET<br>• O&M of Lamu Port (1st three berths)- *Negotiations with private investor ongoing*<br>• Lamu – Garissa- Isiolo Highway- *Negotiations with private investor ongoing* | 800 |
| Education<br>• Kenyatta University Student Hostels (*PPP Project Agreement has been signed*)<br>*Procurement is ongoing for the following projects;*<br>• Moi University Student Hostels<br>• University of Embu Student Hostels<br>• South Eastern Kenya University Student Hostels<br>• Egerton University<br>• Kenya Technical Trainers College | 52.5 |
| Water and Environment<br>• multi-purpose dams,<br>• water supply projects<br>• solid waste management projects | 2,000 |
| Housing<br>• Civil Servants Housing<br>• Affordable Housing<br>• Police and prisons housing | 1,500 |
| Urban Development<br>• Multilevel car park in Nairobi<br>• Multilevel car park in Mombasa | 100 |
| Tourism<br>• Mombasa International Convention Centre<br>• Nairobi International Convention and Exhibition Centre<br>• Kenyatta International Convention Centre | 500 |
| Agriculture and Livestock<br>• Export Quarantine Station & Livestock Export Zone | 10 |
| Likoni Crossing Aerial Cable Car | 43 |
| **Total** | **12,346** |

29. The Government understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular and based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial

Risk Guarantees (PRG), etc. As it stands, the Government is currently finalizing a policy on the issuance of Government Support Measures with an objective to provide a clear structure and process for the issuance of Government Support policy instruments.

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

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

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

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

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

## Implicit Contingent Liabilities

### Natural Disasters

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

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

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

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

### Climate Change related fiscal risks to the economy

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

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

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

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

**Terrorist Attack**

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

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

44. Recognizing the significant risk that terrorism pose, the Government has undertaken a raft of reforms over the last two financial years to mitigate the adverse effects of this risk. These reforms include development of counter-terrorism strategy that involve cooperation among all security agencies, increasing collaboration with local communities on security matters, security modernization involving acquisition of modern security equipment, and raising awareness to potential threats. Awareness.

**Technological Disaster**

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

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

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

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

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

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

**Devolved System of Government**

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

51. However, major risks have emerged from Kenya's fiscal decentralization, and which require prudent management especially by the County Governments. Below

is a summary of the main risks and proposed mitigation measures, some of which are already being implemented:

| | Risks | Mitigation measures |
|---|---|---|
| a) | Failure by Counties to remit statutory deductions (e.g. PAYE, withholding VAT, NSSF contributions, etc.) could impact on overall collection of ordinary revenue by the Kenya Revenue Authority (KRA) | All Counties to prioritize remittance of statutory deductions while paying salaries, since this is duly budgeted for. With regard to withholding VAT, Counties should make payments at the time of paying suppliers and contractors since they are required to budget for the full cost of works, goods and services. |
| b) | Considering that urban areas are the engines of economic growth, failure by Counties to appoint and empower legally-required Municipal Boards and Town Committees undermines the financing and effective management of built up areas, especially in medium-sized towns, which sit in largely rural Counties. This could undermine the country's overall economic performance. | Jointly with the World Bank, the Government is finalizing design of a program-for-results (P-for-R) which will provide budgetary incentives for Counties to establish legally-required urban management structures, among other measures to ensure that cities and towns function effectively, and that municipal infrastructure and services are adequately maintained. A number of Counties have already signed up to the program whose implementation is expected to commence in FY 2017/18. |
| c) | The growing stock of expenditure arrears, especially pending bills due to suppliers and contractors, is potentially a factor behind struggling small and medium-sized enterprises (e.g. hotels, travel agencies, etc.), many of which borrow to finance their operations. | Counties to establish pending bills committees to verify authenticity of all outstanding payments and formulate strategies to eliminate all arrears |

## Annex Table 1: Macroeconomic Indicators

| | 2015/16 | 2016/17 | 2017/18 | | | 2018/19 | | 2019/20 | | 2020/21 | | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Act | Prel. Act | Budget | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BPS'18 |
| | *annual percentage change, unless otherwise indicated* | | | | | | | | | | | |
| **National Account and Prices** | | | | | | | | | | | | |
| Real GDP | 5.8 | 5.3 | 6.2 | 5.7 | 5.3 | 6.5 | 5.9 | 6.9 | 6.3 | 7.1 | 6.8 | 6.9 |
| GDP deflator | 8.8 | 8.4 | 5.5 | 7.9 | 7.3 | 6.8 | 6.8 | 6.4 | 6.6 | 6.8 | 6.4 | 6.4 |
| CPI Index (eop) | 6.7 | 6.6 | 5.0 | 5.9 | 5.6 | 5.2 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| CPI Index (avg) | 6.4 | 6.9 | 5.0 | 6.6 | 6.3 | 5.3 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Terms of trade (-deterioration) | -0.1 | 4.5 | 1.5 | 3.2 | 1.1 | 1.9 | -0.3 | 0.7 | 0.3 | 0.4 | 0.1 | 1.1 |
| **Money and Credit (end of period)** | | | | | | | | | | | | |
| Net domestic assets | 3.8 | 3.6 | 2.5 | 6.2 | 5.5 | 15.5 | 15.1 | 18.4 | 19.2 | 14.6 | 16.6 | 14.5 |
| Net domestic credit to the Government | 7.4 | 15.8 | 22.9 | 18.6 | 17.3 | 18.9 | 18.5 | 12.9 | 10.8 | 10.9 | 7.6 | 7.5 |
| Credit to the rest of the economy | 8.4 | 2.7 | 8.7 | 3.5 | 3.4 | 12.4 | 12.2 | 13.1 | 14.6 | 18.6 | 21.8 | 15.5 |
| Broad Money, M3 (percent change) | 8.1 | 6.0 | 11.4 | 14.4 | 13.0 | 13.5 | 13.1 | 19.5 | 19.8 | 12.0 | 13.7 | 13.8 |
| Reserve money (percent change) | 4.9 | 2.8 | 10.8 | 20.9 | 19.4 | 12.9 | 12.5 | 18.8 | 19.1 | 11.3 | 13.0 | 13.1 |
| | *in percentage of GDP, unless otherwise indicated* | | | | | | | | | | | |
| **Investment and Saving** | | | | | | | | | | | | |
| Investment | 19.5 | 17.5 | 24.4 | 20.0 | 19.6 | 22.4 | 21.5 | 22.6 | 22.8 | 25.5 | 24.9 | 25.8 |
| Central Government | 7.1 | 8.3 | 7.6 | 6.8 | 6.9 | 6.7 | 6.6 | 6.3 | 6.3 | 6.8 | 6.1 | 6.2 |
| Other | 12.4 | 9.1 | 16.9 | 13.2 | 12.7 | 15.7 | 14.9 | 16.3 | 16.6 | 18.7 | 18.8 | 19.6 |
| Gross National Saving | 16.2 | 12.4 | 18.3 | 14.1 | 13.5 | 16.5 | 16.1 | 16.7 | 17.3 | 20.0 | 20.1 | 21.6 |
| Central Government | 3.1 | 2.8 | 4.7 | 2.3 | 2.4 | 3.7 | 3.4 | 4.5 | 4.5 | 4.9 | 5.1 | 5.5 |
| Other | 13.1 | 9.6 | 13.6 | 11.8 | 11.0 | 12.8 | 12.7 | 12.3 | 12.8 | 15.0 | 15.0 | 16.2 |
| **Central Government Budget** | | | | | | | | | | | | |
| Total revenue | 18.4 | 18.3 | 20.6 | 18.7 | 19.0 | 18.8 | 18.9 | 19.0 | 19.0 | 19.4 | 19.2 | 19.4 |
| Total expenditure and net lending | 26.6 | 27.6 | 27.7 | 26.8 | 26.8 | 25.2 | 25.4 | 24.2 | 23.9 | 24.4 | 23.0 | 22.5 |
| Overall balance (commitment basis) excl. grants | -8.2 | -9.3 | -7.2 | -8.1 | -7.9 | -6.4 | -6.5 | -5.1 | -4.8 | -5.0 | -3.8 | -3.4 |
| Overall balance (commitment basis) incl. grants | -7.4 | -8.9 | -6.5 | -7.4 | -7.2 | -5.9 | -6.0 | -4.7 | -4.3 | -4.6 | -3.4 | -3.0 |
| Overall balance (commitment basis) incl. grants exl SGR | -6.6 | -7.5 | -5.8 | -6.8 | -6.5 | -5.4 | -5.5 | -4.3 | -3.9 | -4.1 | -2.8 | -2.5 |
| Primary budget balance | -4.2 | -5.4 | -3.1 | -3.8 | -3.7 | -2.5 | -2.2 | -1.3 | -0.9 | -1.2 | 0.0 | 0.4 |
| Net domestic borrowing | 3.0 | 4.0 | 3.3 | 3.6 | 3.4 | 3.8 | 3.8 | 2.8 | 2.8 | 3.7 | 3.7 | 4.0 |
| Total external support (grant & loans) | 2.7 | 3.3 | 3.2 | 3.2 | 3.2 | 2.8 | 3.0 | 2.7 | 2.9 | 3.2 | 2.7 | 2.7 |
| **External Sector** | | | | | | | | | | | | |
| Exports value, goods and services | 17.2 | 16.2 | 21.7 | 16.9 | 16.2 | 17.6 | 17.4 | 18.4 | 17.6 | 18.7 | 17.7 | 17.9 |
| Imports value, goods and services | 24.6 | 25.1 | 31.5 | 25.8 | 25.8 | 26.1 | 26.0 | 26.6 | 25.9 | 26.3 | 25.0 | 24.4 |
| Current external balance, including official transfers | -3.2 | -5.0 | -6.1 | -5.9 | -6.1 | -5.9 | -5.4 | -5.9 | -5.5 | -5.5 | -4.8 | -4.2 |
| Gross international reserve coverage in months of next year imports (end of period) | 5.3 | 4.7 | 4.9 | 5.9 | 5.8 | 5.9 | 5.9 | 6.3 | 6.3 | 6.0 | 6.3 | 6.3 |
| Gross international reserve coverage in months of this year's imports (end of period) | 6.2 | 6.5 | 5.3 | 6.7 | 6.7 | 6.8 | 6.8 | 6.9 | 6.9 | 7.0 | 7.0 | 7.1 |
| **Public debt** | | | | | | | | | | | | |
| Nominal central government debt (eop), net of deposits | 47.9 | 51.9 | 54.4 | 52.5 | 53.0 | 52.1 | 52.8 | 50.7 | 51.0 | 49.9 | 48.3 | 43.7 |
| Domestic (gross) | 27.1 | 27.6 | 27.8 | 27.6 | 27.8 | 28.1 | 28.3 | 27.5 | 27.3 | 26.9 | 25.6 | 24.0 |
| Domestic (net) | 21.1 | 21.9 | 25.2 | 22.6 | 22.8 | 23.7 | 23.9 | 23.7 | 23.4 | 23.5 | 22.2 | 20.9 |
| External | 26.8 | 30.0 | 29.2 | 29.8 | 30.2 | 28.3 | 28.9 | 27.0 | 27.6 | 26.4 | 26.1 | 22.8 |
| **Memorandum Items:** | | | | | | | | | | | | |
| Nominal GDP (in Ksh Billion) | 6,710 | 7,658 | 8,284 | 8,805 | 8,655 | 9,998 | 9,791 | 11,314 | 11,101 | 12,671 | 12,621 | 14,364 |
| Nominal GDP (in US$ Million) | 66,367 | 74,742 | 81,284 | 84,537 | 83,559 | 94,806 | 94,611 | 106,266 | 107,575 | 117,875 | 122,166 | 138,628 |

