REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

MEDIUM TERM

DRAFT 2019 BUDGET POLICY STATEMENT

HARNESSING "THE BIG FOUR" PLAN FOR JOB CREATION AND SHARED PROSPERITY

10 JANUARY 2019

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Foreword

The 2019 Budget Policy Statement (BPS) is prepared against a background of a steady global economic growth which is projected to remain at 3.7 percent in 2018 and 2019. However, the downside risk to global growth has risen due to elevated policy uncertainty following the recently announced trade measures in the United States on imports from China, suppressed activities in Euro Area and United Kingdom in early 2018, tighter financial conditions and high oil import bill among emerging markets and developing economies. Despite the global challenges, growth in sub-Saharan Africa is on the rise due to higher commodity prices and improved capital markets access with growth expected to accelerate to 3.8 percent in 2019 up from an estimated 3.1 percent in 2018.

The Kenyan economy remains resilient and projected to grow by 6.0 percent in 2018 from 4.9 percent in 2017. Further, our macroeconomic performance remains broadly stable with overall inflation within target, short term interest rates remaining low and stable as well as a stable exchange rate of the Kenya Shilling to other currencies.

This BPS comes at early stages of the Third Medium Term Plan (MTP III) of the Kenya Vision 2030 which covers the period 2018-2022 and builds on the gains made in key sectors of the economy during the Second Medium Term Plan (MTP II). In this regard, the policy goals, priority programs and fiscal framework are aligned to support achievement of the objectives of MTP III and ultimately the Vision 2030. Certainly, we will augment economic transformation by implementing key programs under 'The Big Four' Plan for job creation and shared prosperity. The focus will be on boosting the manufacturing activities, improving food and nutrition security, achieving universal health coverage and supporting construction of decent and affordable housing for Kenyans. In addition, priority will be given to development enablers such as macroeconomic stability, business environment infrastructure, security, social sector investments, and public sector reforms.

The fiscal policy in this BPS targets to support rapid and inclusive economic growth while ensuring a sustainable debt position and lower fiscal deficits. In this respect, we have curtailed resources going to lower-priority areas following the zero-based budgeting approach that we have adopted. This has enabled us to redirect these savings toward "The Big Four" Plan and their enablers, while continuing with pro-poor expenditures in health, education and protecting the vulnerable. To improve efficiency of public investments, we froze initiation of new capital projects until the completion of the ongoing ones and appraised all projects in accordance with the issued guidelines before funds were committed in this budget.

To boost revenues, we are implementing revenue enhancement initiatives together with the Kenya Revenue Authority in order to further expand the tax base and strengthen tax administration. In addition, we have initiated a number of tax reforms and continue to invest in technology geared towards automating tax services. These reforms have not only made tax payment more convenient but have

also enhanced Kenya's attractiveness for investment from both local and foreign investors.

I would like to thank H.E. The President and H.E. The Deputy President for the guidance and counsel in the development of this document. My sincere gratitude goes to my Cabinet colleagues, the National Treasury staff as well as other Government officials, for their contributions. Equally we received useful inputs from various stakeholders and the public when we undertook consultations in line with the requirements of the Public Finance Management (PFM) Act, 2012 and the Constitution. We value these inputs and extend our appreciation to all.

HENRY K. ROTICH, EGH
CABINET SECRETARY/ NATIONAL TREASURY & PLANNING

Acknowledgement

The 2019 Budget Policy Statement is prepared in compliance with the provisions of the Public Finance Management Act, 2012. It outlines the current state of the economy and outlook over the medium term, gives broad macroeconomic issues and medium term fiscal framework, and specifies the set strategic priorities and policy goals together with a summary of Government spending plans, as a basis of the FY 2019/20 budget. The document is expected to improve the public's understanding of Kenya's public finances and guide public debate on economic and development matters.

The Government has been keen to ensure prudent management of public resources in order to support inclusive growth and development. We have continued to foster macroeconomic stability, while carefully scrutinizing budget programs to ensure their optimal alignment with the national development agenda. The key programs implemented are aimed at effecting structural changes towards boosting economic activity in all sector of the economy, including improving the operational environment for manufacturing and industrial activities to support growth of exports.

Key achievement realized in the various sectors include: expanded educational infrastructure thereby enabling higher student enrollment and transition rates; expansive provision of electricity to urban and rural communities; improved health services and greater reach through the National Health Insurance Fund (NHIF); enhanced security infrastructure and personnel capacity; improved agricultural production emanating from among other things, better accessibility and reduced cost of farm inputs; made significant steps towards supporting growth of the blue economy sector including enhancing the capacity for marine fisheries research; and strengthened the financial services sector with financial inclusion increasing to about 75 percent driven by mobile phone technology. The policy measures outlined in this BPS seek to further bolster growth in all sectors and foster economy-wide efficiencies for sustainable and inclusive growth.

The completion of this policy statement was as a result of collective effort by various Government Ministries, Departments and Agencies (MDAs) who provided valuable information. We are grateful for their contribution. We are also grateful for the excellent inputs of the Macro Working Group and Public Sector Hearings of December 2018 which contributed to the preparation of this BPS. A dedicated team in the National Treasury spent substantial amount of time putting together this BPS. We are particularly grateful to them for their tireless efforts and dedication.

DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY/NATIONAL TREASURY

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About the Budget Policy Statement

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

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

Section 25 of the PFM Act, 2012, provides that the National Treasury shall prepare and submit to Cabinet the BPS for approval. Subsequently, the approved BPS is submitted to Parliament, by the 15th of February each year. Parliament shall, not later than 14 days after the BPS is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the FY 2019/20.

The Budget Policy Statement contains:

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

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

I. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

1.1 Overview

1. Economic activities picked up in 2018, after the slowdown in 2017, reflecting improved rains, better business sentiment and easing of political uncertainty. The economy grew by 5.8 percent, 6.2 percent and 6.0 percent in the first, second and third quarters of 2018 respectively, up from 4.7 percent in similar quarters in 2017. Growth for the first three quarters of 2018 averaged 6.0 percent and is projected to grow by 6.0 percent in 2018 up from 4.9 percent in 2017. This growth is supported by a strong rebound in agricultural output, steadily recovering industrial activity, and robust performance in the services sector.

2. The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, largely on account of low food prices following favourable weather conditions and a decline in energy prices due to lower prices of electricity and diesel. However, overall inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

3. The foreign exchange market remains stable supported by a continued narrowing in the current account deficit. The current account deficit is expected to narrow to 5.2 percent of GDP in 2018 from 6.3 percent in 2017, with strong performance of agricultural exports particularly tea and horticulture, increased diaspora remittances, strong receipts from tourism, and lower imports of food and Standard Gauge Railway (SGR) related equipment relative to 2017.

4. Over the medium term, economic growth is expected to rise gradually to 7.0 percent per annum due to investments in strategic areas under the "Big Four" Plan that aim to increase job creation through the manufacturing sector, ensure food security and improved nutrition, achieve universal health coverage and provide affordable houses to Kenyans. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

5. Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. In the 2019 World Bank's Doing Business Report, Kenya was ranked position 61 in 2018 moving 19 places from position 80 in 2017.

1.2 Recent Economic Developments and Outlook

Global and Regional Economic Developments

6. Global growth is projected to remain steady and grow by 3.7 percent in 2018 and 2019 **(Table 1.1).** The leveling-off is driven by the recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China, closure of output gaps in advanced economies, moderation in trade and investment, and a gradual tightening of financing conditions due to ongoing withdrawal of accommodative monetary policy in advanced economies. Global growth optimism is constrained by rising trade tensions likely to have a negative impact on confidence, asset prices, global trade and investments.

Table 1.1: Global Economic Growth, Percent

REGION/COUNTRY	Actual 2017	Estimated 2018	Projected 2019
World	3.7	3.7	3.7
Advanced Economies	2.3	2.4	2.1
Of which: USA	2.2	2.9	2.5
Emerging and Developing Economies	4.7	4.7	4.7
Of which: China	6.9	6.6	6.2
India	6.7	7.3	7.4
Sub-Saharan Africa	*2.7*	*3.1*	*3.8*
Of which: South Africa	1.3	0.8	1.4
Nigeria	0.8	1.9	2.3
EAC-5	5.3	5.9	6.3
Of which: Kenya	4.9	6.0*	6.2*
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda			

Source: October 2018 WEO; *Projections by the National Treasury

7. In advanced economies, growth is expected to pick up to 2.4 percent in 2018 up from 2.3 percent in 2017 mainly supported by strong fiscal stimulus in the USA. This growth is however constrained by a slowdown in economic growth in the Euro area and the United Kingdom due to declining global trade and industrial production. Growth is projected to ease to 2.1 percent in 2019 reflecting consequence of the trade war.

8. Among emerging markets and developing economies, growth is expected to stabilize at 4.7 percent in 2018 and 2019 reflecting offsetting developments as growth moderates to a sustainable pace in China, while it improves in India reflecting increased domestic demand. Higher oil prices have also lifted growth among fuel-exporting economies in sub-Saharan Africa and the Middle East.

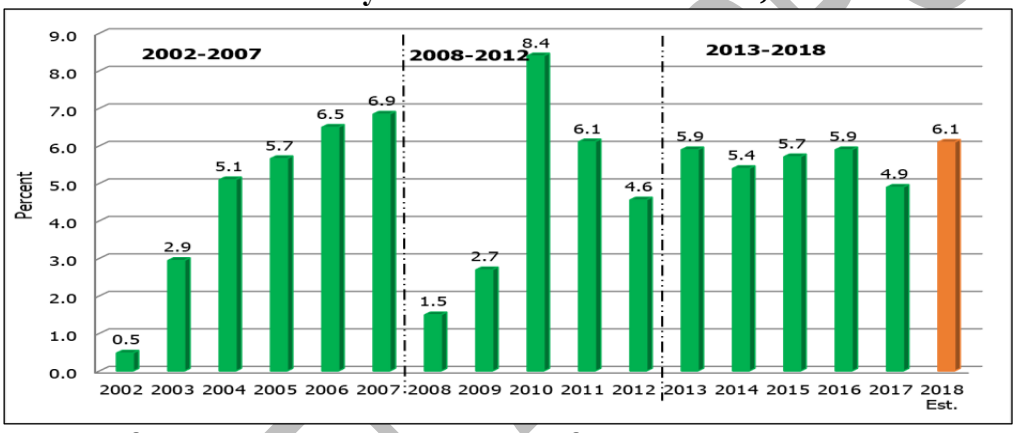
9. Growth prospects for sub-Saharan Africa continue to strengthen. Growth is expected to improve from 2.7 percent in 2017 to 3.1 percent in 2018 and further to 3.8 percent in 2019, supported by a stronger global growth, higher commodity prices, improved capital market access and contained fiscal imbalances in many countries. However, downside risks may arise from uncertainties in the run up to the 2019 general elections in South Africa.

10. Growth in the East African Community (EAC) region is estimated to rise to 5.9 percent in 2018 from 5.3 percent in 2017. This growth is driven by a rebound in agricultural activity on the backdrop of favorable weather conditions and a pickup in private sector credit growth. In 2019, economic growth is projected to increase to 6.3 percent supported by a stable macroeconomic environment, ongoing infrastructure investments, and strong private consumption.

Domestic Economic Developments

11. Kenya's economic growth has remained strong and resilient even under emerging global challenges, supported by strong public and private sector investment and appropriate economic and financial policies. The broad-based economic growth has averaged 5.6 percent for the last five years outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 4.6 percent in the period 2002 to 2007**(Chart 1.1 a).**

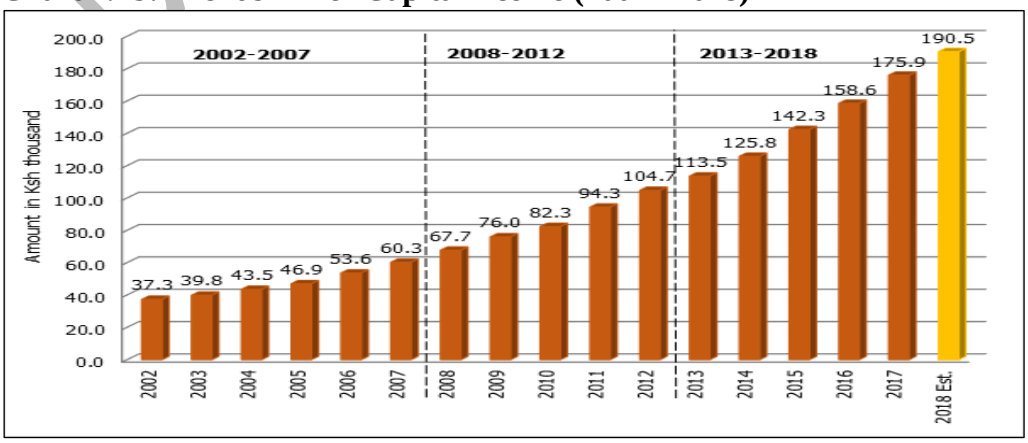
Chart 1.1a: Trends in Kenya's Economic Growth Rates, Percent



Source of Data: Kenya National Bureau of Statistics

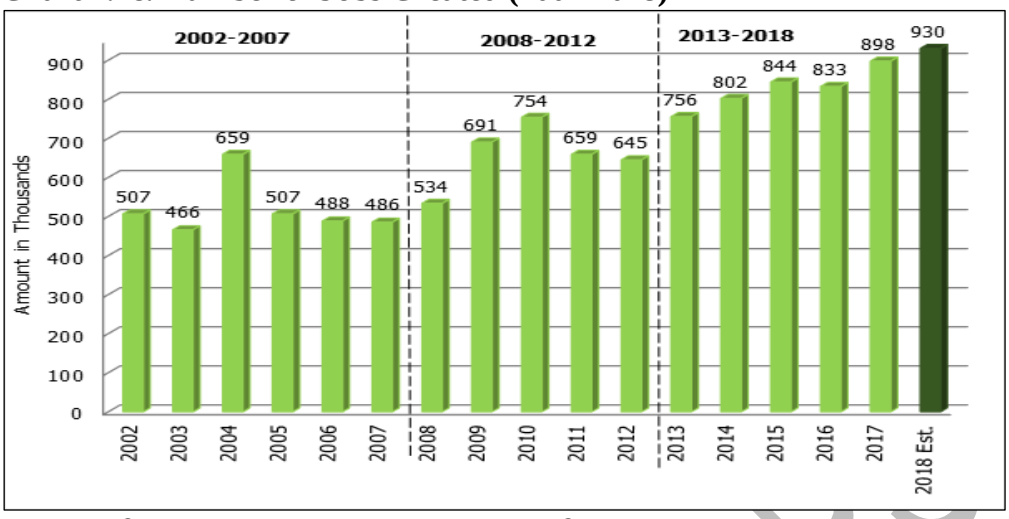
12. The value of goods and services produced raised Per Capita Income from Ksh 113,539 in 2013 to an estimated Ksh 190,521 in 2018, a 67.8 percent increase. This enabled generation of around 840,000 new jobs per year in the period 2013-2018 up from 656,500 new jobs per year in the period 2008-2012 (**Chart 1.1b and 1.1c**)

Chart 1.1b: Trends in Per Capita Income (2002 - 2018)



Source of Data: Kenya National Bureau of Statistics

Chart 1.1c: Number of Jobs Created (2002-2018)



Source of Data: Kenya National Bureau of Statistics

13. The rebound in economic activity in 2018 is a reflection of improved rains, better business sentiment and easing of political uncertainty. The economy grew by 6.0 percent in the third quarter of 2018 and 6.2 percent in the second quarter of 2018 up from 5.8 percent in the first quarter of 2018, averaging 6.0 percent in the first three quarters of 2018. Growth is projected at 6.0 percent in 2018 up from 4.9 percent in 2017, which is in line with the 2018 Budget Review and Outlook Paper (BROP) projection **(Table 1.2)**.

Table 1.2: Sectoral Real GDP Growth Rates, Percent

	2013	2014	2015	2016	2017	2018Q1	2018Q2	2018Q3
Primary sector	**5.0**	**4.8**	**5.6**	**4.9**	**1.8**	**5.3**	**5.3**	**5.4**
Of which: Agriculture	5.4	4.4	5.3	4.7	1.6	5.3	5.4	5.2
Mining	-4.2	14.9	12.3	9.5	6.1	4.5	3.5	8.5
Industry	**5.9**	**5.6**	**7.0**	**5.5**	**3.4**	**4.1**	**4.8**	**5.1**
Of which: Manufacturing	5.6	2.5	3.6	2.7	0.2	2.3	3.1	3.2
Electricity and Water supply	6.6	6.1	8.5	8.3	5.6	5.1	8.6	8.5
Construction	6.1	13.1	13.8	9.8	8.6	7.2	6.1	6.8
Services	**5.4**	**6.3**	**6.4**	**6.5**	**6.2**	**6.4**	**6.7**	**5.9**
Of which: Wholesale and Retail trade	8.4	6.9	5.9	3.4	5.8	6.2	7.7	6.8
Accomodation and Restaurant	-4.6	-16.7	-1.3	13.3	14.7	13.5	15.7	16.0
Transport and Storage	1.3	5.5	8.0	7.8	7.4	7.1	7.8	5.4
Information and Communication	12.5	14.5	7.4	9.7	11.0	12.0	12.6	9.1
Financial and Insurance	8.2	8.3	9.4	6.7	3.1	2.6	2.3	2.6
Real estate	4.1	5.6	7.2	8.8	6.1	6.8	6.6	5.8
GDP Growth	**5.9**	**5.4**	**5.7**	**5.9**	**4.9**	**5.8**	**6.2**	**6.0**
Of which: Non agricultural GDP	5.4	6.1	6.4	6.4	5.9	6.0	6.3	5.8

Source of Data: Kenya National Bureau of Statistics

14. In the third quarter of 2018, the economy grew by 6.0 percent compared to a growth of 4.7 percent in a similar quarter in 2017, mainly supported by improved weather conditions which led to increased agricultural production and agro

processing activity in the manufacturing sector. In addition, this growth was supported by pickup in activities of accommodation and food services, electricity and water supply and construction sectors.

15. Agriculture sector recovered and recorded growth of 5.2 percent in the third quarter of 2018 compared to a growth of 3.7 percent in a similar quarter of 2017, supported by improved weather conditions. This enabled the agriculture sector to contribute 1.0 percentage points to GDP growth in the third quarter of 2018 compared to 0.7 percentage points in the same period in 2017. The current recovery in the agriculture sector is broad-based and reflected in the expansion of output of key food and cash crops such as tea, coffee and fruits **(Chart 1.2a and 1.2b).**

16. The Non-agricultural sector (service and industry) remained vibrant and grew by 5.8 percent in the third quarter of 2018 up from a growth of 5.1 percent in a similar quarter in 2017. It has the largest percentage points to real GDP growth at 4.0 percentage points mainly supported by the service sector.

17. Services remained the main source of growth and expanded by 5.9 percent in the third quarter of 2018 compared to a growth of 5.6 percent in the same quarter in 2017. The service sector was supported by improved growth in accommodation and restaurant (16.0 percent), wholesale and retail trade (6.8 percent), transport and storage (5.4 percent) and financial and insurance (2.6 percent). Growth of activities in information and communication (9.1 percent) and real estate (5.8 percent) remained vibrant despite the slowdown relative to the same quarter in 2017.

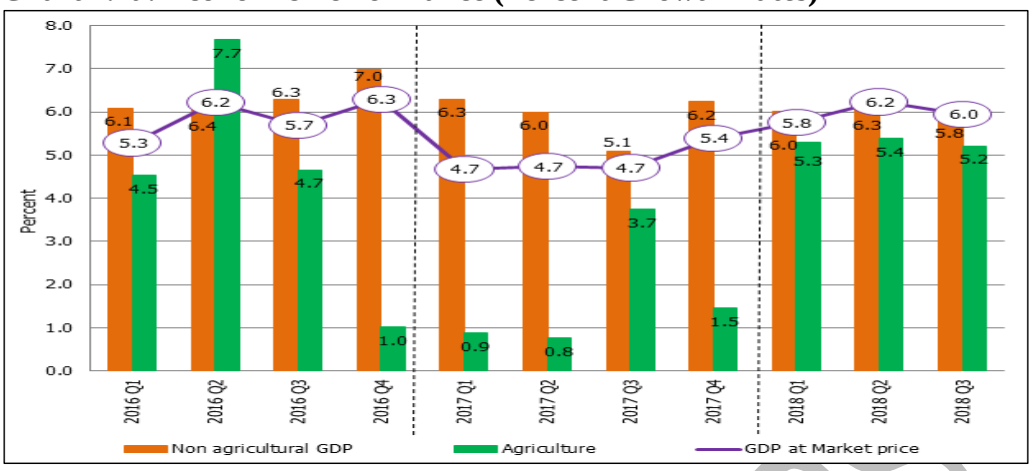
18. Services contributed 3.1 percentage points to real GDP growth in the third quarter of 2018 largely supported by wholesale and retail trade (0.6 percentage points), Real Estate (0.5 percentage points) and Transport and storage (0.4 percentage points).

