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PARLIAMENTARY SERVICE COMMISSION

Parliamentary Budget Office

On the Budget Trail: The MP's Budget Watch 2014/15

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The Budget Watch disseminates the findings on key issues that touch on the mandate and functions of Parliamentary Budget Office. These findings have been disseminated in the process of scrutiny of the Budget for 2014/15 by the legislature. The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the views of the Kenyan Parliament.

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The Key message

At the moment, given the current economic environment, the 10% economic growth target envisaged in Vision 2030 appears to be unachievable in the medium term. Notably, the country is grappling with insecurity and a persistent election mood since the 2013 polls which have slowed down economic activity and are likely to adversely affect investor confidence. For this country to achieve a higher growth rate there is need to go back to productive engagement focusing on efficiency in implementation of the budget as a tool to achieving higher growth.

In the 2014/15 financial year and the medium term, the budget is facing a hard financial constraint and it is likely that the country won't be able to mobilize additional resources as the baseline for resource mobilization is not feasible. Currently, there is so much focus on resource mobilization but not on efficiency gains in terms of budget implementation. Our focus should be on reducing non-priority expenditure and focusing on efficiency in the utilization of resources as a way of promoting growth while keeping deficit spending in check.

On the other hand, even as Kenya targets to achieve some key milestones under Vision 2030, the MDG goals appear off-track and with less than 200 days to go, it is highly unlikely that they will be achieved by 2015. Despite significant efforts made to achieve universal primary education and more recently, to improve maternal health through provision of free maternal healthcare, the country appears to be far from achieving most of the other MDGs. Poverty, hunger, disease prevalence, child and maternal mortality remain high.

The recent introduction of free maternal healthcare by the Government should not be construed to mean, "go ye forth and reproduce." The country must work hard to control the high population growth rate which if left unchecked, will continue to put a strain on health services and education provision.

Already, despite free primary education, the country's education policy appears to be off target amid quality concerns. High primary school enrolment rates mean that teacher-pupil ratios have worsened and the quality of education in primary schools appears to be deteriorating. Furthermore, education in tertiary institutions is biased towards white collar jobs at the expense of technical, industrial based qualifications. 2014/15 should be the year where major emphasis is on **efficiency and effectiveness**. This country has a potential to attain a two digit growth rate through efficiency in utilization of available resources. The focus should be, "***Fanya Kazi, Tenda Wema na Mungu atakubariki.***"

TABLE OF CONTENTS

State of the Economy and its Implications to the Budget/Fiscal Macro Framework for 2014/15 and the Medium Term **1**

I. The Economy on Rebound: Hope in the 2014/15 Budget 1

II. Economic Growth projections for 2014/15 and the Medium Term 2

III. Economic projections for Key Macroeconomic Variables 4

IV. Outlook of Economic Growth by Sector 6

V. Emerging Issues 9

The Medium Term Debt Management Strategy **10**

I. Overall Public Debt Position 10

II. Macroeconomic Environment and Risk Analysis 13

III. Alternative Sources of Finance 19

IV. Debt Sustainability 22

V. Emerging Issues 24

Financing the 2014/15 Budget and Projections of the resource envelope for the Medium Term **26**

I. Financing the 2014/15 Budget 26

II. Opportunities and Challenges in enhancing revenue collection 28

Government spending in 2014/2015 and its implications to the economy **30**

I. Introduction 30

II. Analysis of the Budget according to functions of the Government 32

III. Cash Transfers: No Longer a Welfare State Experiment 33

IV. Quality Education for Development 35

V. Access to Quality Healthcare 37

VI. Achieving food security 39

VII. Land Policy: A Hindrance to Housing Development and Cost of Doing Business 40

VIII. Breathing change to the transport sector 41

IX. Governance and Security 42

APPENDICES **44**

ABBREVIATIONS AND ACRONYMS

ADB	Africa Development Bank
A-in-A	Appropriation in Aid
ASAL	Arid and Semi-Arid Lands
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CCTV	Closed-Circuit Television
CFS	Consolidated Fund Services
COFOG	Classification of Functions of Government
CPIA	Country Policy and Institutional Assessment
CRA	County Revenue Allocation
CT-OP	Cash Transfers to Older Persons
CT-OVC	Cash Transfers to Orphans and Vulnerable Children
CT-PWSD	Cash Transfer to Persons with Severe Disability
DSA	Debt Sustainability Analysis
EAC	East African Community
ERS	Economic Recovery Strategy
EU	European Union
FAO	Food and Agriculture Organization
FDSE	Free Day Secondary Education
FPE	Free Primary Education
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDA	International Development Association
IDF	Import Declaration Fee
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KBRR	Kenya Bank's Reference Rate
KEMSA	Kenya Medical Supplies Agency
KENHA	Kenya National Highways Authority
KERRA	Kenya Rural Roads Authority
KRA	Kenya Revenue Authority
KURA	Kenya Urban Roads Authority
MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MTDS	Medium Term Debt Management Strategy
MTP	Medium Term Plan
NIS	National Intelligence Service
PBO	Parliamentary Budget Office
PBOM	Parliamentary Budget Office Model
PFM	Public Finance Management
PPPs	Public Private Partnerships
SAGAs	Semi Autonomous Government Agencies
TIVET	Technical Industrial Vocational Entrepreneurship Training
TSC	Teachers Service Commission
UK	United Kingdom
UN	United Nations
USA	United States of America
VAT	Value Added Tax

CHAPTER ONE

State of the Economy and its Implications to the Budget/Fiscal Macro Framework for 2014/15 and the Medium Term

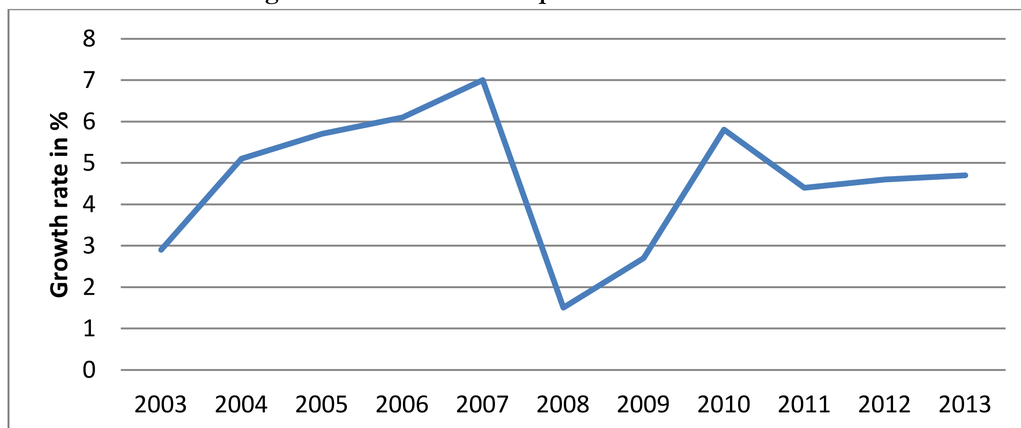
I. The Economy on Rebound: Hope in the 2014/15 Budget

1) Vision 2030 envisaged that the economy would grow at least by 10% annually by the year 2012. However, this growth target has so far remained elusive. Indeed for the past five years, the average growth rate for the economy has been less than 5%.

2) It is worth noting that the below par performance over the last five years was preceded by a period of robust economic growth following implementation of Kenya's Economic Recovery Strategy for Wealth and Employment Creation (ERS) which was formulated in 2003 and was effective till 2007. The main objective of the ERS was to restore high economic growth through maintaining a sound macroeconomic framework, strengthening of institutions of governance, rehabilitation and expansion of physical infrastructure, investment in the human capital of the poor as well as increasing the role of the private sector in economic development.

3) Implementation of the ERS produced impressive results with economic growth increasing steadily from a dismal 0.6 % growth rate in 2002 to an impressive 7 % in 2007 (Fig 1). This growth momentum was attributed to a stable political environment with improved investor confidence, increased revenue collection, stable macroeconomic environment, full utilization of existing capacity and improvements in the global economy.

Figure 1: GDP Growth for past decade 2003 - 2010



Source: Economic Survey (Various Issues)

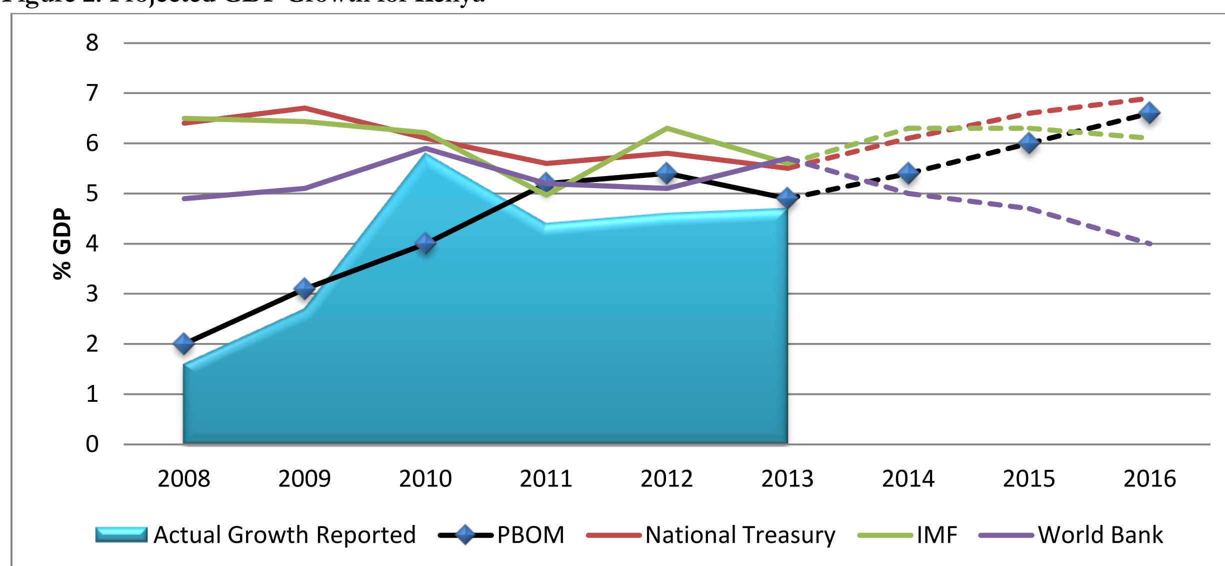
4) The apparent inability of the economy to regain the growth momentum after the year 2007 (as illustrated in Fig. 1) can be attributed to the ripple effects of the post election violence which reduced investor confidence. Furthermore, a series of exogenous shocks to the economy such as recurrent droughts, oil price fluctuations, global recession, and more recently, heightened insecurity have hampered a swift rebound of Kenya's economic growth.

5) Looking ahead, given the prevailing election mood in the country which has persisted since the 2013 polls, the wait and see approach typically adopted by investors during election periods is likely to persist thereby stalling investment efforts in the country. This reduction in investor confidence will have a negative impact on the economy. It is therefore imperative that we move away quickly from the post election fever to productive economic engagement for a prosperous Kenya.

II. Economic Growth projections for 2014/15 and the Medium Term

6) Whereas, the government projected economic growth at 6.1 percent in 2014/15, rising to 6.6 percent in 2015/16 and 6.9 percent and 2016/17, other authorities have different projections. Notably, statistics from PBOM indicate that the economy will grow at 5.4 percent in 2014/15, rising to 6.0 percent in 2015/16 and 6.6 percent in 2016/17. This is likely to be the most neutral projection in view of historical performance (Fig. 2). The IMF and the World Bank have also given varying indicative forecasts for Kenya's economic growth over the medium term as illustrated in Fig. 2 below.

Figure 2: Projected GDP Growth for Kenya



Sources: PBOM, KNBS, World Bank and IMF

7) From Fig. 2 above, whereas the Government projects a positive outlook for the economy in the Medium Term, the World Bank and the IMF's indicative forecasts are not as promising. According to the World Bank, the declining GDP growth rate over the Medium Term is attributed to low government spending as well as high interest rates charged by commercial banks. On the other hand, IMF cites higher GDP growth rates as a result of improved tax collection and credit growth, smooth political transition and accelerating credit growth to the private sector. However, the cautious Medium Term forecast is on account of renewed election mood which might impede growth and a higher than expected cost of devolution which is likely to reverse gains made in reducing the budget deficit.

8) The Government has anchored its positive growth projection on increased agricultural production, continued investment in infrastructure projects and expansion of activities in other sectors such as building and construction, manufacturing, retail and wholesale and financial intermediation. In addition, increased investments and domestic demand following improved investor confidence as well as the on-going initiatives to deepen regional integration are expected to enhance economic growth. However, the PBOM projection is based on real risks to the economy such as bottlenecks in the agricultural value chain, continued insecurity challenges, low tea prices at the Mombasa tea auction, reduced contribution in the share of manufacturing to GDP and the challenges facing the county governments. This is likely to hamper the realization of the Government's projections and economic growth may actually be more subdued.

9) Kenya can tap into the expected growth of the global and regional economies to improve its growth prospects. Latest statistics from the IMF indicate that the global economy recorded a growth of 3.0 percent in 2013 and is projected to increase to 3.6 and 3.9 percent in 2014 and 2015 respectively. Comparatively, United Nations department of Economic and Social Affairs forecasts the global economy to grow by 2.1 percent, 3.0 percent, and 3.3 percent in 2013, 2014, and 2015, respectively. Whereas the UN projections are lower than the IMF's, both forecast small but steady improvements in the global economic outlook which may portend great benefits for the Kenyan economy.

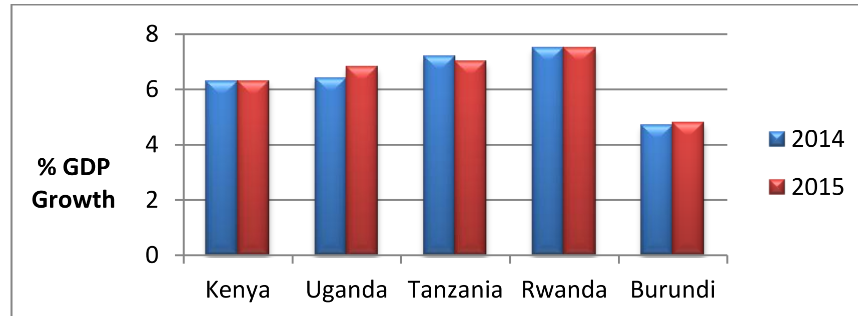
10) Positive economic growth has been projected for the USA and EU economies. Based on the size of these economies, small percentage growth rates translate to huge changes in terms of volume. This may imply increased demand for Kenya's exports since USA and UK are amongst Kenya's main trading partners. Furthermore, Asia's growth is expected to increase from 5.2 percent in 2013 to an average of about 5.5 percent in 2014 and 2015. By investing in security and infrastructure and improving the business environment,

Kenya can benefit from the projected growth in Asia by attracting foreign direct investment, increased exports and access to an alternative tourist market.

11) Economic growth in Sub-Saharan Africa was 4.9 percent in 2013 and is projected to grow by 5.4 percent in 2014 and 5.5 percent in 2015.The East African Community (EAC) is expected to grow at an average of 6.4 percent in 2014 and 6.5 percent in 2015. This growth will be supported by increased foreign direct investment into offshore natural gas resource in Tanzania and the commencement of oil production in Uganda and Kenya. Efficient implementation of projects that support regional integration in the 2014/15 budget such as; the standard gauge railway project (Kshs.19.4 Billion), East African Trade and Transport Facilitation Programme (Kshs.2 billion) and Northern Corridor Transport Improvement Programme (1.13 billion) will have a positive impact on regional integration and trade. It is worth noting that the EAC economies appear to be stagnating with very minimal growths projected (Fig. 3) for the coming year. Kenya may therefore need to look beyond the EAC in expanding its trade in order to boost economic growth.

a) Comparison of Kenya's economic growth prospects with other EAC countries

Figure 3: Projected GDP Growth for the EAC Countries



Source: IMF World Economic Outlook 2014

III. Economic projections for Key Macroeconomic Variables

a) Inflation

12) The month on month inflation increased from 7.39 percent in June to 7.67 percent in July 2014 on account of increased prices of rent, increased energy costs which increased transportation costs, as well as high cost of electricity due to revision of power tariffs. Average inflation from January to July 2014 is 7.0 percent and is projected to trend upwards to an average of 7.8 percent for the rest of the year. The main drivers of inflation will be the lower than expected rainfall which is likely to lead to a further increase in electricity costs.