***Source: National Treasury***

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

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

| | 2015/16 | 2016/17 | 2017/18 | | | 2018/19 | | 2019/20 | | 2020/21 | | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Act | Prel. Act | Budget | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BPS'18 |
| **TOTAL REVENUE** | **1,232.6** | **1,400.6** | **1,704.5** | **1,647.2** | **1,643.1** | **1,882.5** | **1,849.4** | **2,154.7** | **2,105.6** | **2,453.7** | **2,417.8** | **2,747.6** |
| Ordinary Revenue | 1,153.0 | 1,305.8 | 1,549.4 | 1,490.4 | 1,486.3 | 1,717.0 | 1,684.0 | 1,977.7 | 1,931.0 | 2,261.6 | 2,229.1 | 2,548.4 |
| Income Tax | 560.8 | 625.1 | 765.6 | 719.1 | 709.1 | 837.0 | 816.0 | 970.8 | 935.0 | 1,115.9 | 1,090.7 | 1,259.6 |
| Import duty (net) | 79.2 | 89.9 | 102.4 | 102.4 | 102.4 | 116.3 | 116.3 | 132.1 | 132.1 | 150.0 | 150.0 | 170.4 |
| Excise duty | 139.5 | 165.5 | 197.4 | 183.7 | 183.7 | 210.3 | 209.3 | 241.1 | 241.1 | 276.3 | 276.3 | 315.6 |
| Value Added Tax | 289.2 | 339.0 | 383.5 | 388.7 | 383.7 | 445.4 | 440.4 | 513.3 | 508.8 | 586.0 | 586.0 | 665.5 |
| Investment income | 19.3 | 28.5 | 18.2 | 23.1 | 23.1 | 25.2 | 24.1 | 26.9 | 26.9 | 28.4 | 28.4 | 32.1 |
| Other | 65.0 | 57.8 | 82.3 | 73.4 | 84.3 | 82.8 | 78.0 | 93.5 | 87.1 | 104.9 | 97.7 | 105.1 |
| Railway Development Levy | 17.3 | 18.9 | 21.2 | 21.2 | 21.2 | 24.7 | *24.7* | *28.1* | *25.6* | *31.8* | *28.4* | *35.6* |
| Ministerial and Departmental Fees (AiA) | 62.4 | 75.9 | 134.0 | 135.6 | 135.6 | 140.7 | 140.7 | 148.9 | 148.9 | 160.3 | 160.3 | 163.5 |
| **EXPENDITURE AND NET LENDING** | **1,781.9** | **2,110.0** | **2,298.8** | **2,358.6** | **2,323.1** | **2,523.0** | **2,488.4** | **2,733.8** | **2,639.8** | **3,087.1** | **2,897.5** | **3,239.4** |
| Recurrent expenditure | 1,027.5 | 1,179.5 | 1,347.3 | 1,436.5 | 1,404.8 | 1,510.2 | 1,509.1 | 1,646.3 | 1,604.3 | 1,825.9 | 1,774.3 | 1,976.8 |
| Interest payments | 215.3 | 271.2 | 280.7 | 317.0 | 304.1 | 340.4 | 370.8 | 383.9 | 383.9 | 431.4 | 431.4 | 491.1 |
| Domestic interest | 172.9 | 212.9 | 210.1 | 229.9 | 215.2 | 236.3 | 258.2 | 271.8 | 271.8 | 312.6 | 312.6 | 359.4 |
| Foreign Interest | 42.5 | 58.4 | 70.6 | 87.1 | 88.8 | 104.1 | 112.7 | 112.1 | 112.1 | 118.8 | 118.8 | 131.6 |
| Wages and Salaries/1 | 307.4 | 336.6 | 365.0 | 404.0 | 401.0 | 444.2 | 444.2 | 466.4 | 484.4 | 489.7 | 524.6 | 563.4 |
| Contribution to civil service pension fund | 0.0 | 0.0 | 17.9 | 17.9 | 0.0 | 22.8 | 22.8 | 24.0 | 24.0 | 25.4 | 25.4 | 33.8 |
| Pensions etc | 53.4 | 64.0 | 76.2 | 76.2 | 76.2 | 91.1 | 91.1 | 109.5 | 109.5 | 124.5 | 124.5 | 139.0 |
| Other | 337.7 | 377.5 | 477.2 | 491.3 | 500.0 | 477.1 | 454.7 | 528.3 | 476.0 | 612.1 | 530.2 | 609.6 |
| Defense and NSIS | 113.7 | 130.2 | 130.2 | 130.2 | 123.5 | 134.6 | 125.5 | 134.3 | 126.5 | 142.9 | 138.3 | 139.9 |
| Development and Net lending | 485.4 | 645.8 | 640.3 | 610.9 | 607.1 | 679.4 | 658.9 | 727.6 | 705.7 | 873.4 | 783.5 | 910.0 |
| Domestically financed | 301.3 | 389.6 | 373.4 | 321.6 | 327.4 | 392.1 | 362.7 | 413.3 | 383.9 | 464.0 | 433.8 | 508.2 |
| o/w Domestically Financed (Net) | 280.2 | 357.7 | 330.4 | 278.7 | 284.4 | 343.5 | 314.2 | 360.0 | 333.0 | 405.5 | 378.6 | 445.3 |
| o/w Exchequer Issues | 280.2 | 357.7 | 330.4 | 278.7 | 284.4 | 343.5 | 314.2 | 360.0 | 333.0 | 405.5 | 378.6 | 445.3 |
| Ministerial Development AIA | 21.1 | 31.9 | 43.0 | 43.0 | 43.0 | 48.5 | 48.5 | 53.3 | 50.9 | 58.5 | 55.1 | 62.9 |
| Foreign financed | 175.5 | 247.7 | 256.8 | 279.2 | 269.6 | 276.3 | 285.4 | 302.8 | 310.6 | 396.0 | 336.1 | 386.5 |
| Net lending | 2.2 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 1.6 | 1.6 | 2.5 | 2.5 | 2.5 |
| Contingencies | 5.0 | 0.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 8.0 |
| County Allocation | 264.0 | 284.7 | 306.2 | 306.2 | 306.2 | 328.5 | 315.4 | 354.9 | 324.8 | 382.7 | 334.6 | 344.6 |
| Of which: sharable | 259.8 | 280.3 | 302.0 | 302.0 | 302.0 | 324.0 | 311.1 | 350.0 | 320.4 | 378.0 | 330.0 | 339.9 |
| Conditional Level Five Hospitals | 3.6 | 4.0 | 4.2 | 4.2 | 4.2 | 4.5 | 4.3 | 4.9 | 4.5 | 4.8 | 4.6 | 4.7 |
| County Health Facilities - DANIDA | 0.7 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equalization Fund for Marginal areas | 6.4 | 6.0 | 7.7 | 7.7 | 7.7 | 8.6 | 8.4 | 9.9 | 9.7 | 11.0 | 11.1 | 12.7 |
| **Fiscal Balance** ***(commitment basis excl. grants)*** | **-549.3** | **-709.4** | **-594.3** | **-711.5** | **-680.0** | **-640.6** | **-639.0** | **-579.1** | **-534.3** | **-633.4** | **-479.7** | **-491.8** |
| Adjustment to cash basis | 22.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Grants** | **29.6** | **26.3** | **58.8** | **59.6** | **59.2** | **50.5** | **50.5** | **51.6** | **51.6** | **51.4** | **52.4** | **54.4** |
| Of which: Project grants | 24.1 | 19.1 | 52.7 | 53.5 | 53.1 | 44.4 | 44.4 | 46.6 | 46.6 | 48.9 | 48.9 | 51.4 |
| Debt Swap | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Programmme grants | 4.3 | 6.8 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 5.0 | 5.0 | 2.5 | 3.5 | 3.0 |
| County Health Facilities - DANIDA | 0.7 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Fiscal Balance** ***(cash basis incl. grants)*** | **-497.3** | **-683.1** | **-535.5** | **-651.8** | **-620.8** | **-590.1** | **-588.5** | **-527.5** | **-482.6** | **-581.9** | **-427.2** | **-437.4** |
| **Fiscal Balance** ***(cash basis incl. grants) Exl. SGR*** | **-445.0** | **-571.7** | **-481.4** | **-597.8** | **-566.8** | **-540.0** | **-538.5** | **-481.8** | **-436.9** | **-513.7** | **-359.0** | **-352.4** |
| Statistical discrepancy | -22.7 | 14.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **FINANCING** | **474.6** | **697.3** | **535.5** | **651.8** | **620.8** | **590.1** | **588.5** | **527.5** | **482.7** | **581.9** | **427.2** | **437.4** |
| Net Foreign Financing | 269.9 | 385.7 | 256.0 | 332.4 | 323.2 | 205.6 | 214.7 | 224.9 | 232.7 | 289.3 | 229.5 | 227.1 |
| Project loans | 151.4 | 228.6 | 204.1 | 225.6 | 216.5 | 231.9 | 241.0 | 256.2 | 264.0 | 347.0 | 287.2 | 335.1 |
| Programme loans | 8.6 | 6.8 | 0.9 | 6.0 | 6.0 | 2.5 | 2.5 | 1.5 | 1.5 | 1.5 | 1.5 | 3.5 |
| Commercial Financing | 145.0 | 186.3 | 200.0 | 250.0 | 250.0 | 288.0 | 288.0 | 100.0 | 100.0 | 50.0 | 50.0 | 0.0 |
| Export Credt- Commercial Finanacing | | 0.0 | | | 11.5 | | 9.1 | | 7.8 | | 0.1 | 0.0 |
| Repayments due | -35.1 | -35.9 | -149.0 | -149.3 | -149.3 | -316.8 | -316.8 | -132.8 | -132.8 | -109.2 | -109.2 | -111.6 |
| Other Domestic Financing | 2.4 | 1.8 | 3.8 | 3.8 | 3.8 | 4.2 | 4.2 | -5.7 | -5.7 | -1.1 | -1.2 | -2.2 |
| Net Domestic Financing | 202.3 | 309.8 | 275.7 | 315.7 | 293.8 | 380.3 | 369.6 | 308.2 | 255.6 | 293.7 | 199.0 | 212.5 |
| Of which: Sovereign Bond proceeds | - | - | - | - | - | - | - | - | - | - | - | 0.0 |
| Others | 202.3 | 309.8 | 275.7 | 315.7 | 293.8 | 380.3 | 369.6 | 308.2 | 255.6 | 293.7 | 199.0 | 212.5 |
| Financing gap | -22.7 | 14.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Memo items** | | | | | | | | | | | | |
| External Debt | 1,796.2 | 2,294.7 | 2,462.5 | 2,627.1 | 2,618.0 | 2,832.7 | 2,832.7 | 3,057.6 | 3,065.4 | 3,346.9 | 3,294.9 | 3,273.8 |
| Domestic Debt (gross) | 1,815.1 | 2,112.3 | 2,388.0 | 2,427.9 | 2,406.0 | 2,808.2 | 2,775.6 | 3,116.4 | 3,031.3 | 3,410.1 | 3,230.2 | 3,442.7 |
| Domestic Debt (net) | 1,414.6 | 1,677.8 | 1,953.5 | 1,993.4 | 1,971.6 | 2,373.7 | 2,341.2 | 2,682.0 | 2,596.8 | 2,975.7 | 2,795.7 | 3,008.3 |
| Primary budget balance | -282.0 | -411.9 | -254.7 | -334.9 | -316.7 | -249.6 | -217.7 | -143.6 | -98.8 | -150.5 | 4.1 | 53.7 |
| Nominal GDP | 6,709.7 | 7,658.1 | 8,284.3 | 8,804.9 | 8,654.6 | 9,997.7 | 9,790.8 | 11,314.0 | 11,100.8 | 12,670.7 | 12,620.8 | 14,363.9 |