19. The performance of Industry improved to a growth of 5.1 percent in the third quarter of 2018 compared to a growth of 2.3 percent in the same quarter in 2017 following increased activities in the manufacturing, construction and electricity and water supply sectors. The recovery of the manufacturing sector was attributable to agro-processing activities that benefitted substantially from increased agricultural production.

20. Growth in the Electricity and Water supply remained vibrant driven by increased use of less input intensive sources of energy such as hydro generated electricity supported by sufficient rainfall and geothermal power generation coupled with a slowdown in growth of thermal generation.

21. The industry sector accounted for 0.9 percentage points to growth in the third quarter of 2018, largely driven by the construction and manufacturing sectors which contributed 0.4 percentage points and 0.3 percentage points, respectively.

Chart 1.2a: Economic Performance (Percent Growth Rates)



Source of Data: Kenya National Bureau of Statistics

Chart 1.2b: Contributions by Activities to GDP Growth

Source of data: Kenya National Bureau of Statistics

Inflation Rate

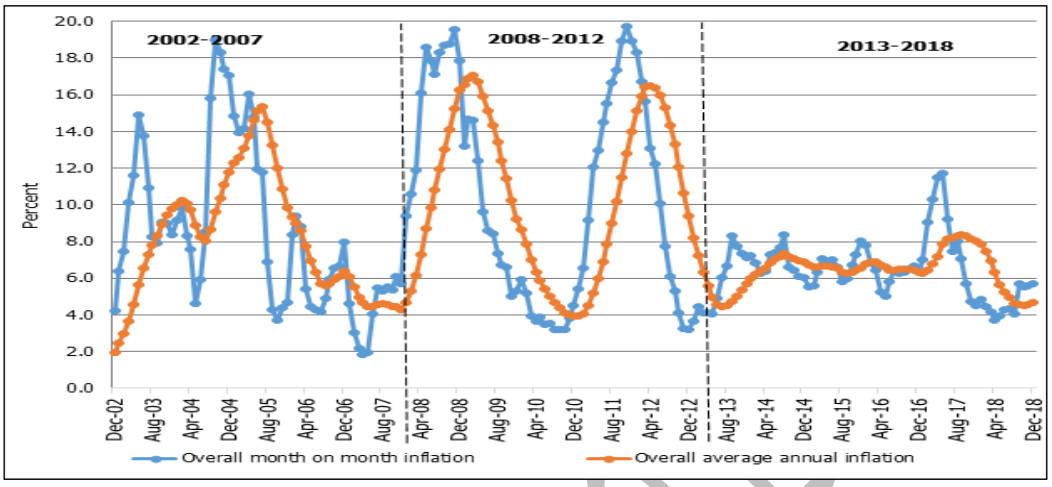
22. Inflation rate was highly volatile in the period 2008-2012 and averaged 10.6 percent compared to the period 2003-2007 when it averaged 8.5 percent. The sharp increase in inflation rate in the year 2008 to 2010 was occasioned by internal shocks (post-elections disruptions and unfavorable weather conditions) and external shocks (high crude oil prices and global financial crisis).The tightening of monetary policy, together with an easing in global food and fuel prices, saw the levels of inflation come under control in 2012.

23. Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies **(Chart 1.3)**. The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018 supported by improved weather conditions that resulted in lower food prices.

24. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather

conditions and a decline in energy prices following lower costs in prices of electricity and diesel. However, overall Inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

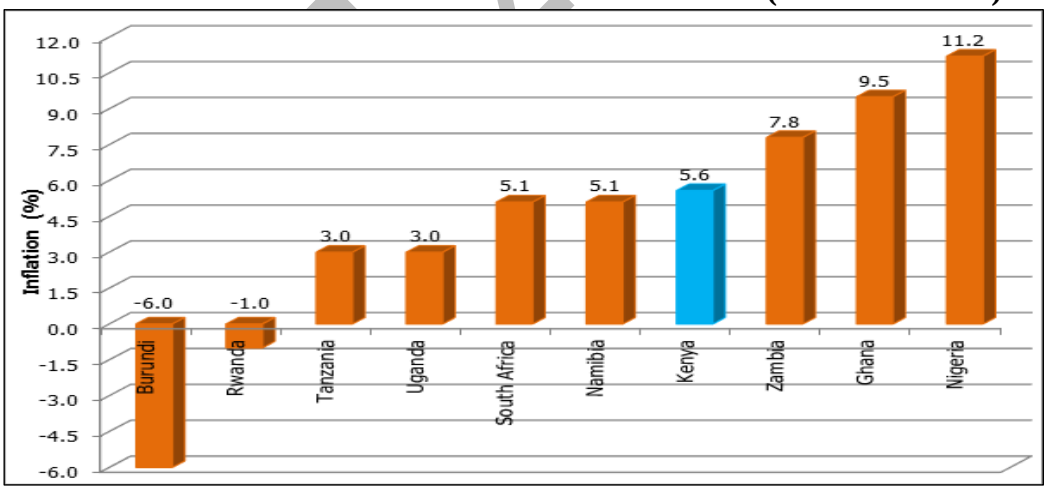
Chart 1.3: Inflation Rate



Source of Data: Kenya National Bureau of Statistics

25. Kenya's rate of inflation compares favorably with the rest of sub-Saharan African countries and especially its peers such as Nigeria and Ghana whose inflation rates were 11.2 percent and 9.5 percent, respectively in November 2018 **(Chart 1.4).**

Chart 1.4: Inflation Rates in selected African Countries (November 2018)

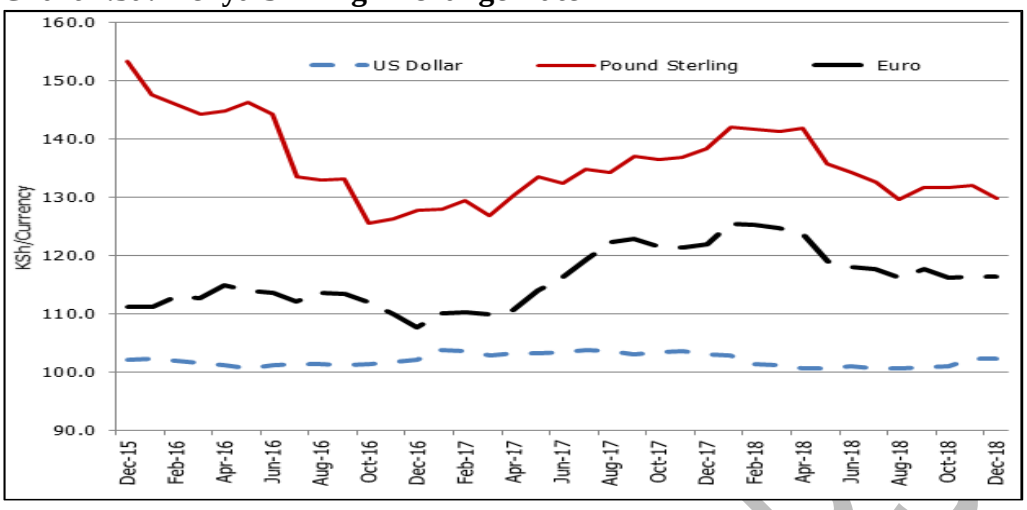


Source of data: Various National Central Banks

Kenya Shilling Exchange Rate

26. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate has been relatively less volatile exchanging at Ksh 102.3 in December 2018 from Ksh 103.1 in December 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.4 and Ksh 129.7 in December 2018 from Ksh 122.0 and Ksh 138.2 in December 2017, respectively **(Chart 1.5a).**

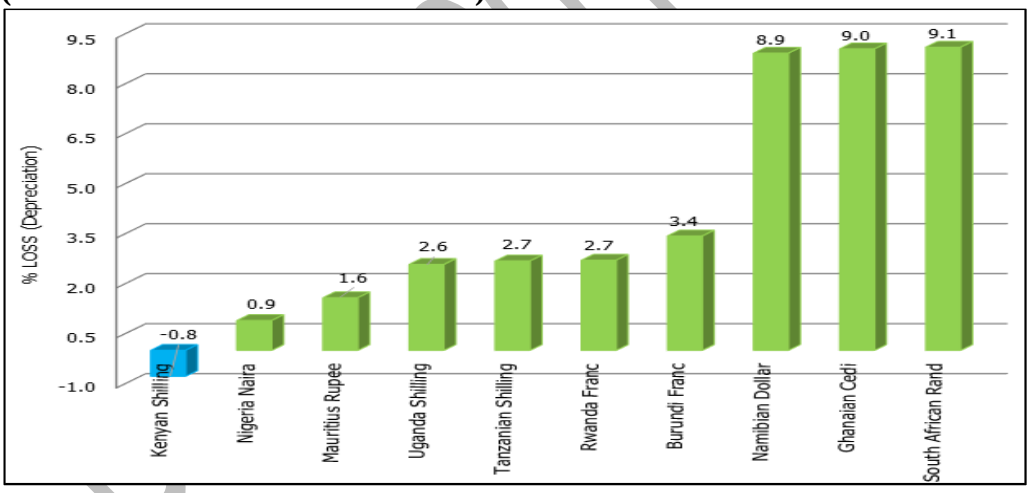
Chart 1.5a: Kenya Shilling Exchange Rate



Source of Data: Central Bank of Kenya

27. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most sub - Saharan Currencies **(Chart 1.5b).** This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism.

Chart 1.5b: Performance of selected currencies against the US Dollar (December 2017 to December 2018)



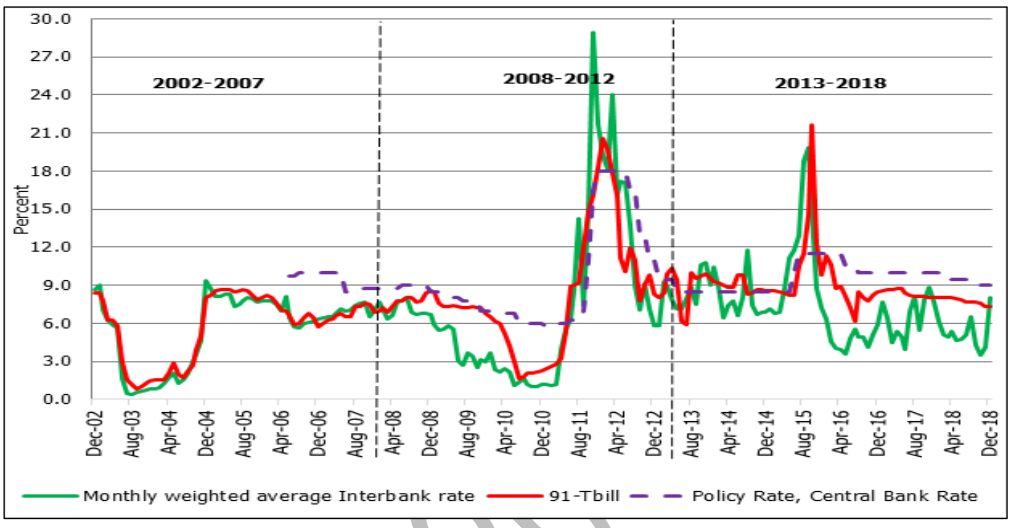
Source of Data: National Central Banks

Interest Rates

28. Interest rates have been low and stable for the period 2002 to 2011 due to ample liquidity in the money market. However, interest rates increased in 2012 following tight monetary policy stance in order to ease inflationary pressures. Interest rates remained stable and low in the period 2013-2018 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations **(Chart 1.6)**. The Central Bank Rate was reduced to 9.0 percent on 30th July 2018 from 9.5 percent in March 2018 as there was room for easing monetary policy stance to support economic activity.

29. The interbank rate remained low at 8.1 percent in December 2018 from 7.7 percent in December 2017 due to ample liquidity in the money market. The interest rates for Government securities have been declining indicating that the implementation of Government domestic borrowing program supported market stability. The 91-day Treasury bill rate declined to 7.3 percent in December 2018 compared to 8.0 percent in December 2017 while over the same period, the 182 day and the 364-day Treasury bills declined to 8.4 percent and 9.7 percent from 10.5 percent and 11.1 percent, respectively.

Chart 1.6: Short-Term Interest Rates



Source of Data: Central Bank of Kenya

30. Commercial banks' average interest rates remained stable and compliant with the interest rate capping law that was effected in September 2016. The CBR was reduced to 9.0 percent from 9.5 percent in March 2018 and as a result the lending rate declined to 12.6 percent in October 2018 compared to 13.7 percent in October 2017. The deposit rate also declined to 7.6 percent from 8.2 percent over the same period. Consequently, the interest spread declined from 5.9 percent in October 2017 to 5.0 percent in October 2018.

Money and Credit

31. Broad money supply, M3, improved to a growth of 9.1 percent in the year to October 2018 compared to a growth of 7.2 percent in the year to October 2017 **(Table 1.3).** This was due to the increase in the net foreign assets (NFA) of the banking sector despite a slowdown in the growth of net domestic assets (NDA) of the banking system. The decline in growth of NDA was largely reflected in the decrease in net domestic credit to Government.

32. Net Foreign Assets (NFA) of the banking system in the year to October 2018 grew by 22.3 percent, an improvement compared to a contraction of 2.3 percent in the year to October 2017, largely supported by Government external borrowing and increase in commercial banks foreign assets mostly in form of deposits and securities purchased.

Table 1.3: Money Supply and Credit, Ksh billion

				Absolute Change		percent change	
	2016	2017	2018	2016-2017	2017-2018	12 months to	12 months to
	OCT	OCT	OCT	OCT	OCT	Oct-17	Oct-18
Money supply, M3 (1+2)	**2,800.0**	**3,000.2**	**3,273.0**	**200.2**	**272.8**	**7.2**	**9.1**
1. Net foreign assets (1.1+1.2)	**572.4**	**559.2**	**683.9**	**-13.2**	**124.7**	**-2.3**	**22.3**
1.1 Central Bank	678.3	649.5	748.9	-28.8	99.4	-4.2	15.3
1.2 Banking Institutions	-105.9	-90.3	-65.0	15.6	25.3	-14.7	-28.0
2. Net domestic assets (2.1+2.2)	**2,227.6**	**2,441.0**	**2,589.1**	**213.4**	**148.1**	**9.6**	**6.1**
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	**2,923.4**	**3,148.9**	**3,368.7**	**225.5**	**219.8**	**7.7**	**7.0**
2.1.1 Government (net)	562.2	716.3	840.7	154.2	124.4	27.4	17.4
2.1.2 Other public sector	96.0	112.7	105.6	16.7	-7.1	17.4	-6.3
2.1.3 Private sector	2,265.2	2,319.9	2,422.4	54.6	102.6	2.4	4.4
2.2 Other assets net	**-695.8**	**-707.9**	**-779.6**	**-12.1**	**-71.7**	**1.7**	**10.1**

Source of Data: Central Bank of Kenya

33. Meanwhile, the Net Domestic Assets (NDA) slowed down to a growth of 6.1 percent in the year to October 2018 from a growth of 9.6 percent over a similar period in 2017. This reflects decrease in growth of net credit to Government resulting from increased Government deposit holdings at the Central Bank of Kenya.

34. Annual growth of credit to the private sector grew by 4.4 percent in the year to October 2018, an improvement from the 2.4 percent growth in October 2017. In particular, lending to manufacturing, business services, finance and insurance, and building and construction grew by 14.8 percent, 12.1 percent, 9.1 percent and 7.1 percent, respectively. This offset the substantial loan repayments recorded in the mining, transport and communication and agriculture sectors in the year to October 2018. Growth in private sector credit is expected to pick up gradually with the continued recovery of the economy

Balance of Payments

35. The overall balance of payments position was at a deficit of US$ 1,333.9 million (1.4 percent of GDP) in the year to October 2018 from a surplus of US$ 490.5 million (0.6 percent of GDP) in the year to October 2017 **(Table 1.4 and Chart 1.7).** This deficit was due to a decline in the financial account despite an improvement in the capital and current accounts.

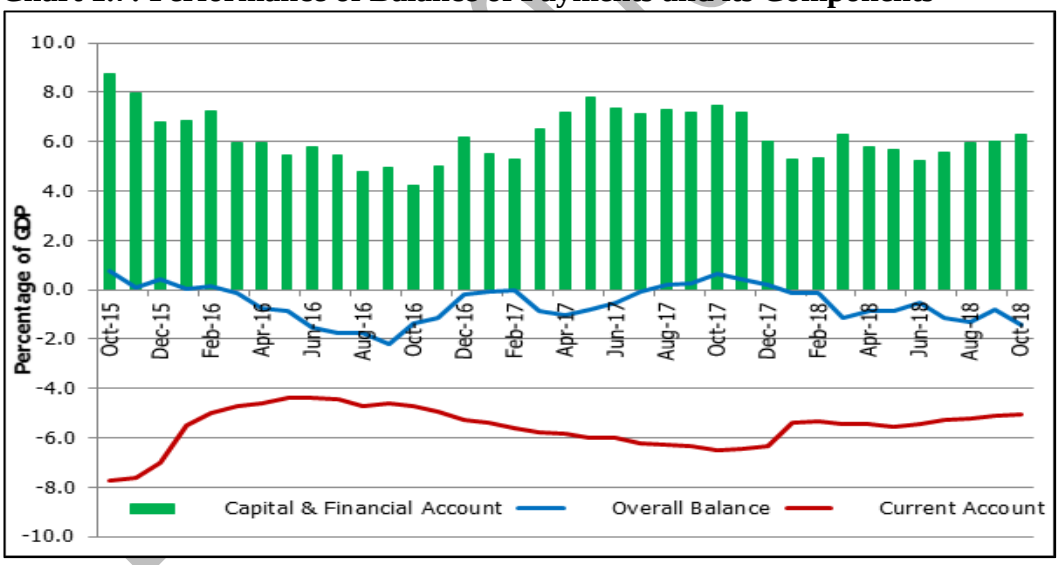
36. The current account balance improved to a deficit of US$ 4,660.6 million (5.0 percent of GDP) in the year to October 2018 compared to a deficit of US$ 5,141.8 million (6.5 percent of GDP) in the year to October 2017. This improvement was supported by strong growth of agricultural exports particularly tea and horticulture, increased diaspora remittances, strong receipts from tourism, and lower imports of food and SGR-related equipment relative to 2017. It is expected to narrow further to 5.2 percent of GDP in 2018 from 6.3 percent in 2017.

Table 1.4: Balance of Payments

							Year to October 2018	
	Oct-17	Dec-17	Mar-18	Jun-18	Sep-18	Oct-18	Absolute Change	% Change
Overall Balance	**490.5**	**157.3**	**-1,054.3**	**-496.6**	**-775.1**	**-1,333.9**	**-1,824.4**	**-371.9**
Current Account	**-5,141.8**	**-5,016.4**	**-5,082.7**	**-5,082.7**	**-4,751.4**	**-4,660.6**	**481.2**	**-9.4**
of which: Mechandise account (a-b)	*-9,980.0*	*-10,201.5*	*-10,184.5*	*-10,467.0*	*-10,279.3*	*-10,244.4*	*-264.4*	*2.6*
a) Goods: exports.	5,767.7	5,792.4	5,922.2	6,052.6	6,145.5	6,177.7	410.1	7.1
b) Goods: imports.	15,747.6	15,993.9	16,106.6	16,519.7	16,424.8	16,422.1	674.5	4.3
Services: credit	4,518.6	4,651.1	4,710.7	4,896.9	5,091.6	5,269.1	750.5	16.6
Services: debit	3,051.6	3,093.3	3,330.2	3,508.3	3,577.2	3,656.9	605.4	19.8
Balance on goods and services	-8,512.9	-8,643.7	-8,804.0	-9,078.4	-8,764.9	-8,632.2	-119.3	1.4
Primary income: credit	404.6	398.7	422.0	479.2	526.1	543.7	139.0	34.4
Primary income: debit	1,189.2	1,219.5	1,263.0	1,344.7	1,437.4	1,520.2	331.0	27.8
Balance on goods, services & primary income	-9,297.5	-9,464.5	-9,645.1	-9,943.9	-9,676.2	-9,608.7	-311.2	3.3
Secondary income: credit	4,207.7	4,504.1	4,614.7	4,913.2	4,976.4	4,998.9	791.2	18.8
Secondary income: debit	52.0	55.9	52.3	52.0	51.6	50.8	-1.2	-2.4
Capital Account	**161.8**	**184.6**	**187.8**	**258.7**	**304.0**	**300.6**	**138.7**	**85.7**
Financial Account	**-5,750.0**	**-4,606.1**	**-5,682.2**	**-4,636.8**	**-5,312.1**	**-5,526.4**	**223.6**	**-3.9**

Source of Data: Central Bank of Kenya

Chart 1.7: Performance of Balance of Payments and its Components



Source of Data: Central Bank of Kenya

37. The deficit in the merchandise account widened by US$ 264.4 million to US$ 10,244.4 million in the year to October 2018 reflecting an increase in payments for import of oil on account of the rebound in international oil prices despite an increase in merchandise exports. Net services recorded an improvement of 9.9 percent in the year to October 2018 mainly on account of higher receipts from transport and travels.