13) The below average rainfall is also likely to drive up food prices. Notably, the Food and Agriculture Organization (FAO) projects a fall in cereal production over the 2013-2014 period in Kenya. Specifically, maize production is forecasted to reduce by 8.8 percent and the overall, cereal production is expected to fall by 8.3 percent (Table 1).

Table 1: Cereal Production in Kenya (000 tonnes)

	2009-2013	2013	2014 (Forecast)	Change
Maize	3257	3400	3100	-8.82%
Wheat	352	320	300	-6.25%
Sorghum	150	160	155	-3.13%
Others	229	269	249	-7.43%
Total	3988	4149	3804	-8.32%

Source: Food and Agriculture Organization (2014)

b) Interest Rates

14) One of the expected impacts of the issuing of the Eurobond was a reduction in domestic interest rate and stimulation of credit to the private sector, since Treasury is expected to reduce its participation in the domestic debt market. However, interest rates are likely to remain sticky downwards in the short term because the CBK has had to maintain a contractionary monetary policy with the CBR rate at 8.50 percent to curb the rising inflation.

15) To remedy the high interest rates, the CBK has also introduced the Kenya Bank's Reference Rate (KBRR) which sets the base lending rate on which commercial banks are supposed to add a margin to cover risks and operating expenses. The KBRR was set at 9.13 percent on 8th July 2014 and is expected to remain at that level until January, 2015. However, commercial banks may not significantly reduce interest rates due to underlying risks and challenges in the market such as difficulty in validation of authenticity of land title deeds; ease of transfer of collateral and the slow arbitration process which inform the high interest charges. The budgeted investment in judicial reforms and improved efficiency at the land registry may contribute to lower interest rates, due to easier transfer of collateral and lower risks of lengthy and expensive arbitration for lenders in case of default. Improved efficiency of credit reference bureaus may also lower interest rates for credit worthy borrowers.

c) Current account and Exchange rate

16) The Kenya Shilling depreciated slightly between January, 2014 and the last week of August, 2014 from an exchange rate of Kshs.86.3 to Kshs.88.4 and Kshs.142.8 to Kshs.146.58 against the US dollar and the Sterling Pound respectively. This can be

attributed to underperformance of the tourism sector due to heightened security threats and inefficiencies in the tourism sector as well as the drastic drop in tea prices at the Mombasa tea auction.

17) According to the World Bank, the average monthly price of tea at the Mombasa tea auction dropped from US$ 2.09 per kg in March 2014 to US$ 1.96 per kg in May, 2014. Further, the average price in May, 2014 was 16 percent lower than the average quarterly price for April to June, 2013 which stood at US$ 2.33 per kg. The number of international visitor arrivals also decreased by 11.2 percent in 2013 resulting in a 2.1 percent decline in tourism earnings. However, despite these challenges, it is likely that the Kenya shilling exchange rate to the US$ will remain below the 89 shilling mark in the medium term, assuming necessary and timely interventions by the Central bank.

18) The current account deficit is projected to increase by 10 percent, 13 percent and 23 percent in 2014/15, 2015/16 and 2016/17 respectively due to continued reliance on imported equipment and machinery for manufacturing and infrastructure development, reduced competitiveness of agricultural exports, low tourist arrivals and likelihood of exchange rate volatility which may affect donor funded projects in the event of losses arising from exchange rate variation.

IV. Outlook of Economic Growth by Sector

Table 2: Kenya's Economic Outlook for 2014/15 – 2016/17

Constant prices 2001	Constant Prices 2001 (Kshs. Billion)	Forecast growth in percentage		
	2013/14	2014/15	2015/16	2016/17
Government final consumption expenditure	281.3	2.8	2.7	2.5
of which wage bill Government	125.3	2.5	2.5	2.5
of which material consumption Government	155.9	3.1	2.9	2.6
Private final consumption expenditure	1331.8	3.3	4.0	4.0
Gross fixed capital formation	470.8	9.9	11.3	17.3
of which private investments	266.8	4.9	5.2	5.7
of which Government investments	2040.0	16.4	18.6	29.5
Changes in inventories	-9.6	-7.1	-7.1	-6.1
Exports of goods and services	509.4	7.0	7.1	5.1
Imports of goods and services	826.2	5.2	5.9	7.3
Discrepancy[1]	-28.0	0.0	0.0	0.0
Gross domestic product at market prices	1729.6	5.4	6.0	6.6
real GDP weights year before		4.7	5.3	5.5
final demand	2430.5	5.4	6.1	7.0
GDP private sector market prices	1604.2	5.6	6.3	6.9

Source: Parliamentary Budget Office Model (PBOM)

[1] The difference between the income and expenditure side estimation of GDP

a) Private Consumption

19) Private consumption is one of the major components of GDP, comprising over 70 percent of expenditure on GDP in Kenya. Through the positive feedback loop, growth in private consumption contributes to GDP growth which in turn spurs private consumption through increased disposable income and investment.

20) Private consumption expenditure is projected to grow by 3.3 percent in 2014/15 and 4.0 percent in 2015/16 and 2016/17. The growth drivers will be the projected growth in the private and informal sectors' employment and remittances from abroad. Increased private consumption may trigger increased investment in and expansion of the manufacturing sector which will subsequently lead to an increase in revenue through increased collection taxes such as VAT, Import duty as well as Excise duty. This in turn will increase the funds available to implement the 2014/15 and subsequent budgets.

21) Risks to this growth include high youth unemployment levels, expected rise in inflation and loss of employment opportunities in some key sectors such as tourism and agriculture. Further, the introduction of numerous levies by County Governments in the Medium Term may reduce the disposable income available for consumption.

b) Government Investment

22) Government investment is projected to grow by 16.4 percent, 18.6 percent and 29.5 percent in 2014/15, 2015/16 and 2016/17 respectively due to the ongoing and planned investment in large infrastructure projects in the medium term. These include the standard gauge railway, the Lamu Port Southern Sudan Ethiopia Transport Corridor, investment in geothermal energy generation at Olkaria and Menengai, Mombasa-Nairobi power transmission line, expansion of Jomo Kenyatta International Airport, major national roads among others.

23) A major risk to the projected growth in Government investment is the low absorption of development funds from donors. As at 11th July, 2014 the absorption rate of the 2013/14 budget for Kenya stood at 55 percent and 48 percent for loan A-in-A and loan revenue respectively. This rate is similar to that of 2012/13 financial year during which the government only absorbed 50.65 percent of the total donor funds. The low absorption results in additional expenses to the tax payers in the form of commitment fees and escalation of costs as well as resulting in sub-optimal service delivery to Kenyans.

c) Employment

24) Total employment is projected to increase to 21.6 million, 22.1 million and 22.7 million in 2014/15, 2015/16 and 2016/17 respectively on account of growth in the informal sector. Public sector employment will either decline or remain unchanged in the Medium Term due to prevailing concerns over the public wage bill. On the other hand, growth in the formal private sector employment may be curtailed by the relatively high cost of doing business; low productivity especially in the agricultural sector and mismatched skills of graduates and the job market requirements.

25) Some of the expected drivers of growth in the informal sector may be the access to cheap credit through initiatives such as Uwezo Fund, Youth Fund, Women Fund and setting aside 30 percent of procurement for youth, women and persons with disability. However, low uptake of these funds has hindered progress as envisaged. Growth in employment is also likely to be driven by ongoing initiatives such as rural electrification, successful implementation of devolution, revamping of the National Youth Service and technical training colleges as well as implementation of labor intensive public works by the National and County Governments.

d) Exports and Imports

26) Export of goods and services is projected to grow at 7.0 percent and 7.1 percent in the financial years 2014/15 and 2015/16 respectively but fall to 5.1 percent in 2016/17. The projected decline is attributed to increased cost of doing business relative to competitors, declining contribution of the manufacturing sector to GDP, lower than expected tourist arrivals, slow growth in productivity in the private sector and agriculture sector, and declining competitiveness of exports. The uncertainties surrounding renewal of the African Growth and Opportunity Act between Kenya and the USA and the fate of the Economic Partnership Agreement with EU may also have an impact on the growth of exports in the next two years given that the USA and EU are amongst the top destinations for our agricultural commodities and textiles.

27) Conversely, we project the imports of goods and services to grow at 5.2 percent, 5.9 percent and 7.3 percent in the financial years 2014/15, 2015/16 and 2016/17 respectively. This is due to increased import of machinery and equipment for the planned mega infrastructure projects and local manufacturing, chemical fertilizers, second hand clothes vehicles and organic and inorganic chemicals and plastics.

V. Emerging Issues

28) The 2014/15 Budget was anchored on a fairly ambitious macro-fiscal framework with high GDP growth projections as well as assumptions of a stable inflation and exchange rates.

29) For the 2014/15 budget to be implemented as envisaged in order to have meaningful impact on the economy and achieve the projected growth, there is need to maintain a sound macroeconomic framework through addressing the following:

a) **Addressing Insecurity:** In the budget, the Government has allocated substantial resources for various security interventions such as security equipment upgrade and modernization, recruitment and training of police officers, enhance surveillance systems among others. It is important to ensure that a significant portion of the budgetary allocations for leased police vehicles and recruitment of additional security personnel is utilized to enhance border surveillance whose porosity has contributed to a high number of illegal immigrants and weapons being smuggled into the country.

b) **Monitor absorption of donor funds:** review of the procurement law is expected to enhance absorption of development funds including donor funds thereby boosting GDP growth.

c) **Monitor disbursement of funds from Uwezo Fund, Youth Fund, Women Fund** ensuring enhanced coverage in order to promote employment growth and entrepreneurship among the youth.

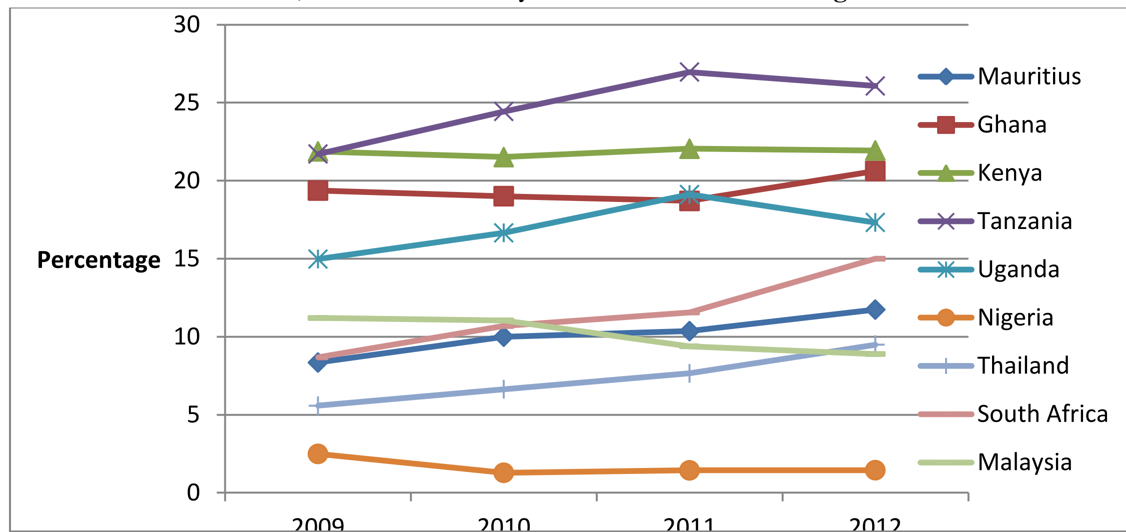
CHAPTER TWO

The Medium Term Debt Management Strategy

I. Overall Public Debt Position

30) The total public debt stood at Kshs. 2,127.5 billion, equivalent to 51.1 percent of our GDP[2] as at March, 2014.Of the total debt, 42.1 percent was external debt while 57.9 percent was domestic debt. Figure 4 compares Kenya's External debt stocks with other African and Asian Countries.

Figure 4: External Debt Stocks, Public and Publicly Guaranteed[3] as a Percentage of GDP



Source of data: World Bank

31) Over the period 2009 to 2012 Kenya's total external public debt to GDP ratio remained fairly constant at just over 21 percent[4]. However, this ratio was significantly high given that external debt ratios in other comparable African and Asian economies were much lower. In some emerging economies like Thailand and South Africa the external public debt grew at a faster rate over the four years.

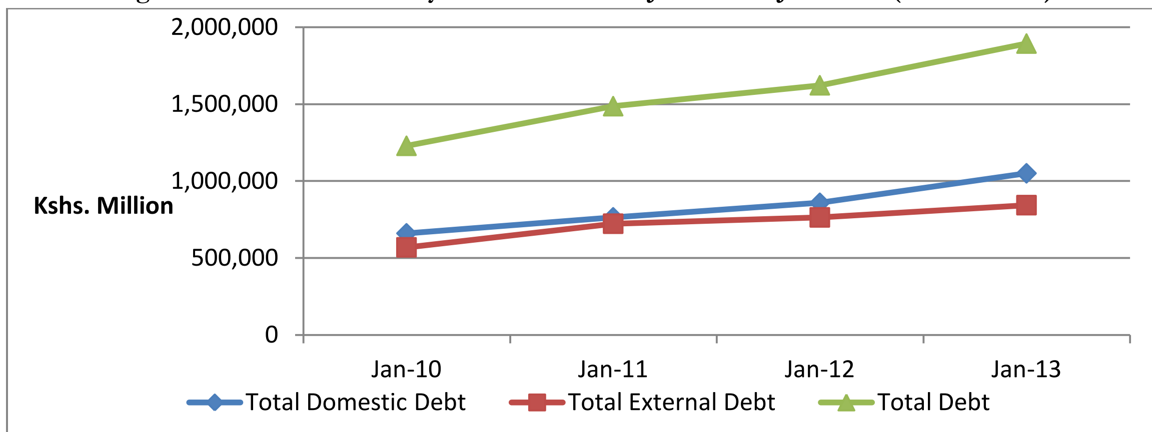
32) The main drivers of the growth of external debt for most of the African Countries including Kenya are the increased demand for social amenities, huge infrastructure

[2] The total stock of public debt was equivalent to 51.1 percent of our Gross Domestic Product.
[3] Public and publicly guaranteed debt comprises long-term external obligations of public debtors, including the national government, political subdivisions (or an agency of either), and autonomous public bodies, and external obligations of private debtors that are guaranteed for repayment by a public entity.
[4] Total external debt over the period was equal to about 21 percent of our annual GDP.

projects especially in the energy and transport sectors, the favorable credit rating by IMF and the availability of concessional loans from multilateral and bilateral lenders.

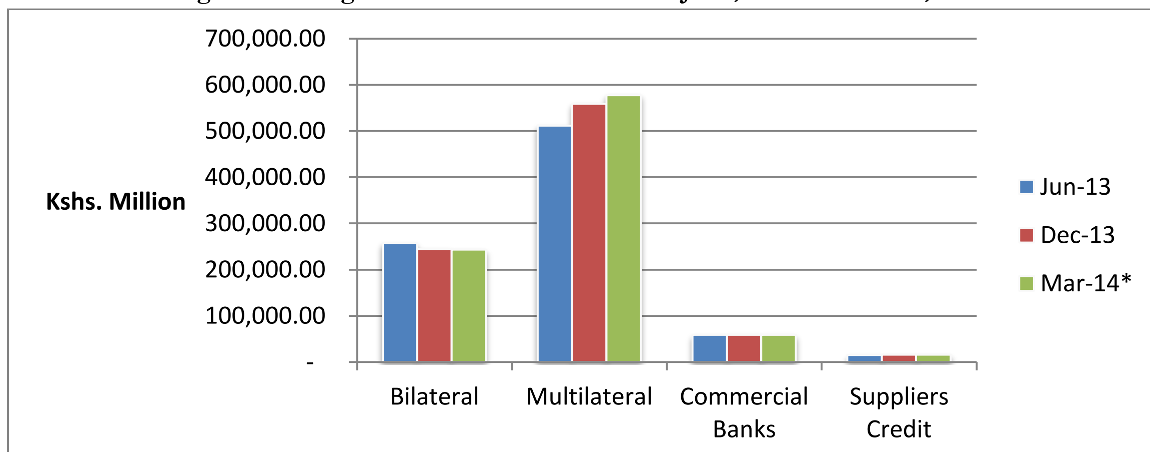
33) The increase in public debt in Kenya over the first half of 2014 was as a result of contracting of loans from multilateral and bilateral partners for infrastructure development. A case in point is the loan of US$ 3.88 billion or Kshs. 334 billion from the Republic of China for the construction of a standard gauge railway between Mombasa and Nairobi that was signed in May, 2014.Another major increment of the debt stock was occasioned by the floating of the US $ 2 billion Eurobond. Indeed, the contracting of concessional loans and the sovereign bond was provided for in the 2013 MTDS.