***Source: The National Treasury***

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

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

## Annex Table 3: Government Fiscal Operations, Percent of GDP

| | 2015/16 | 2016/17 | 2017/18 | | | 2018/19 | | 2019/20 | | 2020/21 | | 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Act | Prel. Act | Budget | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BROP'17 | BPS'18 | BPS'18 |
| **TOTAL REVENUE** | **18.4** | **18.3** | **20.6** | **18.7** | **19.0** | **18.8** | **18.9** | **19.0** | **19.0** | **19.4** | **19.2** | **19.1** |
| Ordinary Revenue | 17.2 | 17.1 | 18.7 | 16.9 | 17.2 | 17.2 | 17.2 | 17.5 | 17.4 | 17.8 | 17.7 | 17.7 |
| Income tax | 8.4 | 8.2 | 9.2 | 8.2 | 8.2 | 8.4 | 8.3 | 8.6 | 8.4 | 8.8 | 8.6 | 8.8 |
| Import duty (net) | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Excise duty | 2.1 | 2.2 | 2.4 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 |
| Value Added Tax | 4.3 | 4.4 | 4.6 | 4.4 | 4.4 | 4.5 | 4.5 | 4.5 | 4.6 | 4.6 | 4.6 | 4.6 |
| Investment income | 0.3 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other | 1.0 | 0.8 | 1.0 | 0.8 | 1.0 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |
| Railway Development Levy | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| Ministerial and Departmental Fees (AiA) | 0.9 | 1.0 | 1.6 | 1.5 | 1.6 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.1 |
| | | | | | | | | | | | | |
| **EXPENDITURE AND NET LENDING** | **26.6** | **27.6** | **27.7** | **26.8** | **26.8** | **25.2** | **25.4** | **24.2** | **23.8** | **24.4** | **23.0** | **22.6** |
| Recurrent expenditure | 15.3 | 15.4 | 16.3 | 16.3 | 16.2 | 15.1 | 15.4 | 14.6 | 14.5 | 14.4 | 14.1 | 13.8 |
| Interest payments | 3.2 | 3.5 | 3.4 | 3.6 | 3.5 | 3.4 | 3.8 | 3.4 | 3.5 | 3.4 | 3.4 | 3.4 |
| Domestic interest | 2.6 | 2.8 | 2.5 | 2.6 | 2.5 | 2.4 | 2.6 | 2.4 | 2.4 | 2.5 | 2.5 | 2.5 |
| Foreign Interest | 0.6 | 0.8 | 0.9 | 1.0 | 1.0 | 1.0 | 1.2 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| Wages and Salaries/1 | 4.6 | 4.4 | 4.4 | 4.6 | 4.6 | 4.4 | 4.5 | 4.1 | 4.4 | 3.9 | 4.2 | 3.9 |
| Contribution to civil service pension fund | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Pensions etc | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Other | 5.0 | 4.9 | 5.8 | 5.6 | 5.8 | 4.8 | 4.6 | 4.7 | 4.3 | 4.8 | 4.2 | 4.2 |
| Defense and NSIS | 1.7 | 1.7 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.2 | 1.1 | 1.1 | 1.1 | 1.0 |
| Development and Net lending | 7.2 | 8.4 | 7.7 | 6.9 | 7.0 | 6.8 | 6.7 | 6.4 | 6.4 | 6.9 | 6.2 | 6.3 |
| Domestically financed | 4.5 | 5.1 | 4.5 | 3.7 | 3.8 | 3.9 | 3.7 | 3.7 | 3.5 | 3.7 | 3.4 | 3.5 |
| o/w Domestically Financed (Net) | 4.2 | 4.7 | 4.0 | 3.2 | 3.3 | 3.4 | 3.2 | 3.2 | 3.0 | 3.2 | 3.0 | 3.1 |
| o/w Exchequer Issues | 4.2 | 4.7 | 4.0 | 3.2 | 3.3 | 3.4 | 3.2 | 3.2 | 3.0 | 3.2 | 3.0 | 3.1 |
| Ministerial Development AIA | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Foreign financed | 2.6 | 3.2 | 3.1 | 3.2 | 3.1 | 2.8 | 2.9 | 2.7 | 2.8 | 3.1 | 2.7 | 2.7 |
| Net lending | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingencies | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| County Allocation | 3.9 | 3.7 | 3.7 | 3.5 | 3.5 | 3.3 | 3.2 | 3.1 | 2.9 | 3.0 | 2.7 | 2.4 |
| Of which: sharable | 3.9 | 3.7 | 3.6 | 3.4 | 3.5 | 3.2 | 3.2 | 3.1 | 2.9 | 3.0 | 2.6 | 2.4 |
| Equalization Fund for Marginal areas | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Fiscal Balance (commitment basis excl. grants)** | **-8.2** | **-9.3** | **-7.2** | **-8.1** | **-7.9** | **-6.4** | **-6.5** | **-5.1** | **-4.8** | **-5.0** | **-3.8** | **-3.4** |
| | | | | | | | | | | | | |
| Adjustment to cash basis | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 0.4 | 0.3 | 0.6 | 0.6 | 0.7 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Of which: Project grants | 0.4 | 0.2 | 0.0 | 0.0 | 0.6 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Programmme grants | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Fiscal Balance (cash basis incl. grants)** | **-7.4** | **-8.9** | **-6.5** | **-7.4** | **-7.2** | **-5.9** | **-6.0** | **-4.7** | **-4.3** | **-4.6** | **-3.4** | **-3.0** |
| **Fiscal Balance (cash basis incl. grants) Exl. SGR** | **-6.6** | **-7.5** | **-5.8** | **-6.8** | **-6.5** | **-5.4** | **-5.5** | **-4.3** | **-3.9** | **-4.1** | **-2.8** | **-2.5** |
| | | | | | | | | | | | | |
| **FINANCING** | **7.1** | **9.1** | **6.5** | **7.4** | **7.2** | **5.9** | **6.0** | **4.7** | **4.3** | **4.6** | **3.4** | **3.0** |
| Net Foreign Financing | 4.0 | 5.0 | 3.1 | 3.8 | 3.7 | 2.1 | 2.2 | 2.0 | 2.1 | 2.3 | 1.8 | 1.6 |
| Project loans | 2.3 | 3.0 | 2.5 | 2.6 | 2.5 | 2.3 | 2.5 | 2.3 | 2.4 | 2.7 | 2.3 | 2.3 |
| Programme loans | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial Financing | 2.2 | 2.4 | 2.4 | 2.8 | 2.9 | 2.9 | 2.9 | 0.9 | 0.9 | 0.4 | 0.4 | 0.0 |
| Export Credt- Commercial Finanacing | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Conditional Loans to County Governments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments due | -0.5 | -0.5 | -1.8 | -1.7 | -1.7 | -3.2 | -3.2 | -1.2 | -1.2 | -0.9 | -0.9 | -0.8 |
| Other Domestic Financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| **Net Domestic Financing** | **3.0** | **4.0** | **3.3** | **3.6** | **3.4** | **3.8** | **3.8** | **2.7** | **2.3** | **2.3** | **1.6** | **1.5** |
| Of which: Sovereign Bond proceeds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 3.0 | 4.0 | 3.3 | 3.6 | 3.4 | 3.8 | 3.8 | 2.7 | 2.3 | 2.3 | 1.6 | 1.5 |
| | | | | | | | | | | | | |
| Financing gap | -0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Memo Items** | | | | | | | | | | | | |
| Total Public Debt (net) | 47.9 | 51.9 | 54.4 | 52.5 | 53.0 | 52.1 | 52.8 | 50.7 | 51.0 | 49.9 | 48.3 | 43.7 |
| External Debt | 26.8 | 30.0 | 29.7 | 29.8 | 30.2 | 28.3 | 28.9 | 27.0 | 27.6 | 26.4 | 26.1 | 22.8 |
| Domestic Debt (gross) | 27.1 | 27.6 | 28.8 | 27.6 | 27.8 | 28.1 | 28.3 | 27.5 | 27.3 | 26.9 | 25.6 | 24.0 |
| Domestic Debt (net) | 21.1 | 21.9 | 23.6 | 22.6 | 22.8 | 23.7 | 23.9 | 23.7 | 23.4 | 23.5 | 22.2 | 20.9 |
| Primary budget balance | -4.2 | -5.4 | -3.1 | -3.8 | -3.7 | -2.5 | -2.2 | -1.3 | -0.9 | -1.2 | 0.0 | 0.4 |
| Nominal GDP | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: The National Treasury*