38. The capital account recorded an improvement of US$ 138.7 million to US$ 300.6 million in the year to October 2018, reflecting an increase in project grants. Flows in the Financial Account decreased to US$ 5,526.4 million in October 2018

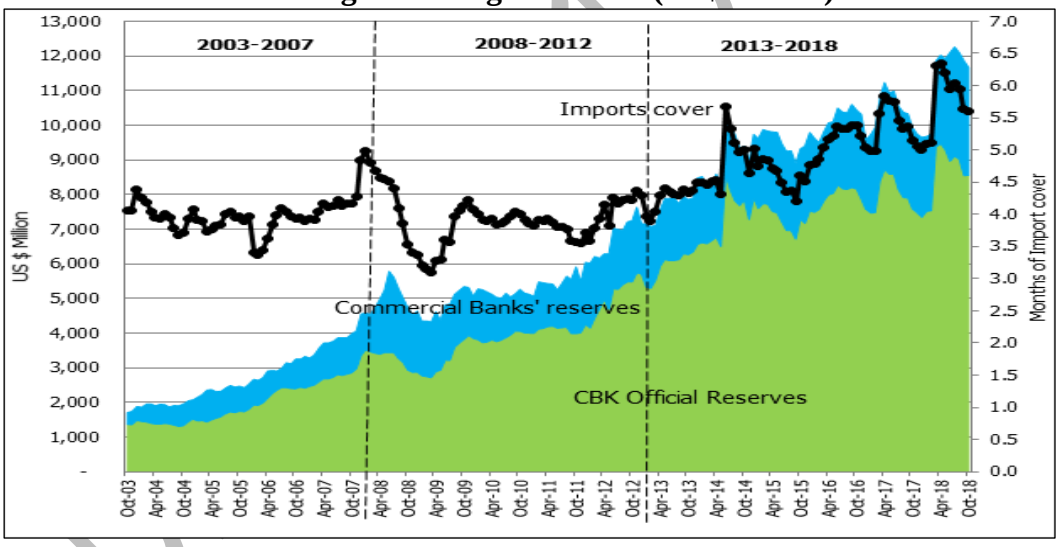
compared with US$ 5,750.0 million in October 2017. The financial inflows were mainly in the form of other investments, direct investments and portfolio Investments which stood at US$ 3,938.7 million, US$ 892.8 million and US$ 694.8 million, respectively in October 2018. Other investment inflows mainly include foreign financing for Government infrastructure projects

Foreign Exchange Reserves

39. Foreign exchange reserves have increased from around 3.0 months of import cover in 2003 to above 5.5 months of import cover in 2018 which is above the statutory requirement of 4.0 months of import cover and thus remain adequate to safeguard against exogenous shocks.

40. The banking system's foreign exchange holding remained strong at US$ 11,668 million in October 2018 from US$ 9,931 million in October 2017 **(Chart 1.8).** The official foreign exchange reserves held by the Central Bank improved to US$ 8,554 million (5.6 months of import cover) in October 2018 compared with US$ 7,574 million (5.1 months of import cover) in October 2017. By end December 2018, the usable official reserves stood at US$ 8,001 million or 5.2 months of import cover. Commercial banks holdings was at US$ 3,114 million in 2018 from US$ 2,357 million in 2017.

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



Source of Data: Central Bank of Kenya

Nairobi Securities Exchange

41. Activity in the capital market slowed down with equity share prices declining as shown by the NSE 20 Share Index. The NSE 20 Share Index was at 2,834 points by end- December 2018 from 3,712 points in December 2017. The depressed share prices resulted in lower market capitalization of Ksh 2,102 billion in December 2018 from Ksh 2,522 billion in December 2017. The decline reflects trends in the global equities markets as investors shift to bond markets in expectation for a further hike in the U.S. interest rates on strong jobs and economic data.

1.3 Fiscal Performance

42. Budget execution started on a slow note in the first quarter of the FY 2018/19 due to budget rationalization to align expenditure priorities to revenues after amendments to the Finance Bill 2018 that significantly affected the expected revenue yields. In addition, expenditure rationalization was effected to reflect lower revenues after the revenue outcome for the FY 2017/18 turned out weaker than anticipated, thereby shrinking the forecasting base for FY 2018/19 as well as the medium term.

43. The exercise to clean-up the development project portfolio triggered by the Presidential directive on inclusion of new projects in the budget also slowed down the uptake of development expenditures in the first quarter. This picked up strongly in the second quarter of FY 2018/19.

44. The expenditure rationalization was to ensure sustainable fiscal position in the FY 2018/19 and the medium term, and reaffirm the Government's commitment to its fiscal consolidation plan and to prudent fiscal management in general.

Revenue Performance

45. Revenue collection for the first five months grew by 13.5 percent compared to the same period in the FY 2017/18. This strong growth is driven in part by a rebound effect, after the poor performance in the previous financial year as well as two months effect of the tax policy measures introduced in the Finance Act 2018. Despite the strong growth, cumulative ordinary revenue still fell short of the November target by Ksh 27.7 billion. This shortfall however is expected to close in the second half of the financial year as the yields from the full impact of the revenue policy measures take effect and as the roll out of the Revenue Enhancement Initiatives (REI) being put in place by the Kenya Revenue Authority (KRA) is finalized.

46. As the financial year progresses, we will closely monitor the performance of Excise taxes and Taxes from International Trade and Transactions (Import duty) which performed below the cumulative November 2018 targets. Income tax from corporations which recorded negative growth as at November 2018 is expected to bounce back to target levels by third quarter due to the strong performance recorded in the economy in the first half of the financial year. Income Tax from individuals, (P.A.Y.E) and Value Added Tax (VAT) remained largely on target and are expected remain on course into the second half of the year.

47. In nominal terms, total revenue collection including Appropriation in Aid (A.i.A) by November 2018 amounted to Ksh 633.7 billion (equivalent to 6.3 percent of GDP) against a target of Ksh 677.0 (equivalent to 6.5 percent of GDP). The recorded shortfall of Ksh 43.3 billion was due to underperformance in ordinary revenue Ksh 27.7 billion and A.i.A amounting to Ksh 15.6 billion.

Expenditure Performance

48. Total expenditure and net lending for the period July-November 2018 amounted to Ksh 829.1 billion which was below the projected amount by Ksh 105.7 billion. Recurrent spending amounted to Ksh 553.6 billion while

development expenditures and transfer to County Governments (Equitable share only) were Ksh 203.1 billion and Ksh 72.2 billion respectively and net lending expenditures for five months amounted to Ksh 963 million.

49. Whereas recurrent spending was below the projected target by Ksh 80.0 billion mainly on account of lower than targeted domestic interest payments and pension payments, capital spending was marginally above the target by Ksh 3.2 billion.

50. Fiscal operations of the Government during the five months of July-November 2018 resulted in an overall deficit of Ksh 216.5 billion against the projected deficit of Ksh 242.8 billion. This deficit was financed through net domestic financing of Ksh 139.4 billion and net foreign borrowing of Ksh 77.1 billion.

1.4 Fiscal Policy

51. Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in the BPS 2018, this will ensure debt is maintained within sustainable levels. Declining from a high of 9.1 percent of GDP in FY 2016/17 to 7.2 percent in FY 2017/18 the fiscal deficit is expected to decline further to 6.3 percent of GDP in FY 2018/19 and eventually to 3.0 percent by FY 2021/22. This deliberate fiscal consolidation plan, also resonates well with the East African Monetary Union (EAMU) protocol target ceiling of 3.0 percent of GDP. On the other hand, the sectoral expenditure ceilings shall remain intact as given in the Budget Review and Outlook Paper 2018 released in earlier in September, 2018.

52. To achieve these targets, the Government will continue to restrict growth in recurrent spending while doubling its effort in domestic resource mobilization. In the FY 2018/19, the Government implemented a raft of tax policy measures in through the tax amendment law and the Finance Act 2018 whose revenue yield is estimated at about 0.9 percent of GDP. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting our fiscal consolidation efforts.

53. Further, the establishment of Public Investment Management (PIM) Unit will enhance efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending. In particular, the implementation of PIM regulations under the Public Finance Act will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway projects costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

54. In this regard, expenditures as a share of GDP are projected to decline from 24.4 percent in the FY 2017/18 to 23.8 percent in the FY 2019/20 and further to 22.2 percent in the FY 2022/23. Establishment of Public Investment Management

(PIM) Unit will enhance efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending.

55. On the other hand, revenues as a share of GDP are projected to rise from 17.3 percent in the FY 2017/18 to 18.3 percent in the FY 2019/20 and further to 18.8 percent in FY 2022/23. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.0 percent of GDP by FY 2022/23.

56. To mobilize revenues, the Government has put in place revenue enhancement measures to boost performance and cushion against further revenue shortfalls by strengthening tax administration and compliance through:

i. Enhanced scanning to detect concealment and increase efficiency in cargo clearing through procurement of additional scanners and full integration of all scanners;

ii. Use of Regional Electronic Cargo Tracking System (RECTS) to ensure all goods reach the desired destinations and avoid dumping;

iii. Use of third-party information to identify non-compliant property developers and ensure they are included in the tax base; and

iv. Detection of non-compliance through i-Tax data matching.

57. Given the expenditure and revenue enhancement measures put in place, fiscal deficit inclusive of grants is projected to reduce from Ksh 631.3 billion (equivalent to 7.2 percent of GDP) in the FY 2017/18 to Ksh 572.2 billion (equivalent to 5.0 percent of GDP) in the FY 2019/20 and further to Ksh 498.5 billion (equivalent to 3.0 percent of GDP) in the FY 2022/23. To finance the fiscal deficit in the FY 2019/20, domestic borrowing is projected at Ksh 271.4 billion, foreign financing at Ksh 306.5 billion and other domestic financing Ksh 5.7 billion as reflected in **Table 1.5** below. In the medium term, debt is projected to remain at sustainable levels.

Table 1.5: Fiscal Framework (Ksh million)

	FY 2017/18		FY 2018/19				FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
	Revised Budget II Final	Preliminary	Budget	Revised Budget	BPS 2019	Deviation	Projection			
TOTAL REVENUE	**1,659,611**	**1,522,455**	**1,949,181**	**1,852,572**	**1,831,460**	**(117,721)**	**2,080,922**	**2,369,602**	**2,718,014**	**3,067,406**
Ordinary revenue	1,489,633	1,365,063	1,769,229	1,672,629	1,651,517	**(117,712)**	1,877,176	2,142,838	2,465,418	2,785,962
Ministerial Appropriation in Aid	169,977	157,392	179,952	179,944	179,944	**(9)**	203,746	226,763	252,596	281,444
						-				
TOTAL EXPENDITURE AND NET LENDING	**2,329,961**	**2,146,687**	**2,557,246**	**2,509,083**	**2,514,421**	**(42,825)**	**2,704,706**	**2,916,285**	**3,245,455**	**3,635,548**
Recurrent Expenditure	1,441,931	1,349,896	1,550,042	1,540,978	1,513,279	**(36,763)**	1,657,299	1,812,449	2,037,012	2,278,440
Development	556,349	469,517	625,722	595,663	631,183	**5,461**	670,854	723,938	819,770	955,518
County Transfer	331,681	327,274	376,481	367,441	364,958	**(11,523)**	371,553	374,898	383,673	393,590
Contingency Fund	-	-	5,000	5,000	5,000	-	5,000	5,000	5,000	8,000
						-				
BALANCE EXCLUSIVE OF GRANTS	**(670,350)**	**(624,232)**	**(608,065)**	**(656,510)**	**(682,961)**	**(74,896)**	**(623,784)**	**(546,683)**	**(527,441)**	**(568,141)**
Grants	42,953	27,600	48,487	48,487	47,483	**(1,004)**	51,616	52,447	54,394	57,632
BALANCE INCLUSIVE OF GRANTS	**(627,397)**	**(596,632)**	**(559,578)**	**(608,023)**	**(635,477)**	**(75,900)**	**(572,168)**	**(494,236)**	**(473,047)**	**(510,509)**
Balance Inclusive of Grants (Cash)	(627,397)	(631,309)	(559,578)	(608,023)	(635,477)	**(75,900)**	(572,168)	(494,236)	(473,047)	(510,509)
Discrepancy	-	-	-	-	-	-	-	-	-	-
TOTAL FINANCING	**627,397**	**631,309**	**559,578**	**608,023**	**635,477**	**75,900**	**572,168**	**494,236**	**473,047**	**510,509**
Net Foreign Financing	374,622	354,977	286,986	286,986	321,464	**34,477**	306,480	284,224	245,612	247,980
Other Domestic Financing	4,038	2,623	3,925	3,925	3,925	-	(5,677)	(1,236)	(5,547)	(5,547)
Net Domestic Financing	248,737	273,710	268,666	317,112	310,089	**41,422**	271,364	211,248	232,982	268,077
Nominal GDP (Fiscal Year)	**8,678,974**	**8,796,500**	**9,726,649**	**9,990,033**	**10,030,206**	**303,557**	**11,346,478**	**12,795,939**	**14,475,219**	**16,392,981**

Source: National Treasury

1.5 Economic Outlook

58. Kenya's economic growth prospects for the FY 2019/20 and over the medium term take into account the global and sub-Saharan Africa growth prospects, the emerging global challenges and the domestic risks. The projections accommodates the strategic objectives of the Government as outlined in the Third Medium Term Plan (2018-2022) of Vision 2030.

59. Real GDP is projected to expand by 6.1 percent in FY 2018/2019, 6.2 percent in FY 2019/2020, 6.4 percent in FY 2020/21 and 7.0 percent by FY 2022/23 **(Table 1.6 and Annex Table 1)**. This growth will be supported by a pickup in agricultural and manufacturing activities underpinned by improved weather conditions, strong service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business and consumer confidence.

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

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

62. Inflation is currently within the Government's target range largely due to lower food prices and muted demand-driven inflationary pressures. It is expected

to remain within target in the medium term mainly due to expected lower food prices reflecting favorable weather conditions, the decline in international oil prices, and the recent downward revision in electricity tariffs. The recent excise tax adjustment on voice calls and internet services is expected to have a marginal impact on inflation. Interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

63. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit. The narrowing of the current account deficit is largely due to increased exports of tea and horticulture, increased diaspora remittances, strong receipts from tourism, increased foreign direct investment in infrastructure and lower imports of food and SGR-related equipment relative to 2017. It is expected to narrow further to 5.2 percent of GDP in 2018 from 6.3 percent in 2017.

64. The Government policies aims at supporting the fiscal consolidation agenda which will bolster debt sustainability position and give flexibility for counter cyclical fiscal policy interventions whenever appropriate. The programme targets to achieve a fiscal deficit including grants of 3.0 percent of GDP by FY 2022/23 down from the projected 6.3 percent of GDP in FY 2018/19. This is in line with the EAC convergence ceiling of 3.0 percent of GDP.

Table 1.6: Macroeconomic Framework

	2016/17	2017/18	2018/19			2019/20			2020/21			2021/22			2022/23	
	Act	Prel. Act	Rev. Budget	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BROP'18	BPS'19
	Annual percentage change															
National Account and Prices																
Real GDP	5.4	5.4	6.1	6.1	6.1	6.3	6.2	6.2	6.8	6.4	6.4	6.9	6.7	6.7	6.9	7.0
GDP Deflator	8.4	8.4	7.0	7.0	7.5	6.1	6.8	6.5	5.9	5.9	6.0	5.8	5.8	6.0	5.8	5.8
CPI Index (eop)	6.7	5.0	5.0	5.0	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	8.1	5.2	5.0	5.0	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	0.7	0.0	-2.6	-2.6	-3.5	0.3	-1.4	-1.6	0.1	-1.5	-1.8	1.1	1.1	1.1	-1.9	-2.2
	Percentage of GDP															
Investment and saving																
Investment	17.9	21.1	22.8	22.9	24.0	22.6	22.5	24.0	22.8	21.8	23.3	23.4	23.4	25.0	25.8	27.9
Gross National Savings	14.0	15.5	17.6	17.6	18.2	17.1	17.3	18.1	18.0	16.7	17.4	19.2	19.0	19.7	21.7	22.8
Central Government Budget																
Total revenue	18.6	17.3	18.5	18.5	18.3	19.0	18.3	18.3	19.2	18.6	18.5	19.4	19.2	18.8	19.2	18.8
Total expenditure and net lending	27.6	24.4	25.1	24.8	25.1	23.8	23.5	23.8	22.9	22.6	22.8	22.5	22.4	22.4	22.1	22.2
Overall balance (commitment basis) excl. grants	-9.0	-7.1	-6.6	-6.2	-6.8	-4.8	-5.1	-5.5	-3.8	-4.0	-4.3	-3.4	-3.5	-3.6	-2.9	-3.4
Overall balance (commitment basis) incl. grants	-8.8	-6.8	-6.1	-5.8	-6.3	-4.3	-4.7	-5.0	-3.3	-3.6	-3.9	-3.0	-3.1	-3.3	-2.6	-3.0
Overall balance (commitment basis) incl. grants, excl. SGR	-7.4	-6.1	-5.6	-5.2	-5.3	-3.9	-4.3	-4.6	-2.8	-3.0	-3.3	-2.4	-2.5	-2.7	-2.3	-2.5
Nominal central government debt (eop), net of deposits	51.9	51.5	51.1	51.1	51.5	51.0	49.7	50.6	48.2	47.7	48.7	43.6	46.2	46.3	43.4	43.9
External sector																
Current external balance, incl. official transfers	-3.9	-5.6	-5.2	-5.3	-5.8	-5.5	-5.2	-5.8	-4.8	-5.2	-5.9	-4.2	-4.5	-5.4	-4.1	-5.1
Gross international reserve in months of imports	6.5	6.9	7.0	7.0	7.0	6.9	7.1	7.1	7.0	7.2	7.2	7.1	7.3	7.3	7.4	7.4

Source: National Treasury

1.6 Risks to the Economic Outlook

65. This macroeconomic outlook is not without risks. Risks from the global economies relates to: (i) Trade tensions among major advanced economies regarding imposition of tariffs on selected imports by the United States from its main trading partners particularly China, and likely retaliatory measures; (ii) The prolonged uncertainty regarding Brexit negotiations and financial market volatility resulting from uncoordinated and abrupt monetary policy normalization; and (iii) Noneconomic factors such as political uncertainties and geopolitics in the Middle East and some countries in the sub-Saharan Africa region.

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

67. Implementation of policy to pay the police house and commuter allowance, capitation to universities, negotiated high payments to maize farmers and subsidized fertilizers are likely to constrain expenditure targets. Further, revenue performance which performed extremely below target in the FY 2017/18 may not increase as quickly to cover the anticipated expenditure increments.

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

II. HARNESSING THE 'BIG FOUR' PLAN FOR JOB CREATION AND SHARED PROSPERITY

2.1 Preamble

69. The 2019 BPS, the second to be prepared under the Jubilee Government's second term, reaffirms the priority policies and strategies outlined in "The Big Four" Plan and as prioritized in the Third Medium Term Plan of the Vision 2030. In this regard, the Government has taken decisive steps to harness the implementation of various policies and programmes under each of the four pillars namely: (i) supporting job creation by increasing value addition and raising the manufacturing sector's share to GDP; (ii) focusing on initiatives that guarantee food security and nutrition to all Kenyans; (iii) providing universal health coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and (iv) supporting construction of at least five hundred thousand (500,000) affordable new houses to Kenyans (**Chart 2.1**).

70. Implementation of the policies and programmes under these four pillars is expected to accelerate and sustain inclusive growth, create opportunities for productive jobs, reduce poverty and income inequality and provide a better future for all Kenyans.

Chart 2.1: The "Big Four" Plan

71. To enable achievement of "The Big Four" Plan, the Government has initiated key policies, legal and institutional reforms across all the Big Four sectors. To enhance the manufacturing sector, the Government has advanced funds to 15 agro-processing projects, is setting up leather and textile plants across the country,

and is continuing to promote the "Buy Kenya, Build Kenya" philosophy which will boost the sector's growth.

72. To enhance food and nutrition security, the Government has aligned all policies under the agriculture sector towards increasing food production, boosting smallholder productivity and reducing the cost of food.

73. To make universal health coverage a reality, the Government launched the pilot phase of the universal health programme in four Counties namely, Kisumu, Machakos, Nyeri and Isiolo. The representative sample of four Counties will generate the required feedback to guide the countrywide rollout of the universal health programme.