Figure 5: Public and Publicly Guaranteed Debt June 2010 - June 2013 (Kshs Million)



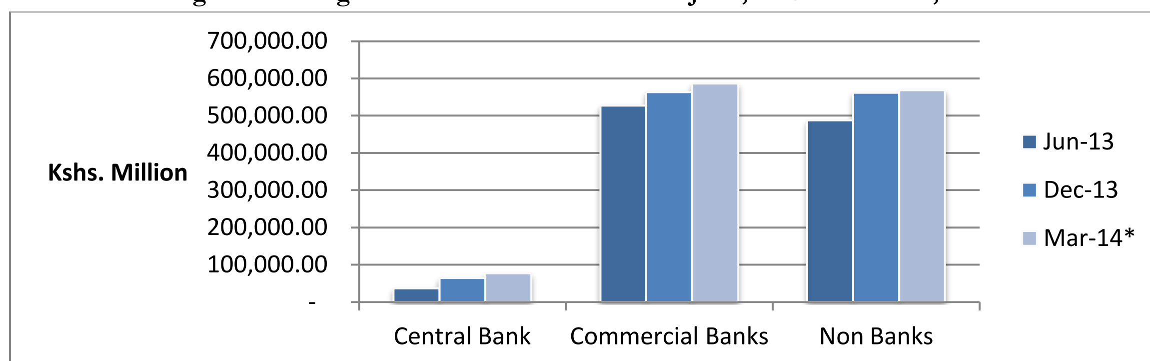
Source: The National Treasury

Figure 6: Changes in External Debt between June, 2013 and March, 2014



*** Provisional**
Source: The National Treasury

Figure 7: Changes in Domestic Debt between June, 2013 and March, 2014



*** Provisional**
Source: The National Treasury

34) The Gross and Net public debt increased by Kshs. 233.4 billion and Kshs. 257.1 billion respectively between June, 2013 and March, 2014. An analysis of our total debt increase over the periods revealed that the largest increase in foreign debt was from, IDA/IFAD, ADB/ADF (African Development Bank) and China which increased by US$ 424.41 million US$249.99 million and US$ 184.62 million respectively. Despite the significant increase in debt from China in the last five years IDA (World Bank), ADB, Japan and other western donors remain significant lenders to Kenya with our largest creditors being IDA and ADB.

35) The current stock of debt has an expenditure implication in the medium term and on future generations. In the 2014/15 budget Kshs. 325 billion was budgeted for principal and interest repayment on domestic and external debt, this made debt repayment one of the largest budget items in the recurrent budget.

36) During the period July, 2013 to March, 2014 provisional figures from the Treasury indicate the external debt service amounted to Kshs. 31,277.91 million of which Kshs. 21,705.01 million and Kshs. 9,572.90 million was principal and interest repayments respectively. Figure 6 gives a breakdown of the external debt between July, 2013 and March, 2014. Some of the proceeds from the floating of the US$ 2 billion Eurobond was used to retire a Kshs. 52 billion commercial bank syndicated loan facility negotiated in 2011/12, resulted in accrual of additional debt servicing costs of over Kshs. 2 billion on the syndicated loan that was to be paid in August, 2014.

37) Contingent liability associated with guarantees by the National Government may rise significantly in the Medium Term causing an increase in the debt service budget and stock of debt in Kenya. Given the track record of default by some parastatals that have been guaranteed by Treasury in the past 20 years, the debt servicing budget for the

National Government and the risk associated with contingent liabilities may increase, if Counties accrue and default on guaranteed debt.

38) The lack of prudent management of guarantees to SAGAs and local authorities in the past resulted in excessive outstanding government guaranteed debt, which stood at Kshs. 43,537.2 million in June 2013. Further, the net cumulative balance paid by the Government on behalf of public enterprises between 1991 and 2012/13 was Kshs. 30,049.5 million out of which the cumulative balance still owed to the Central Government is Kshs. 24,360.8 million. In the 2012/13, the Government made payments of Kshs. 1,290.6 million on guaranteed debt owed by the Kenya Broadcasting Corporation, Tana and Athi River Development Authority and the City Council of Nairobi (Now, Nairobi City County).

39) Given the challenges faced in the past in regards to publicly guaranteed loans, the risks from County Government borrowing may have an adverse effect on our credit rating as well as significantly increase our debt stock and the resources set aside by the National Government in future budgets for debt servicing.

II. Macroeconomic Environment and Risk Analysis

a) Gross Domestic Product

40) One of the measures of debt sustainability is the debt to GDP ratio or the net present value of debt to GDP ratio. According to the National Treasury the debt to GDP ratio stood at 51.1 percent in March 2014 and is expected to rise to about 53.3 percent in June 2014 and the decline to 49.3 and 47.8 percent by 2016/17 and 2017/18 respectively. Given the lower growth projections by the PBOM and the floating of a US$ 2,000 million Euro Bond towards the end of the 2013/14 financial year, as well as the continued proliferation of external loans for financing of huge infrastructure projects and lack of a feasible alternative to debt for financing of major projects, it is expected that the ratio of debt to GDP will remain above 50 percent in the medium term.

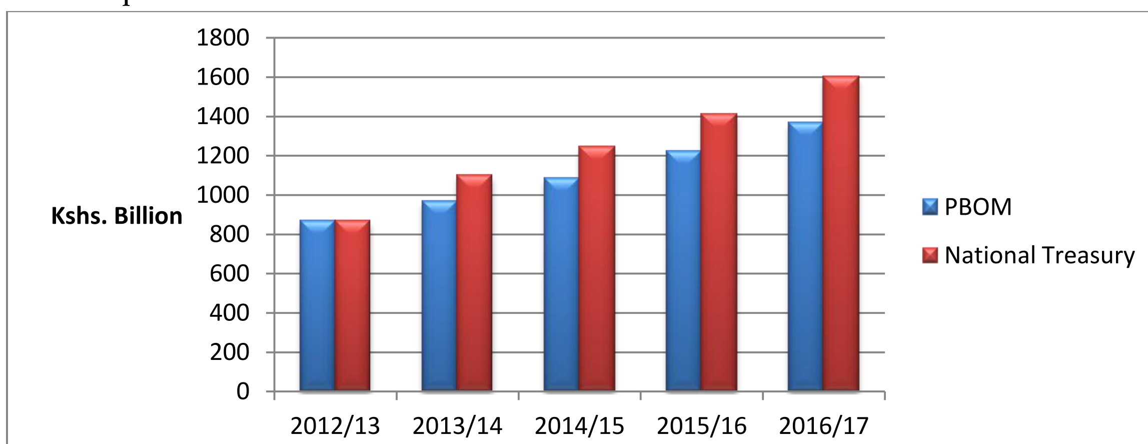
41) Indeed an analysis of debt stock indicates that GDP growth in the Medium and Long Term will play a major role in our debt to GDP ratio, for instance if the GDP continues to grow at an average of 4.4 percent in the next decade, assuming that other factors remain constant it is projected that the debt to GDP ratio will stand at over 55 percent by 2016.

42) The planned rebasing of the GDP may drastically reduce our debt to GDP ratio without any decrease in the actual volume of debt; this may encourage the Country to contract even higher volumes of debt in the Medium Term. However, this will be double edged sword for the country because apart from the access to more debt financing, a rebased GDP may reduce the availability of concessional loans and donor grants for Kenya, because the allocation of grants and highly concessional loans is sometimes pegged on the size of GDP and GDP per capita.

b) Revenue Performance and the Deficit

43) Revenue performance has an effect on demand driven debt, if there is revenue underperformance one of the options available for Treasury is additional borrowing either domestically or externally to bridge the gap. In determining their debt to GDP ratio target and the debt strategy to adopt, the Treasury worked with a macroeconomic baseline assumption of a projected significant rise in total revenue and grants in the medium term, thus causing a decline in the deficit and the projected required borrowing. However, projections by PBOM indicate a slower rise in total revenue and grants in the medium term Figure 8 gives a comparison of PBOM and Treasury revenue projections.

Figure 8: Comparison of Total Revenue and Grants for the Medium Term



Source of Data: Parliamentary Budget Office Model (PBOM), MTDS 2014

44) The slower growth in revenue projected by PBOM in the Medium Term is as a result of the persistent challenges in revenue collection, especially from the informal sector and landlords and slower growth in our GDP, these challenges are projected to continue if efficient measures are not taken by the Treasury and KRA.

45) An analysis of the effect of the deficit on our debt indicates that if the primary deficit is over 5 percent *ceteris paribus* in the Medium to Long Term the debt to GDP ratio will rise to over 55 percent in the Medium Term. Indeed if Kenya is to reduce and maintain the

debt to GDP ratio at below 50 percent in the medium term one of the strategies Treasury can adopt is to reduce the primary deficit to below 0.3 percent.

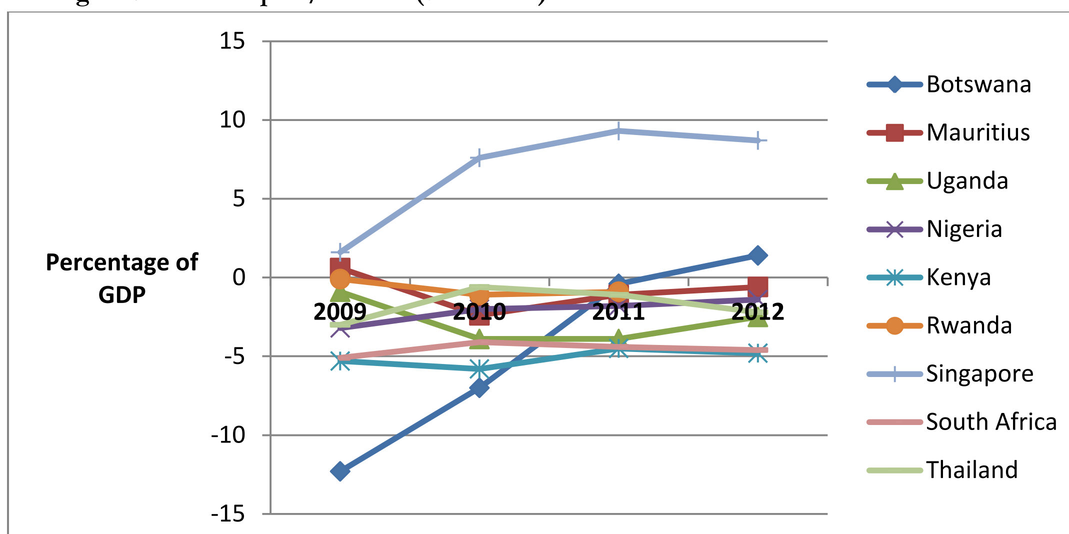
46) If the GDP is rebased as planned, Kenya may also lose access to grants and highly concessional loans that are set aside for low income countries as it may appear to be closer to middle income countries. As a result the expenditure demands on locally raised revenue will increase, because some of the vital health interventions such as provision of nutrition and drugs to HIV/AIDS patients, school feeding programme, provision of vaccines among other interventions will have to be taken up by the Government. Pressure from these and other crucial interventions that are funded by grants from donors may push the Government to increase borrowing.

47) A rapidly growing population is expected to increase pressure on the budget, especially in regard to provision of basic social services in the health and education sectors, which receive substantial amounts of grants from donors. According to Thugge, Heller and Kiringai (2010)[5] the high fertility rate in Kenya will result in increased demand for social services and reduce the capacity of Kenya to manage its budget deficit. Therefore, without policies to reduce the fertility rate even if revenue collection increases the budget deficit may still remain relatively high.

48) The historical and projected underperformance of revenue, coupled with the continued increase of the national budget means that Kenya will continue to record relatively high deficits in the Medium Term. The projected deficit will be as a result of high expenditures in infrastructure development especially in the construction of roads, railway, increasing energy capacity, provision of social services to a rapidly growing population and the unsustainable high wage bill as well as implementation of devolution. This will maintain the pressure on continued borrowing and increase the debt stock in the Medium Term.

[5] "Fiscal Policy in Kenya Looking Toward the Medium-to-Long-Term," with Kamau Thugge and Jane Kiringai (forthcoming in conference volume on Kenya's development, ed., by Paul Collier and Christopher Adam (Oxford University Press, 2010).

Figure 9: Cash Surplus/Deficit[6] (% of GDP)



Source: World Bank

49) When compared with South Africa, Rwanda, Nigeria, Uganda and Mauritius, Kenya has historically run consistently higher budget deficits. Some of the developed countries like Singapore had a budget surplus during the period 2009 to 2012. Like Kenya, most of the countries in Africa are also running budget deficits mainly driven by incremental budgets, poor and inefficient revenue collection, accelerated investment in infrastructure and poor budgeting. To reduce the budget deficit in Kenya, which may be become worse now that County Government are in place, Treasury should ensure that there is prudent public financial management at both the National and County level. This can be achieved by ensuring that loopholes and inefficiencies in revenue collection must be addressed and alternative methods such as PPPs are used in financing of huge infrastructure projects.

50) Through legislation, Parliament can set fiscal rules including the introduction of an annual budget deficit cap for both the National and County Governments. This will preempt issues of insolvency especially in the County Governments, reduce wasteful expenditure and the need for debt financing at both levels of Government.

51) The projected slow growth of the economy by PBOM, the ever increasing government expenditures, over projection of revenue and the persistent budget deficit means that the National Treasury projection of a debt to GDP ratio of below 50 percent in the Medium

[6] Cash surplus or deficit is revenue (including grants) minus expense, minus net acquisition of nonfinancial assets. In the 1986 GFS manual nonfinancial assets were included under revenue and expenditure in gross terms. This cash surplus or deficit is closest to the earlier overall budget balance (still missing is lending minus repayments, which are now a financing item under net acquisition of financial assets).

Term is not plausible. This also calls into question whether the National Treasury will adhere to the identified debt strategy in the Medium Term.

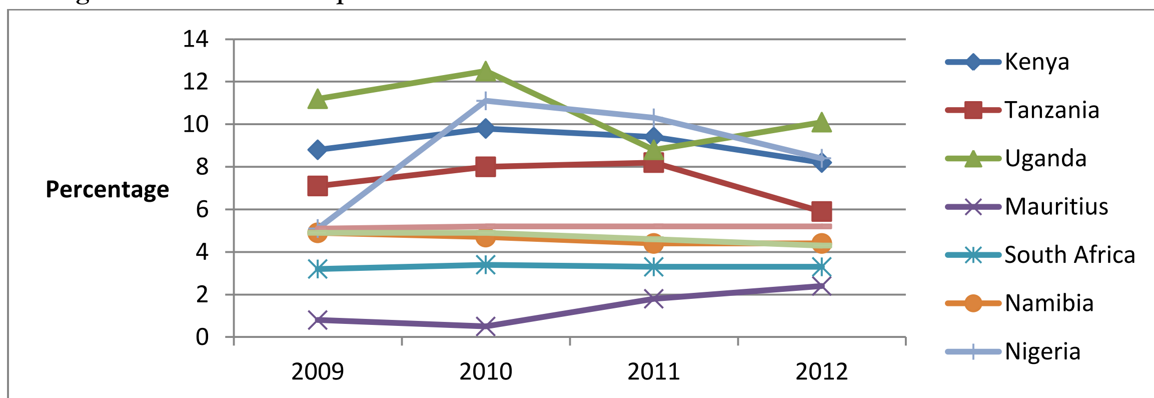
c) Public Debt and Domestic Interest Rates

52) The Treasury recently floated a US $ 2,000 million Eurobond, the proceeds from which were to be utilized to retire the Kshs.52 Billion commercial bank syndicated loan facility negotiated in 2011/12 and for other Government projects. One of the expected impacts of the Eurobond was a reduction in domestic interest and stimulation of credit to the private sector, because Treasury is expected to reduce its participation in the domestic debt market. However, the expected drop in interest rates has not materialized and it is projected that interest rates may not decrease significantly in the Short Term.

53) The projection that interest rates will remain sticky downwards in the short term is because the CBK has to maintain a contractionary monetary policy to reduce the rising inflation which stood at 7.39 percent in June, 2014. Indeed that could have precipitated the decision by the Monetary Policy Committee to maintain the Central Bank Rate at 8.50 percent. Further, even if the CBR is reduced the commercial banks may not respond to the Monetary Policy Committee's signal because lenders in Kenya still face significant risks which inform their high interest rate charge and on the other hand borrowers are faced with the challenge of significant information asymmetry. Figure 10 and 11 give a comparison of interest rates spreads and domestic credit to private sector.