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| | | | | | | | | | | | | |
| **AGRICULTURE, RURAL & URBAN DEVELOPMENT** | **17,311** | **21,086** | **38,397** | **17,726** | **21,985** | **39,712** | **18,507** | **21,929** | **40,436** | **19,306** | **23,076** | **42,382** |
| **1112 Ministry of Land & Physical Planning** | **2,464** | **3,770** | **6,234** | **2,506** | **3,770** | **6,276** | **2,616** | **3,837** | **6,453** | **2,727** | **3,959** | **6,686** |
| 0101000 Land Policy & Planning | 2,464 | 3,770 | 6,234 | 2,506 | 3,770 | 6,276 | 2,616 | 3,837 | 6,453 | 2,727 | 3,959 | 6,686 |
| **1161. State Dept. for Agriculture** | **6,288** | **10,603** | **16,891** | **6,027** | **10,802** | **16,829** | **6,276** | **11,346** | **17,622** | **6,607** | **11,932** | **18,539** |
| 0107000 : General Admin. Planning & Support Services | 3,398 | 593 | 3,991 | 3,255 | 171 | 3,426 | 3,290 | 215 | 3,505 | 3,395 | 225 | 3,620 |
| 0108000 : Crop Development & Management | 2,716 | 8,907 | 11,623 | 2,580 | 9,534 | 12,114 | 2,789 | 10,413 | 13,202 | 3,023 | 11,407 | 14,430 |
| 0109000 : Agribusiness & Information Management | 174 | 1,103 | 1,277 | 192 | 1,097 | 1,289 | 197 | 718 | 915 | 189 | 300 | 489 |
| **1162 State Dept. for Livestock** | **5,051** | **5,499** | **10,550** | **5,759** | **5,599** | **11,358** | **5,919** | **5,770** | **11,689** | **6,094** | **6,090** | **12,184** |
| 0112000 P 6: Livestock Resources Management & Development | 5,051 | 5,499 | 10,550 | 5,759 | 5,599 | 11,358 | 5,919 | 5,770 | 11,689 | 6,094 | 6,090 | 12,184 |
| **1164 State Dept. for Fisheries & the Blue Economy** | **2,056** | **914** | **2,970** | **1,970** | **1,514** | **3,484** | **2,142** | **660** | **2,802** | **2,234** | **750** | **2,984** |
| 0111000 : Fisheries Development & Management | 1,580 | 861 | 2,441 | 1,549 | 1,014 | 2,563 | 1,687 | 200 | 1,887 | 1,744 | 200 | 1,944 |
| P 6: General Admin., Planning & Support Services | 184 | - | 184 | 181 | - | 181 | 193 | - | 193 | 205 | - | 205 |
| P 7: Development & Coordination of the Blue Economy | 292 | 53 | 345 | 239 | 500 | 739 | 262 | 460 | 722 | 286 | 550 | 836 |
| **2021 National Land Commission** | **1,452** | **300** | **1,752** | **1,465** | **300** | **1,765** | **1,554** | **316** | **1,870** | **1,644** | **345** | **1,989** |
| 0113000 : Land Admin. & Management | 382 | - | 382 | | | | | | | | | |
| 0114000 . General Admin., Planning & Support Services | 892 | - | 892 | | | | | | | | | |
| 0115000 . Land Disputes & Conflict Resolutions | 126 | - | 126 | | | | | | | | | |
| 0116000 . National Land Information Management System | 52 | 300 | 352 | | | | | | | | | |
| 0113000 : Land Admin. & Management | - | - | - | 1,465 | 300 | 1,765 | 1,554 | 316 | 1,870 | 1,644 | 345 | 1,989 |
| | | | | | | | | | | | | |
| **ENERGY, INFRASTRUCTURE & ICT** | **67,222** | **348,522** | **415,744** | **78,011** | **331,733** | **409,744** | **81,500** | **334,990** | **416,489** | **84,887** | **333,373** | **418,261** |
| **1152 State Dept. for Energy** | **2,053** | **75,167** | **77,220** | **2,192** | **72,656** | **74,848** | **2,302** | **74,637** | **76,939** | **2,331** | **74,742** | **77,073** |
| 0211000 General Admin. Planning & Support Services | 355 | 422 | 777 | 363 | 244 | 607 | 368 | 249 | 617 | 377 | 193 | 570 |
| 0212000 Power Generation | 788 | 16,632 | 17,420 | 919 | 20,578 | 21,497 | 1,001 | 18,450 | 19,451 | 1,018 | 26,628 | 27,646 |
| 0213000 Power Transmission & Distribution | 790 | 56,948 | 57,738 | 777 | 49,680 | 50,457 | 797 | 51,441 | 52,238 | 797 | 43,146 | 43,943 |
| 0214000 Alternative Energy Technologies | 120 | 1,165 | 1,285 | 133 | 2,154 | 2,287 | 136 | 4,497 | 4,633 | 139 | 4,775 | 4,914 |
| **1153 State Dept. for Petroleum** | **242** | **5,139** | **5,381** | **273** | **4,376** | **4,649** | **290** | **4,544** | **4,834** | **308** | **4,554** | **4,862** |
| 0215000 Exploration & Distribution of Oil & Gas | 242 | 5,139 | 5,381 | 273 | 4,376 | 4,649 | 290 | 4,544 | 4,834 | 308 | 4,554 | 4,862 |
| **1091. State Dept. of Infrastructure** | **52,658** | **134,988** | **187,646** | **58,573** | **128,068** | **186,641** | **61,518** | **128,628** | **190,146** | **64,578** | **129,259** | **193,837** |
| 0202000 Road Transport | 52,658 | 134,988 | 187,646 | 58,573 | 128,068 | 186,641 | 61,518 | 128,628 | 190,146 | 64,578 | 129,259 | 193,837 |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| | | | | | | | | | | | | |
| **1092 State Dept. of Transport** | **6,050** | **96,769** | **102,819** | **9,284** | **79,338** | **88,621** | **9,397** | **81,062** | **90,459** | **9,469** | **81,089** | **90,558** |
| 0201000 General Admin., Planning & Support Services | 401 | 792 | 1,193 | 407 | 760 | 1,167 | 432 | 769 | 1,201 | 447 | 769 | 1,216 |
| 0203000 Rail Transport | - | 75,584 | 75,584 | - | 60,624 | 60,623 | - | 60,380 | 60,380 | - | 60,383 | 60,383 |
| 0204000 Marine Transport | 615 | 14,300 | 14,915 | 1,225 | 13,110 | 14,335 | 1,234 | 14,287 | 15,521 | 1,242 | 14,400 | 15,642 |
| 0205000 Air Transport | 4,588 | 5,793 | 10,381 | 7,206 | 4,544 | 11,750 | 7,281 | 5,069 | 12,350 | 7,327 | 4,978 | 12,305 |
| 0216000000 Road Safety | 446 | 300 | 746 | 446 | 300 | 746 | 450 | 557 | 1,007 | 453 | 559 | 1,012 |
| **1093 State Dept. for Maritime Affairs** | **276** | **-** | **276** | **290** | **50** | **340** | **307** | **54** | **359** | **323** | **54** | **377** |
| 0219000 Shipping & Maritime Affairs | 276 | - | 276 | 290 | 50 | 340 | 307 | 54 | 359 | 323 | 54 | 377 |
| **1122 State Dept. for Information Communications & Technology & Innovation** | **1,276** | **19,247** | **20,523** | **1,245** | **30,759** | **32,004** | **1,331** | **29,368** | **30,699** | **1,377** | **26,405** | **27,782** |
| 0207000 : General Admin. Planning & Support Services | 286 | - | 286 | 301 | - | 301 | 329 | - | 329 | 356 | - | 356 |
| 0210000 : ICT Infrastructure Development | 370 | 19,247 | 19,617 | 323 | 30,759 | 31,082 | 374 | 29,368 | 29,742 | 386 | 26,405 | 26,791 |
| 0217000 E-Government Services | 620 | - | 620 | 621 | - | 621 | 628 | - | 628 | 635 | - | 635 |
| **1123 State Dept. for Broadcasting & Telecommunications** | **2,095** | **764** | **2,859** | **2,957** | **688** | **3,645** | **3,051** | **747** | **3,798** | **3,117** | **750** | **3,867** |
| 0207000 : General Admin. Planning & Support Services | 312 | - | 312 | 327 | - | 327 | 342 | 143 | 485 | 359 | 143 | 502 |
| 0208000 : Information & Communication Services | 1,576 | 543 | 2,119 | 2,423 | 428 | 2,851 | 2,500 | 428 | 2,928 | 2,548 | 507 | 3,055 |
| 0209010 P 3: Mass Media Skills Development | 207 | 221 | 428 | 207 | 260 | 467 | 209 | 176 | 385 | 210 | 100 | 310 |
| **1094 State Dept. for Housing & Urban Development** | **1,726** | **14,272** | **15,998** | **2,326** | **13,839** | **16,166** | **2,398** | **13,835** | **16,234** | **2,441** | **14,396** | **16,838** |
| 0102000 Housing Development & Human Settlement | 459 | 5,959 | 6,418 | 466 | 6,040 | 6,506 | 478 | 6,197 | 6,676 | 488 | 6,304 | 6,793 |
| 0105000 P 5 Urban & Metropolitan Development | 273 | 8,183 | 8,456 | 263 | 7,663 | 7,926 | 277 | 7,486 | 7,763 | 292 | 7,940 | 8,231 |
| 0106000 P 6 General Admin. Planning & Support Services | 267 | - | 267 | 276 | - | 276 | 282 | - | 282 | 289 | - | 289 |
| Programme 4 - Regulation & Development of the Construction Industry | 727 | 130 | 857 | 1,321 | 136 | 1,458 | 1,361 | 152 | 1,513 | 1,372 | 152 | 1,525 |