74. On housing, the Government has established the Kenya Mortgage Refinance Company (KMRC), whose purpose is to address funding constraints hindering the growth of the primary mortgage market and reducing the funding cost of residential mortgages and availability of housing finance to Kenyans. KMRC will therefore provide secure long-term funding to financial institutions thereby increasing the availability and affordability of mortgage loans to Kenyans. The Government has also set up the National Housing Development Fund which will be responsible for mobilizing capital to finance the affordable housing project.

75. To finance "The Big Four" Plan programmes, the Government has engaged both the private sector players and development partners. Significant progress has been made in this respect, with private sector and development partners coming on board to fund Big Four projects and programmes. Already, the Government has registered 150 new investment proposals thanks to improved ease of doing business. To further lock in private sector investment, the Government has provided a number of incentives which include investing heavily in power generation, modern roads and railway, education and health. This will make it easier for business to be conducted in Kenya. The Government is also in the process of setting up a one-stop Centre for Investment Information at Ken Invest. This Centre is 70 percent complete and already operational.

76. Finally, to further enable achievement of the outlined programmes under "The Big Four" Plan, the Government will continue to implement various policies under the Economic Transformation Agenda. These will be centered on five key pillars namely: (i) creating a conducive business environment; (ii) investing in sectoral transformation; (iii) infrastructure expansion; (iv) investing in quality and accessible social services; and (v) consolidating gains made in devolution. Significant achievements have been realized on all the five pillars.

2.2 "The Big Four" Plan

2.2.1 Supporting Value Addition and Raising the Share of Manufacturing Sector to GDP

77. The Government will continue to support job creation by increasing the manufacturing base. Over the next four years, a number of initiatives will be implemented under the various sub-sectors. The Government will work with industry players to create more jobs for youths and support innovation across the

entire value chain – whether in buying new solutions, building their own, or partnering with others to innovate.

78. Principally, the Government will continue to build textile industries and leather parks in various parts of the country, support agro-processing, support production of construction materials, transform the blue economy and re-establish the automobile industry to support job creation. Other important sectors include oil, gas, and mining; iron and steel; and ICT. Specific measures and incentives will be implemented to boost these sub-sectors and increase job creation.

79. To support the textile industries and leather parks, the Government has approved commercialization of genetically modified cotton such as Bacillus Thuringiensis (BT) cotton seeds to be availed to farmers. The hybrid BT cotton will boost production due to its resistance to bollworm which has adversely affected yields from the traditional breeds in the past. The Government has also allocated 100,000 acres at the Galana Kulalu Complex and the National Irrigation farm to National Youth Service to revive the cotton sector. In addition, the Government is in the process of improving infrastructure at the Athi River textile hub, Kinanie Leather Park, KIRDI Kisumu, South B Branches, and Rivatex.

80. To support agro-processing, the Government will continue to invest in local value addition for the tea, coffee, meat, dairy, fruits, nuts and oils. Other areas will include investments in warehousing and cold chain sites, aquaculture, fish feed mills and fish processing industries. Further, the Government has advanced Ksh 514 million to 15 agro-processing projects.

81. On the blue economy, Kenya successfully hosted the Sustainable Blue Economy Conference in November 2018 which reflects the Government's commitment to revamp the blue economy. Successful hosting of this Conference paved way for investment in the blue economy which is expected to create thousands of marine related jobs and support efforts to realize food and nutrition security in addition to enhancing environmental sustainability.

82. To support the blue economy, the Government created the Kenya Coast Guard Service which will guard Kenya's territorial waters against illegal fishing at the exclusive economic zone and from criminals. The Kenya Coast Guard Service is also tasked with enforcing maritime security and safety, pollution, and sanitation measures, and prosecution of offenders. Boosted security is expected to encourage fishing in the deep sea.

83. Further, the Government has submitted a fishing fleet development plan to the Ocean Tuna Commission which will see Kenya flag off vessels that will enable Kenyans to harvest fish from its Exclusive Economic Zone (EEZ). Through Public Private Partnership (PPP) the Government will develop a domestic fishing fleet by allocating fishing access rights and supporting joint venture and licensing. Further, the Government operationalized the Liwatoni Fishing Complex. All these Government efforts are geared towards expanding fishing to 231,359 metric tons from the current average of 135,100 metric tonnes.

84. As the Government transforms the manufacturing sector, new job opportunities that require deeper skills and knowledge will be created. To meet this demand, the Government has heavily invested in Technical and Vocational

Education and Training (TVET) in each of the 290 constituencies. The objective is to enhance the quality of TVET graduates to meet the local industrial needs and become internationally competitive. Already, significant progress has been reported in student enrolment in TVETs and Kenya Industrial Technical Institutes (KITI) in addition to increased number of applications for patent utility models and industrial designs. Further, the Government has signed financing agreement for the Kenya Industry and Entrepreneurship Project (KIEP) aimed at strengthening innovation and entrepreneurship.

85. To further support the manufacturing sector, the Government will continue to promote provision of financial support and credit to Micro, Small and Medium Enterprises (MSMEs) and increase the number of MSMEs supported through Technology Incubation and Common Manufacturing Facilities. Already, the Government has refurbished 13 Micro and Small Enterprises worksites. The Government will also continue to implement the Kenya Youth Employment and Opportunities Project (KYEOP) through which more than 2,000 youths will receive grants, and training in Business Development Services and Business plan.

2.2.2 Enhancing Food and Nutrition Security to all Kenyans by 2022

86. The Government will continue to implement measures in the agricultural sector in order to ensure food and nutrition security. The focus will be on expanding irrigation schemes, increasing access to agricultural inputs, implementing programmes to support smallholder farmers, fisher folk and pastoralists to sustainably produce and market various commodities, and supporting large-scale production of staples.

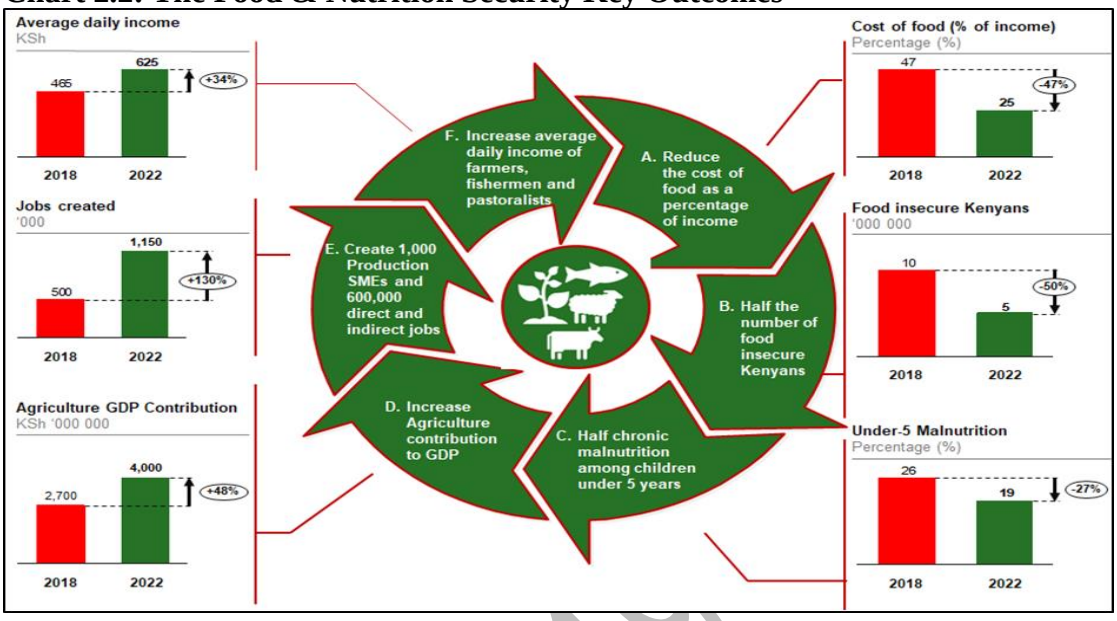
87. Under "The Big Four" Plan, the Government has aligned all policies under the agriculture sector towards increasing food production, boosting smallholder productivity and reducing the cost of food. Overall, the strategies under the Food and Nutrition Security Pillar target to: reduce the cost of food, reduce the number of food insecure Kenyans, reduce chronic malnutrition among children under 5 years, increase agriculture contribution to GDP and create 1,000 production SMEs and 600,000 direct and indirect jobs and increase the average daily income of farmers. (**Chart 2.2**).

88. To improve food security, the Government will: i) increase maize production from 40 to 67 million (90kg) bags; ii) increase rice production from 112,800 to 406,486 metric tons; iii) increase potato production from 1.2 to 6 million metric tonnes; iv) increase meat production from 700,000 to 990,000 metric tons; v) increase processed milk production from 630 million to 1 billion litres; and vi) increase annual fish production from 135,100 to 231,359 metric tonnes. In addition, the Government has set aside USD 14 million to increase strategic food reserves to 8 million bags in the medium term.

89. Further, to reduce over reliance on rain fed agriculture, the Government will increase land under irrigation. Specifically, the Government targets to: develop 85,000 acres of irrigation area under National Expanded Irrigation programme to increase production and productivity; increase area under smallholder irrigation by 1,617 acres and increase water storage for irrigation by 125 million cubic metres

through development of water pans under household irrigation water harvesting project so as to bridge the gap between production and consumption.

Chart 2.2: The Food & Nutrition Security Key Outcomes



90. To boost maize production, the Government will continue to provide subsidized fertilizer to farmers. Already, the Government has spent over Ksh 4.3 billion in acquiring 119,400 metric tonnes of soil friendly fertilizer to subsidize the cost for farmers during the 2018 planting season. The Government has also put in place a Multi-Institutional Technical Team (MITT) to provide technical support in eradicating Fall Armyworm that threatened food security by attacking the maize crop.

91. To boost rice production, the Government plans to expand the Mwea Irrigation Scheme by 10,000 acres through constructing dams, and improving roads and other infrastructure in the area.

92. To promote the growth of the livestock sub-sector, the Government will expedite the development of a National Livestock Policy; enactment of Livestock Feeds Policy and Regulations in order to address the set standards and expected contributions in feed industry; enactment of the Dairy Industry Bill, increase market for processed milk; and expand veterinary services to all Counties. Further, to improve livestock productivity, the Government plans to produce 182 million doses of assorted vaccines for livestock diseases control, procure and install 120 milk coolers in 15 Counties and establish 36 feed lots.

93. To increase fish production, the Government will expedite the review of the Fisheries Policy, develop Regulations on Fisheries Laws and National Oceans and Fisheries Policy to provide regulatory framework for fisheries in the country. The Government will also operationalize the Kenya Fisheries Service which will be responsible for management, conservation, and protection of Kenya's marine resources and establish Kenya Fish Marketing Authority to enhance fish farmers' earnings.

94. To mitigate losses among smallholder farmers and boost their productivity, the Government will upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks. This will also contribute to stabilization of farmers' incomes, increased investment in agriculture through leveraged access to finance and enhanced farmers' risk mitigation.

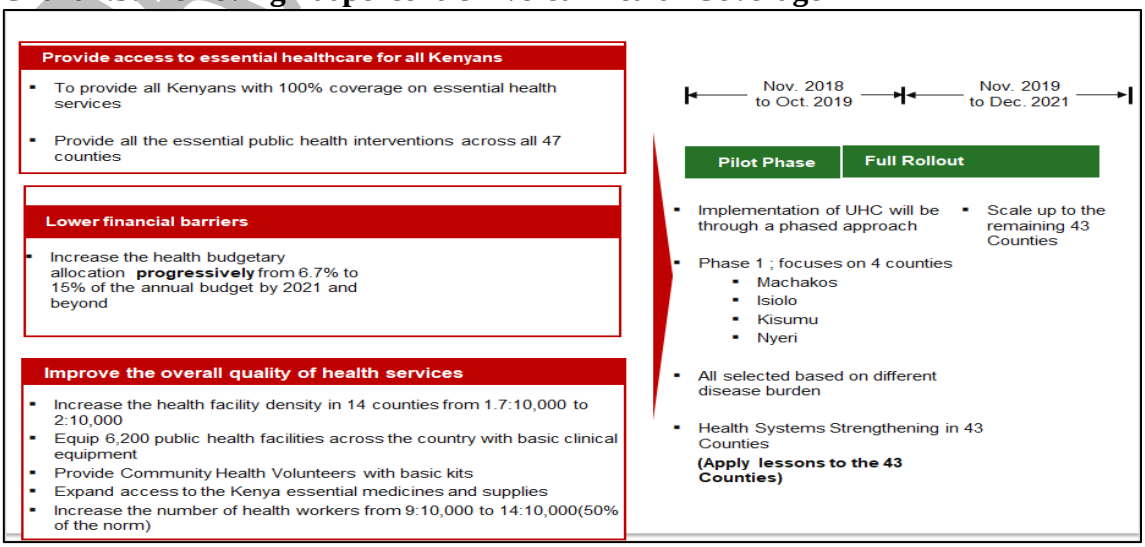
95. To reduce the cost of food, the Government will play its role by: providing affordable energy to reduce the cost of production; enhancing market distribution infrastructure to reduce losses by use of cold storage for production and storage of seeds; and availing incentives for post-harvest technologies to reduce post-harvest losses. The Government will also work with other stakeholders in the agriculture sector to ensure that Kenyans from all walks of life enjoy their favourite meals at affordable prices.

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

96. Over the next four years, the Government will implement policies and programmes under the Universal Health Coverage Pillar. The primary goal of these initiatives is to increase access to quality health care and reduce medical costs incurred by Kenyans (**Chart 2.3**).

97. Already, the Government has developed guiding documents for Universal Health Coverage including the Universal Health Coverage roadmap and the Universal Health Coverage pilot framework. Notably, the Government has rolled out the pilot project for configuring the National Hospital Insurance Fund (NHIF) to align with the Universal Health Coverage in four Counties namely; Machakos, Nyeri, Isiolo, and Kisumu. The residents of these Counties will receive free health care services in all health facilities from their local health centres all the way to the referral facilities. The Government will use the lessons learnt from this pilot to refine and scale up the programme to the rest of the Counties over the next 18 months.

Chart 2.3: Achieving 100percent Universal Health Coverage



98. To increase the uptake of NHIF, the Government has expanded the programme to cater for comprehensive medical cover for students in public secondary schools, elderly and vulnerable persons in all the NHIF-accredited mission and private hospitals. The Government will also continue to implement and improve the Linda Mama Programme. By the year 2022, the Government targets to have covered 1.36 million women under this Programme.

99. Further, the Government will enhance and modernize NHIF systems to increase its uptake, improve its governance structure and service delivery. To increase enrolment and retention of NHIF, the Government will use customer-centric distribution system including religious organizations, Self-Help Groups, Ajira Agent Platforms and Banks, among others.

100. Human resources are very crucial to attainment of the Universal Health Coverage. Thus, the Government through the Transforming Health Systems for Universal Care Project (THS-UCP) has sponsored more than 1,200 students from Arid and Semi-Arid who are taking a course in Enrolled Community Health Nursing (ECHN). These students are expected upon graduation to provide critical primary healthcare both at medical facilities and in their communities. The Government has also increased Kenya Medical Training Colleges from 45 to 67 which are strategically spread across 44 Counties.

101. To increase specialized treatment, the Government will continue to avail and improve specialized medical equipment and infrastructure to hospitals across the country. Kenyatta National Hospital (KNH) has already recorded commendable improvement in its infrastructure through the construction of the Cancer Centre of Excellence and improvement in its Renal Unit. Moi Teaching and Referral Hospital (MTRH) has also benefitted through construction of the Chandaria Cancer and Chronic Disease Centre, Shoe4Africa Children's Hospital, Cardiac Care Unit, Mental Health and Rehabilitation Centre, and expansion and equipping of the General ICU and Neurosurgery Centre.

102. Building on this, the Government intends to install advanced body scanning equipment in 37 County hospitals. Already, Iten Referral Hospital, Voi Level 5 Hospital, Narok County Referral Hospital, Kakamega County Referral Hospital and Thika Level 5 Hospital have been fitted with modern equipment. This equipment is expected to promote early diagnosis of non-communicable diseases (NCDs). Further, through the Managed Equipment Service Program, the Government will equip 21 additional hospitals with surgical theatres, radiology and dialysis equipment.

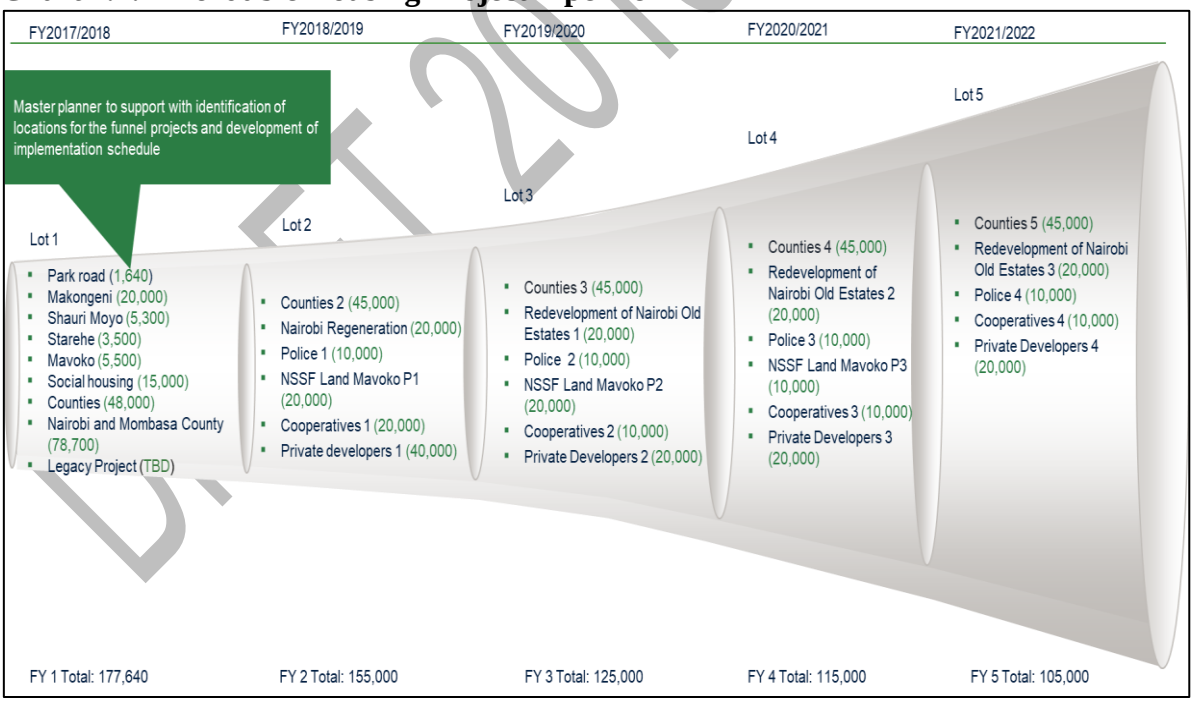
103. The Government will also: strengthen the provision of secondary and tertiary healthcare services; increase the number of referral health facilities and use of e-health systems in delivering health care; promote the use of alternative sources of financing health care and the role of the private sector in healthcare; and strengthen primary healthcare systems through empowerment of communities, equipping of primary healthcare facilities and recruitment of additional health workers.

2.2.4 Provision of Affordable and Decent Housing for All Kenyans

104. As a key pillar in "The Big Four" Plan, the Government aims to meet a constitutional right enshrined in Article 43(1) (b) of the Constitution on the right to accessible and adequate housing. Currently, more than 6.4 million Kenyans are living in slums due to unavailability of affordable housing. For this reason, through the affordable housing project the Government targets to support provision of at least 500,000 affordable houses to Kenyans by 2022. To this end, the Government has developed the appropriate legal framework and policy foundation.

105. Unlocking land for affordable housing supply is a critical enabler to building affordable houses. Already, the Government has identified appropriate sites for this program and availed 7,000 acres of land to roll out this program. The Government intends to begin with Park Road, Shauri Moyo and Starehe in Nairobi, Mavoko in Machakos and Kiambu with the ground breaking ceremony scheduled for early 2019 (**Chart 2.4**). In addition, as of December 2018, the National Government had already signed agreements with 36 County Governments to extend the project in their regions. Under these agreements, the County Governments are expected to provide land while the National Government will provide infrastructure such as power, water, and roads.

Chart 2.4: Affordable Housing Project Pipeline



106. To finance the affordable housing project, the Government is engaging the private sector and development partners. In September 2018, the Kenya Government signed a deal with United Nations Office for Project services (UNOP) to deliver 100,000 affordable housing units. The agreement will boost the realization of affordable housing pillar.