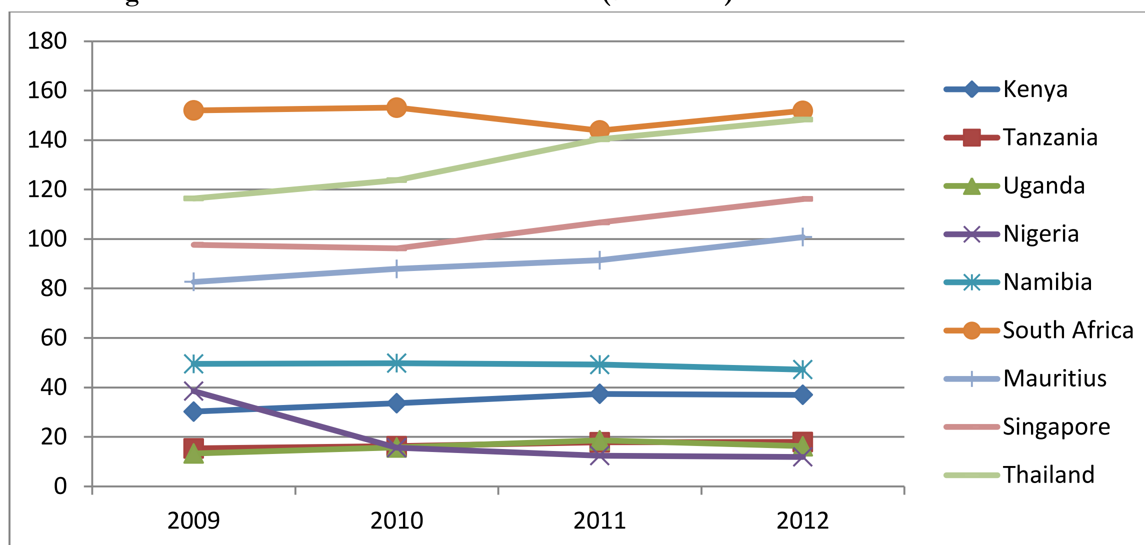
54) Despite the foray into international debt markets, the strategy set out by the Treasury in the 2014 MTDS indicates that 60 percent of new debt over the medium term will come from the domestic market. This may have a crowding out effect on the private sector and as a result hinder economic growth and poverty reduction.

Figure 10: Interest Rate Spread



Source: World Bank

Figure 11: Domestic Credit to Private Sector (% of GDP)



Source: World Bank

55) From figure 10 and 11 it is evident that the interest rate margins for Kenya are relatively higher than other African Countries. Whereas the interest margins in Kenya were around 8 and 9 percent between 2009 and 2012 Mauritius, South Africa, Thailand and Namibia had interest rate spreads of around 1.4, 4.5, 4.8 and 6 percent respectively. It is therefore evident that the private sector in other African countries is enjoying an advantage in terms of cost of credit and returns on savings which are both contributors to economic performance.

56) Despite the wide interest margins in Kenya our domestic credit to private sector stood at an average of 35 percent of GDP, which is higher than Tanzania, Uganda and Nigeria. When compared to South Africa, Thailand Singapore and Mauritius credit to private sector is significantly lower in Kenya given that South Africa, Thailand Singapore and Mauritius had an average rate of credit to private sector of 150 percent 130 percent 104 percent and 90 percent of GDP respectively. Therefore, reduced Government domestic borrowing, addressing issues of arbitration and challenges in verification of ownership of collateral may increase credit uptake and growth in the private sector which will increase the tax revenue available and reduce future budget deficits.

d) Absorption Capacity of Loans

57) Most of the development partners that give Kenya project and programme loans charge commitment fees on undisbursed/undrawn balances, for instance the World Bank charges a rate of 0.5 percent per annum on undrawn balances for IDA loans. As at 11th July, 2014 the absorption rate of the 2013/14 budget for Kenya stood at 55 percent and

48 percent for loan A in A and loan revenue respectively, this absorption rate is similar to that of 2012/13 financial year during which the government only absorbed 50.65 percent of the total donor funds.

58) The low absorption capacity is as result of poor planning and budgeting, the onerous requirements of the procurement law, donor conditionalities, weak programme delivery capacity and proliferation of supply driven debt. The low absorption results in additional expenses to the tax payers in the form of commitment fees and escalation of costs as well as lack of service delivery for Kenyans.

59) Going forward, to improve the absorption capacity, Treasury should ensure realistic donor commitments are captured in the budget, by projecting figures based on the annual work plans, procurement plans and previous absorption rates of each project. Further, the procurement law should be amended to promote efficient project implementation and only demand driven debt should be contracted for projects that have already gone through the preparation stage ensuring all the donor preconditions have been met.

60) The track record of low absorption and delays in project implementation may make borrowing through the Eurobond costly. This is because unlike concessional loans from donors that have a grace period of up to ten years and a repayment period of up to 20 years, interest rates on the Eurobond start accruing immediately and the repayment period is 5 and 10 years. This means by the time we fully repay the Eurobond some of the projects that it is supposed to finance may not have been completed or in the worst case scenario they may not have even started. Therefore, the impact of the bond on the economy in the Medium Term may be negative.

III. Alternative Sources of Finance

a) Infrastructure/Project Bonds

61) The Government can also tap into the domestic capital markets through floating of infrastructure bonds or project bonds; so far the Government has issued five infrastructure bonds amounting to Kshs. 1,409 million which will mature between 2018 and 2023. The infrastructure bonds issued have a higher interest rate than the Eurobond however; their maturity period of over 10 years is significantly longer than the 5 and 10 year maturity for the Eurobond. In addition to this, repayment of locally floated infrastructure bonds is done in Kenya Shillings. Therefore, unlike the Eurobond, it does not have a significant effect on the exchange rate.

62) The infrastructure bonds and the Eurobond have a drawback because when the government floats them it gives a raft of projects that it will finance without going to specifics. This means that the money that is raised can be used for other purposes and ultimately the expected benefits may not be realized. On the other hand, project or programme bonds may be more attractive for investors and better utilized because, these types of bonds are floated for specific projects. Therefore, the Government will be forced to allocate resources in the budget for that project once they float the project bond.

63) A report by ADB[7] identified economic stability; professional management of pension and mutual funds which are a source of savings; reforms in the infrastructure sector; sufficient governance and transparency in financial reporting; efficient regulation and balanced tax and commercial policies as some of the initiatives African Governments need to deliver to make infrastructure and project bonds a viable alternative source of funds.

64) Parastatals especially public utility companies that can also use infrastructure and project bonds to finance expansion of their production and networks. This will reduce the amount of resources the Government channels to some sectors such as the energy sector in Kenya.

b) International Capital Markets

65) As an alternative to concessional loans and domestic borrowing, the Government can continue to borrow from international financial markets through floating of sovereign bonds such as the recently floated US$ 2,000 million Eurobond.

66) Access to international markets by the Government through the sovereign bonds or similar financial instruments may be a positive alternative to domestic borrowing because; the interest rates prevailing in foreign capital markets may be lower than the domestic interest rates. With access to international debt, the Government may ease domestic borrowing and as a result crowd in the private sector. However, significant risk is attached to this type of borrowing because the maturity period and repayment terms are significantly shorter and more costly than concessional loans.

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[7] Mbeng Mezrui, C.A and Hundall B, "Structured Finance: Conditions for Infrastructure Project Bonds in African Markets," NEPAD, African Development Bank 2013

67) Given the previous experience of delays in project implementation and the average implementation period for most projects, the maturity of 5 to 10 years of this type of borrowing means that the Government may have to borrow to repay the bonds. This is because benefits from the sovereign bonds may not have accrued to the economy when they are due for repayment. Further to this, lack of a grace period means interest will start accruing immediately.

68) Borrowing through internationally floated sovereign bonds also poses some macroeconomic risks especially in relation to the exchange rate and foreign currency reserves, especially during repayment because the bond will be serviced using hard currency. For Kenya to benefit from the Eurobond and other international floated sovereign bonds, we must ensure the proceeds are invested only in developing productive capacities of our economy and cost-lowering restructuring of debt flows.

c) Public Private Partnerships

69) The Government can engage in Public Private Partnerships (PPPs) as an alternative to debt financing, for instance the proposed innovation of using 'annuity concessions'[8] to finance road construction if piloted successfully may be an immediate alternative to debt financing for some public infrastructure projects.

70) PPPs can also be used to complement other alternatives such as the infrastructure and project bonds; this is because, private sector participation may improve efficiency of delivering Government projects which will increase the appetite for the floated infrastructure and projects bonds. Some of the new innovations in PPPs such as annuity concessions require the private sector to spend significant sums of their own money which may not be tenable through borrowing from local banks. However, some of the private companies that have access to the capital markets can use infrastructure and project bonds to participate in PPPs.

d) Concessional Loans

71) This is the traditional method that has been used by Kenya and other developing countries to finance infrastructure development and the social sectors. The loans from development partners are attractive because they have low interest rates. For instance,

[8] 'Annuity concessions' is a mode of financing infrastructure where the contractor is given a concession to construct and maintain a road using his/her own money and in return the Government makes annual payments for use of the infrastructure once it is completed satisfactorily. This may drastically reduce the cost of building roads as well reduce the need for debt financing.

the service charge of 0.75 percent charged by World Bank and the maturity period that is also significantly longer up to 30 years for some loans with a grace period of up to 10 years.

72) Concessional loans sometimes come with a lot of conditionalities for the recipient countries and these conditionalities serve the interest of the lender country at the expense of the project beneficiaries. These loans are also sometimes supply driven, which leads to unsustainable, ineffective and inefficient interventions at community level as well as payment of commitment fees by tax payers because at times loans are contracted before substantial project preparation is done.

73) A mix of stringent conditionalities, poor planning and budgeting, and the prevailing procurement law has meant that in the past five years only an average of slightly over 50 percent absorption rate has been achieved. Further, the projects implemented through concessional loans tend to have significantly larger management costs, because of the high salaries paid to project staff. In some projects up to 40 percent of the loans we borrow can be used to pay salaries and for other management costs.

IV. Debt Sustainability

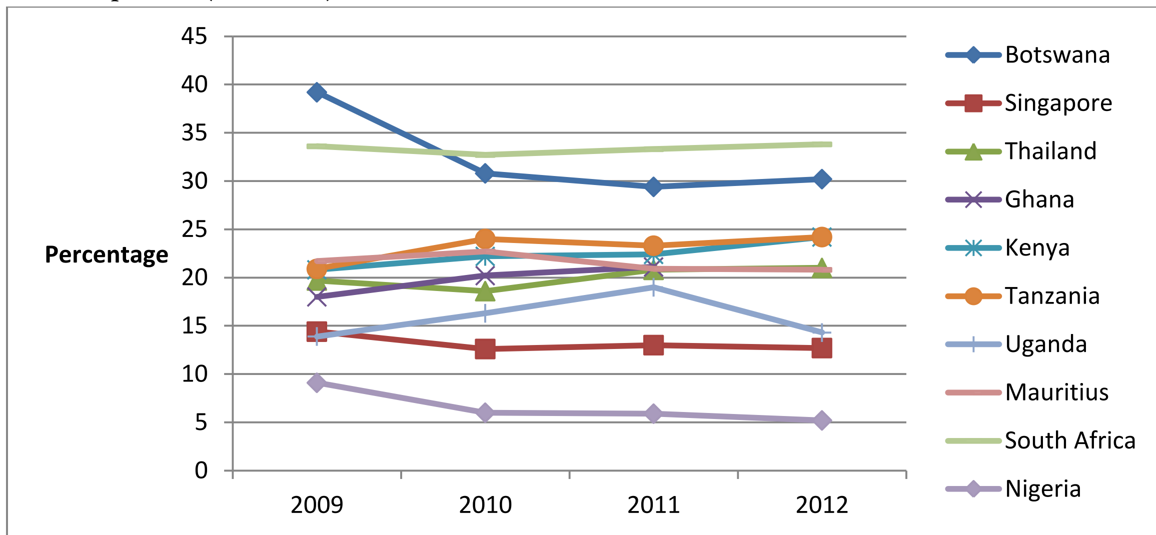
74) In the April, 2013 Debt Sustainability Analysis (DSA) by the IMF, Kenya was found to have no significant vulnerability and would therefore maintain the net present value of its external debt to GDP ratio below the threshold of 40 percent. The threshold of 40 percent was set because at the time the World Bank's Country Policy and Institutional Assessment (CPIA) index rated Kenya as a medium policy country.

75) The threshold for Kenya's present value of its external debt to GDP was further revised to 50 percent in December, 2013 following improvement in the World Bank's Country Policy and Institutional Assessment (CPIA) index. As of 2013; the Net Present Value of debt to GDP ratio was around 40 percent with the present value of external debt to GDP standing at 20 percent.

76) To ensure that our debt is sustainable and our public expenditure conforms to Article 201 (c) of the Constitution, the Government must reduce wasteful expenditure and improve the efficiency of revenue collection to reduce the debt burden for future

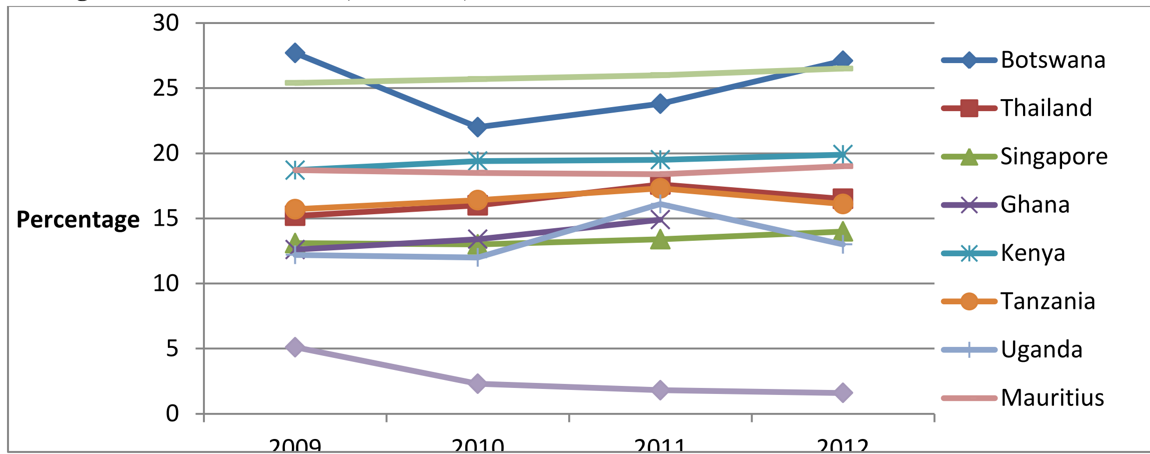
generations. Figure 12 and 13 give a comparison of expenditure and revenue between Kenya and other African countries.

Figure 12: Expenses[9] (% of GDP)



Source: World Bank

Figure 13: Tax Revenue[10] (% of GDP)



Source: World Bank

77) Compared to the other African countries, Kenya collects more tax as a percentage of GDP. However; southern African Countries such as Botswana and South Africa have a higher rate with South Africa and Botswana collecting over 26 percent of their GDP in

[9] Expense is cash payments for operating activities of the government in providing goods and services. It includes compensation of employees (such as wages and salaries), interest and subsidies, grants, social benefits, and other expenses such as rent and dividends.

[10] Tax revenue refers to compulsory transfers to the central government for public purposes. Certain compulsory transfers such as fines, penalties, and most social security contributions are excluded. Refunds and corrections of erroneously collected tax revenue are treated as negative revenue.

some years. The trend of expenditure as a percentage of GDP is similar with Botswana and South Africa spending more as a percentage of GDP than Kenya. The two countries' Governments spent over 28 percent of their GDP between 2009 and 2012 while Kenya spent an average of 22 percent over the same period on the other hand Singapore and Nigeria consistently had expenses below 15 percent of their GDP.

78) It is evident that for Kenya expenditures are growing faster than the growth in tax revenue and the expenditure consistently exceeds revenue. This trend is projected to persist in the Medium Term meaning that we will continue to accrue more debt to finance our budget deficit.

79) One of the ways of ensuring debt sustainability is by requiring the National and Sub-national levels of Government spend within their means through introduction of budget deficit caps. Countries like Indonesia set their deficit cap at 3 percent of GDP in 2003; Germany amended its constitution in 2009 to introduce a deficit cap of 0.35 percent for the Federal Government by 2016 while the individual states in Germany will not be allowed to have any deficits starting 2020. Alternatively, as was the case in the proposed amendment in Spain, the Constitution can require a deficit cap to be set by legislation allowing Parliament to revise the deficit as and when necessary.