| **1095 State Dept. for Public Works** | **846** | **2,176** | **3,022** | **871** | **1,959** | **2,830** | **906** | **2,115** | **3,021** | **943** | **2,124** | **3,067** |
| 0103000 P 3 Government Buildings | 371 | 2,040 | 2,411 | 400 | 1,734 | 2,134 | 413 | 1,885 | 2,298 | 427 | 1,667 | 2,094 |
| 0104000 P 4 Coastline Infrastructure & Pedestrian Access | 83 | 136 | 219 | 83 | 170 | 253 | 86 | 191 | 277 | 88 | 411 | 499 |
| 0106000 P 6 General Admin. Planning & Support Services | 392 | - | 392 | 388 | 55 | 443 | 407 | 39 | 446 | 428 | 46 | 474 |
| | | | | | | | | | | | | |
| **GENERAL ECONOMIC & COMMERCIAL AFFAIRS** | **9,610** | **10,185** | **19,794** | **9,250** | **7,114** | **16,364** | **9,645** | **8,441** | **18,086** | **9,788** | **8,876** | **18,665** |
| **1172 State Dept. for Investment & Industry** | **2,341** | **5,381** | **7,722** | **2,488** | **3,809** | **6,297** | **2,681** | **4,236** | **6,917** | **2,713** | **4,386** | **7,099** |
| 0301000 General Admin. Planning & Support Services | 491 | 180 | 671 | 487 | 234 | 721 | 502 | 234 | 736 | 518 | 234 | 752 |
| 0302000 Industrial Development & Investments | 897 | 3,259 | 4,156 | 819 | 1,740 | 2,559 | 878 | 2,105 | 2,983 | 892 | 1,930 | 2,822 |
| 0303000 St&ards & Business Incubation | 953 | 1,942 | 2,895 | 1,182 | 1,835 | 3,017 | 1,301 | 1,897 | 3,198 | 1,303 | 2,222 | 3,525 |
| **1173 State Dept. for Cooperatives** | **446** | **490** | **936** | **412** | **370** | **782** | **449** | **570** | **1,019** | **477** | **605** | **1,082** |
| 0304000 Cooperative Development & Management | 446 | 490 | 936 | 412 | 370 | 782 | 449 | 570 | 1,019 | 477 | 605 | 1,082 |
| **1174 State Dept. for Trade** | **2,414** | **328** | **2,742** | **1,942** | **250** | **2,192** | **2,031** | **550** | **2,581** | **2,060** | **650** | **2,711** |
| 0307000 P 3: Trade Development & Promotion | 2,414 | 328 | 2,742 | 1,942 | 250 | 2,192 | 2,031 | 550 | 2,581 | 2,060 | 650 | 2,711 |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| | | | | | | | | | | | | |
| **1183 State Dept. for East African Integration** | **1,551** | **65** | **1,616** | **1,623** | **65** | **1,688** | **1,571** | **65** | **1,636** | **1,598** | **65** | **1,663** |
| 0305000 P 1: East African Affairs & Regional Integration | 1,551 | 65 | 1,616 | 1,623 | 65 | 1,688 | 1,571 | 65 | 1,636 | 1,598 | 65 | 1,663 |
| **1201 Ministry of Tourism** | **2,857** | **3,921** | **6,778** | **2,785** | **2,620** | **5,405** | **2,913** | **3,020** | **5,933** | **2,940** | **3,170** | **6,110** |
| 0306000 P 2: Tourism Development & Promotion | 2,857 | 3,921 | 6,778 | 2,785 | 2,620 | 5,405 | 2,913 | 3,020 | 5,933 | 2,940 | 3,170 | 6,110 |
| | | | | | | | | | | | | |
| **HEALTH** | **30,721** | **30,979** | **61,700** | **32,421** | **31,879** | **64,300** | **31,717** | **32,103** | **63,820** | **32,025** | **32,120** | **64,146** |
| **1081 Ministry of Health** | **30,721** | **30,979** | **61,700** | **32,421** | **31,879** | **64,300** | **31,717** | **32,103** | **63,820** | **32,025** | **32,120** | **64,146** |
| 0401000 Preventive, Promotive & RMNCAH | 1,642 | 11,781 | 13,423 | 1,586 | 8,911 | 10,497 | 1,583 | 8,911 | 10,494 | 1,615 | 8,911 | 10,525 |
| 0402000 National Referral & Specialized Services | 15,117 | 8,276 | 23,394 | 16,707 | 12,153 | 28,861 | 15,423 | 13,314 | 28,737 | 15,397 | 14,287 | 29,685 |
| 0403000 Health Research & Development | 5,497 | 343 | 5,840 | 5,497 | 436 | 5,932 | 5,499 | 78 | 5,577 | 5,501 | 69 | 5,571 |
| 0404000 General Admin., Planning & Support Services | 5,421 | 3,393 | 8,813 | 5,601 | 3,093 | 8,694 | 6,851 | 2,511 | 9,362 | 7,122 | 1,564 | 8,686 |
| 0405000 P.5 Health Policy, St&ards & Regulations | 3,044 | 7,186 | 10,230 | 3,030 | 7,286 | 10,316 | 2,361 | 7,289 | 9,650 | 2,390 | 7,289 | 9,679 |
| | | | | | | | | | | | | |
| **EDUCATION** | **350,149** | **24,839** | **374,987** | **403,968** | **27,541** | **431,509** | **419,767** | **26,540** | **446,307** | **432,571** | **26,794** | **459,365** |
| **1061. State Dept. for Basic Education** | **59,948** | **6,407** | **66,355** | **89,310** | **8,895** | **98,205** | **92,784** | **7,068** | **99,852** | **93,801** | **6,803** | **100,604** |
| 0501000 Primary Education | 16,839 | 4,601 | 21,440 | 16,793 | 4,727 | 21,520 | 17,181 | 2,620 | 19,801 | 17,569 | 2,637 | 20,206 |
| 0502000 Secondary Education | 34,216 | 1,363 | 35,579 | 63,579 | 3,753 | 67,332 | 66,434 | 3,874 | 70,308 | 66,841 | 3,781 | 70,622 |
| 0503000 Quality Assurance & St&ards | 4,152 | 302 | 4,454 | 4,130 | 242 | 4,372 | 4,230 | 324 | 4,554 | 4,330 | 10 | 4,340 |
| 0508000 General Admin., Planning & Support Services | 4,741 | 142 | 4,883 | 4,808 | 173 | 4,981 | 4,939 | 250 | 5,189 | 5,061 | 375 | 5,436 |
| **1064 State Dept. for Vocational & Technical Training** | **2,535** | **5,646** | **8,181** | **2,635** | **5,728** | **8,363** | **2,694** | **5,985** | **8,679** | **2,758** | **6,257** | **9,015** |
| 0505000 Technical Vocational Education & Training | 2,333 | 3,621 | 5,954 | 2,385 | 3,703 | 6,088 | 2,439 | 3,960 | 6,399 | 2,500 | 4,227 | 6,727 |
| 0507000 Youth Training & Development | 51 | 2,025 | 2,076 | 60 | 2,025 | 2,085 | 69 | 2,025 | 2,094 | 72 | 2,030 | 2,102 |
| 0508000 General Admin., Planning & Support Services | 151 | - | 151 | 190 | - | 190 | 186 | - | 186 | 186 | - | 186 |
| **1065 State Dept. for University Education** | **85,711** | **12,668** | **98,379** | **93,363** | **12,782** | **106,145** | **95,351** | **13,331** | **108,682** | **96,996** | **13,569** | **110,565** |
| 0504000 University Education | 81,959 | 12,062 | 94,021 | 89,758 | 12,488 | 102,245 | 91,661 | 13,020 | 104,680 | 93,517 | 13,251 | 106,767 |
| 0506000 Research, Science, Technology & Innovation | 3,099 | 606 | 3,705 | 3,134 | 294 | 3,429 | 3,208 | 312 | 3,519 | 3,283 | 319 | 3,602 |
| 0508000 General Admin., Planning & Support Services | 652 | - | 652 | 471 | - | 471 | 482 | - | 482 | 197 | - | 197 |
| **2091 Teachers Service Commission** | **201,955** | **118** | **202,073** | **218,660** | **136** | **218,796** | **228,938** | **156** | **229,094** | **239,016** | **165** | **239,181** |
| 0509000 Teacher Resource Management | 195,059 | - | 195,059 | 211,842 | - | 211,842 | 221,933 | - | 221,933 | 231,832 | - | 231,832 |
| 0510000 Governance & St&ards | 85 | - | 85 | 75 | - | 75 | 75 | - | 75 | 75 | - | 75 |
| 0511000 General Admin., Planning & Support Services | 6,811 | 118 | 6,929 | 6,743 | 136 | 6,879 | 6,930 | 156 | 7,086 | 7,109 | 165 | 7,274 |
| | | | | | | | | | | | | |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| **GOVERNANCE, JUSTICE, LAW & ORDER** | **176,137** | **26,414** | **202,551** | **170,035** | **26,627** | **196,663** | **175,195** | **26,405** | **201,600** | **179,972** | **23,417** | **203,389** |
| **1021 State Dept. for Interior** | **106,641** | **17,617** | **124,258** | **112,195** | **18,401** | **130,596** | **112,633** | **18,268** | **130,901** | **115,281** | **18,276** | **133,557** |
| 0601000 Policing Services | 78,584 | 11,425 | 90,009 | 82,998 | 12,210 | 95,208 | 83,202 | 12,179 | 95,381 | 85,235 | 12,181 | 97,416 |
| 0602000 Planning, Policy Coordination & Support Service | 21,090 | 4,117 | 25,207 | 22,184 | 4,116 | 26,300 | 22,429 | 4,048 | 26,477 | 22,852 | 4,052 | 26,904 |
| 0603000 Government Printing Services | 771 | 150 | 921 | 741 | 150 | 891 | 801 | 147 | 948 | 810 | 148 | 958 |
| 0605000 Population Management Services | 6,197 | 1,925 | 8,122 | 6,272 | 1,925 | 8,198 | 6,202 | 1,893 | 8,095 | 6,384 | 1,895 | 8,279 |