107. In addition, the Government has established the National Housing Development Fund which will mobilize capital, offer certainty of sales in the form of an off-take undertaking to developers, and provide accessible finance for house buyers through a National Tenant Purchase Scheme. The Housing Fund is the anchor of our Public Private Partnership led housing model; it is the fund that will be the primary off-taker of approved building developments designed and implemented under this programme.

108. To lock in private sector investment in the housing sector, the Government has provided a ray of incentives which aim at lowering the cost of construction. In particular, the Government has lifted some levies in the housing sector in order to reduce the cost of doing business and provided land to housing projects. Once the Government has provided land to investors, they will be required to build 20,000 low cost houses for every 100,000 units they construct under the 'mixed-use development' scheme.

109. To guarantee affordability and promote domestic industries, the Government will further encourage construction companies to use locally produced building materials. Inputs such as doors, windows, hinges, sand and cement should be sourced in the domestic market.

110. Other incentives from the Government will include allowing strategic land acquisition (Public Land), prohibiting land speculation (Idle Land Tax/Potential Land Tax) and fast tracking legislation that will facilitate and digitize the property and mortgage registration and facilitate sectional titling (Sectional Properties Act).

111. To increase access to affordable housing finance, the Government has established the Kenya Mortgage Refinance Company (KMRC) which will make it easier for banks and other financial institutions to access long-term finance for house loans. KMRC which was incorporated in April 2018 has started raising capital.

112. To address the housing problem in rural areas, the Government has constructed 92 appropriate building technology (ABT) centres across the country to encourage use of local materials in building and construction. These centres will be operationalized through research and training, development of a Matofali Machine, and funding from NHC. The centres will develop solutions specific to regions aimed at improving water harvesting and environmental conservation. Additionally, the affordable housing project is expected to create employment opportunities for professional, skilled and unskilled workers in addition to generating revenue for the Government. It will also create opportunities for suppliers, contractors, and producers of construction materials.

113. The Government will also continue upgrading slums and informal settlements through low cost housing. Such projects will include provision of clean water and sanitation, health centres, access roads, schools, and income generating activities. The Government will as well prioritize review of various legislations to align them with sustainable building standards, design procedures and green building codes to ensure safety and sustainability.

2.3 Enablers for the "The Big Four" Plan

114. As stated earlier, to enable the attainment of "The Big Four" Plan, the Government will continue to implement various policies and programmes under the Economic Transformation Agenda. This will create a strong and solid foundation for economic transformation and industrialization as envisaged in the Kenya Vision 2030 and improve the living conditions of all Kenyans.

115. The "The Big Four" Plan enablers will be prioritized to enhance the attainment of the plan along the following areas:

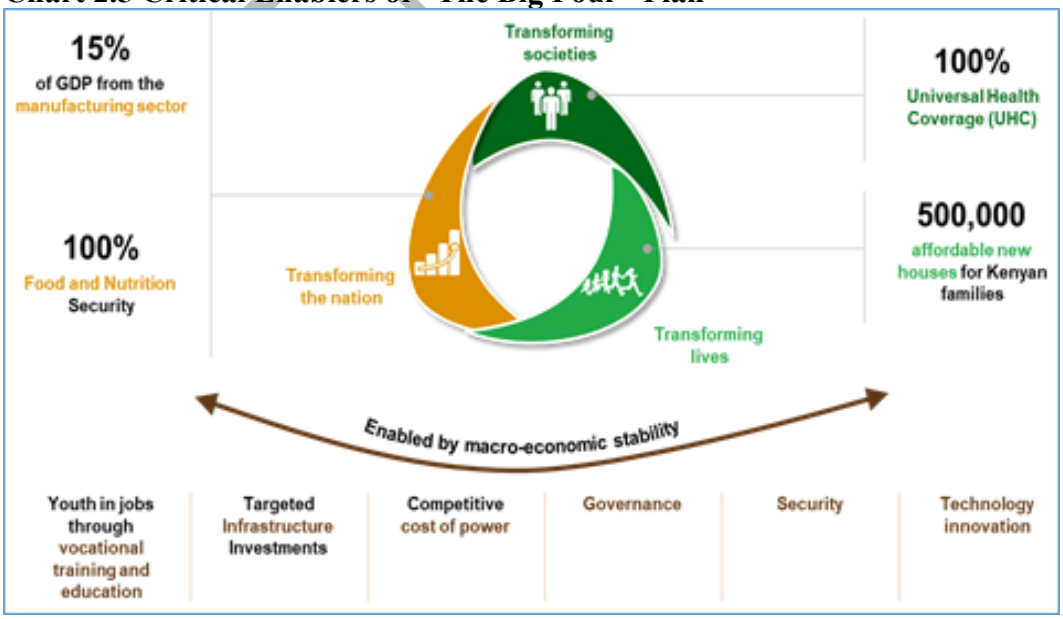
2.3.1 Conducive Business Environment for Investment and Job Creation

116. In this thematic area, the Government will continue to focus on sustaining a conducive business environment by maintaining macroeconomic stability, supporting business regulatory reforms, and enhancing security so as to attract and encourage investment and job creation.

2.3.1.1 Macroeconomic Stability

117. To support an environment where more jobs will be created, the Government will continue to pursue prudent fiscal and monetary policies that support strong economic growth, ensures price stability and maintains public debt at sustainable levels. This will provide an enabling environment for the attainment of "The Big Four" Plan (**Chart 2.5**).

Chart 2.5 Critical Enablers of "The Big Four" Plan



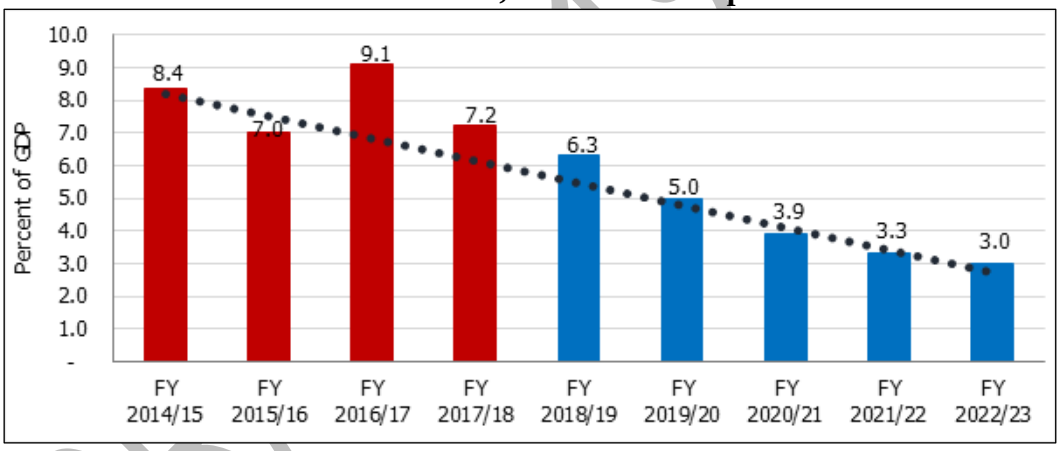
118. In this respect, the Government will continue to keep inflation rate within the band of 2.5 percent on either side of the 5.0 percent target. To further reinforce price stability, monetary policy will help keep interest rates low and stable,

strengthen the international reserves position and ensure that the exchange rate remain broadly stable and competitive to support our exports.

119. Further, the Government will continue with fiscal consolidation efforts. Deliberate steps will be undertaken to narrow the budget deficit and stabilize public debt, prioritize development expenditures while protecting social spending and investments. In addition, the Government will implement various measures to boost revenue mobilization. These measures will include: complete overhaul of the current Income Tax Act, strengthening tax administration and expansion of the tax base. Inherent in the medium-term fiscal policy, is the Government's commitment to the fiscal consolidation program. The deficit is projected to decline from 7.2 percent in FY 2017/18, to 6.3 in FY 2018/19 and further to 3.0 percent of the GDP in FY 2022/23 (**Chart 2.6**).

120. As a result of the fiscal consolidation efforts, the nominal public debt on a net basis (as a percentage of GDP) will reduce from the preliminary 51.5 percent of GDP in the FY 2017/18 to 43.3 percent in the FY 2022/23. This will be achieved by putting more emphasis on the efficiency and effectiveness of public spending and improving revenue performance.

Chart 2.6: Fiscal Consolidation Path, Fiscal Deficit a percent of GDP



Source: National Treasury

2.3.1.2 Deficit Financing Policy

121. The main sources of funding for the Government are from domestic and external official creditors. Thus, the Government will continue to diversify the sources of financial resources over the medium term by maintaining a presence in the international capital markets. The Government also intends to explore other sources of possible financing options, such as the Islamic financing instruments, Green bonds, Samurai and Panda bonds and diaspora bonds over the medium term.

122. The Government will utilize and maximize the official external sources for loans on concessional terms. However, since Kenya`s graduation to lower middle-income economy, access to concessional funding is slowing down. For this reason, the will continue to access commercial windows of multilateral institutions as well as Export Credit Arrangements (ECAs). These non-concessional and commercial

loans will be limited to development projects with high financial and economic returns and in line with Vision 2030 and "The Big Four" Plan. Further, the Government will ensure future loans from Development Partners have a grant element of 35 percent to ensure sustainable level.

123. Kenya's domestic debt market remains a key source of funding to the Government, financing about half of the deficit. Through financial reforms spearheaded by a Joint Technical Working Group, the domestic market is deepening and is expected to be more vibrant. The Government will continue playing a key role in domestic debt market through issuance of Treasury Bills and Bonds. As a way of ensuring financial inclusion and cultivate the saving culture in the economy, the Government will continue issuing retail products targeting the small retail investors as a way of providing an opportunity to invest and save in building the economy. To ensure efficiency and transparency in the domestic debt market, the Government will continue to implement other reforms aimed at improving the market including issuing the borrowing calendar.

2.3.1.3 Business Regulatory Reforms

124. Reducing cost of doing business and encouraging private sector innovation and entrepreneurship is a key prerequisite to a strong and sustained high growth, poverty reduction and the attainment of "The Big Four" Plan. As such, the Government has continued to develop and implement various business reforms strategies.

125. These strategies have borne dividend, with Kenya's ease of doing business improving from position 80 in 2017 to position 61 in 2018 according to the latest World Bank's Ease of Doing Business report. In addition, for three consecutive years (2016, 2017 and 2018), Kenya emerged as the third best in sub-Saharan Africa. Among the business regulatory reforms that Kenya made in 2018 include: strengthening access to credit, protecting minority investors and easing payment of taxes by merging all permits into a single unified business permit. Notably, Kenya was ranked position 8 globally for making it easier to access credit.

126. Kenya also made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings, providing for equal treatment of creditors in reorganization proceedings and granting creditors greater participation in the insolvency proceedings.

127. Going forward, the Government will focus on measures to improve Kenya's ranking to be among the top 50 nations in the world in the ease of doing business. Particular focus will be on specific indicators of interest to small businesses and ordinary Kenyans. In this regard, the Government will continue to cut down the number of licenses at both National and County levels, as well as the processing times of licenses and permits; automate business registration processes; and put in place a wide range of attractive incentives to investors including: tax incentives, and protect private property against expropriation.

2.3.1.4 Improving National Security

128. The Government will continue to implement reforms targeted at boosting security forces' welfare and guaranteeing Kenyans safety. Therefore, the strategy on security for the medium-term lays emphasis on improving police welfare, strengthening coordination among security agencies, scaling up investments towards modernization, enhancing security operations and investigations, building professional capacity of the force and strengthening partnership with communities.

129. In this regard, the Government will continue to modernize the National Police Service in order to ensure the lives and property of Kenyans are adequately protected. Already, the Government has enrolled a new National Police Service Standing Orders, career progression guidelines and basic training curriculum for police officers. The Government has also improved the welfare of police and prison officers' through acquisition of 3,071 housing units for National police service and 590 for the Kenya Prisons Service and provision of comprehensive insurance cover and medical insurance.

130. To modernize security, the Government has in the recent years invested in better equipment, training and working tools as well as strengthened coordination among security agencies. To further enhance security for all Kenyans, the Government will build on the on-going security reforms by scaling-up investments in security infrastructures such as installation of surveillance and control system in major cities and towns, equipping of the forensic laboratory, and provision of police patrol vehicles.

131. Going forward, the Government will facilitate research on informed ways of fighting crime by identifying ways of combating emerging forms of crime that are technologically aided such as cybercrime, money laundering, terrorism financing, human trafficking, conflicts around the discovery of natural resources and international organized crime.

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

132. Infrastructure investment is key to Government's efforts to grow the economy, create jobs, empower small businesses and provide services to Kenyans. For this reason, the Government has invested heavily in new roads, rails, marine, air, power stations, and ICT. Expanding infrastructure will support the achievement of "The Big Four" Plan and in turn ensure that Kenyans enjoy the benefits of expanded infrastructure facilities.

2.3.2.1 Further Expanding Road Network

133. To further expand the road network, the Government intends to construct 8,245km of new roads, construct 150 bridges, and rehabilitate 763 km of existing roads and maintain 114,131 km of existing roads in the medium term which will help to open up the rural areas to enable farmers to get their produce to markets faster and cheaply. In addition, the Government has initiated the construction of

the Mombasa-Nairobi six lane expressway which will improve connectivity and enhance movement of people and goods between the two cities.

134. In addition, the Government will focus on developing urban roads to decongest cities and major towns. For instance, the Government has launched Ksh 2.7 billion project for reconstruction of roads in 11 constituencies in Nairobi's Eastlands amid complaints of the poor state of infrastructure in the city's most populous estates. The upgrade, which is part of the Nairobi Regeneration Programme, will see the repair of more than 80 kilometers of roads in the first phase. The roads covered by the project include Komarock Road, Harambee Estate Sacco roads, Eastern Bypass, Kayole Spine Road, Donholm Phase V and VIII roads, Eldoret Road and Nyasa Road.

2.3.2.2 Rail, Marine and Air Transport

Standard Gauge Railway

135. Phase I of the Standard Gauge Railway (SGR) from Mombasa to Nairobi has improved the movement of Kenyans and cargo across the two cities. After a year in operation, Madaraka Express has ferried more than 1.3 million passengers along the Mombasa-Nairobi route. To date, the SGR freight service has transported more than 213,559 metric tonnes.

136. Building on these gains, the Government embarked on the construction of Phase 2A (Nairobi to Naivasha) of SGR. Already, 85 percent of Phase 2A has been done. Further, financing negotiations and detailed designs for the construction of Phase 2B (Naivasha to Kisumu) have been done. Once Phase 2B is completed, it will connect Kisumu city with the newly established Naivasha Inland Container Depot to ease cargo freight through to Mombasa. This will in turn boost fish export and agricultural commodities in the Western region.

Sea Ports

137. To enhance cargo handling and storage and reduce the time to clear cargo, the Government will continue to develop several commercial sea ports. Currently, the Government is constructing Phase II of the second container terminal at the port of Mombasa. This will create additional berth which will assist in the discharge and loading of vessels. In addition, the construction of the first three berths at the port of Lamu (LAPSSET Project) is 47 percent complete. This facility will open up an alternative corridor linking the upper part of Africa, the Middle East and Europe.

138. Further, the Government will develop a free port under the Dongo Kundu Special Economic Zone, and the Kisumu Port in order to harness opportunities for inter-country transport and trade among the East African countries around Lake Victoria.

Airports

139. The recent launch of the direct flight from Jomo Kenyatta International Airport (JKIA) to New York City in the United States reflects the Government's commitment to cement Kenya's position as the regional aviation hub. Today, passengers are flying more conveniently to the two cities. These direct flights have opened up immense business, investment and tourism opportunities that shall significantly boost our economic growth. The flights present major opportunities especially for our horticultural industry, where transit of flower exports to this lucrative market has now been cut to almost one working day. This will also ensure that our textiles and apparel exports reach market in time.

140. After completing the construction of three new terminals (Terminal 1A, Terminal 1E, and Terminal 2A) at JKIA, the Government has embarked on remodeling and upgrading JKIA's Terminal 1B, C and D to raise its total passenger handling capacity to 10 million by the end of 2020.

141. Further, the Government will continue to develop a number of airstrips to connect various parts of the country as well as facilities which are meant to enhance connectivity with Kenya's neighboring countries.

2.3.2.3 Enhancing Access to Adequate, Affordable and Reliable Energy Supply

142. Access to stable, reliable and affordable energy supply is critical to uplifting the welfare of Kenyans, enhancing productivity of businesses and accelerating the realization of "The Big Four" Plan. In this regard, priority will be placed on increasing the energy mix through exploiting locally available energy sources including the vast potential of renewable energy. In addition, the Government will continue to invest in increasing access to electricity through enhanced transmission and distribution of energy, especially under the rural electrification programme.

143. With the rapid growth of connections to electricity, millions of Kenyan homes are now lit up. Today, more than 6.7 million households have been connected to electricity compared to the 2.3 million connected in 2013. The Government's target is to expand the access to affordable and reliable energy to 100 percent by the year 2022.

144. To realize this, the Government will continue to invest in the construction of more electricity substations, transmission lines and distribution of transformers to boost the availability of electricity and to sustain demand. The Government will also continue to support the exploration and distribution of oil and gas in the country and explore alternative sources of energy including solar, wind and small community hydro-power generation.

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

145. Attainment of "The Big Four" Plan and prosperity as a nation is dependent on our ability to take full advantage of both the rapid technological change and the domestic potential to innovate in Information, Communication and Technology (ICT). Indeed, ICT is important as a means of reducing the cost of doing business enhancing efficiency in service delivery, and opening new frontiers for employment creation and business opportunities.

146. As Kenya moves to the next level of a knowledge-based economy, we need to further develop our capabilities in the areas of science, technology and innovation. Leading in this drive, and with the goal of increasing access to and reducing cost of information by all Kenyans, the Government has spearheaded major ICT investments including the expansion of Optic Fibre Backbone Infrastructure across the Counties which has facilitated reliable high-speed networks and supported e-Government service and innovation among businesses.

147. Building on the progress made in ICT, the Government is keen on positioning Kenya to reap the most out of the global digital revolution. To this end, the Government will set up a taskforce on Blockchain and Internet of Things (IoT) technologies that will study the benefits and challenges associated with the latest digital innovation trends.

148. Digital revolution exposes us to risks such as cybercrimes and fraud which may result to data corruption or loss. Given these risks, strengthening the fight against cybercrimes is critical. Towards this end, the Computer Misuse and Cybercrimes Act, 2018 was enacted which criminalizes abuse of persons on social media, removing the legal lacuna that existed. In addition, the Government is in the final stages of enacting the Data Protection Bill, 2018.

149. The Computer Misuse and Cybercrimes Act 2018 establishes the National Computer and Cybercrimes Coordination Committee and facilitates international co-operation in dealing with computer and cybercrime matters. The Act also spells out stiff punishment to cybercriminals - provides for timely and effective detection, prohibition, prevention, response, investigation and prosecution of computer and cybercrimes. The Data Protection Bill 2018 proposes to establish the Office of the Data Protection Commissioner to enforce safe handling of data.

150. Going forward, the Government will continue to invest in ICT projects closely linked with the achievement of "The Big Four" Plan. In particular, the Government will continue to invest in Konza Technopolis and creation of technological hubs in each constituency.

2.3.3 Investing in Sectoral Transformation for Broad Based Sustainable Economic Growth

2.3.3.1 Promoting Environmental Conservation and Water Supply

151. The Government remains committed to the provision of a clean, secure and sustainable environment and adequate drinking water for all Kenyans. For this reason, the Government has developed policy measures including; development of the National Water Policy and Trans-boundary Water Bill; development of the National Wildlife Strategy, completion of Reports for Mapping of ground water resources in Marsabit and South Turkana; implementation of Sub-catchment Management Plans (SCMPs) and establishment of Hydro met stations.

152. To increase access to safe drinking water, in May 2018, the Government unveiled plans to implement the strategic water storage program that will increase the number of Kenyans connected to safe piped water by 9 million people by 2022. The massive country-wide program will additionally increase the proportion of households with access to safe drinking water from 60 to 80 per cent in the next five years with a special focus on informal settlements and arid areas.

153. To enhance environmental sustainability, the Government continues to implement the Green Economy Strategy. Notably, over the last three years, the Government in collaboration with key stakeholders locally and internationally has been developing green bonds market with a view to mobilize adequate resources to support the implementation of Vision 2030, National Policy on Climate Finance, National Climate Change Action Plan and the Green Economy Implementation Strategy. The process has allowed domestic banks and corporates to better deliver green investments in Kenya - renewable energy, low-carbon transport, water infrastructure, climate smart/sustainable agriculture and local capacity building.

154. Indeed, Kenya is at an advanced stage in the issuance of Green Bonds. The Green Bond initiative is intended to mobilize resources from the private sector to reinforce public resources in accelerating green investments in Kenya.