80) Kenya could benefit from amendment of the PFM Act to introduce fiscal rules including a deficit cap for both the National and County Governments, to reduce the need for excessive borrowing and ensure debt sustainability and intergenerational equity. Provisions can be made for exceptional circumstances under which the Government may be allowed to exceed the set cap.

V. Emerging Issues

81) As stated by the 2014 MTDS Kenya's debt is and will remain at sustainable levels in the medium term when measured using the limit of external debt to GDP level of 50 percent set by the International Monetary Fund. However, in order to conform to Article 201 (c) of the Constitution, promote efficiency in Government operations, spur private sector development and maintain fiscal discipline at National and County Government level, the Government should undertake deliberate fiscal consolidation measures to reduce the reliance on debt financing.

82) To reduce the demand for debt the Government must seal all the tax loopholes, improve efficiency in tax collection, ensure that people working in the informal sector and

landlords bare their fair share of the tax burden and reduce wasteful expenditure by the National and County Governments. Parliament can through amendment of the PFM law introduce fiscal rules including budget deficit caps for the National and County Governments to promote prudent financial management and balanced budgets.

83) Given that Kenya is a developing country, there is an inherent need for implementation of major infrastructure projects that promote growth and deliver services to the citizens, which results in huge capital demands that inevitably lead to borrowing to close the deficits. However, Kenya can use a mix of alternative forms of financing such as PPPs, annuity concessions and project bonds as alternatives to traditional debt sources.

84) Acquisition of the different forms of debt is meant to deliver projects that benefit the current and future generations and accelerate economic growth and poverty reduction. However, the worrying trend of low absorption is either denying or delaying the ultimate goal of pulling a majority of Kenyans out of poverty and further escalating the cost of programme delivery. Amendment of the procurement law, better planning and budgeting, efficient project implementation and contracting of demand driven debt can ensure that the contracted debt achieves the intended results.

CHAPTER THREE

Financing the 2014/15 Budget and Projections of the resource envelope for the Medium Term

I. Financing the 2014/15 Budget

85) The Government projects total revenue to reach Ksh. 1.18 trillion with ordinary revenue amounting to Kshs. 1.09 trillion. This is expected to increase to 1.26 trillion in 2015/16 and 1.45 trillion in 2016/17 (Table 3). The total revenue collection targeted including Appropriations-in-Aid is estimated at 25.5 percent of GDP.

86) Table 3 below highlights revenue projections for 2014/15 and the medium term including external borrowing and net domestic borrowing:

Table 3: 2013/14 – 2014/15 Revenue Estimates (Kshs. Billions)

Description	2012/2013 Actual Receipts	2013/2014 Revised Estimates	2014/2015 Estimates	2015/2016 Estimates	2016/2017 Estimates
Total Revenue	**845,184,130,004**	**986,200,319,696**	**1,180,997,028,089**	**1,372,095,912,015**	**1,571,746,256,720**
Ordinary revenue	777,783,689,402	918,883,771,219	1,086,883,274,554	1,260,108,833,243	1,450,323,923,714
A-in -A	67,400,440,602	67,316,548,477	94,113,753,535	111,987,078,772	121,422,333,006
Grants	**20,723,093,521**	**67,216,853,325**	**57,989,025,292**	**75,855,811,992**	**17,087,984,597**
Domestic Borrowing	**177,693,549,715**	**108,102,195,951**	**192,847,775,495**	**170,357,505,616**	**182,951,569,655**
Repayments from lending	2,183,549,715	1,622,431,588	2,034,235,453	1,957,505,616	1,951,569,655
Net domestic	175,510,000,000	133,228,650,547	190,813,540,042	168,400,000,000	181,000,000,000
External Borrowing	**84,388,778,890**	**304,733,374,825**	**177,674,663,700**	**213,020,647,577**	**173,542,369,044**
Foreign Governments/Multilateral	60,819,451,809	110,292,613,796	100,199,217,213	138,278,493,253	74,581,231,639
Foreign Commercial Borrowing	23,569,327,081	194,440,761,029	77,475,446,487	74,742,154,324	98,961,137,405

Source: Estimates of Revenue, 2014/15

87) The 2014/15 revenue projections are premised on ongoing reforms in the tax and customs administration which are expected to enhance efficiency in revenue collection. Furthermore, implementation of the VAT regulations is expected to further ease compliance and therefore enhance the revenue yield. Enhanced administrative measures by the KRA to eliminate tax leakages and expand the tax base are also expected to have positive impacts.

88) The revenue projections for the various tax heads are as indicated in the Table below:

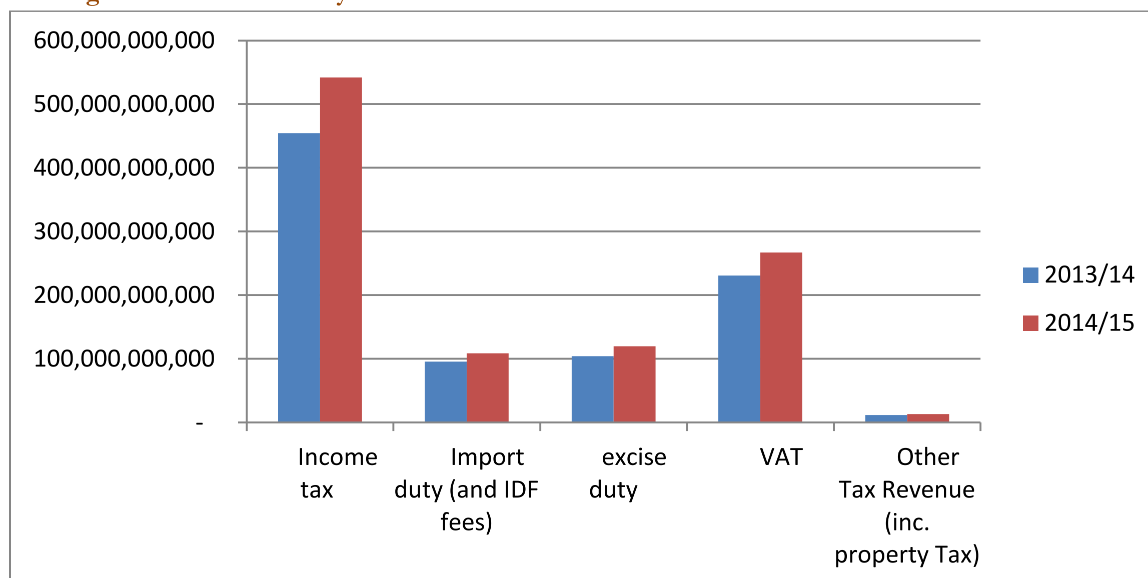
Table 4: Revenue Estimates 2014/15 per Tax Head

	2012/13	2013/14 Prov.	2014/15
Total revenue	831,043,766,511	1,031,962,600,870	1,181,051,366,854
Ordinary revenue	760,787,727,995	943,483,364,700	1,086,937,613,319
Income Tax	372,886,041,716	454,673,439,462	541,915,177,122
Import Duty (and IDF fees)	81,512,594,970	95,478,954,647	108,694,390,822
Excise Duty	83,260,290,157	104,004,379,911	119,770,416,749
VAT	170,235,370,253	230,962,436,964	267,137,770,925
Other Tax Revenue (inc. Property Tax)	8,537,806,413	11,563,510,751	13,157,557,314
Property Income	18,683,121,413	16,287,759,738	20,147,828,504
Licences and other fees, Charges	14,108,952,042	7,512,637,908	10,106,133,563
Sale of goods and services,other receipts	10,098,052,979	21,807,466,301	4,651,218,276
Fines and Forfeitures	1,465,498,053	1,192,779,018	1,357,120,046
AIA	70,256,038,516	88,479,236,169	94,113,753,535

Source: Estimates of Revenue 2014/15

89) Under total ordinary revenue, the key drivers of revenue performance are projected to be income tax and VAT. Import duty and excise duty are also projected to grow minimally (Fig. 14).

Figure 14: Total Ordinary Revenue Growth



Data Source: Estimates of Revenue 2014/15

II. Opportunities and Challenges in Enhancing Revenue Collection

(i) Opportunities

90) **Tax Administration Reforms:** Several tax administration reforms have been proposed in order to enhance revenue collection in almost all tax heads in the current financial year. These include the following:

a) **VAT Regulations:** VAT performed exceptionally well in the previous financial year due to implementation of the VAT Act. Following its enactment, VAT collections shot up significantly exceeding the March 2014 target by Kshs. 5.139 billion. Import VAT exceeded target by Kshs. 6.7 billion, following improved risk assessment of import cargo and reduction in items under the zero-rated and exempt category. The growth of VAT between the actual March 2013 collections and March 2014 was 24%, or a Kshs. 33.6 billion over-performance. It is expected that the VAT regulations will provide clarity in interpretation of various key aspects of the law thereby and address administrative challenges thereby enhancing revenue collection.

b) **Enactment of Tax Procedures Law:** The proposed law is intended to introduce uniform procedures across VAT, Excise and Income statutes to simplify their administration as well as reduce the cost of compliance. It is expected that this measure will lead to efficiency in tax collection.

c) **Administrative and Enforcement Factors:** it is expected that administrative measures by KRA will ensure good realization of expected revenue. These include stricter enforcement of tax procedures at various tax collection points, stricter monitoring of income tax remittances and greater focus on enforcement of the VAT Act domestically and at the customs. Furthermore, the full roll out of the integrated i-Tax system is expected to improve ease of surveillance and enhance collection as large taxpayers are required to file and pay their tax returns electronically.

d) **Macroeconomic factors:** Economic performance over the next financial year will greatly determine the amount of revenue collected. Modest real growth of GDP between 5% and 6% over 2014/15, Inflationary creep of about 7%, stable exchange rates of about Ksh. 85 – 87 to the US dollar, could help drive both VAT and import duties.

(ii) Challenges

91) **Historically, revenue has routinely underperformed partly due to a fairly ambitious macroeconomic framework.** Revenue projections by the National Treasury are typically anchored on high macroeconomic targets which almost always end up not being realized and this has a negative impact on revenue collection. The macroeconomic risks which could dampen revenue collection prospects are discussed as follows:

a) **Ambitious GDP growth projection:** The National Treasury has projected a GDP growth of 5.8 percent for financial year 2014/15. This is a fairly ambitious growth projection given the prevailing downside risks in the economy (*Discussed in Chapter One*). It is worth noting that in financial year 2013/14, the economy was projected to grow by 5.5 percent but only grew by 4.6 percent. In the current financial year, the National Treasury has projected a GDP growth of 5.8 percent against the PBO projection of 4.9 percent. If the growth target is not realized, it will adversely affect revenue collection as per the projected figures.

b) **Persistently high Inflation:** The Government projected inflation at a single digit level of about 5%. A modest increase in inflation is actually likely to boost revenue collections due to higher price levels. However, should inflation persistently continue its upward trend, this is likely to dampen domestic demand and therefore economic growth and revenue collection. Since January, inflation has been steadily edging upwards and is currently estimated at 7.67 percent.

92) **Less than excellent growth of import value arising from high tariffs** on various import goods and substitution effects arising from the introduction of the railway development levy could set in to dampen import duty collection.

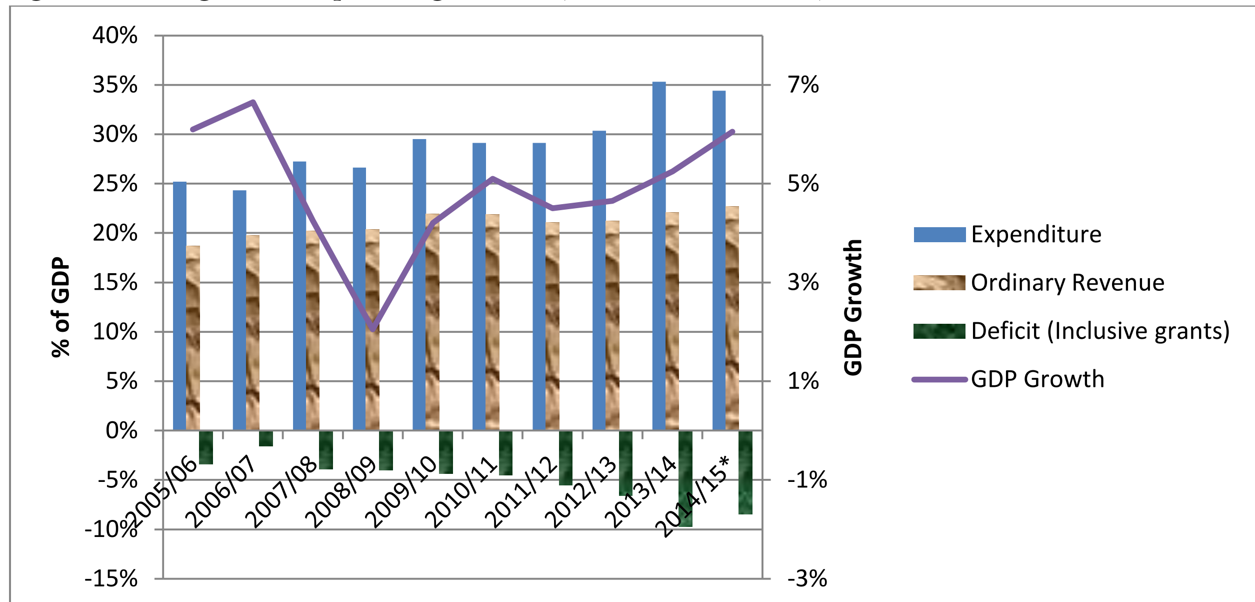
CHAPTER FOUR

Government Spending in 2014/2015 and its Implications to the Economy

I. Introduction

93) The government spending over the past ten years has been increasing on a faster rate than revenues. As shown in Figure 15 below, the expenditure has increased from 25% of GDP in 2005/2006 to 34% of GDP in 2014/2015 while ordinary revenues have increased over the same period from 19% of GDP in 2005/2006 to 23% of GDP in 2014/2015. This has resulted in the government's budget having a large deficit annually with the 2014/2015 deficit being projected at 8% of GDP. Consequently, the government has increasingly relied on borrowing to meet its revenue shortfall.

Figure 15: Fiscal growth as a percentage of GDP (2005/2006 – 2014/2015)



* projections

Source: National Treasury Publications

94) From the above graph, the rise in GDP growth since 2011/2012 has occasioned an increase in both expenditure and revenues. However, it is noted that despite the projected rise in GDP for 2014/2015, the growth in Government expenditure is set to decline from 35% of GDP in 2013/2014 to 34% of GDP in 2014/2015. Subsequently, the budget deficit is also set to reduce from 10% of GDP in 2013/2014 to 8% of GDP

in 2014/2015. This reduction in expenditure for 2014/2015 indicates a reduction of allocation for key expenditure items.

95) The bulk of the funding for the National Government is spent on Consolidated Funds Services and in the social sector. As shown in table 5, the CFS has increased over the last five years from 6.7% of GDP in 2010/2011 to 9% of GDP in 2014/2015 making it take the lion's share of the current budget. A large proportion of the CFS budget is used for repayment of public debt. This situation increasingly tends to inflexibility in the budget as CFS takes the first charge of available resources.

96) Although the Social sector has been spending about 10% of GDP over the last five years, its expenditure has been on the decline since 2012/2013 and is currently at 8.2% of GDP. Despite the substantial devolution of funds in 2013/2014 for the health and social protection, culture & recreation dockets, the sector whose resources largely fund the education sector has still witnessed a decline in its funding.