| 0624000 Betting Control, Licensing & Regulation Services | - | - | - | - | - | - | - | - | - | - | - | - |
| **1023 State Dept. for Correctional Services** | **21,355** | **900** | **22,255** | **25,612** | **1,881** | **27,493** | **26,521** | **1,900** | **28,421** | **27,279** | **2,000** | **29,279** |
| 0604000 Correctional services | 20,835 | 854 | 21,689 | 25,071 | 1,801 | 26,872 | 25,759 | 1,845 | 27,604 | 26,511 | 1,934 | 28,445 |
| 0623000 General Admin., Planning & Support Services | 401 | 46 | 446 | 405 | 70 | 474 | 539 | 45 | 584 | 543 | 46 | 588 |
| Betting Control Licensing &Regulation Services | 120 | - | 120 | 136 | 10 | 146 | 223 | 10 | 233 | 225 | 20 | 245 |
| **1252 State Law Office & Dept. of Justice** | **4,687** | **1,446** | **6,133** | **4,642** | **1,634** | **6,276** | **5,066** | **1,659** | **6,725** | **5,183** | **1,671** | **6,854** |
| 0606000 Legal Services | 2,100 | 14 | 2,114 | 2,074 | 106 | 2,180 | 2,261 | 109 | 2,370 | 2,326 | 102 | 2,428 |
| 0607000 Governance, Legal Training & Constitutional Affairs | 1,772 | 1,360 | 3,132 | 1,788 | 1,450 | 3,238 | 2,011 | 1,370 | 3,381 | 2,045 | 1,370 | 3,415 |
| 0609000 General Admin., Planning & Support Services | 815 | 72 | 887 | 779 | 78 | 857 | 793 | 180 | 973 | 812 | 199 | 1,011 |
| **1261 The Judiciary** | **13,431** | **4,129** | **17,560** | **13,255** | **4,049** | **17,304** | **15,441** | **4,099** | **19,540** | **16,031** | **1,000** | **17,031** |
| 0610000 P 1: Dispensation of Justice | 13,431 | 4,129 | 17,560 | 13,255 | 4,049 | 17,304 | 15,441 | 4,099 | 19,540 | 16,031 | 1,000 | 17,031 |
| **1271 Ethics & Anti-Corruption Commission** | **2,769** | **1,268** | **4,037** | **2,852** | **120** | **2,972** | **2,940** | **40** | **2,980** | **3,000** | **30** | **3,030** |
| 0611000 Ethics & Anti-Corruption | 2,769 | 1,268 | 4,037 | 2,852 | 120 | 2,972 | 2,940 | 40 | 2,980 | 3,000 | 30 | 3,030 |
| **1291 Office of the Director of Public Prosecutions** | **2,250** | **83** | **2,333** | **2,400** | **143** | **2,543** | **2,816** | **83** | **2,899** | **2,919** | **83** | **3,002** |
| 0612000 Public Prosecution Services | 2,250 | 83 | 2,333 | 2,400 | 143 | 2,543 | 2,816 | 83 | 2,899 | 2,919 | 83 | 3,002 |
| **1311 Office of Registrar of Political Parties** | **878** | **-** | **878** | **905** | **-** | **905** | **952** | **-** | **952** | **976** | **-** | **976** |
| 0614000 Registration, Regulation & Funding of Political Parties | 878 | - | 878 | 905 | - | 905 | 952 | - | 952 | 976 | - | 976 |
| **1321 Witness Protection Agency** | **432** | **-** | **432** | **463** | **-** | **463** | **524** | **-** | **524** | **541** | **-** | **541** |
| 0615000 Witness Protection | 432 | - | 432 | 463 | - | 463 | 524 | - | 524 | 541 | - | 541 |
| **201 Kenya National Commission on Human Rights** | **450** | **-** | **450** | **457** | **-** | **457** | **517** | **-** | **517** | **534** | **-** | **534** |
| 0616000 P 1: Protection & Promotion of Human Rights | 450 | - | 450 | 457 | - | 457 | 517 | - | 517 | 534 | - | 534 |
| **203 Independent Electoral & Boundaries Commission** | **21,156** | **757** | **21,913** | **5,030** | **400** | **5,430** | **5,340** | **357** | **5,697** | **5,486** | **357** | **5,844** |
| 0617000 : Management of Electoral Processes | 21,156 | 757 | 21,913 | 5,030 | 400 | 5,430 | 5,200 | 357 | 5,557 | 5,236 | 357 | 5,594 |
| Delimitation of electoral boundaries | | | | | | | 140 | - | 140 | 250 | - | 250 |
| **205 Judicial Service Commission** | **490** | **-** | **490** | **480** | **-** | **480** | **534** | **-** | **534** | **544** | **-** | **544** |
| 0619000 General Admin., Planning & Support Services | 490 | - | 490 | 480 | - | 480 | 534 | - | 534 | 544 | - | 544 |
| **210 National Police Service Commission** | **551** | **65** | **616** | **578** | **-** | **578** | **690** | **-** | **690** | **921** | **-** | **921** |
| 0620000 National Police Service Human Resource Management | 551 | 65 | 616 | 578 | - | 578 | 690 | - | 690 | 921 | - | 921 |
| **214 National Gender & Equality Commission** | **446** | **-** | **446** | **456** | **-** | **456** | **513** | **-** | **513** | **529** | **-** | **529** |
| 0621000 P 1: Promotion of Gender Equality & Freedom from Discrimination | 446 | - | 446 | 456 | - | 456 | 513 | - | 513 | 529 | - | 529 |
| **215 Independent Police Oversight Authority** | **600** | **150** | **750** | **712** | **-** | **712** | **707** | **-** | **707** | **749** | **-** | **749** |
| 0622000 Policing Oversight Services | 600 | 150 | 750 | 712 | - | 712 | 707 | - | 707 | 749 | - | 749 |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| **PUBLIC Admin. & INTERNATIONAL RELATIONS** | **165,720** | **104,471** | **270,191** | **174,090** | **118,670** | **292,759** | **176,384** | **109,460** | **285,844** | **176,074** | **109,200** | **285,274** |
| **1011 The Presidency** | **8,702** | **1,110** | **9,812** | **8,334** | **3,296** | **11,630** | **8,629** | **3,695** | **12,324** | **8,962** | **3,772** | **12,734** |
| 0702000 Cabinet Affairs | 2,134 | 217 | 2,351 | 2,115 | 2,414 | 4,529 | 2,238 | 2,814 | 5,052 | 2,366 | 2,827 | 5,194 |
| 0704000 State House Affairs | 3,355 | 321 | 3,676 | 3,183 | 317 | 3,500 | 3,283 | 316 | 3,599 | 3,390 | 337 | 3,727 |
| 0734000 Deputy President Services | 2,198 | 572 | 2,770 | 2,024 | 565 | 2,588 | 2,087 | 564 | 2,651 | 2,151 | 608 | 2,759 |
| 0703000 Government Advisory Services | 1,016 | - | 1,016 | 1,012 | - | 1,012 | 1,021 | - | 1,021 | 1,054 | - | 1,054 |
| **1034 State Dept. for Planning & Statistics** | **5,714** | **37,478** | **43,193** | **11,202** | **37,409** | **48,611** | **12,354** | **37,405** | **49,759** | **6,346** | **37,778** | **44,124** |
| 0706000 : Economic Policy & National Planning | 1,233 | 32,006 | 33,239 | 1,295 | 31,995 | 33,290 | 1,316 | 32,026 | 33,342 | 1,338 | 32,058 | 33,396 |
| 0707000 : National Statistical Information Services | 2,333 | 1,454 | 3,787 | 7,588 | 1,435 | 9,024 | 8,700 | 1,437 | 10,137 | 2,650 | 1,438 | 4,088 |
| 0708000 : Monitoring & Evaluation Services | 153 | 171 | 324 | 149 | 171 | 320 | 154 | 176 | 330 | 158 | 181 | 340 |
| 0736000 : NGO Regulatory Services | | | | | | | | | | | | |
| 1013000 Integrated Regional Development | 1,465 | 3,847 | 5,312 | 1,653 | 3,808 | 5,461 | 1,654 | 3,766 | 5,419 | 1,654 | 4,100 | 5,754 |
| 0709000 : General Admin. Planning & Support Services | 530 | - | 530 | 516 | - | 516 | 531 | - | 531 | 546 | - | 546 |
| **1032 State Dept. for Devolution** | **1,108** | **3,539** | **4,647** | **1,203** | **3,528** | **4,731** | **804** | **3,527** | **4,332** | **844** | **3,588** | **4,432** |
| 0732000 General Admin., Planning & Support Services | 285 | 1,020 | 1,305 | 260 | 1,028 | 1,288 | 272 | 200 | 472 | 275 | - | 275 |
| 0712000 : Devolution Services | 823 | 2,519 | 3,342 | 107 | 2,500 | 2,607 | 109 | 3,327 | 3,436 | 111 | 3,588 | 3,699 |
| P 4 Management of Intergovernmental Relations | - | - | - | 836 | - | 836 | 423 | - | 423 | 459 | - | 459 |
| **1051 Ministry of Foreign Affairs & International Trade** | **17,746** | **2,000** | **19,746** | **17,441** | **1,988** | **19,428** | **17,918** | **1,987** | **19,905** | **18,619** | **2,056** | **20,675** |
| 0715000 Foreign Relation & Diplomacy | 14,265 | 1,690 | 15,955 | 14,004 | 1,518 | 15,522 | 14,459 | 1,217 | 15,676 | 14,983 | 1,156 | 16,139 |