155. Going forward, the Government will scale up investments to ensure optimal, effective and seamless linkages with all other sectors of the economy. The focus will be on conservation and management of forest, wildlife resources, water catchments and management of wetlands, water resources management, increase access to water and sanitation and mitigation and adaptation of the effects of climate change. There will also be continuous monitoring, compliance enforcement and stakeholders' engagement on the total ban on use, manufacture and importation of plastic bags.

2.3.3.2 Stimulating Tourism Recovery, Sports, Culture, and Arts

156. Tourism, Sports, Culture, and Arts sub-sectors are critical enablers of "The Big Four" Plan. They also unlock employment opportunities and generate foreign exchange which important for enhancing the welfare of Kenyans. For this reason, the Government has continued to support sports development, tourism promotion

activities, film industry development, nurturing of talents and arts, and preservation of national heritage and cultural identity.

157. Great progress has been realized along these areas including the refurbishment of major stadia including Kasarani and Nyayo National Stadium. In addition, the Government is in the process of completing construction of the Kenya Academy of Sports Phase 1 which will further enhance sports training. Going forward, the Government will construct and rehabilitate more sports stadia, strengthen the anti- doping education programme and sports sector policy and legal framework, promote sports tourism, increase international cooperation in sports and develop an international convention center and sports museum. In order to have a sustainable financing for sports, arts and culture, the Government has established under Public Finance Management Act a Fund with financing mainly from betting taxes and winning.

158. Tourism also provides our country with incredible opportunities to shine in the world and generate new jobs. Strategies to revive the tourism sector have borne fruit, with the sector recording robust growth and post increased earnings. The Government is keen on enhancing the growth of the sector and will thus continue to support and develop emerging tourism businesses.

159. In this regard, the Government will continue to market Kenya in key tourism markets as a top tourist destination, enhance the quality of tourism training, improve tourism service, re-engineer the Kenya Utalii College, and complete construction of the Ronald Ngala Utalii College in Kilifi County. Other initiatives will include: operationalizing Tourism Transformation Fund, developing tourism infrastructure, developing tourism research institute under the Kenya Utalii College, reviewing the National Tourism Policy and Tourism Act 2011, establishing the National Convention Bureau, Baraza Kenya, Beach Management Board, and Tourism Council.

160. To promote arts and culture, the Government will establish an international arts and culture centre that will develop youth potential and nurture their talents in music, arts and theatres. The Government will also ensure documentation, preservation and dissemination of music and dance heritage of Kenya, promote talent in music and dance, establish County Heritage and Community Cultural Centres, empower artists and cultural practitioners. In the filming sub-sector, the Government will expand the Kenya Film School and modernize filming equipment.

2.3.3.3 Sustainable Management of Land for Social-Economic Development

161. Sustainable management of land is vital for the attainment of Vision 2030 and “The Big Four” Plan. Notwithstanding, land is susceptible to increasing population pressure, environment pollution, and climate change. For this reason, the Government has continued to scale-up investment towards policies and programs covering land use, security of tenure, access to land title, transparent and secure land registration system. By doing this, the Government has increased the

scope for enhanced food and nutrition security, growth in investments and industries and increased household incomes from agriculture.

162. Tremendous progress has already been realized in the lands sector including: enactment of Land Laws (Amendment) Act 2016; development of the National Land Use Policy which has been approved by Cabinet, development of the Physical Planning Bill 2017 which will be submitted shortly to Parliament for approval, development of National Land Reforms Information Management Guidelines, and investigation and adjudication of historical land injustice.

163. Going forward, the Government will finalize Physical Planning Bill 2017 and regulations, review the Physical Planner's Registration Act and align Rating Act, Valuation for Rating Act and Survey Act to the Constitution. In addition, the Government will continue to invest in land registration, processing and issuance of tittle deeds, implement National Land Management Information System by digitizing the remaining 39 land registries for effective and efficient access to land data.

164. Further, the Kenya National Spatial Data Infrastructure Policy, will be implemented to facilitate higher productivity through efficient allocation of land, equity and sustainability in land use and better access to land and territorial space. The National Land Value Index will be finalized to guide taxation.

2.3.4 Enhancing Service Delivery through Devolution

165. The National Government's strategy over the last five years has involved ensuring that County Governments are sufficiently funded and supported through provision of technical capacity to enable them to govern and effectively deliver services that matter to residents the most. Fiscal transfers to the Counties have been significantly enhanced; including payments made in FY 2017/18, cumulative transfers to the Counties exceed 1.3 trillion, of which 95 percent has been from the equitable revenue share.

166. Beginning FY 2019/20 and into the medium-term, the Government will deepen its devolution support strategy, while also responding to new issues evolving from Kenya's fiscal decentralization. For instance, over the last few years, County Governments have initiated establishment of regional economic blocs. Based on global experience including within Africa, such blocs have the potential to drive the development agenda countrywide by facilitating inter-County trade and consolidating economic investment and social programmes. The Government will examine relevant legislation in order to identify how to support this initiative by the Counties through enhanced regulatory and governance frameworks.

167. In FY 2019/20, the Government will also introduce a new conditional allocation through which the Kenya Urban Support Programme (KUSP) will be financed. The programme aims to incentivize establishment and resourcing of municipal boards and town committees, in accordance with the Urban Areas and Cities Act, 2011. It is expected that this will further deepen service delivery at sub-County level.

168. To unlock County Governments' huge own-source revenue (OSR) potential, the National Treasury is embarking on implementation of a policy framework that generally aims at: strengthening the legal underpinnings for locally-generated revenue collection and its link with policy objectives; achieving efficiency in revenue administration; enhancing governance and promoting transparency; and, making public participation more effective. As part of this policy framework, a range of national-level legislative reforms will be initiated encompassing property and entertainment taxes; business and liquor licences; tourism levies; outdoor advertising fees; and, several decentralized user charges.

169. However, improvements in delivery of devolved services can be sustained only if County Governments adhere to existing fiscal rules. For this reason, beginning FY 2019/20, the National Treasury will renew its focus on enforcing compliance with the Fiscal Responsibility Principles -- particularly legal thresholds for wage bill and development spending -- as well as regulations to do with prudent management of fiscal risks, financial reporting, public procurement and management of public funds, among other existing legal guidelines. Voluntary compliance with these guidelines is of course, preferred.

2.3.5 Investing in Kenyans for a Shared Prosperity

170. Human capital development is a critical enabler of "The Big Four" Plan and a means of ensuring that all Kenyans share the benefits of an expanded economy. Our human capital index has improved over time as a result of continued investment in all social sectors. In 2018, the World Bank ranked Kenya at position 94 globally and 4 in Africa (out of 157 countries) with a Human Capital Index score of 0.52. The index is a measure of productivity of the next generation of workers relative to the benchmark of complete education and full health.

171. To further develop our human capital, the Government will continue to invest in quality and relevant education, scale up social safety nets and support initiatives that empower youth, women and persons with disabilities.

2.3.5.1 Investing in Quality and Relevant Education for all Kenyans

172. The Government continues to invest in expanding access to quality basic education and improving the outcomes of our public schools. These investments have seen increased enrolment in both primary and tertiary education levels, improved examination administration and teacher-development.

173. With the start of free day secondary education, a hundred percent transition from primary to secondary school for all learners is now a reality. This has significantly reduced the burden on parents of educating their children. To ensure secondary schools have the capacity to accommodate more students, the Government continues to expand school infrastructure, recruit additional teachers and improve teacher training.

174. On curriculum reforms, as from January 2019, the Government started the phased roll out of the competency based curriculum effective in pre-primary I and

II and Grades 1, 2 and 3. The roll out came immediately after a careful piloting stage that involved the training of all teachers, refining of the curriculum content, development of a framework for testing, and preparation of teaching and learning materials. The new curriculum will develop the competencies and develop quality and relevant skills for the next generation of innovators, entrepreneurs and labor force.

175. Kenya grows by the intelligence and ingenuity of Kenyans - especially young Kenyans. However, quite often the skills of young people have not matched the opportunities open to them. That's the one reason why the Government has been especially keen on reforming our technical institutions. Indeed, as the country forge towards industrialisation, the technical training institutes will become indispensable for developing skills needed in the industrial sector.

2.3.5.2 Strengthening the Social Safety Nets

176. Social grants remain a vital lifeline for millions of our people living in poverty. We have taken decisive steps to care for and share with the community by enhancing support for the disadvantaged and enabling members of the public to enjoy the fruits of our economic success. Today, we are currently investing more than 0.3 percent of our GDP on social protection through cash transfer programmes to the vulnerable groups.

177. Going forward, the Government will continue to extend cash transfers to vulnerable groups including older persons, Orphans and Vulnerable Children (OVCs) and Persons with Severe Disabilities (PWDs) under the National Safety Net (Inua Jamii) Programme.

2.3.5.3 Empowering Youth, Women and Persons with Disabilities

178. Kenya's most grave and most pressing challenge is youth unemployment. It is critical therefore, to all draw young people in far greater numbers into productive economic activity. To this end, the Government has consistently dedicated resources for youth empowerment initiatives and sought to put in place policies that will create opportunities for our young people.

179. Working in partnership with business, organized labour and community representatives, the Government is creating opportunities for young people to be exposed to the world of work through internships, apprenticeships, mentorship and entrepreneurship. In particular under the Ajira Programme, the Government has trained about 11,000 youths on online jobs. In addition, 1,200 interns have been trained under the Presidential Digital Talent Programme.

180. Further, to support the youths, women and people with disabilities, the Government is in the process of reforming and consolidating affirmative action funds such as Uwezo Fund, Women Enterprise Fund, into one robust Fund whose objective is to support enterprises owned by youth, women and persons with disabilities. The Government will also continue to create a conducive environment

for micro, small and medium size enterprises (MSMEs) to thrive as they are the pillar to create jobs for our youth and women.

2.3.6 Entrenching Structural Reforms to Support "The Big Four" Plan

2.3.6.1 Strengthening Governance and the Fight against Corruption

181. The Government has scaled up the fight against corruption by implementing various legal, policy and institutional reforms in order to seal the loopholes used to embezzle public funds. To succeed in the fight against graft, the Government has strengthened all the institutions mandated to fight against corruption so that they may bring all corruption suspects to book in record time, instill good governance and recover corruptly acquired assets. In particular, the Government has transformed the Judiciary by building and improving court infrastructure across the country and recruiting more judges and magistrates.

182. To rid the public service from corruption, the Government has plugged the gaps in procurement by aligning the public procurement processes through the Public Procurement and Disposals Act. In addition, the Government vetted all Procurement Heads and Heads of Accounts, to rid it off the corrupt officials in procurement, accounting and the approval chain.

183. The Government has also extended the crackdown on corruption to all public officers in line Ministries and State Corporations. The recent arrests and prosecutions of persons including senior Government officials, business persons, and ordinary Kenyans alike send a strong message that engaging in corruption attracts dire consequences.

184. Further, the Government conducted lifestyle audits on all public officers complementing it with a robust wealth declaration system for routine asset disclosures. This is in line with Section 26(1) of the Public Officer Ethics Act, which states that each state or public officer is required to bi-annually, submit to their relevant responsible commission a declaration of income, assets and liabilities of him/herself, spouse(s) and dependent children under the age of 18 years. In this regard, the Government is strengthening compliance with this provision and is putting in place mechanisms, aided by technology, for easy processing and follow up of wealth declarations.

185. To further fight graft, the Government has improved governance across all public institutions. The improvement in governance was also reaffirmed by the Mo Ibrahim Index of African Governance which was released in October 2018. In the release, Kenya was ranked position 11 in Africa and among the top 3 most improved economies in Africa. Remarkable improvements were mainly registered in the three categories namely: sustainable economic opportunity; human development participation; and independence of the Judiciary.

186. Going forward, the Government will continue to strengthen various institutions that are mandated to fight corruption in the country, support new

governance institutions at both the National and County levels, and support civic education, transparency and accountability and the rule of law.

2.3.6.2 Deepening Public Financial Management Reforms

187. Achievement of "The Big Four" Plan hinges on prudent management of the available public resources. As such, the Government will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms.

188. In particular, the Government will continue to curtail resources going to lower-priority areas using the adopted zero-based budgeting approach. These resources will be redirected to support "The Big Four" Plan programmes and other critical sectors such as education, infrastructure, energy and social protection.

189. To improve project selection, budgeting and management, a new Public Investment Management (PIM) Unit was recently created at the National Treasury, with the aim of establishing a framework for public investment management that accounting units in national and county governments shall adhere to before projects are selected for budgeting and implementation. This will ensure that priority projects are selected and implemented on time and within budget. The PIM Unit shall independently review large projects before they are included in the budget.

190. The PIM process will be automated to ensure operational effectiveness of the public investment management workflow. User requirements for the Public Investment Management Information System are currently being developed to automate the public investment management processes. Moreover, the Cabinet is expected to approve the PIM Regulations consistent with the recently adopted PIM guidelines by end-June 2019.

191. Use of the Public Investment Management Information System (PIMIS) will be mandatory for the 2020/21 budget preparation and execution. The PIM Regulations, as a minimum, will require that all projects ideas/concepts are subjected to the same quality assurance processes set out in the guidelines, thus ensuring all projects selected for funding have undergone an appraisal. Additionally, projects that have received financing will be required to adhere to budget and timelines for delivering the expected outputs. Monitoring and evaluation of projects will therefore be key in ensuring that service delivery is improved, value for money is realized, and lessons documented to improve future policy. The PIM Regulations will also require that all multi-year agreements be subjected to a fiscal space test and be approved by the Cabinet Secretary, National Treasury and Planning before they are included in the budget.

192. Upon approval, the Public Investment Management Regulations will be gazetted and will require that Accounting Officers seek prior approval from the National Treasury before entering into multi-year contracts. To improve governance and transparency of public investments the PIMIS will generate project data and increase dissemination of information on the award and implementation of public investment projects in the country.

193. The Government has also revamped the public procurement process, in order to effectively and efficiently manage public resources as provided for in the Constitution. Already, guidelines have been issued to all Government entities, requiring all Accounting Officers of MDAs and Parastatals to publish and publicize all procurement contracts on their websites, the State portal and tender notice boards.

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

2.3.6.3 Fostering Financial Sector Developments and Reforms

195. The Government continues to implement measures and reforms aimed at further deepening financial markets, enhancing access to financial services and improving efficiency while maintaining financial stability.

196. To entrench Kenya's position as a regional financial hub, the Government will fast track the operationalization of Nairobi International Financial Centre (NIFC). Towards this end, the Government is in the process of forming a Board of Directors that will oversee the operations of the NIFC Authority. The Government will also finalize the NIFC Regulations to implement the NIFC Act.

197. To strengthen bank supervision and regulatory framework, the Government will strengthen implementation of risk-based supervision to enable regulators to cope with new risks; further extend the credit reporting framework to include credit providers from outside the financial sector; strengthen the Financial Reporting Centre (FRC) which is critical in fighting money laundering and terrorism financing.

198. To deepen the capital markets, the Government will continue to diversify products and services, implement the derivatives market, strengthen capital markets infrastructure and institutions, promote cross border trade and lay down a framework to enable State Corporations and County Governments to raise funds through the capital markets.

199. To exploit Kenya's established lead in digital finance, the Government will expedite the creation of a 'digital money grid' as a form of national infrastructure. The 'digital money grid' will unleash a new wave of innovation to provide financial solutions across all parts of the economy. Further, a study will be carried out on digital finance initiatives whose recommendations will help in developing a National Digital Finance Policy.

200. To enhance access to credit, the Government will expedite the development of a Credit Guarantee Scheme which will enhance access to credit by Micro, Small

and Medium Enterprises and marginalized groups and regions. In view of this, the Government will finalize the policy on Credit Guarantee Scheme to provide a framework to guide structured implementation and development of a vibrant Credit Guarantee Scheme that embraces a Public Private Partnership Structure.

201. To protect consumers of financial products, the Government will expedite finalization of the Financial Markets Conduct Bill, 2018. The draft Bill aims at creating an effective financial consumer protection, make credit more accessible and at the same time supports financial innovation and competition.

III. BUDGET FOR FY 2019/20 AND THE MEDIUM TERM

3.1. Fiscal Framework Summary

202. The FY 2019/20 Budget framework will continue with the fiscal consolidation policy to strengthen our debt sustainability position. With the fiscal consolidation strategy, MDAs will have to adopt the culture of doing more with less that is available with a view to promote sustainability and affordability.

203. Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception under this strategy. To achieve this, we need to ensure that:

- Spending is directed towards the most critical needs of the country and is well utilized;
- More outputs and outcomes are achieved with existing or lower level of resources; and
- MDAs request for resources are realistic and take into account the resource constraints, in light of the Government's fiscal consolidation policy.

204. The fiscal framework for the FY 2019/20 Budget is based on the Government's policy priorities and macroeconomic policy framework set out in **Chapter I and Chapter II**.

Revenue Projections

205. In the FY 2019/20 revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to Ksh 2,080.9 billion (18.3 percent of GDP) up from Ksh 1,831.5 billion (18.3 percent of GDP) in the FY 2018/19 (**Annex Tables 2 and 3**). This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,877.2 billion (16.5 percent of GDP) in FY 2019/20 up from Ksh 1,651.5 billion (16.5 percent of GDP) in FY 2018/19.

Expenditure Projections

206. Overall expenditure and net lending for FY 2019/20 are projected at Ksh 2,704.7 billion (23.8 percent of GDP) from the estimated Ksh 2,514.4 billion (25.1 percent of GDP) in the FY 2018/19 revised budget. These expenditures comprise among others, recurrent of Ksh 1,657.3 billion (14.6 percent of GDP) and development of Ksh 670.9 billion (5.9 percent of GDP).

207. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.1 percent of GDP in the FY 2019/20 from 4.2 percent in the FY 2018/19. Domestic interest payments are expected to decline to 2.5 percent of GDP in the FY 2019/20 from 2.7 percent of GDP in FY 2018/19.

208. The ceiling for development expenditures (inclusive of conditional transfers to county governments) including foreign financed projects (including net lending) amounts to Ksh 716.5 billion in the FY 2019/20 from Ksh 674.5 billion in FY 2018/19. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, external borrowing, while the balance will be financed through domestic resources.

209. A contingency of Ksh 5.0 billion is provided for in the FY 2019/20 budget. In addition, Ksh 5.8 billion is provided for as conditional grants to marginal areas, an increase from the 4.7 billion provided in the FY 2018/19 budget.

Deficit Financing

210. Reflecting the projected expenditures and revenues, the fiscal deficit (excluding grants), is projected at Ksh 623.8 billion (equivalent to 5.5 percent of GDP) in the FY 2019/20. Including grants, the overall fiscal deficit is projected at Ksh 572.2 billion (5.0 percent of GDP) in FY 2019/20 against the estimated overall fiscal balance of Ksh 635.5 billion (6.3 percent of GDP) in FY 2018/19. The deficit excluding SGR related expenditures in the FY 2019/20 is projected at 4.6 percent of GDP lower than the projected 5.3 percent of GDP in FY 2018/19.

211. The fiscal deficit in FY 2019/20, will be financed by net external financing of Ksh 306.5 billion (2.7 percent of GDP), Ksh 271.4 billion (2.4 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh 5.7 billion.

3.2 Budgetary Allocations for the FY 2019/20 and the Medium Term

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

Table 3.1: Summary Budget Allocations for the FY 2019/20 - 2021/22 (Ksh Million)

	2018/19	2019/20	2020/21	2021/22
1 National Government	**1,750,207.6**	**1,815,344.0**	**1,876,752.8**	**1,897,512.3**
Executive	1,698,558.1	1,762,167.3	1,823,223.0	1,842,056.7
Judiciary	14,820.5	16,937.0	15,485.6	16,004.1
Parliament	36,829.0	36,239.7	38,044.2	39,451.5
2. Consolidated Fund Services	**490,554.0**	**535,748.0**	**585,333.0**	**646,652.0**
3.County Governments	**314,000.0**	**310,000.0**	**318,060.0**	**326,330.0**
TOTAL……..	**2,554,761.6**	**2,661,092.0**	**2,780,145.8**	**2,870,494.3**
% Share in Total Expenditure				
1 National Government	68.51%	68.22%	67.51%	66.10%
Executive	66.49%	66.22%	65.58%	64.17%
Judiciary	0.58%	0.64%	0.56%	0.56%
Parliament	1.44%	1.36%	1.37%	1.37%
2. Consolidated Fund Services	19.20%	20.13%	21.05%	22.53%
3.County Governments	12.29%	11.65%	11.44%	11.37%

NB: Consolidated Fund Services is composed of domestic interest, foreign interest and pension

Source: National Treasury

Key Priorities for the 2019/20 Medium Term Budget

213. The Medium-Term Budget 2019/20 – 2021/22 will further support the ongoing priorities for the achievement of the "Big Four" Plan taking into account:

- Responsible management of public resources;
- Building a resilient, more productive and competitive economy;
- Delivering better public services within a tight fiscal environment, and
- The need to deepen governance, anti-corruption and public financial management reforms to guarantee transparency, accountability and efficiency in public spending.