Table 5: Allocations for key expenditure items for 2012/2013 – 2014/2015 (as percentage of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15
CFS	6.7%	6.5%	9.4%	8.7%	9.0%
Transfer to Counties	0.0%	0.0%	0.3%	4.6%	4.9%
Infrastructure Sector	6.0%	6.9%	7.7%	5.1%	5.5%
o/w Energy	1.3%	2.0%	2.4%	1.9%	1.6%
Transport Infrastructure	3.6%	3.6%	3.9%	3.0%	3.7%
Other (ICT, etc)	1.2%	1.3%	1.4%	0.3%	0.2%
Social Sector	10.2%	9.2%	10.6%	8.8%	8.2%
o/w Education	6.9%	6.2%	7.0%	7.2%	6.7%
Health	2.1%	2.0%	2.5%	1.2%	1.0%
Social Protection Culture and Recreation	1.2%	1.0%	1.1%	0.5%	0.5%
Governance and Security Sector	5.4%	5.2%	6.4%	5.2%	4.8%
o/w Defense & NIS	2.2%	1.8%	2.4%	2.1%	2.0%
Internal Security	2.6%	2.5%	2.7%	2.4%	2.2%
Judiciary	0.1%	0.3%	0.4%	0.4%	0.4%
Other	0.6%	0.6%	1.0%	0.3%	0.3%
Public Administration Sector	3.2%	4.1%	3.8%	4.4%	4.2%
o/w Parliament	0.3%	0.2%	0.4%	0.5%	0.5%
Economic Sector	4.3%	3.7%	3.4%	3.3%	2.7%
o/w Agriculture	1.2%	1.0%	0.9%	1.0%	0.8%

Source: PBO

97) The governance and security sector has also had a decline in expenditure from 6.4% of GDP in 2012/2013 to 4.8% of GDP in 2014/2015. This has occasioned a decline in the

spending on Defence & National Intelligence Service by 0.4% and internal security by 0.3% over the same period. The economic sector, which is the country's economic engine, has seen a decline in expenditure from 3.4% of GDP in 2012/2013 to 2.7% of GDP in 2014/2015. The allocation towards the public administration sector has averaged 3.9% over the period 2010/11-2014/15. It worth noting that the allocation for Parliament increased from 0.2% in 2011/12 to 0.4% in 2013/14 owing to the implementation of a bicameral Parliament that nearly doubled the number of Members (National Assembly and Senate).

98) Despite the decline in spending by government in most sectors, the recently created devolved structures and the infrastructure sector have both experienced expenditure increments in 2014/2015. Transfers to county governments have increased from 4.6% of GDP in 2013/2014 and this is set to increase in 2014/2015 to 4.9% of GDP. The expenditure for infrastructure sector is set to increase from 5.1% of GDP in 2013/2014 to 5.5% of GDP in 2014/2015. This increase is predominantly in the roads infrastructure while energy and ICT have seen their budgets decline. What this means is that for 2014/2015 and the Medium Term, the focus should be on efficiency as there is no additional resources expected.

II. Analysis of the Budget according to functions of the Government

99) The total budget for Ministries, Departments and Agencies (MDAs) for 2014/2015 amounts to Ksh 1.18 trillion. The recurrent expenditure accounts for 58% while development expenditure accounts for 42%. The allocations to the ten functional clusters is as detailed in the table below:

Table 6: Analysis of 2014/2015 Budget by COFOG in (Kshs in Millions)

Cluster	Recurrent	Development	Total	% Share
Economic Affairs	54,840.5	258,945.6	313,786.1	26.5%
Education	273,379.7	34,971.5	308,351.6	26.1%
Public Order and Safety	153,700.7	70,221.9	223,922.6	18.9%
General Public Services	56,858.50	41,036.70	97,895.20	8.3%
Legislature Organs*	19,975.0	3,129.0	23,104.0	2.0%
Defence	73,281.0	-	73,281.0	6.2%
Environmental Protection	13,981.8	34,860.8	48,842.6	4.1%
Health	26,061.3	21,301.0	47,362.3	4.0%
Housing and Community Amenities	4,086.3	17,457.9	21,544.1	1.8%
Social Protection	8,786.9	11,599.9	20,386.8	1.7%
Recreation, Culture and Religion	2,588.5	1,368.0	3,956.4	0.3%
Total	**687,540.1**	**494,892.1**	**1,182,432.3**	

*often lumped together with General Public Service

Source: Printed Estimates 2014/15

100) The clusters with the highest expenditures include economic affairs (26.5%) and education (26.1%) respectively. The economic affairs cluster has bulk of its allocations for development expenditure while education funds are predominantly used for recurrent purposes.

101) The allocations to the economic affairs cluster, if well utilized and targeted towards income generation, will have positive implications on wealth creation, capital formation and positive growth of GDP. However, if the expenditures are skewed towards consumption and labor intensive industries then it may slow down economic growth and development thus reducing the chances of attaining the aspirations of the National Vision 2030.

102) The clusters with least allocations include housing and community amenities (1.8%), social protection (1.7%), and recreation culture and religion (0.3%). Bulk of their allocations is used for development purposes with the exception of culture and religion. The legislative organs (Parliament), which is often part of the general public services, account for 2% of the total allocations.

III. Cash Transfers: No Longer a Welfare State Experiment

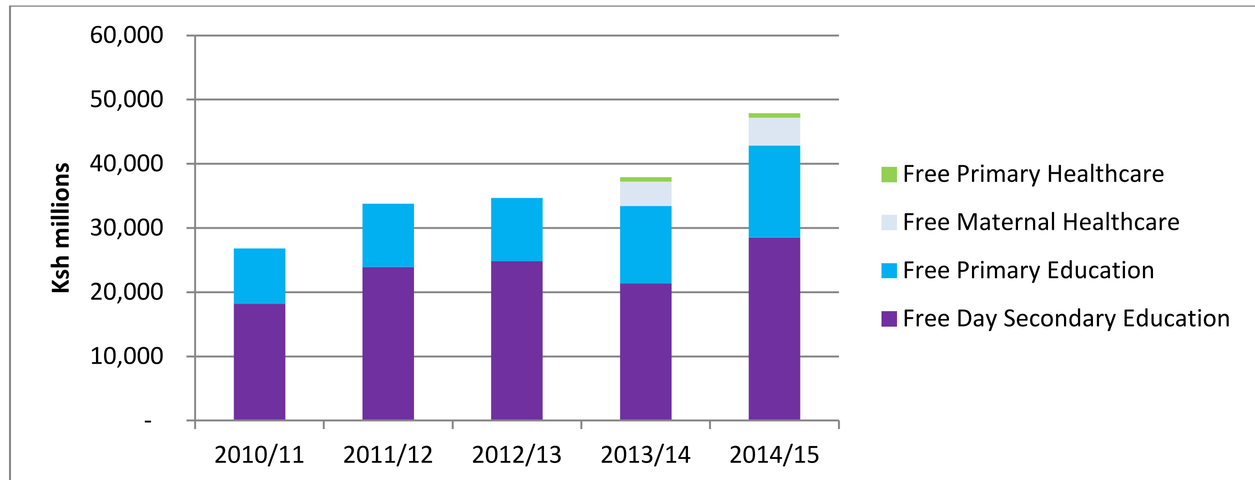
103) Kenya is one of the developing economies that have embraced the welfare concept witnessed in a number of developed countries like the USA, Norway, Sweden, and Denmark among others. The concept of welfare is where the government, in an attempt to uplift the wellbeing of its people, gives grants to the unemployed, the elderly, and other vulnerable persons, including payment by government of some of their services. The government has implemented this concept since mid-2000 by providing both cash and non-cash transfer programmes with the aim of reducing poverty, unemployment and inequality among its citizens.

104) Cash transfers are therefore no longer a welfare state experiment but a concept which if well managed could bridge the gap between the poor and the middle class when it comes to access to basic social needs.

105) The non-cash programs implemented by the Government included free primary education (FPE), free day secondary education (FDSE), free primary healthcare, free maternal healthcare and other measures targeting housing and food security. The FPE and FSDE were introduced in 2003 and 2008 respectively while the free primary healthcare and free maternal healthcare programmes introduced in 2013. The allocations

for these programmes have increased overtime and are projected to be about Ksh 48 billion in 2014/2015 as shown in the graph below.

Figure 16: Non-cash transfers 2010/2011 – 2014/2015



Source: PBO

106) The cash transfer programs were introduced in the country in 2004 to target the most vulnerable section of the country including the elderly, orphans and disabled. The Government has since then implemented a consolidated social protection fund which encompasses four cash transfers programs: Cash Transfers to Orphans and Vulnerable Children (CT-OVC), Cash Transfers to Older Persons (CT-OP), Cash Transfer to Persons with Severe Disability (CT-PWSD), and Urban Food Subsidy Program.

107) The allocation for cash transfer programs have steadily risen over the years and are now estimated at 0.3% of GDP. The number of beneficiaries has also risen and now close to half a million Kenyans is supported through cash transfers as indicated in the table below. This may need to be increased to at least 1% of GDP if it has to have a substantial impact in the country.

Table 7: Allocations for Cash Transfer Programs (Ksh billions)

Item	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
CT-OVC	2.4	2.8	3.8	4.1	7.5	7.4
CT-OP	0.4	0.5	1.0	1.0	3.0	5.3
CT-PWSD	-	-	-	0.4	0.8	0.8
Urban Food Subsidy	-	-	0.2	0.2	0.3	0.4
Total	**2.8**	**3.5**	**5.7**	**6.1**	**12.1**	**14.1**
Percentage of GDP	**0.1%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**0.3%**

Source: Estimates of Expenditure (various)

Table 8: Beneficiaries of Cash Transfer Programs (number of persons)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
CT-OVC	82,371	124,991	148,401	153,139	253,000	250,000
CT-OP	33,000	33,000	36,036	59,000	164,000	208,300
CT-PWSD	-	2,100	2,100	14,700	27,200	27,200
Urban Food Subsidy	-	-	-	10,000	10,200	10,200
Total	**115,371**	**160,091**	**186,537**	**236,839**	**454,400**	**495,700**

Source: Ministry of Labour, Social Security and Services

108) The welfare concept is an ideal avenue for supporting the poor in the country from poverty. However, challenges in its implementation may dampen the gains envisaged. The cash transfer programs have been marred with allegations of corruption, favoritism and political interferences challenges. Instances of soliciting for cash transfers to older persons have been identified in different areas across the country. Transparency in the distribution of these funds has not been forthcoming with the Ministry of Labour, Social Security and Services only publishing the list of beneficiaries of cash transfers to orphans and vulnerable children. Proper institutional arrangements and transparency in distribution of these funds should be adhered to by the Government.

109) Understanding the target group for both cash and non-cash transfer programmes will also be crucial to ensure that gains made in reducing poverty in recent years are not lost. This requires up-to-date statistics on poverty and other socio-economic parameters to ensure better targeting of public expenditure. Updated data will shed light on effectiveness of the different poverty reduction measures proposed by the government. The last official poverty analysis was carried out in 2005/2006 indicating that the government may be using outdated data in its planning and budgeting.

IV. Quality Education for Development

110) The country's economic growth largely depends on a well educated and skilled human capital. To ensure the country has adequate supply of human capital, the Government has over the last decade invested heavily in education making it one of the largest spenders of public funds.

111) The education sector has over the years targeted to improve the welfare of Kenyans through implementation of free education programs, bursary and schools feeding programs. This has greatly improved the net enrolment rates in primary schools to 92.5%

in 2012, higher than the Sub-Saharan average of 75.1%. Similarly, the transition rate from primary to secondary school has increased to about 74% and secondary education has seen a rise in its net enrollment rate to 33.1% in 2012 from 24.2% in 2007. Universities have also seen the enrolment rates increase by approximately 63% between 2007 and 2012. However, the gains of wider enrolment have been deterred by poor education standards in the country.

112) The high number of students in all institutions has prompted the Government to increase the number of teachers. The budgets for TSC and allocations to universities have increased overtime with bulk of their allocations used for remuneration of employees. The Government efforts have tried to improve the teacher to student ratio nationally: that of primary schools is at 41.4 against the international standards of 35 while that of secondary schools is 29.8 against the international standards of 40. However, the distribution of teachers across counties has grossly affected ASAL regions with counties like Turkana having a ratio of 93.4. Some of the most affected counties are as shown on the table below:

Table 9: Enrolment and Teacher shortage in primary schools

County	Enrolment	No. of Teachers	Teacher Shortage	Teacher Pupil Ratio
Turkana	132,490	1,418	2,317	93.4
Mandera	74,075	925	1,136	80.1
Wajir	54,896	873	783	62.9
West Pokot	132,099	2,164	1,829	61
Bungoma	407,107	6,901	1,548	59
Garissa	47,675	849	591	56.2
Narok	224,147	4,125	2,595	54.3
Busia	231,525	4,358	1,886	53.1
Kilifi	254,707	4,978	1917	51.2
Migori	260,929	5,137	2,467	50.8
Kakamega	456,825	9,138	3,187	50

*detailed table for all counties is on Appendix 5

Source: Teacher Service Commission, 2014

113) There is also a mismatch between the current education system and the demands of the labour market. Neglect of village polytechnics has made students who don't make it to universities and TIVET institutions unable to be effectively integrated into the labour market. The weak linkage of university education to the demands of respective industries has resulted in most courses offered being inclined to white collar jobs rather than industrial and entrepreneurial jobs. In addition the country, due to the wide expansion of university education, is experiencing a major storm in the number of graduates being

churned into the market on an annual basis. As a result, the country has experienced a significant rise in the number of graduates and diploma holders but a limited number of these graduates hold industrial and technological based qualifications. Thus, industries that could have been supported by these industrial and technological experts are stagnant making the country depend on importation. The situation has been worsened by the turning of former technical training institutions into constituent colleges of universities whose effort has been to increase the intake of graduates especially for general degrees.

114) The Government's investment in education has therefore targeted the quantity rather than quality. The huge investment in the sector has overtime increased the number of institutions, enrolment in these institutions, and the number of teaching staff. However, the education curriculum does not address the demands of the labour market thereby creating a skill gap in the economy. The Government should review the current syllabus to ensure students are molded to support the envisaged transformation of the country into a middle income industrializing nation.

V. Access to Quality Healthcare

115) The Kenyan Health sector is positioning itself to fulfill the expectations of Kenyans in the Vision 2030 of providing equitable, affordable and quality healthcare to all its citizens. The expectations of Kenyans are inclined to the three Millennium Development Goals (MDGs) that focus on healthcare: reducing child mortality; improving maternal mortality; and combating HIV/AIDS, malaria and other diseases.

116) Although Kenya has made some progress towards achieving towards improving maternal health, it is envisaged that by 2015, the MDG targets for the health may not be achieved. Statistics indicate that the sector has not seen much change on infant mortality rates and under five mortality rates between 2009 and 2013. The maternal mortality rates had also been stagnant at 488/100,000 but this slightly reduced due to introduction of the free maternal healthcare project in 2013. Consequently, the Government through its 2nd MTP of the Vision 2030 has reviewed its targets in view of the country's current progress.

Table 10: Major Targets for the Health Sector

Indicator	KDHS 2008/09	2012	2013*	MDG Target (2015)	2nd MTP Target	
					2015	2017
Maternal Mortality Rate (per 100,000 live births)	488	488	400	147	300	150
Under five Mortality Rate (per 1,000 live births)	74	74	54	33	50	35
Infant Mortality Rate (per 1,000 live births)	52	52	41	26	45	30
HIV/AIDS prevalence	6.3%	5.6%	5.6%	0%	5%	4%
Under one immunization coverage	78%	83%	85%	90%	88%	90%

*projected results

Source: 2nd MTP 2013-2017

117) The sector has undergone tremendous challenges due to the onset of devolution. Both levels of government have roles in healthcare provision with National Government providing policy direction and management of referral hospitals while county governments manage all county health services. This shift of functions from the National to County governments is likely to face challenges in its initial stages which will lead to hampered service delivery. Inadequate medical personnel, shortage of drugs and relevant medical equipment, and inadequate medical facilities are some of the challenges facing the sector. Instances of frequent strikes by medical personnel have further aggravated the problems in the healthcare sector. This situation will lead to reversal of gains made in the health sector.

118) The current medical workforce has hugely impacted on operations at medical facilities with the current average of 16 doctors and 153 nurses per 100,000 population compared to the recommended 36 doctors and 356 nurses respectively. Further, the country has faced nationwide medical personnel strikes due to discontent on how the county governments are managing the healthcare functions. Management of the medical workforce in the country has been an issue of concern since the onset of devolution. Their frequent strikes hinder efficient service delivery and there is need for efforts to be made to address the workforce related issues.

119) Instances of unavailability of drugs in medical facilities have been prevalent in the country. The country has overtime been relying on central purchasing of drugs through Kenya Medical Supplies Agency (KEMSA) but the institution has been riddled with frequent delays creating these unnecessary shortages of drugs. The centralized system of purchasing ensures consistency and quality of drugs and ensures the country takes advantage of economies of scale in procurement. However, the performance of KEMSA hinders the service delivery of county health facilities putting pressure on devolved units to directly procure medical supplies from the market. Direct procurement raises concerns

on the quality of drugs to be purchased since the country lacks uniform standardization formats for medical supplies. The National Government may consider developing a standardization format for procurement and disbursal of medical supplies to provide counties with alternatives in provision of medical supplies.