| 0742000 Economic & Commercial Diplomacy | 142 | - | 142 | 133 | - | 133 | 138 | - | 138 | 144 | - | 144 |
| Foreign Policy Research, Capacity Development & Technical Cooperation | 147 | - | 147 | 145 | 200 | 345 | 144 | 200 | 344 | 153 | 200 | 353 |
| 0714000 General Admin. Planning & Support Services | 3,192 | 310 | 3,502 | 3,159 | 270 | 3,429 | 3,177 | 570 | 3,747 | 3,340 | 700 | 4,040 |
| **1071 The National Treasury** | **77,442** | **43,908** | **121,350** | **84,126** | **57,183** | **141,309** | **83,760** | **46,542** | **130,301** | **85,382** | **44,793** | **130,175** |
| 0717000 : General Admin. Planning & Support Services | 71,491 | 5,068 | 76,559 | 78,124 | 4,988 | 83,113 | 77,818 | 4,913 | 82,731 | 79,439 | 4,968 | 84,407 |
| 0718000 : Public Financial Management | 4,457 | 37,433 | 41,890 | 4,502 | 50,788 | 55,290 | 4,448 | 40,222 | 44,670 | 4,449 | 38,418 | 42,867 |
| 0719000 : Economic & Financial Policy Formulation & Management | 1,077 | 1,352 | 2,428 | 1,081 | 1,352 | 2,432 | 1,076 | 1,352 | 2,428 | 1,076 | 1,352 | 2,428 |
| 0720000 : Market Competition | 340 | 55 | 395 | 340 | 55 | 395 | 340 | 55 | 395 | 340 | 55 | 395 |
| 0740000 Government Clearing Services | 78 | - | 78 | 79 | - | 79 | 78 | - | 78 | 78 | - | 78 |
| **1211 State Dept. for Public Service & Youth Affairs** | **13,517** | **12,990** | **26,507** | **13,618** | **12,824** | **26,443** | **13,984** | **12,814** | **26,798** | **14,368** | **13,701** | **28,069** |
| 0710000 P 5: Public Service Transformation | 1,862 | 2,296 | 4,158 | 1,791 | 2,105 | 3,896 | 1,840 | 2,125 | 3,965 | 1,900 | 2,405 | 4,305 |
| 0711000 : Youth Empowerment | 7,485 | 10,694 | 18,179 | 7,674 | 10,549 | 18,222 | 7,973 | 10,518 | 18,491 | 8,277 | 11,045 | 19,322 |
| 0709000 : General Admin. Planning & Support Services | 4,169 | - | 4,169 | 4,154 | 171 | 4,325 | 4,171 | 171 | 4,342 | 4,191 | 251 | 4,442 |
| **2042 National Assembly** | **21,166** | **-** | **21,166** | **18,795** | **-** | **18,795** | **19,002** | **-** | **19,002** | **21,320** | **-** | **21,320** |
| 0721000 National Legislation, Representation & Oversight | 21,166 | - | 21,166 | 18,795 | - | 18,795 | 19,002 | - | 19,002 | 21,320 | - | 21,320 |
| **2041 Parliamentary Service Commission** | **11,727** | **3,150** | **14,877** | **10,824** | **2,150** | **12,974** | **11,145** | **3,200** | **14,345** | **11,145** | **3,200** | **14,345** |
| 0722000 Senate Affairs | 5,747 | - | 5,747 | 5,838 | - | 5,838 | 6,160 | - | 6,160 | 6,160 | - | 6,160 |
| 0723000 General Admin., Planning & Support Services | 5,980 | 3,150 | 9,130 | 4,985 | 2,150 | 7,135 | 4,985 | 3,200 | 8,185 | 4,985 | 3,200 | 8,185 |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| **2061 The Commission on Revenue Allocation** | **365** | **-** | **365** | **408** | **-** | **408** | **370** | **-** | **370** | **383** | **-** | **383** |
| 0724000 Inter-Governmental Revenue & Financial Matters | 365 | - | 365 | 408 | - | 408 | 370 | - | 370 | 383 | - | 383 |
| **2071 Public Service Commission** | **1,359** | **60** | **1,419** | **1,328** | **59** | **1,387** | **1,375** | **59** | **1,434** | **1,424** | **63** | **1,487** |
| 0725000 General Admin., Planning & Support Services | 1,002 | 60 | 1,062 | 974 | 59 | 1,033 | 1,011 | 59 | 1,070 | 1,049 | 63 | 1,112 |
| 0726000 Human Resource management & Development | 202 | - | 202 | 221 | - | 221 | 227 | - | 227 | 234 | - | 234 |
| 0727000 Governance & National Values | 155 | - | 155 | 133 | - | 133 | 137 | - | 137 | 141 | - | 141 |
| **2081 Salaries & Remuneration Commission** | **546** | **-** | **546** | **533** | **-** | **533** | **552** | **-** | **552** | **571** | **-** | **571** |
| 0728000 Salaries & Remuneration Management | 546 | - | 546 | 533 | - | 533 | 552 | - | 552 | 571 | - | 571 |
| **2111 Auditor-General** | **5,276** | **235** | **5,511** | **5,245** | **232** | **5,477** | **5,421** | **232** | **5,653** | **5,603** | **248** | **5,851** |
| 0729000 Audit Services | 5,276 | 235 | 5,511 | 5,245 | 232 | 5,477 | 5,421 | 232 | 5,653 | 5,603 | 248 | 5,851 |
| **2121 Controller of Budget** | **575** | **-** | **575** | **565** | **-** | **565** | **585** | **-** | **585** | **605** | **-** | **605** |
| 0730000 Control & Management of Public finances | 575 | - | 575 | 565 | - | 565 | 585 | - | 585 | 605 | - | 605 |
| **2131 The Commission on Administrative Justice** | **477** | **-** | **477** | **468** | **-** | **468** | **484** | **-** | **484** | **501** | **-** | **501** |
| 0731000 Promotion of Administrative Justice | 477 | - | 477 | 468 | - | 468 | 484 | - | 484 | 501 | - | 501 |
| | | | | | | | | | | | | |
| **NATIONAL SECURITY** | **130,178** | **45** | **130,223** | **134,697** | **45** | **134,742** | **139,733** | **45** | **139,778** | **143,844** | **45** | **143,889** |
| **1041 Ministry of Defence** | **103,574** | **45** | **103,619** | **106,106** | **45** | **106,151** | **108,842** | **45** | **108,887** | **110,432** | **45** | **110,477** |
| 0801000 : Defence | 102,141 | 45 | 102,186 | 104,478 | 45 | 104,523 | 107,178 | 45 | 107,223 | 108,731 | 45 | 108,776 |
| 0802000 Civil Aid | 200 | - | 200 | 270 | - | 270 | 270 | - | 270 | 270 | - | 270 |
| 0803000 General Admin., Planning & Support Services | 1,233 | - | 1,233 | 1,358 | - | 1,358 | 1,394 | - | 1,394 | 1,431 | - | 1,431 |
| National Space Management | - | - | - | 300 | - | 300 | 300 | - | 300 | 300 | - | 300 |
| **1231 National Intelligence Service** | **26,604** | **-** | **26,604** | **28,591** | **-** | **28,591** | **30,891** | **-** | **30,891** | **33,412** | **-** | **33,412** |
| 0804000 National Security Intelligence | 26,604 | - | 26,604 | 28,591 | - | 28,591 | 30,891 | - | 30,891 | 33,412 | - | 33,412 |
| | | | | | | | | | | | | |
| **SOCIAL PROTECTION, CULTURE & RECREATION** | **20,652** | **25,526** | **46,178** | **30,714** | **23,837** | **54,551** | **31,277** | **25,005** | **56,282** | **31,362** | **24,952** | **56,314** |
| **1033 State Dept. for Special Programmes** | **2,153** | **4,536** | **6,690** | **2,410** | **3,875** | **6,285** | **2,619** | **3,629** | **6,248** | **2,549** | **3,666** | **6,215** |
| 0713000 Special Initiatives | 1,158 | - | 1,158 | 1,418 | - | 1,418 | 1,583 | - | 1,583 | 1,504 | - | 1,504 |
| 0733000 Accelerated ASAL Development | 700 | 4,518 | 5,218 | 703 | 3,875 | 4,578 | 736 | 3,629 | 4,365 | 734 | 3,666 | 4,400 |
| General Admin. Services | 295 | 18 | 313 | 289 | - | 289 | 300 | - | 300 | 311 | - | 311 |
| **1132 State Dept. for Sports Development** | **2,468** | **560** | **3,028** | **1,811** | **600** | **2,411** | **1,881** | **1,485** | **3,366** | **1,918** | **1,506** | **3,424** |
| 0901000 Sports | 1,875 | 560 | 2,435 | 1,204 | 600 | 1,804 | 1,253 | 1,485 | 2,738 | 1,273 | 1,506 | 2,778 |
| 0905000 General Admin., Planning & Support Services | 593 | - | 593 | 607 | - | 607 | 628 | - | 628 | 645 | - | 645 |
| **1133 State Dept. for Arts & Culture** | **2,938** | **1,018** | **3,955** | **3,023** | **1,012** | **4,035** | **3,141** | **1,410** | **4,551** | **3,137** | **1,131** | **4,269** |
| 0902000 Culture Development | 1,357 | 393 | 1,750 | 1,403 | 612 | 2,015 | 1,466 | 923 | 2,388 | 1,483 | 1,131 | 2,614 |
| 0903000 The Arts | 707 | 95 | 802 | 748 | 100 | 848 | 801 | 114 | 915 | 779 | - | 779 |
| 0904000 Library Services | 702 | 530 | 1,232 | 700 | 300 | 1,000 | 696 | 373 | 1,069 | 688 | - | 688 |
| 0905000 General Admin., Planning & Support Services | 172 | - | 172 | 172 | - | 172 | 178 | - | 178 | 187 | - | 187 |