Allocation Baseline Ceilings

214. The baseline estimates reflect the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures take first charge. These include payment of public debts and interest therein, salaries for Constitutional office holder and pensions.

215. Development expenditures have been shared out on the basis of the flagship projects in Vision 2030, "The Big Four" Plan and the third MTP III priorities. The following criteria was used in apportioning capital budget:

- *On-going projects:* emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.
- *Counterpart funds:* priority was also given to adequate allocations for donor counterpart funds which is the portion that the Government must finance in support of the projects financed by development partners.
- *Strategic policy interventions:* further priority was given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

Finalization of Spending Plans

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

- Interventions identified during the stakeholders consultation for the FY 2019/20 budget and over the medium term

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

3.3 Details of Sector Priorities

217. The medium-term expenditure framework for 2019/20 – 2021/22 ensures resource allocation based on prioritized programmes aligned to the MTP III. It also focuses on strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction.

218. **Table 3.2** provides the projected baseline ceilings for the FY 2019/20 and the medium term, classified by sector.

Table 3.2: Medium Term Sector Ceilings, 2019/20 - 2021/22 (Ksh Million)

Code	Sector		Printed Estimates	BPS Ceiling	Projections		% Share in Total Ministerial Expenditure			
			2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
010	Agriculture, Rural & Urban Development	Sub_Total	54,644	56,569	59,089	61,240	3.1%	3.1%	3.1%	3.2%
		Rec._Gross	17,482	18,218	18,811	19,427	1.0%	1.0%	1.0%	1.0%
		Dev._Gross	37,161	38,351	40,278	41,813	2.1%	2.1%	2.1%	2.2%
020	Energy, Infrastructure & ICT	Sub_Total	418,796	411,271	417,303	424,297	23.9%	22.7%	22.2%	22.4%
		Rec._Gross	80,793	92,177	96,357	98,007	4.6%	5.1%	5.1%	5.2%
		Dev._Gross	338,003	319,094	320,946	326,290	19.3%	17.6%	17.1%	17.2%
030	General Economic & Commercial Affairs	Sub_Total	31,964	23,943	25,465	26,325	1.8%	1.3%	1.4%	1.4%
		Rec._Gross	10,646	10,734	11,019	11,423	0.6%	0.6%	0.6%	0.6%
		Dev._Gross	21,318	13,209	14,446	14,902	1.2%	0.7%	0.8%	0.8%
040	Health	Sub_Total	90,007	93,048	96,018	99,177	5.1%	5.1%	5.1%	5.2%
		Rec._Gross	49,101	56,376	58,746	61,505	2.8%	3.1%	3.1%	3.2%
		Dev._Gross	40,906	36,672	37,272	37,672	2.3%	2.0%	2.0%	2.0%
050	Education	Sub_Total	442,328	473,706	492,539	503,979	25.3%	26.1%	26.2%	26.6%
		Rec._Gross	410,098	444,722	456,718	467,269	23.4%	24.5%	24.3%	24.6%
		Dev._Gross	32,231	28,984	35,821	36,710	1.8%	1.6%	1.9%	1.9%
060	Governance, Justice, Law & Order	Sub_Total	190,153	200,834	211,310	216,871	10.9%	11.1%	11.2%	11.4%
		Rec._Gross	167,811	182,050	188,509	194,501	9.6%	10.0%	10.0%	10.2%
		Dev._Gross	22,343	18,784	22,802	22,370	1.3%	1.0%	1.2%	1.2%
070	Public Administration & International Relations	Sub_Total	249,352	272,117	289,098	273,552	14.2%	15.0%	15.4%	14.4%
		Rec._Gross	159,656	173,311	183,964	166,833	9.1%	9.5%	9.8%	8.8%
		Dev._Gross	89,696	98,806	105,134	106,719	5.1%	5.4%	5.6%	5.6%
080	National Security	Sub_Total	142,265	146,096	151,180	152,223	8.1%	8.0%	8.0%	8.0%
		Rec._Gross	127,290	131,122	136,206	137,249	7.3%	7.2%	7.2%	7.2%
		Dev._Gross	14,974	14,974	14,974	14,974	0.9%	0.8%	0.8%	0.8%
090	Social Protection, Culture & Recreation	Sub_Total	52,868	55,292	54,318	52,957	3.0%	3.0%	2.9%	2.8%
		Rec._Gross	28,500	30,628	29,479	29,935	1.6%	1.7%	1.6%	1.6%
		Dev._Gross	24,368	24,665	24,839	23,022	1.4%	1.4%	1.3%	1.2%
0100	Environment Protection, Water & Natural Resources	Sub_Total	77,830	82,465	85,389	87,127	4.4%	4.5%	4.5%	4.6%
		Rec._Gross	21,605	22,882	23,836	24,724	1.2%	1.3%	1.3%	1.3%
		Dev._Gross	56,225	59,583	61,553	62,403	3.2%	3.3%	3.3%	3.3%
		Grand_Total	1,750,208	1,815,343	1,881,709	1,897,748	100.0%	100.0%	100.0%	100.0%
		Rec._Gross	1,072,982	1,162,221	1,203,644	1,210,874	61.3%	64.0%	64.0%	63.8%
		Dev._Gross	677,226	653,122	678,065	686,874	38.7%	36.0%	36.0%	36.2%

Source: National Treasury

Agriculture, Rural and Urban Development Sector

219. The Sector plays a key role in the development agenda of the country through enhancing food and nutrition security; employment and wealth creation; foreign exchange earnings; security of land tenure and land management. In 2017, it is estimated that the Sector contributed 29.7 percent of the GDP valued about at about Ksh 2.342 trillion through linkages with manufacturing, distribution and other service-related sectors.

220. Key achievements in the Sector during the 2015/16 – 2017/18 Medium-Term period were: provision of 486,426 metric tonnes of subsidized fertilizer that benefitted 1.9 million farmers; building up of reserves by 5.1 million metric tonnes of grains and 1,289 metric tonnes of powdered milk; acquiring and distribution of 78 tractors with associated implements, cumulatively 10 technologies on conservation agriculture and release of 176 tested crop varieties in the crops sub-Sector; development and enactment of the Fisheries Management and Development Act 2016; reflagging of five deep sea fishing vessels including the Offshore Patrol Vessel (PV Doria) for surveillance of deep sea fishing, construction of fish quality control laboratories in Nairobi, Kisumu and Mombasa.

221. Key outcomes expected to be achieved in period 2019/20-2021/22 include: improved land management for sustainable development; enhanced livestock resource management and development; increase agricultural productivity and outputs; increased food security and income; conducive environment for sustainable development of the blue economy; increased per capita water storage capacity for irrigation; and improved agricultural research for socio-economic development and industrialization.

222. To realize these outcomes, the Sector has been allocated Ksh 56.6 billion, 59.1 billion and Ksh. 61.2 billion in FY 2019/20, FY 2020/21 and FY 2021/22, respectively. The Sector has also prioritized implementation of "The Big Four" Plan initiatives.

Energy, Infrastructure and Information, Communication and Technology Sector

223. The Sector aims to sustain and expand cost-effective public utility infrastructure facilities and services in the areas of energy, maritime, transport, petroleum, ICT in line with the priorities in the Constitution of Kenya and the MTP III. Sustaining and expanding physical infrastructure is geared towards the realization of "The Big Four" Plan.

224. During the period under review, some of the key achievements in the Sector include; construction of 2,388 km of new roads, rehabilitation of 359 km of roads, and construction of 62 bridges; 100 percent completion of the Standard Gauge Railway (SGR) Phase 1 and 85 percent completion of SGR Phase 2A, completion of JKIA Terminal 1A, 1E and Terminal 2; new Ferry at Likoni Mombasa procured (MV Jambo); and 47 percent completion of the First three Berths (LAPSSET Project) at port of Lamu. The Sector also laid 2,100 km of fiber optic under National Optic Fibre Backbone Infrastructure (NOFBI) Phase II, trained 11,000

youths under Ajira Kenya Initiative, and 1,200 interns under the Presidential Digital Talent Programme. Further, the Sector generated 25MW geothermal energy, completed 11,803 km of transmission lines, completed 55 distribution substations, installed 113,204 street lighting points, and connected 3,173,684 customers to electricity; and trucked 4,217 barrels of crude oil from Turkana to Kipevu.

225. Over the 2019/20-2021/22 MTEF period: the Sector plans to construct of 500,000 housing units; construct of 8,245 km of roads, 150 bridges, rehabilitate 763km of roads, and maintenance of 114,131 km of roads; complete the first 3 berths at Lamu Port; completion of SGR Phase 2A; complete Phase 2 of the Second Container Terminal at Mombasa Port, and expand airstrips. The Sector also targets to generate 649.5 MW of power; construct 1,432km of electricity transmission lines; connect 2 million new customers to electricity, install 5,398 new transformers; drill 270 oil wells, produce 600,000 barrels of oil, and distribute 20,482 metric tonnes of oil and gas. Further, the Sector will complete the laying of fibre under NoFBI Phase II Expansion; complete Konza Complex; and implementation of Horizontal Infrastructure in Phase 1 at Konza Technopolis.

226. In order to implement the prioritized programs, the Sector has been allocated Ksh 411.3 billion, Ksh 417.3 billion and Ksh 424.3 billion for the FY 2019/20, FY 2020/21 and FY 2021/22 respectively.

General Economic and Commerce Affairs Sector

227. The Sector is mandated to promote, co-ordinate and implement integrated socio-economic policies and programmes for a rapidly industrializing economy.

228. During the FY 2015/16 - 2017/18 MTEF, key achievements realized in the Sector included; increased farm earnings from Ksh 23 to Ksh 35 per liter of milk; facilitated the growth in value of exports from Ksh 581.04 billion in 2015 to Ksh 594 billion in 2017; enforced Anti-Counterfeit measures in the major towns of Nairobi, Mombasa and Kisumu; international arrivals grew by 13.5 percent from 1.18 million in 2015 to stand at 1.45 million in 2017 thereby increasing tourism earnings by 20.3 percent from Ksh 84.6 billion in 2015 to Ksh 119.9 billion in 2017; harmonized EAC Regional Standards to facilitate trade; successfully negotiated and finalized Bills on establishment of EAC Monetary Institute and EAC Statistics Bureau; and commissioned the Keroka Water Supply project that supplies water to residents of Nyamira and Kisii Counties.

229. In the 2019/20 - 2021/22 MTEF period, the Sector plans to among others: acquire equipment and machinery for the New KCC; expand dairy processing plants (powdered milk); implement the Co-operative Management Information System; further improve on the ease of doing business; acquire the Regional Anti-Counterfeit Agency Exhibit Warehouses; and establish the Commodities Exchange Platform. The Sector will also develop the Kenanie Leather Industrial Park; complete and operationalize of Ewaso Ng'iro Tannery and Leather Factory with processing capacity of 4000 Tons of hides & skins annually; develop Athi River Textile hub; construct Industrial Research Laboratories in Kisumu and South B;

provide credit to MSMEs in manufacturing Sector; and construct Constituency Industrial Development Centers. Further, the Sector will: promote tourism; improve implementation of the EAC Customs Union, Common Market and Monetary Union Protocols; and operationalize Regional Integration Centres (RICs) at One Stop Border Posts in Malaba, Taita Taveta and Isebania

230. In order to implement the prioritized programmes, the Sector has been allocated Ksh 23.9 billion, Ksh 25.5 billion and Ksh 26.3 billion in the FY 2019/20, FY 2020/21 and FY 2021/22 respectively.

Health Sector

231. Health is a shared function between the National Government and County Governments. The Sector is responsible for the provision and coordination of the health services which contributes to the overall productivity and economic development of the country.

232. For the 2015/16-2017/18 MTEF period, the Sector realized the following achievements among others; implemented interventions to control the spread of HIV/AIDS, malaria and tuberculosis in the country which has seen 84 percent of public health facilities been equipped with diagnostic capacity for malaria and an increase in the number of tuberculosis cases notified. Similarly, there was an increase in the diagnosis of non-communicable diseases including hypertension, diabetes and cancer. Other achievements include: completion of the construction of Phase I of the Cancer Centre of Excellence and 95 percent completion of the Surgical Day Care Centre at the Kenyatta National Hospital (KNH); construction of the Chandaria Cancer and Chronic Diseases Centre at the Moi Teaching and Referral Hospital (MTRH); and upgraded 98 public hospitals by installing diagnostic and treatment equipment to improve access to specialized services countrywide. The Government has also expanded social health protection by implementing the Linda Mama Programme targeting maternal deliveries and their infants.

233. During the 2019/20-2021/22 MTEF period, the Sector will prioritize provision of the universal health coverage to all Kenyans. Particular emphasis will be placed on the reduction of the health financial burden to the households to enable them attain the highest standard of health care. To achieve this, the Sector will scale up universal health initiatives including the Linda Mama, subsidies for the poor, elderly and vulnerable groups, persons with mental illness, secondary school children and the informal Sector. The Sector will also continue to expand the health infrastructure including: expanding specialized medical equipment and establish centers of excellence in health, health commodity storage centers, new specialized health facilities and laboratories throughout the country.

234. In order to implement the prioritized programmes, the Sector has been allocated Ksh 93.0 billion, Ksh 96.0 billion and Ksh 99.2billion for the FY 2019/2020, FY 2020/2021 and FY 2021/2022 respectively.

Education Sector

235. The Sector is committed to the provision of quality education, training, science, technology, research and skills development to all Kenyans, in order to contribute to the building of a just and cohesive society that enjoys inclusive and equitable social-economic development.

236. During the FY 2015/16 - 2017/18 MTEF period, the Sector made several achievements including: increased completion rate at primary level from 82.7 percent in 2015 to 84 percent in 2017 and increased the transition rate from primary to secondary school level from 81.9 percent in 2015 to 88 percent in 2018 January. On curriculum reforms, the Sector developed 30 curriculum designs for grade 1&2 preprimary and grade 1, 2, & 3 in lower primary in 2016/17; developed 31 curriculum designed and adopted 21 designs for Special Needs Education (SNE) 2017/18; piloted phase 1& 2 in 470 schools across the country; and finalized Competence Based Education and Training (CBET) curriculum development standards framework and developed 41 CBET curricula.

237. For the FY 2019/20 - 2021/22 MTEF period, the Sector has prioritized several programmes for implementation including: recruitment of additional teachers to support the 100 percent transition policy of the Government; continued support to Free Primary Education and Free Day Secondary Education through increased capitation; continued support to Special Needs Education (SNE) through increased capitation to SNE learners; provision of Examination Fees for all students in KCPE and KCSE. The Sector will also complete the ongoing construction and equipment of TTIs and support university education in public and private universities in order to equip the youth with relevant skills required to drive the industrialization agenda.

238. In order to implement the prioritized programmes, the Sector has been allocated Ksh 473.7 billion, Ksh 492.5 billion and Ksh 503.98 billion for the FY 2019/2020, FY 2020/2021 and FY 2021/2022, respectively.

Governance, Justice, Law and Order Sector

239. The Sector plays a key role by establishing and maintaining a favorable environment for economic, social and political development of the country as expressed in the political pillar of the Kenya Vision 2030.

240. During the 2015/16 - 2017/18 MTEF, the Sector recorded notable achievements including: the acquisition of assorted security equipment; construction of the national forensic laboratory; provision of housing units for police and prison officers; execution of the 2017 General Elections; enhanced mobility for police and administrative officers; enhanced surveillance system especially in Nairobi and Mombasa & their environs and prisons; corruption prevention and asset recovery, prosecution of criminal offences and expansion of courts in Counties. The Sector also facilitated drafting various legislations to harmonize existing laws with the Constitution and continued to promote national values and cohesion.

241. For the FY 2019/20 - 2021/22 MTEF period, some of the key outputs planned include: implementation of police reforms; equipping of the Forensic Lab;

acquisition of additional assorted security equipment; installation of CCTV cameras in Nairobi, Mombasa and its environs, Kisumu, Nakuru and Eldoret; improved population management system and production of 3rd generation ID cards, enhancement of accountability and governance structures.

242. To achieve this, the Sector has been allocated Ksh 200.8 billion, Ksh 211.3 billion and Ksh 216.9 billion for FY 2019/20, FY 2020/21 and FY 2021/22, respectively. This includes allocation for the Judiciary.

Public Administration and International Relations Sector

243. The Sector provides overall policy direction and leadership to the country, oversee the human resource function in the public service, coordinate national policy formulation and implementation, resource mobilization, allocation and management, strengthening the devolved system of government, coordinating implementation of youth policy and mainstreaming in national development, implementation of the Kenya foreign policy as well as oversight, monitoring, evaluation and reporting on the use of public resources and service delivery.

244. A total of 32 programmes were implemented within the sector during the MTEF period 2015/16 - 2017/18. Tremendous progress was made in achievement of the sector's set targets. These include the following among others: development of country's medium term development plans; preparation of various statistical publications and reports; operationalization of new embassies; provision of capacity building and technical assistance to county governments, resource mobilisation, allocation and oversight in the public sector; established and operationalized Huduma centres; implementation of performance management systems, continued improvement of civil servants welfare, ensuring equitable revenue sharing between National and County Governments and among county governments; and resolving of public complaints on maladministration

245. In the FY 2019/20 and the medium term, the Sector will focus on enhancing advisory on public policy for effective management of public affairs; management and implementation of the devolved system of government to promote harmonious inter- and intra-governmental relations; sstrengthening management of humanitarian support services; promoting foreign relations for stronger diplomatic engagements and improvement on international trade and Foreign Direct Investments; mmanaging the Government's finances efficiently and effectively for macroeconomic stability and economic growth; sstrengthening oversight on management of public resources for effective service delivery; providing reliable and effective Monitoring and Evaluation system to track implementation of development policies, strategies, programmes and projects; strengthening linkages between planning, policy formulation and budgeting at all levels; enhancing empowerment and participation of youth and other vulnerable groups in all aspects of national development; and sstrengthening Human Resource Management and Development in the public service among others.

246. In order to achieve its targets in the financial year 2019/20 and the medium term the sector has been allocated Ksh 272.1 billion, Ksh 289.1billion and Ksh 273.6 billion for FY 2019-20, FY 2020/2021 and FY 2021/2022 respectively. This includes allocation for the Parliament.

National Security

247. The Sector is key in creating a secure and conducive environment for socio-economic and political development. The sector entails promoting a cohesive, egalitarian, technologically efficient and progressive society with a good quality of life. It is therefore a critical enabler in the realization of the "Big Four" Plan.

248. The Sector will continue to address contemporary and emerging threats to national security that undermine peace and development. In addition, it will continue to address contemporary and emerging threats to national security that undermine peace and development. These include terrorism, radicalization, human and drug trafficking, money laundering, cyber-crime and other socio-economic and political challenges.

249. In order to implement the prioritized programmes and minimize the above mentioned threats, the sector has been allocated Ksh 146.1 billion, Ksh 151.2 billion and Ksh 152.2 billion in FY 2019/20, FY 2020/21 and FY 2021/22 respectively.

Social Protection, Culture and Recreation Sector

250. The Sector is mandated to promote sustainable employment, best labour practices, sports, gender equity, empowerment of communities and vulnerable groups, diverse cultures, heritage and arts.

251. During the FY 2015/16 – 2017/18 MTEF period, the key achievements in the Sector included; provision of 74,400 metric tonnes of relief food to 3.5 million food insecure persons in 23 ASAL Counties; provision of cash transfers to 100,000 households (600,000 beneficiaries) annually under regular Hunger and Safety Net Programme (HSNP); provision of cash transfers to 1,233,000 households annually (833,000 older persons 353,000, orphans and vulnerable children and 47,000 person with severe disabilities) under the Inua Jamii Programme; provision of 2.9 million school girls with sanitary towels to reduce girls absenteeism in schools; trained 2,927 duty bearers and stakeholders in response and prevention of Gender Based Violence.

252. The Sector also upgraded Moi Sports Stadium-Kasarani and Nyayo National stadium; presented 120 teams in international and regional sports competitions where Kenya won 289 medals and hosted 17 international competitions; trained 3,157 talented youth on various sports disciplines, registered 83 sports organization and licensed 20 professional sports persons; carried out 2,231 anti-doping tests and sensitized 61,448 athletes on anti-doping; empowered 1,712 cultural practitioners to improve access to markets for enhanced livelihood; honored 390 heroes and heroines; and nurtured 2,230 youth in music and dance for self-reliance. Further, the Sector established Labour Attachee offices in Qatar, United Arabs Emirates and Saudi Arabia; developed and launched the Kenya Labour Market Information System (KLMIS); trained 104,804 people in relevant industrial skills; and certified 144,905 trade test candidates

253. In the 2019/20 – 2021/22 MTEF period, the Sector will implement various initiatives including: carry out 1,700 drought resilience and preparedness projects in ASAL Counties; support 130,000 vulnerable and drought prone households

through cash transfers annually; provide sanitary towels to 11.1 million school going girls to reduce absenteeism in school; host and participate in national, regional and international sports competitions; continue developing and upgrading sports infrastructure (national and regional stadia); empower 7,500 cultural artists/ practitioners; honor 480 heroes and heroines; nurture 3,300 youth in music and dance; establish an Alternative Dispute Resolution (ADR) Mechanism for labour and employment related disputes; and sensitize 303,500 people in prevention and response to Gender Based Violence and FGM.