120) The country lacks fundamental health equipment in most of its existing facilities. Since healthcare infrastructure is a key building block of a strong health system in the country, other government programmes in the sector like the free maternal healthcare and free access to health facilities will not bear much fruit with lack ofproper infrastructure. The Government has an option of acquiring equipment either through leasing or direct purchasing. The National Government has proposed to undertake leasing of medical equipment, viewing it as a cheaper resort to purchasing. Despite it being largely adopted by the private sector and most developed countries, a number of concerns are being raised on its implementation. The cost implications of leasing vis-à-vis direct purchasing should be keenly considered to ensure the sustainability of the project and value for money is achieved. It is not always the case that leasing is cheaper than purchasing; in fact in most cases it is more expensive to lease than to purchase.

VI. Achieving Food Security

121) *'A country unable to feed its citizens is not a country worth living in.'* In recent years, Kenya has faced recurrent food shortages resulting severe hunger and sometimes loss of life. Statistics indicate that over 10 million people in Kenya suffer from chronic food insecurity and between 2 to 4 million people require food assistance at any given time.

122) Despite the constitutional right for Kenyans to be free from hunger, the country has not developed a wholesome policy to guide both national and county levels of government to ensure the country achieves food security. Management of the country's vast resources that can adequately support Kenya's food requirement has been hampered by the lack of a relevant national policy that will be instrumental in addressing the roles of national and county governments in undertaking food security measures, urbanization of agricultural land and the ailing agro-processing industry.

123) Land urbanization has threatened the country's available land for agricultural purposes. With most of the urban settlements being close to agricultural areas, the increased demand for commercial and residential land has seen the conversion of surrounding agricultural land to urban plots. The increased population growth has also escalated sub-division of agricultural land in rural areas making them uneconomical for extensive agriculture. These practices have robbed agriculture its prime resource, thereby

reducing its production resulting in food shortages. Despite the Government's push to access more agricultural land in ASAL areas through irrigation, the current encroachment of agricultural land should be addressed to safeguard the country's economic backbone.

124) The Government should give guidelines on land use in different parts of the country and recommend appropriate taxes on inappropriate use of land. This may be the time that Kenyans need to consider villagization that will make agricultural land more productive and it will lead to externalities like better access to basic services such as water, electricity and other social amenities.

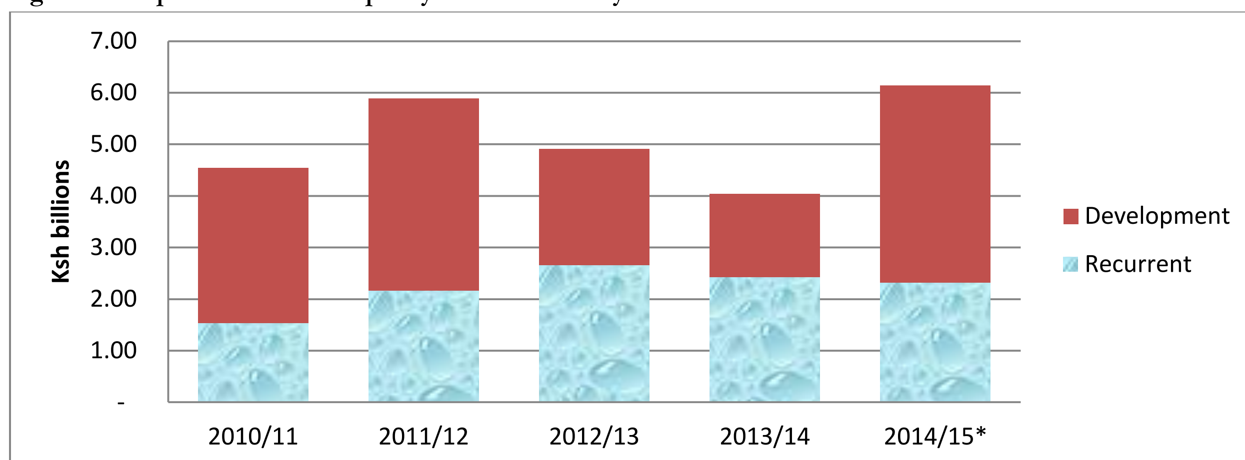
125) National agro-processing industries have been underperforming and this has cost the country through post harvest losses and thus food insecurity, low incomes to farmers and less job opportunities. Institutions like the Kenya Meat Commission are operating at 20% of its capacity making it unable to absorb the country's supply. Both levels of government should not only support agricultural production but also agro-processing plants to ensure the country has surplus food of high quality that can be exported in turn supporting the economy.

VII. Land Policy: A Hindrance to Housing Development and Cost of Doing Business

126) Kenya's ranking in the ease of doing business has dropped from 122 in 2013 to 129 in 2014 (out of 189 countries). The country is currently ranked 12 in Sub-Saharan Africa compared to Rwanda which is 2 in Sub-Saharan Africa and 32 worldwide. Apart from the challenges in starting a business and poor infrastructure, accessibility of land has been a recurrent issue.

127) *'I made an application for sub-division of land in June 2014. I have recently checked and my file has not been opened. My capital is tied and I need the sub-division to go through so that I can sell it to an interested buyer who wants to put up a guest house. I need the money from the sale to relieve an urgent loan I took for development. The land officers tell me I will not be able to do that soon…'* It takes several months to get a sub-division of land and another to get the title deed. This ought to be different taking into account the substantial resources voted over the years for land titling with no improvement in service delivery.

Figure 17: Expenditure for land policy for the last five years



Source: National Treasury

VIII. Breathing Change to the Transport Sector

128) '*Kenya has seen an increase in the number of people walking to work (not for health purposes), an increase in the number of two wheel vehicles (cyclists and tuk-tuks), an increase in the number of private vehicles, increase in number of small capacity matatus and buses but no change in the number of large capacity buses and commuter trains*'. This has caused the cost of transportation in the country for both passengers and cargo to go up, and the urban areas to experience high pollution due to many small capacity vehicles. This also affects the cost of doing business in the country. If the current situation continues, the transport sector, which is a critical enabler in the achievement of the Vision 2030, will continue to stifle the country's economy. Thus as much as substantial resources are needed for the transport sector, it needs to be complemented with a policy that encourages mass transportation.

129) As reviewed earlier in the chapter, investment in transport infrastructure indicates that no real injection of resources has been noticed with the sector spending about 3.6% of GDP annually over the past five years (see table 5). A radical shift in resource allocation by both levels of government will transform the sector into supporting the country's development plan. Further, the national government is yet to finalize on a policy to address the role of each level of government in the roads sub-sector thus hindering the planning process on road infrastructure development.

130) *'I can manage to get to my office within 30 minutes, escape the enormous Mombasa Road traffic jam and spend only Ksh 120!!! I wish this could be enjoyed all around the country.' (A train commuter from Syokimau to Narobi).*

131) Mobility in major towns in the country is a nightmare due to increased traffic jams. The increased numbers of vehicles have been caused by a rise in the number of urban

city dwellers against an inadequate public transport system comprises of small capacity *matatus* and buses which cannot match up to the demands. The shortfall has also necessitated the increase in number of motor-bicycles within towns which can easily evade traffic jams despite their unsafe nature. The country lacks a structured mass transport system for its urban areas. Both levels of government work together should develop an all inclusive transport system for large towns that incorporates a rail network, rapid bus transport system and a non-motorized transport system for pedestrians and cyclists.

132) The underutilization of other modes of transportation has partly been fueled by the massive investment in road infrastructure over the years. Bulk of the funding for the infrastructure sector has always been channeled to roads development as compared to other transport infrastructure. Reprioritization of the country's focus to develop other modes of transport may be crucial to balance the modal split. The railway line from Mombasa - Nairobi - Kisumu/Malaba will be crucial to reduce cargo transport from Mombasa to different parts of the country and across the region. Development of a pipeline for petroleum products will also reduce cargo traffic across the country. Upgrading of airstrips and airports across the country will develop the highly potential air transport across the country.

133) The gains from roads construction in the country have been occasionally hampered by vandalism of equipment especially grills and rails predominant. This makes the maintenance cost for roads quite high, deterring implementation of other projects due to limited funds. This has also rendered roads unsafe for commuters since there are no protective guards present on bridges and other risky spots. Most of these vandalized equipment end up being sold as scrap metal. Containment of the source and type of materials purchased as scrap metal will help reduce vandalism. Stiff penalization of vandals of construction equipment and materials will also assist in curbing the vice.

IX. Governance and Security

134) Security is key to the development of any economy; it provides an amicable environment for attracting investment and an enabling atmosphere for individuals and businesses to thrive. The country's national development plan can only be achieved in a peaceful, stable and secure environment. Kenya is at the verge of starting a 24 hour economy and this can only be achieved when the country has better security.

135) The security sector in the country is plagued with both endogenous and exogenous challenges. The exogenous challenges include high poverty levels, high unemployment

rates and resource contestations like land issues. The endogenous challenges include insufficient security personnel, inadequate equipment and governance issues. It is crucial for the government to address the exogenous variables to ensure gains made by the security sector in addressing its endogenous challenges will bear fruit.

136) A review of allocations for the sector indicates a reduction in spending including that for defense, intelligence and police services. This directly hampers recruitment of security personnel, purchase state-of-the-art security surveillance and operational equipment and enhanced security operations. A rise in the funding for security will ensure recruitment of additional police to improve the current police to population ratio of 1:750 to the international requirement of 1:450. The sector will also ensure even redeployment of these personnel across the country for all Kenyans to enjoy improved security.

137) The country is in dire need of modern security equipment. The equipment will complement the operations by police officers to improve service delivery. The adoption of CCTV cameras in all major towns and highways will improve the response time of police on crime. This will also reduce the huge personnel deployed to control traffic and patrol major towns and redeploy them to other needy areas like border patrols. With the current disintegration in the security service, an efficient and effective command and control center will also ensure proper coordination of all security apparatus in the country.

APPENDICES

Appendix 1: Allocations to all Ministries, Departments and Agencies (Kshmlns)2014/15

Votes	Recurrent	Development	Total
The Presidency	3,520	787	4,307
State Department for Interior	79,286	4,393	83,679
State Department for Coordination of National Government	15,411	657	16,068
State Department for Planning	14,846	53,427	68,273
State Department for Devolution	2,173	5,097	7,270
Ministry of Defence	73,281	-	73,281
Ministry of Foreign Affairs and International Trade	10,894	1,560	12,454
State Department for Education	54,118	22,138	76,256
State Department for Science and Technology	53,783	12,698	66,481
The National Treasury	37,796	38,117	75,913
Ministry of Health	26,061	21,301	47,362
State Department of Infrastructure	25,805	99,029	124,834
State Department of Transport	5,763	39,797	45,560
State Department for Environment and Natural Resources	9,740	7,823	17,563
State Department for Water and Regional Authorities	4,242	27,038	31,279
Ministry of Land Housing and Urban Development	4,086	17,458	21,544
Ministry of Information, Communications and Technology	2,022	8,191	10,212
Ministry of Sports Culture and Arts	2,588	1,368	3,956
Ministry of Labour Social Security and Services	8,497	11,600	20,097
Ministry of Energy & Petroleum	2,004	74,284	76,288
State Department for Agriculture	7,905	21,408	29,313
State Department for Livestock	1,838	3,696	5,534
State Department for Fisheries	971	1,163	2,134
Ministry of Industrialization and Enterprise Development	2,284	7,445	9,728
State Department for East African Affairs	1,619	65	1,684
State Department for Commerce and Tourism	2,751	2,084	4,836
Ministry of Mining	722	1,243	1,965
Office of the Attorney General and Department of Justice	3,723	534	4,258
Judiciary	11,867	5,625	17,492
Ethics and Anti-Corruption Commission	1,546	278	1,824
National Intelligence Service	17,440	-	17,440
Office of the Director of Public Prosecutions	1,732	119	1,852
Commission for the Implementation of the Constitution	306	-	306

Votes	Recurrent	Development	Total
Registrar of Political Parties	467	-	467
Witness Protection Agency	250	-	250
Kenya National Commission on Human Rights	357	-	357
National Land Commission	1,156	542	1,698
Independent Electoral and Boundaries Commission	3,000	91	3,091
Parliamentary Service Commission	19,975	3,129	23,104
Judicial Service Commission	438	-	438
The Commission on Revenue Allocation	285	-	285
Public Service Commission	882	168	1,050
Salaries and Remuneration Commission	441	-	441
Teachers Service Commission	165,479	135	165,614
National Police Service Commission	278	-	278
Auditor - General	2,611	405	3,016
Controller of Budget	430	-	430
The Commission on Administrative Justice	374	-	374
National Gender and Equality Commission	290	-	290
Independent Police Oversight Authority	205	-	205
TOTAL	**687,540**	**494,892**	**1,182,432**

Source: 2014/2015 Approved Estimates

Appendix 2: Breakdown of the CFS budget

Item	Amount (Kshmln)
Public Debt	378,010
Pensions and Gratuities	32,356
Salaries, Allowances	4,071
Miscellaneous Services & Subscriptions	129
Guaranteed Debt	1,013
Total	**415.58**

Source: 2014/2015 Approved Estimates

Appendix 3: County Allocations from the Equalization Fund in accordance with CRA criteria

	County	County Allocations (Ksh)	
		2013/14	**2014/15**
1	Kwale	229,160,000	237,597,875
2	Kilifi	219,980,000	317,077,020
3	Tana River	247,520,000	194,316,277
4	Lamu	208,080,000	110,435,167
5	TaitaTaveta	216,580,000	160,450,351
6	Marsabit	255,340,000	230,461,780
7	Isiolo	215,220,000	136,616,927
8	Garissa	225,760,000	249,513,364
9	Wajir	267,920,000	308,597,222
10	Mandera	278,800,000	369,041,881
11	Turkana	302,260,000	385,655,499
12	West Pokot	249,560,000	231,965,123
13	Samburu	250,580,000	184,029,903
14	Narok	233,240,000	284,241,611
	TOTAL	**3,400,000,000**	**3,400,000,000**

Source: Approved Estimates 2013/2014; 2014/2015

Appendix 4: Statistics on Enrolment and Teacher Shortage in Primary and Secondary Schools

County	Primary				Secondary			
	Enrolment	**No. of Teachers**	**Teacher Shortage**	**Teacher Pupil Ratio****	**Enrolment**	**No. of Teachers**	**Teacher Shortage**	**Teacher Student Ratio****
Baringo	140,213	5,224	120	26.8	32,440	1,141	782	28.4
Bomet	204,935	4,723	1,548	43.4	45,941	1,313	1,327	35
Bungoma	407,107	6,901	1,548	59	91,603	2,826	2,150	32.4
Busia	231,525	4,358	1,886	53.1	37,646	1,011	1,035	37.2
Elgeyo/	105,324	3,223	149	32.7	27,260	990	566	27.5

County	Primary				Secondary			
	Enrolment	No. of Teachers	Teacher Shortage	Teacher Pupil Ratio**	Enrolment	No. of Teachers	Teacher Shortage	Teacher Student Ratio**
Marakwet								
Embu	114,088	3,733	28	30.6	38,267	1,566	778	24.4
Garissa	47,675	849	591	56.2	8,956	307	137	29.2
Homa Bay	288,493	6,638	2,397	43.5	67,923	1,958	1,876	34.7
Isiolo	28,442	795	138	35.8	2,919	152	29	19.2
Kajiado	118,127	2,636	1,213	44.8	16,366	691	246	23.7
Kakamega	456,825	9,138	3,187	50	92,440	2,696	2,293	34.3
Kericho	189,196	4,626	980	40.9	48,175	1,578	1,197	30.5
Kiambu	222,509	6,379	(61)*	34.9	100,982	4,186	1,372	24.1
Kilifi	254,707	4,978	1917	51.2	38,343	1,066	1,005	36
Kirinyaga	80,235	2,617	(216)*	30.7	38,173	1,478	600	25.8
Kisii	280,587	8,743	(468)*	32.1	104,600	3,564	2,146	29.3
Kisumu	210,979	4,990	1,312	42.3	61,079	2,149	1,214	28.4
Kitui	323,200	8,241	2,846	39.2	72,487	2,512	1,949	28.9
Kwale	161,487	3,309	1,363	48.8	24,673	697	568	35.4
Laikipia	83,282	2,387	312	34.9	25,280	983	490	25.7
Lamu	24,722	752	100	32.9	6,248	189	95	33.1
Machakos	260,511	7,823	649	33.3	82,681	2,751	2,031	30.1
Makueni	262,484	7,583	1,047	34.6	85,876	2,627	2,274	32.7
Mandera	74,075	925	1,136	80.1	11,074	381	157	29.1
Marsabit	48,714	1,084	423	44.9	5,440	207	102	26.3
Meru	279,579	8,133	583	34.4	75,915	2,549	1,726	29.8
Migori	260,929	5,137	2,467	50.8	46,496	1,339	1,205	34.7