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

| Sector/ Vote/Programme Details | 2017/18 Estimates | | | Ceiling 2018/19 Ceiling | | | 2019/20 Projection | | | 2020/21 Projection | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total | Current | Capital | Total |
| **1184 State Dept. for Labour** | **2,033** | **1,022** | **3,055** | **2,541** | **2,778** | **5,318** | **2,523** | **3,033** | **5,556** | **2,564** | **2,844** | **5,409** |
| 0906000 Promotion of the Best Labour Practice | 533 | 201 | 734 | 551 | 192 | 744 | 568 | 385 | 954 | 585 | 330 | 915 |
| 0907000 Manpower Development, Employment & Productivity Management | 939 | 821 | 1,760 | 1,316 | 2,585 | 3,901 | 1,394 | 2,648 | 4,041 | 1,399 | 2,514 | 3,913 |
| 0910000 General Admin. Planning & Support Services | 561 | - | 561 | 674 | - | 674 | 561 | - | 561 | 580 | - | 580 |
| **1185 State Dept. for Social Protection** | **9,447** | **14,960** | **24,407** | **19,344** | **12,643** | **31,987** | **19,498** | **12,518** | **32,016** | **19,554** | **12,874** | **32,428** |
| 0908000 Social Development & Children Services | 3,337 | 1,028 | 4,366 | 2,837 | 1,008 | 3,845 | 3,100 | 1,379 | 4,479 | 3,153 | 1,289 | 4,442 |
| 0909000 National Social Safety Net | 5,866 | 13,924 | 19,791 | 16,277 | 11,635 | 27,912 | 16,091 | 11,119 | 27,211 | 16,099 | 11,555 | 27,654 |
| 0910000 General Admin. Planning & Support Services | 244 | 7 | 251 | 230 | - | 230 | 306 | 20 | 326 | 302 | 30 | 332 |
| **1212 State Dept. for Gender** | **1,613** | **3,430** | **5,043** | **1,586** | **2,930** | **4,516** | **1,615** | **2,930** | **4,545** | **1,640** | **2,930** | **4,570** |
| 0911000 Community Development | - | 2,130 | 2,130 | - | 2,130 | 2,130 | - | 2,130 | 2,130 | - | 2,130 | 2,130 |
| 0912000 Gender Empowerment | 847 | 1,300 | 2,147 | 1,307 | 800 | 2,107 | 1,327 | 800 | 2,127 | 1,341 | 800 | 2,141 |
| General Admin. & Planning | 766 | - | 766 | 279 | - | 279 | 288 | - | 288 | 299 | - | 299 |
| | | | | | | | | | | | | |
| **ENVIRONMENT PROTECTION, WATER & NATURAL RESOURCES** | **22,788** | **50,798** | **73,586** | **23,481** | **53,287** | **76,768** | **23,908** | **54,779** | **78,687** | **24,087** | **57,059** | **81,146** |
| **1103 State Dept. for Water Services** | **4,017** | **29,778** | **33,795** | **4,418** | **30,527** | **34,945** | **4,596** | **30,496** | **35,092** | **4,628** | **31,135** | **35,763** |
| 1001000 General Admin., Planning & Support Services | 647 | 151 | 798 | 673 | 151 | 824 | 789 | 151 | 940 | 813 | 151 | 964 |
| 1004000 Water Resources Management | 1,294 | 4,688 | 5,982 | 1,544 | 4,688 | 6,232 | 1,560 | 4,688 | 6,248 | 1,537 | 4,688 | 6,225 |
| 1017000 . Water & Sewerage Infrastructure Development | 2,076 | 24,939 | 27,015 | 2,201 | 25,688 | 27,889 | 2,247 | 25,657 | 27,904 | 2,278 | 26,296 | 28,574 |
| **1104 State Dept. for Irrigation** | **955** | **12,258** | **13,213** | **998** | **13,653** | **14,651** | **1,019** | **15,208** | **16,227** | **1,032** | **16,160** | **17,192** |
| 1014000 Irrigation & L& Reclamation | 945 | 6,428 | 7,373 | 821 | 6,928 | 7,749 | 835 | 7,049 | 7,884 | 841 | 8,001 | 8,842 |
| 1015000 Water Storage & Flood Control | - | 5,830 | 5,830 | 45 | 6,725 | 6,770 | 51 | 8,159 | 8,210 | 55 | 8,159 | 8,214 |
| 1016000 : General Admin. & Support Services | 10 | - | 10 | 132 | - | 132 | 133 | - | 133 | 136 | - | 136 |
| **1105 State Dept. for Environment** | **2,839** | **3,628** | **6,467** | **2,976** | **3,848** | **6,824** | **3,042** | **3,837** | **6,879** | **3,088** | **4,058** | **7,146** |
| 1012000 Meteorological Services | 1,115 | 1,100 | 2,215 | 1,093 | 1,082 | 2,175 | 1,132 | 1,082 | 2,214 | 1,143 | 1,082 | 2,225 |
| 1002000 Environment Management & Protection | 1,355 | 2,528 | 3,883 | 1,508 | 2,766 | 4,274 | 1,527 | 2,755 | 4,282 | 1,529 | 2,976 | 4,505 |
| 1010000 General Admin., Planning & Support Services | 369 | - | 369 | 375 | - | 375 | 383 | - | 383 | 416 | - | 416 |
| **1106 State Dept. for Natural Resources** | **13,513** | **3,878** | **17,391** | **13,834** | **4,023** | **17,857** | **13,936** | **4,008** | **17,944** | **13,959** | **4,333** | **18,292** |
| 1003000 Natural Resources Management & Protection | 13,513 | 3,878 | 17,391 | | | | | | | | | |
| . Forests & Water Towers Conservation & Management | | | | 7,470 | 2,912 | 10,382 | 7,537 | 2,897 | 10,434 | 7,557 | 2,992 | 10,549 |
| . Wildlife Conservation & Management | | | | 5,980 | 1,097 | 7,077 | 6,012 | 1,097 | 7,109 | 6,012 | 1,327 | 7,339 |
| P 4. General, Admin., Planning & Support Services | | | | 384 | 14 | 398 | 387 | 14 | 401 | 390 | 14 | 404 |
| **1119 Ministry of Mining** | **1,464** | **1,256** | **2,720** | **1,255** | **1,236** | **2,491** | **1,315** | **1,230** | **2,545** | **1,380** | **1,373** | **2,753** |
| 1007000 General Admin. Planning & Support Services | 924 | 60 | 984 | 853 | 60 | 913 | 892 | 60 | 952 | 933 | 60 | 993 |
| 1008000 Resources Surveys & Remote Sensing | 185 | 361 | 546 | 184 | 361 | 545 | 184 | 361 | 545 | 185 | 361 | 546 |
| 1009000 . Mineral Resources Management | 355 | 835 | 1,190 | 218 | 815 | 1,033 | 239 | 809 | 1,048 | 262 | 952 | 1,214 |
| **Grand Total** | **990,487** | **642,865** | **1,633,352** | **1,074,393** | **642,719** | **1,717,112** | **1,107,632** | **639,697** | **1,747,328** | **1,133,916** | **638,912** | **1,772,831** |

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

| No. | Project Name | Project Description | Project Value ($ Mn) | Status | Type/Value/State Guarantee | Amount of Termination Payment (Default by GOk | Obligation for fixed Capacity Payments (Annual) | Call on Guarantee (Y/N) |
|---|---|---|---|---|---|---|---|---|
| 1. | Africa Geothermal International 140 MW | 25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya | 760 | Financial Close: 3rd April, 2014<br><br>Status: Under Construction | Letter of support issued | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>3. Net Present Value of 5 Years profits at 10% | US$ 77.3 Mn | NO |
| 2. | Lake Turkana Wind Power – 300 MW | The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West, on a 20 Year PPA with Kenya Power | 847 | Financial Close: 24th March, 2014<br><br>Status: Commissioned | Letter of support covering political risks issued on 28th February, 2013<br><br>Indemnity Agreement covering ADF Guaranteed Letter of Credit (LC) in the amount of Euros 20 Mn | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>3. Net Present Value of 5 Years profits at 10% | Deemed Generated Energy Payments Euros 110.4 MN | NO |

| No. | Project Name | Project Description | Project Value ($ Mn) | Status | Type/Value/State Guarantee | Amount of Termination Payment (Default by GOk | Obligation for fixed Capacity Payments (Annual) | Call on Guarantee (Y/N) |
|---|---|---|---|---|---|---|---|---|
| 3. | Gulf Power – 80.32 MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC. | 108 | Financial Close: 18th November, 2013<br><br>Status: Under Construction | Letter of support covering political risks issued on 2nd July 2012<br><br>Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG amount US$ 35 Mn and Euros 7 Mn | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>3. Net Present Value of 5 Years profits at 10% | Euros 16.3 Mn | NO |
| 4. | Triumph Power – 82 MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC. | 156.5 | Financial Close: 7th August 2013<br><br>Status: Under construction | Letter of support covering political risks issued on 2nd July 2012<br><br>Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US$ 45 Mn | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>**3.** Net Present Value of 5 Years profits at 10% | US$ 24.5Mn | NO |

| No. | Project Name | Project Description | Project Value ($ Mn) | Status | Type/Value/State Guarantee | Amount of Termination Payment (Default by GOk | Obligation for fixed Capacity Payments (Annual) | Call on Guarantee (Y/N) |
|---|---|---|---|---|---|---|---|---|
| 5. | Thika Power - 87MW | The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC. | 146 | Financial Close: 11th October 2012<br><br>Status: operational from August 2013 | Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35 Mn and Euros 7.7 Mn | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>3. Net Present Value of 5 Years profits at 10% | Euros 17.1Mn | NO |
| 6. | Kinangop Power – 60.8MW | The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC. | 150 | Financial Close: 31st December 2012<br><br>Status: Under Arbitration & Development stopped | Letter of support covering political risks issued on 26th July, 2013 | 1. Total Project cost depreciated at 5% per annum<br>2. Expenses incurred by the seller as a result of termination<br>3. Net Present Value of 5 Years profits at 10% | Deemed Energy Payment US$ 26.8 Mn | NO* |

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

| No. | Project Name | Project Description | Project Value ($ Mn) | Status | Type/Value/State Guarantee | Amount of Termination Payment (Default by GOk | Obligation for fixed Capacity Payments (Annual) | Call on Guarantee (Y/N) |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| 10. | Kipevu III, 120MW | Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period | 134 | Financial Close: None<br><br>Status: Operational | None | None | Ksh 2,209Mn | NO |
| 11. | Kipevu II 74MW | Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period | 85 | Financial Close: Sept, 1999<br><br>Status: Operational | Indemnity Agreement | 1. Net Present Value of Non- escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum.<br>2. Expenses incurred by the Seller as a result of termination.<br>3. The value of the stock of fuel and other | US$9.62 Mn | NO |

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

| No. | Project Name | Project Description | Project Value ($ Mn) | Status | Type/Value/State Guarantee | Amount of Termination Payment (Default by GOk | Obligation for fixed Capacity Payments (Annual) | Call on Guarantee (Y/N) |
|---|---|---|---|---|---|---|---|---|
| 15. | 100 MW Kipeto Wind Power | Feed in Tariff Power Plant on a BOO basis | 323 | Status: Financial Close Impending | Letter of support covering political risks issued | 1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity<br>2. NPV of 5 years profits at 10% discount rate<br>3. Redundancy payments/ Termination & Breakage costs<br>4. Value of unpaid construction works as at termination | US$ 60 Mn | NO |
| 16. | Akiira Geothermal 70 MW Power Project (Phase I of | Feed in Tariff Power Plant on a BOO basis | 333 | Status: Financial Close Impending | Letter of support covering political risks issued | 1. Total amount outstanding and unpaid to all | US$ 37.4 Mn | NO |

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

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

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



**THE NATIONAL TREASURY**
**18TH JANUARY 2018**