County	Primary				Secondary			
	Enrolment	**No. of Teachers**	**Teacher Shortage**	**Teacher Pupil Ratio****	**Enrolment**	**No. of Teachers**	**Teacher Shortage**	**Teacher Student Ratio****
Mombasa	55,315	1,388	72	39.9	14,789	640	173	23.1
Murang'a	183,668	5,551	3	33.1	92,180	3,322	1,600	27.7
Nairobi	193,519	4,257	469	45.5	43,967	1,951	403	22.5
Nakuru	362,332	7,848	2,069	46.2	87,514	2,940	1,883	29.8
Nandi	202,809	5,359	1,249	37.8	48,736	1,456	1,235	33.5
Narok	224,147	4,125	2,595	54.3	23,031	687	540	33.5
Nyamira	126,474	4,147	(101)*	30.5	51,393	1,776	1,166	28.9
Nyandarua	133,696	3,338	705	40.1	42,937	1,320	1,020	32.5
Nyeri	108,784	3,809	(126)*	28.6	66,767	2,483	1,016	26.9
Samburu	48,280	982	519	49.2	5,228	221	85	23.7
Siaya	235,998	5,392	1,781	43.8	55,081	1,732	1,161	31.8
Taita/Taveta	62,324	1,941	132	32.1	20,375	696	374	29.3
Tana River	49,214	1,167	424	42.2	4,518	192	83	23.5
Tharaka-Nithi	90,314	3,175	432	28.4	33,978	1,225	740	27.7
Trans Nzoia	209,764	4,495	1,044	46.7	46,555	1,239	1,241	37.6
Turkana	132,490	1,418	2,317	93.4	6,844	260	118	26.3
UasinGishu	189,473	5,062	520	37.4	41,281	1,421	937	29.1
Vihiga	162,315	3,898	820	41.6	59,748	1,765	1,631	33.9
Wajir	54,896	873	783	62.9	9,130	370	95	24.7
West Pokot	132,099	2,164	1,829	61	20,605	594	493	34.7
Total	**8,117,861**	**196,314**	**44,731**	**41.4**	**2,063,940**	**69,197**	**45,344**	**29.8**

*excess number of teachers
**Average per county
Source: Teachers Service Commission

Appendix 5: Major Kenya National Highways Authority (KENHA) Projects for 2014/2015

TYPE OF ROAD	COUNTY	NAME OF PROJECT	GROSS PROVISION (KSH)
International Trunk Roads (A)		Northern Corridor Transport Impr.	5,475,413,394
		Kenya Transport Sector Support Project	12,752,988,593
		East African Trade Facilitation Project	1,528,494,514
		National Urban Transport Improvt Project	5,686,012,115
		South Sudan-East African Regional Transport and Trade Facilitation Program	637,501,000
		Nairobi Southern By Pass Project	6,479,292,265
		Mombasa RdsDevt Project (DongoKundu)	4,784,000,000
		Nairobi - Thika(Lot 1&2): Arterial Conn-KU	3,065,971,022
		Voi - Mwatate - Wundanyi	547,045,124
		Mwatate - Taveta	3,600,000,000
		Merille-Marsarbit	4,614,011,928
		Marsarbit-Turbi	3,976,181,040
		Turbi-Moyale	3,847,718,005
		Timboroa-Eldoret	2,783,508,670
		Eldoret - Webuye	827,160,704
		Webuye - Malaba	848,295,181
National Trunk Roads (B)		Lot 1: Loruk-Barpelo	1,056,401,527
		Modika - Nuno (phase II)	532,389,428
Primary Roads	**Kilifi**	Kaloleni-Kilifi :Phase II	695,384,747
	Garissa	Nuno - Modogashe	640,005,000
	Meru	Chiakariga - Meru	938,648,887
	Muranga	Kangema - Gacharage	1,169,568,051
	Samburu	Rumuruti - Mararal	640,000,000
	Nandi	Chepterit - Baraton University - Kimondi	506,355,378
	Kericho	Londiani-Fort Tenan-Muhoroni	894,375,203
		Sotik - Ndanai	899,606,390
	Siaya	Maumau - Ruambwa - Nyadorera - Siaya	750,000,000
	Homa Bay	Homa Bay-Mbita	536,078,015
	Migori	Kehancha-Migori - Muhuru	1,160,000,000

Source: State Department for Infrastructure

Appendix 6: Major Kenya Urban Roads Authority (KURA) Projects for 2014/2015

TYPE OFROAD	COUNTY	NAME OF PROJECT	GROSS PROVISION (KSH)
International Trunk Roads		City Cabanas interchange	874,422,014
		Githurai-Kimbo Link Road	107,000,000
Primary Roads	**Nairobi City**	EU Missing Links 1, 5, 15a, 15b, 16, 17, 18	1,100,000,000
		Ngong Road (All Saints- Adams Arcade)	500,000,000
		Outering Roads	960,431,261
		Upper Hill Roads	460,000,000
		Eastleigh Roads	450,000,000
		Nairobi junctions improvement (Decongestion)	1,000,000,000
		KWS Gate -Bomas	990,568,739
	Meru	Meru-Bypass (Nutrip)	740,000,000
	UasinGishu	Kapsoya Roads	385,000,000

Source: State Department for Infrastructure

Appendix 7: Major Kenya Rural Roads Authority (KERRA) Projects for 2014/2015

COUNTY/TYPE OF PROJECT	NAME OF PROJECT	GROSS PROVISION (KSH)
Isiolo	Gortu Bridge	100,000,000
Meru	Meru - Marimba - Mitunguu	814,338,973
	Imenti - Kionyo - Chogoria - Ndagene Loop	980,189,261
	Mikinduri - Maua	103,556,273
	Ruiri - Isiolo - Muriri	424,715,133
	MailiTatu - Laare - Mutuati	111,048,796
	Access Igonji TTC/Kanyakiine Market	131,545,628
Kitui	Mwingi - Tseikuru (C93/D478)- Ph 1	1,337,359,602
	Mwingi - Tseikuru (C93/D478)- Kamuongo Bridge	185,312,183
Machakos	Mumbuni - KathianiThwake River	183,573,966
	Mathatani -Kaseve -Kaloleni	117,400,000
Nyandarua	Kariamu -MairoInya -Rumuruti	165,000,000
Nyeri	Kagere-Munyange-Kairo-Kiriaini	232,048,120
	Gatugi-Konyu- Kairo-Kihuri	657,211,622
	A2 Mathaithi - C70 Munaini&Kagarii - Gatitu	175,834,915
	Giakanja - Tetu Mission (D434)	372,735,453
	NaroMoru - Munyu - Karisheni	256,626,177
	KimathiUniv- Brookside -Mweiga	159,985,607

COUNTY/TYPE OF PROJECT	NAME OF PROJECT	GROSS PROVISION (KSH)
Muranga	Kaharati - Njiriis	141,266,993
	Murang'a - Gitugi	174,653,150
	Mairi -Makomboki	135,158,091
	Gatura -Ngere Tea Factory -Karangi	210,000,000
Kiambu	Thogoto- Gikambura - Mutarakwa	165,669,401
	Ndumberi - Cianda- Githunguri	194,621,110
	Gatundu-Karinga -Flyover	415,133,080
	A2(GSU)-Kiganjo	154,826,944
	Githunguri - Ngorongo	565,419,957
	Muigai's Inn- Ichaweri	250,000,000
UasinGishu	Chepkoilel-Ziwa-Moi's Bridge	334,320,430
	Jua Kali - Sugoi - Elgon Estate	100,000,000
ElgeyoMarakwet	Tirap-Embobut -Maron -Chesegon	348,131,291
	Iten -Bugar	266,803,694
	Kapsowar -Chebyamit - Bugar.	100,000,000
Nandi	Mosoriot -Chepterwai-Kipkaren River	335,319,537
Laikipia	Umande - Akorino	239,101,236
Nakuru	Kibunja -Molo -Olenguruone	295,998,555
Kericho	Sotik -Roret-SokoHuru-Kapsoit-Fort Tenan (D226)	579,941,393
Kakamega	Sigalagala -Butere- Sidindi	131,320,825
Bungoma	Kamukuywa-Kaptama-Kapsokwony-Sirisia	125,001,000
Busia	Nabengele-Mundere-Bukoba Beach	264,980,152
Siaya	Bondo -Misori	232,475,655
	Luanda -Akala	165,838,599
Kisii	Keroka - Kebirigo	217,917,677
	Mogonga -Kamagambo	747,309,676
Roads 2000	KfW Western	494,000,000
	AFD II Central	1,925,001,000
	EU Eastern Province Ph 3	1,550,000,000

Source: State Department for Infrastructure

Appendix 8: Key Programmes for the 2014/2015 Budget

Programme	Implementing MDA	Key Output	Key Target	Allocation (KshMlns)
Policing Services	State Department for Interior	• Community policing • 24 hour surveillance and rapid response • Modern telecommunication equipment • Retrain police officers • Security and safety in the country	• Roll out model policing initiatives in 47 counties. • 100 CCTV cameras installed in Nairobi, Mombasa, Kisumu and Nakuru • Modern communication equipment acquired • Retrain existing 43,000 police officer • 100% reduction in crime, coverage of VIP, reduction in cattle theft	66,383.54
Economic Policy and Planning	State Department for Planning	• South Nyanza Community Development Projects completed and commissioned • CDF funds disbursed • Socio-economic empowerment projects and programmes	• All initiated projects completed and commissioned • 100% disbursement of allocated CDF funds • 200km of access roads done	37,895.54
Gender and Youth Empowerment	State Department for Planning	• Number of graduates in engineering, secretarial studies, catering and paramilitary • Road construction • Orphans and Vulnerable Youth rehabilitated • Business support to young entrepreneurs • Women capacity built on enterprise development; and formation of cooperative societies	• Graduates: Engineering - 15,900; Secretarial Studies - 4,500; Catering – 2,700; Paramilitary Studies – 30,000. • HolaGarsen road completed • 3,000 OVY rehabilitated • 30,000 Youths facilitated to access business support services. • 500 women entrepreneurs sensitized	19,959.82
Defence	Ministry of Defence	• Secured territorial borders and sovereignity integrity • Peace keeping missions	• Timely response to external aggression • Timely deployment to operational fronts • At least three peacekeeping missions undertaken	71,309.00
Primary Education	State Department for Education	• Infrastructure for schools • Enrolment in Primary Schools	• 290 schools provided with necessary infrastructure • Increase enrolment from 9,448,893 to 8,900,000 • Provision of sanitary towels to 600 girls • Provision of laptops to 1,203,539	36,480.71
Secondary Education	State Department for Education	• Transition from primary to secondary school • ICT in secondary education	• Increase enrolment from 2,089,992 to 2,257,191 • 200 schools supplied with ICT equipment	29,641.37

Programme	Implementing MDA	Key Output	Key Target	Allocation (KshMlns)
		• Infrastructure for schools	• 1324 schools to be supplied with Laboratory equipment • 200 schools rehabilitated under infrastructure program	
University Education	State Department for Science and Technology	• Enrolled students • Accessible higher education • Increased accessibility to bursaries, loans and scholarships	• Increase the enrolment of students for university education by 27,290 • Ensure 59,400 government sponsored student are admitted to universities and colleges. • Ensure 71,244 students access loans, bursaries at universities and TVET.	56,626.57
Curative Health Services	Ministry of Health	• Specialized health care services • Healthcare/Treatment in Health facilities • Guidelines on servicing and maintenance of medical and dental equipment • Blood transfusion • Access to primary health care	• 16 million patients treated at referral units • 1.5 facilities per 10,000 population • 50 hospital beds per 10,000 population • 25% of functioning equipment as per norms and standards • 55% of facilities to have blood transfusion capacity • 2,858 dispensaries & health centres to be constructed	18,968.87
Road Transport	State Department for Infrastructure	• New roads and bridges constructed. • Roads rehabilitated. • Roads maintained • Drafted transport guidelines, policies and legislation.	• 151 km of new roads to be constructed. • 357 km of roads rehabilitated. • 134,000 km of roads maintained. • 4 guidelines, policies and legislation drafted on road safety intervention.	123,518.75
Rail Transport	State Department for Transport	• Standard Gauge Rail (SGR) • JKIA railway line • Implemented Reallocation Action Plan	• 100KM of SGR constructed • 10KM of JKIA rail constructed • 2,000 people affected reallocated from railway reserve	26,221.78
Air Transport	State Department for Transport	• Constructed/Rehabilitated airports/airstrips • Expanded and mordenized aviation facilities	• 10 airstrips/airports rehabilitated and maintained • 50% increase in passenger and cargo and handling	12,078.86
Water Resources Management	State Department for Water and Regional Authorities	• Access to clean water and sewerage facilities • Increase water storage facilities	• 52%-53% access to safe clean water and 9%-9.2% access to sewerage facilities • 90 boreholes drilled and equipped • Underground water exploitation in Turkana, Marsabit and Mandera • 2 large dams and 6 medium size dams constructed	26,356.40
National Social Safety Nets	Ministry of Labor, Social Security and Services	• Single registry for cash transfer programmes • Vulnerable persons supported with cash for	• 40% of single registry for cash transfer programmes developed • 208,300 older persons supported through the cash transfer to older	14,370.07

Programme	Implementing MDA	Key Output	Key Target	Allocation (KshMlns)
		upkeep • Urban poor households supported with cash for food. • Persons with severe disabilities supported with cash for upkeep. • Urban poor households supported with cash for food	persons programme • 250,000 households with OVCs supported with cash for upkeep • 40,200 persons with disabilities supported with cash for upkeep • 18,000 urban poor households supported with cash for food	
Power Generation	Ministry of Energy and Petroleum	• Mega Watts of power generated. • Mega watts of power generated from coal resources	• 546 Mega Watts (MW) of power generated. • A 960 MW coal power plant in Lamu. • Concessioning of Block A and B in Mui Basin, Kitui County.	22,662.12
Power Transmission and Distribution	Ministry of Energy and Petroleum	• Households and public facilities connected with electricity. • Mega watts of power generated from renewable energy sources. • KM of electricity transmission lines. • Mega watts generated from renewable energy sources.	• 57,000 households and 7,062 public facilities connected with electricity. • 330 MW of power generated from renewable energy resources. • 6,222 KM of electricity transmission lines constructed.	48,730.97
Crop Development and Management	State Department for Agriculture	• Assorted seed bulked and distributed to identified households • Strategic food reserves improved • Regulation of extension services for national projects and liaison with the counties • Agricultural Policy Development and Management • Improvement of rural access roads • Baseline surveys carried out across counties • Soil analysis carried out	• 540MT assorted seeds distributed • 4 million bags of strategic food reserves • 2 bills developed • 2 policies developed • 150km rural roads constructed • Conduct baseline survey across 15 counties • 26000 samples of soil analyzed	12,919.41
Irrigation and Drainage Infrastructure	State Department for Agriculture	• Small scale irrigation projects • Increased arable land and area under irrigation • Improved food reserves	• Initiate 6 small scale irrigation projects • 4,500HA under irrigation in small scale schemes across the country • 3,000HA increments in GalanaKulalu • 1.8 million bags of cereals in food	11,701.68

Programme	Implementing MDA	Key Output	Key Target	Allocation (KshMlns)
			reserves from irrigation projects	
Dispensation of Justice	Judiciary	• Reduce average distance covered to courts • Appropriate facilities developed in courts for the special needs groups and children • Improve clearance rate of cases	• Construct 3 new high courts, 5 magistrate/kadhi's courts, 13 mobile courts • Refurbish 4 high courts, 5 magistrate/kadhi's courts with appropriate facilities developed for the special needs groups and children • Operationalise Integrated performance management and accountability system • Operationalise Integrated Document Management System • 20% increase in number of cases concluded • Resolve 400,000 backlog cases	17,491.90
National Security Intelligence	National Intelligence Service	• Actionable intelligence and counter intelligence reports	• Timely dissemination of actionable reports	17,440.00
Legislation and Representation	Parliamentary Service Commission	• Bills/Laws • Representation	• 110 bills introduced in Parliament • 220 motions introduced and concluded • 60 petitions considered • 380 statements issued	12,377.36
Teachers Resource Management	Teachers Service Commission	• Equitably distributed and optimally utilized teaching service • Adequate teaching force established	• 1.34% in regional variance in Teacher distribution by County • 34.20% Reduction in Teacher Shortage	161,133.40