254. In order to implement the prioritized programmes, the Sector has been allocated Ksh 55.3 billion, Ksh 54.3 billion and Ksh 53.0 billion for the FY 2019/2020, FY 2020/2021 and FY 2021/2022, respectively.

Environment Protection, Water and Natural Resources

255. The Sector plays a crucial role in the economy as it contribute immensely to life support systems by providing goods and services that are critical enablers for the realization of the "Big Four" Plan. Investment in this Sector also ensures the delivery of direct and indirect goods and services that are the backbone for the main productive Sectors namely agriculture, tourism, energy and manufacturing.

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

257. In order to implement the prioritized programmes, the Sector has been allocated Ksh 82.5 billion, Ksh 85.4 billion and Ksh 87.1 billion for the FY 2018/2019, FY 2019/2020 and FY 2020/2021, respectively.

3.4 Public Participation/ Sector Hearings and Involvement of Stakeholders

258. The law requires that the input of the public be taken into account before the Budget proposals are firmed up. In this regard, we held Public Hearings for the FY2019/20 Budget between 4th and 6th December 2018. **Annex Table 6** provides a summary of policy issues raised during the Public Hearings and the responses. Some of the key issues arising during the Public Hearings included:

Agriculture Rural and Urban Development Sector

259. Members of the public raised concerns regarding importation of fish from china which offers unfair competition to local production. It was explained that the local production of about 135,100 metric tons of fish does not meet the current domestic demand of 500,000 metric tons, and that on the same matter, strategically,

Kenya exports premium fish and imports cheaper fish for the benefit of the consume.

260. Responding to concerns over territorial ownership of the Migingo Island, the Sector informed members of the Public that a report on the same is under consideration in Parliament.

261. Members of the public also raised concerns about revival of the coffee Sector and mismanagement of coffee assets and facilities. The Sector informed the members that there is coffee committee under the office of the deputy president that is investigating the matter revolving around coffee and recommendations will be implemented once the report is released.

262. On the current status of the NCPB, the public was informed that the government has started a wider restructuring of NCPB which will include warehouse receipting. Adoption of smart storage facilities and upgrading old infrastructure to minimize wastage is also ongoing. In addition there is a different approach in distribution of fertilizer by targeting the actual farmers like the KTDA does.

Governance, Justice, Law and Order Sector

263. Responding to concerns on emerging security challenges, the Sector stated that some of the strategies adopted include the revising of the police curriculum to conform to changing security needs and construction of a forensic lab which will be fully equipped to enhance quality and accuracy of investigations.

264. The public inquired on how the Sector priorities contributes to the "Big Four" Plan, their timelines and where to access such information. The Sector emphasized that they are committed to the Plan and all their medium-term priorities are aligned towards creating an enabling environment for investment and job creation. All information about the Sector can be found in the Sector reports uploaded on the National Treasury website or in respective ministries.

265. The public raised concerns on the number of illegal foreigners who have led to increased crime in the country. The Sector reiterated that they conduct frequent permit verification and foreigner registration exercises to provide insights on the current immigration regime and status of foreigners in the country. Following the July 2018 exercise, over 1000 illegal immigrants have been deported.

266. The public wished to know the role of the Sector in the fight against illicit brew. The Sector stated that there is a multiagency team that is working together with significant success in the fight against the illicit brew. In addition, the public wished to know what actions the Government was taking to secure our waters given that the Sector highlighted that the coast guards were not funded in the FY 2019/20. The Sector emphasized that the coast guard has enough resources to operate and ensure our waters are safe for activities in the blue economy to thrive.

Education Sector

267. On the competence-based curricula, the public wanted to know what the Sector is doing to ensure that it is incorporated in teachers training modules. The Sector said that so far, all the critical players in the universities are informed and trained. Further, higher education institutions are adequately represented in the Kenya institute of curricula development and at the steering Committee level.

268. The Sector was asked to elaborate on the sustainability and practicability of the digital literacy program. The Sector explained that the phase two of digital literacy program is focusing on putting up solar powered labs in schools which will offer many students an opportunity to learn and use technology from a centralized point. The solar powered labs will also deliver affordable connectivity to schools in remote areas.

269. The public inquired on the status of the audit report on Public Universities and on the relocation of Kenya Teachers Training College (KTTC). The Sector stated that the audit report on income generation by Universities is accounted for under the AIA and regarding KTTC, engagement with the UN is still ongoing and government has commitment to facilitate expansion of the campus.

270. Regarding plans to ensure data generated by the ministry is disaggregated by gender and age, the Sector confirmed that data is already disaggregated by gender and age and this will be maintained to ensure monitoring.

Energy, Infrastructure and Information, Communications Technology Sector

271. The members of the public commended the Government for the progress made during the review period. However, concerns were raised as to why there is variation on the cost of roads constructed even though they cover the same length. It was clarified that; the cost of road construction varies based on road design which are categorized into classes with Class A roads associated with high cost of construction. The design of the road is determined by various factors such as the volume of vehicles passing through the road; soil texture; location; and possibility of flooding.

272. In addition, the members requested for information on specific areas where roads are under construction or are already constructed. They were informed that contracts of about 600 km have been awarded so far and every County has between Ksh 9 billion to Ksh 15 billion worth of road project ongoing with an average of 50 percent completion.

273. The public urged the Government to provide more fund to the film industry which is underfunded yet it has potential to create more job opportunities. The Sector informed members of the public that the film industry was moved to the Energy, Infrastructure, Information Communication and Technology Sector just two months ago and that the industry will receive enhanced funding in line with the current budget.

274. The public also raised concern over failure by local TV stations to offer 20 percent local content in light of plans to enhance local content coverage by 60 percent. The public was informed that the film industry has improved in terms of local coverage and that the 60 percent target is to be achieved by 2022 while a target of 40 percent of local coverage has been set for 2019.

Health Sector

275. The public noted that there was no provision for personnel to run the proposed Mwai Kibaki referral Hospital, the proposed equipment to be purchased by the health ministry and the proposed 47 cancer centers and no provision of funds for the 500 post graduate doctors being trained by the ministry. The Sector clarified that the 500 trainees had been catered for and that the Sector was training community health workers to help in the piloting of the Universal Health Coverage. Besides, the Sector reported that KEMSA was being strengthened to deal with purchase of equipment and drug.

276. Additionally, the public highlighted that the out of pocket spending was high in some instances and the NHIF cover was inadequate in high cost treatments. Besides, the public reported that there were citizens who were unable to pay for the NHIF scheme and wanted to know what the Sector was doing to cater for everyone. In response, the Sector noted that NHIF follows a specific criterion in determining how much to cover for an eligible patient and that in cases of doubt the public should consult the nearby NHIF offices for clarification. Moreover, the Sector stated that the Universal Health Coverage program would ensure that those not covered by any scheme would receive treatment after its piloting in Machakos, Nyeri, Isiolo, and Kisumu Counties.

277. The public also raised the issue of delayed disbursement from the National Treasury to the Counties of monies related to health Sector. The National Treasury representative asserted that the National Treasury does not delay disbursements but releases available funds and the lag was due to low revenue collection.

278. The public made several recommendations to the Sector. First is that there is need for the Sector to involve the Counties directly in the preparation of the health Sector working report. Secondly, the public recommended that the health-related issues of leadership and governance between the County Government and the national level health Sector be streamlined to ensure Kenyans receive full value of the funds channeled to health. Thirdly, the public urged the Sector to focus on the issue of sensitizing the citizens especially in the rural areas of the importance of immunization, pre and post-natal care for pregnant women and adoption of disease prevention lifestyles.

Social Protection, Culture and Recreation Sector

279. The public raised concern over the cost of accessing the National Theatre and requested that the Sector facilitate access to training grounds for artist. The Sector encouraged the artists to register with the Sector for identification in order to enable effective allocation of resources to them. Additionally, the Sector

informed the public of its plan to create a one stop shop for artists' trainings and rehearsals and stated that talks with private Sector partners to finance this project are on-going.

280. The public proposed that the Sector should allocate resources for collection of data on arts and culture and set up a Heroes Council. The Sector reported that agreements with development partners on artistic data collection are almost complete. On the setting up of Heroes Council, the Sector stated that the setting up of the board and the launch of the Heroes Council will occur within the FY 2018/19.

281. In response to public concerns about increasing incidences of cattle rustling, the Sector notified the public that investments in infrastructure like roads, dams, schools and other climate resilience projects have opened up areas facing cattle rustling, helped create alternative lifestyles and reduced incidences of conflicts.

282. Regarding persistence of FGM despite being outlawed, the public was encouraged to be on the forefront in eradication of FGM. They were also informed that there is a department that is focusing on Gender Based Violence (GBV) and that the public needs to provide information on those who are practicing since FGM is a form of GBV.

283. The members of the public expressed concerns that Ksh 2,000 given to the elderly is not enough to cover their monthly needs, especially for health costs of managing chronic diseases which are common among the aged. The Sector informed members of the public that other social welfare measures are being developed to improve the welfare of our senior citizens.

Environmental Protection Water and Natural Resources Sector

284. The public applauded the Sector on the successful ban of the use, manufacture and imports of all plastic bags used for commercial and household packaging. To make further progress on the implementation of this ban, the Sector committed to strengthen the prosecutorial powers of National Environment Management Authority (NEMA).

285. The public raised concerns on pollution of Nairobi River and tasked the Sector to explain why they stopped the cleanup exercise. The Sector reiterated that the cleanup exercise was stopped because of the project on reclaiming the riparian land. However, cleanup has since commenced and the Government is committed to rehabilitation and restoration of the river.

286. The Sector was commended for protecting the environment and improving the forest cover. Members of the public proposed that mechanism be put in place to ensure that the "Big Four' Plan does not lead to environmental degradation. Specifically, the Sector should ensure that enhanced manufacturing activities do not lead to environmental degradation and that the affordable housing project too does not enhance extreme logging activities in the country. The Sector was tasked

to ensure that all projects under "The Big Four" Plan are implemented in accordance to the environmental protection laws.

287. The public suggested the need to urgently develop proper measures on the management of waste using the Electronic waste (e-waste) platform. The Sector agreed that e-waste poses a challenge given the high penetration of mobile phones and other electronic devices. To manage e-waste, the Sector stated that they have developed e-waste regulations and will promote investment on re-use and recycling of e-waste.

Public Administration and International Relations Sector

288. Members of the public were concerned that some foreign contractors may not be paying their fair share of taxes and that the balance of trade is highly against Kenya, e.g. China. The Sector assured the public that every foreign company which gets contract from Kenya adheres to the rules and regulation of the country, which includes paying taxes with the exception of Government to Government dealings which are handled differently. In addition, it was mentioned that, the Government does not involve foreign companies in contracts which can easily be handled by the local contractors.

289. The public raised concerns over increased taxation and accumulation of foreign debt. The Sector noted that Kenya's debt remains on a sustainable path and that all borrowings are utilized for development particularly focusing on the 'Big Four" plan, and the Vision 2030.

290. The public commended the National Youth Service for the good work done so far and suggested that NYS should be transformed into a corporate body for it to be self-sustaining. The Sector clarified that, a lot of transformation has taken place at NYS and it is now a corporate body and that a bill to hasten its commercialization was passed on 6th December 2018.

General Economic and Commercial Affairs Sector

291. The public was concerned on the level of the pending bills reported across all the Sectors and asked what the PSs were doing to address the bills. The Sector highlighted that to address the issue of pending bills reforms in project planning has been undertaken, also guidelines on expenditure controls were issued and resources were prioritized to cater for pending bills.

292. The public raised the issue of intellectual property rights. They felt that there were no tight regulations to protect innovations and original ideas. The Sector reiterated that the Government has endeavored to create a policy to protect such and reiterated the need for public awareness to enhance knowledge of the public on intellectual property rights.

293. The public noted that Government's domestic borrowing maybe crowding out the private Sector. The Sector stated that, apart from commercial bank credit, the Kenya Industrial Estates and other stakeholders provide credit to certain segments of the private sector.

294. The public requested the Sector to consider setting up milk processors in every ward and cold rooms in high milk production areas. The Sector noted the request and stated that provision of milk coolers is ongoing. In addition, the Sector informed the public that the modernization of the New KCC is ongoing to expand its capacity and enable it receive more milk from dairy farmers.

295. The public sought to understand what the Government was doing to promote Jua Kali artisans who play a key role in employment creation. The Sector affirmed the critical role that Jua Kali artisans play in driving the manufacturing Sector asserted and that the Government has put in place measures which will create enabling environment for the artisans to operate.

Programme Performance Information for 2019/20 - 2021/22 MTEF Period

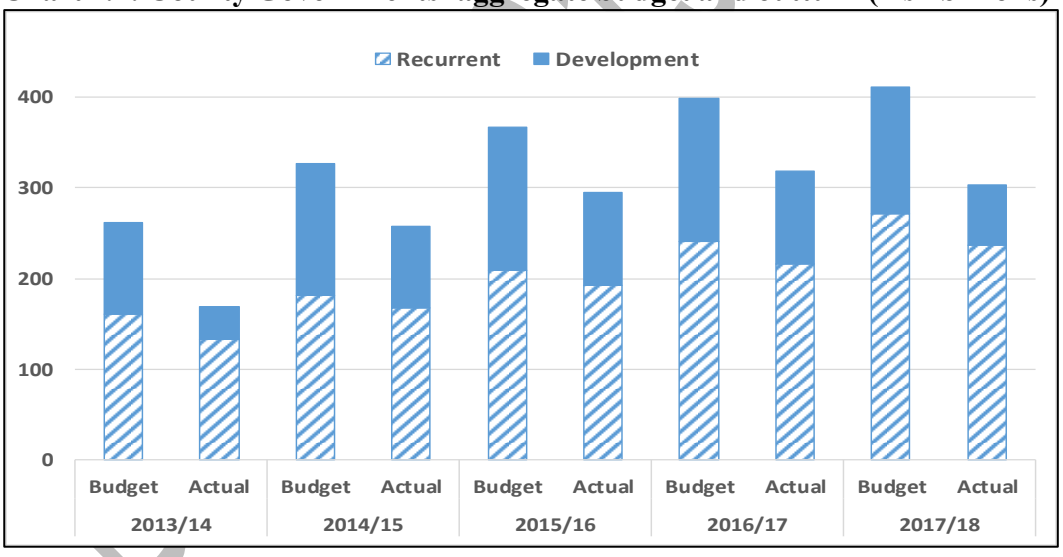
296. Annex Table 6 of this BPS provides a detailed report with information on programmes outputs, key performance indicators, and the set targets for the 2019/20 – 2021/22 period.

IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

4.1 Fiscal Performance of County Governments in FY 2017/18

297. In FY 2017/18, the aggregate budget for County Governments totalled Ksh 410.5 billion, which was Ksh 11.3 billion (or 3 percent) higher than the previous year's budget. (**Chart 4.1**). In the three prior years, County Governments' collective budget increased at a decreasing rate by 25 percent in FY 2014/15; 13 percent in FY 2015/16; and, 9 percent in FY 2016/17. This trend may be indicative of more realistic budgeting by the Counties. Meanwhile, County Governments' actual spending continues to grow as well at a decreasing rate. In FY 2014/15, actual spending grew by 52 percent, followed by 14 percent in FY 2015/16, and 8 percent in FY 2016/17. In FY 2017/18, Counties' actual spending was Ksh 303.8 billion, which was Ksh 15.2 billion below the previous year's spending, representing a 5 percent contraction. The above trends notwithstanding, aggregate budgetary resources available to County Governments have grown by almost 60 percent during the last five years, while actual spending has grown even faster, by nearly 80 percent.

Chart 4.1: County Governments' aggregate budget and outturn (Ksh billions)



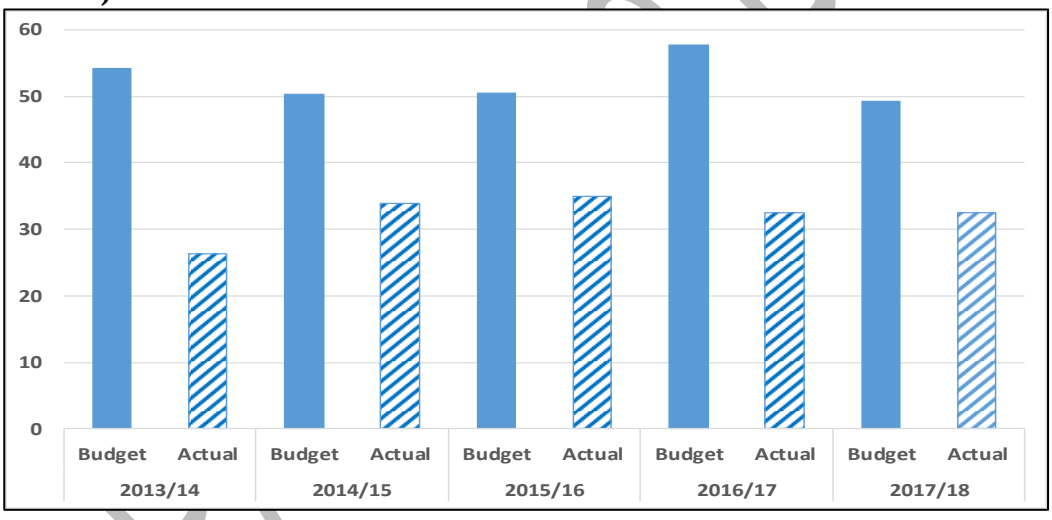
Source of data: Controller of Budget

298. As far as County Governments' fiscal performance is concerned, the main challenges relate to weaknesses in own-source revenue (OSR) and the unstable pattern of financial activity within each budget period. The rest of this chapter discusses these challenges, as well as efforts by the National Treasury to improve the likelihood that Counties' budget outturn more closely matches their plans, and that the quality of spending is enhanced within the context of the Public Finance Management Act, 2012.

4.1.1 County Governments' own-source revenue

299. In FY 2017/18, County Governments targeted to raise Ksh 49.2 billion in own-source revenue (OSR), but collected Ksh 32.5 billion, similar to collections in FY 2016/17. (**Chart 4.2**). This means there was nil improvement. Nevertheless, OSR outturn in FY 2017/18 was better (66 percent) than in FY 2016/17 (56.4 percent), which had a higher target (Ksh 57.7 billion). In general, Counties' OSR performance has deteriorated in the last three years both as a proportion of targeted collections and in absolute terms. Furthermore, OSR is financing an increasingly smaller proportion of County Governments' spending: 15.5 percent in FY 2013/14; 13.1 percent in FY 2014/15; 11.9 percent in FY 2015/16; 10.2 percent in FY 2016/17; and, 10.7 percent in FY 2017/18. This trend confirms growing reliance by the Counties on transfers from the National Government. Globally, locally-generated revenue is a key indicator of subnational governments' fiscal autonomy, and hence the need to strengthen contribution of OSR to budgets of Kenya's Counties.

Chart 4.2: County Governments' own-source revenue performance (Ksh billions)



Source of Data: Controller of Budget

300. In FY 2017/18, the National Treasury finalized preparation of the National Policy to Support Enhancement of County Governments' OSR, which was submitted to and approved by the Cabinet. Implementation of the Policy will include: i) assisting County Governments to determine their revenue potential and improve revenue forecasting; ii) supporting the Counties to develop principal laws to anchor their revenue measures in line with Article 210(1) of the Constitution; and, iii) ensuring that all Counties have established appropriate institutional arrangement for collecting OSR, and that they have adopted more effective and revenue management systems with common standards.

301. To support implementation of the above Policy, the National Government is initiating legislative reforms at the national level intended to improve performance of County Governments' revenue sources including property and entertainment taxes; business and liquor licences; tourism levies; outdoor

advertising fees; and, several decentralized user charges. In addition, draft legislation has been forwarded to Parliament which is intended to ensure that County Governments' taxation and other revenue-raising powers are not prejudicial to national economic policies, economic activities across County boundaries or the national mobility of goods, services, capital or labour. The draft legislation - the County Governments (Revenue Raising Process) Bill, 2018 -- which fulfils Article 209(5) of the Constitution, was approved by Cabinet alongside the Policy mentioned above and has been submitted to parliament.

302. In FY 2017/18, the National Treasury undertook an Own-Source Revenue Potential and Tax Gap Study of Kenya's County Governments. The study aimed to: i) map out Counties' local revenue base and potential; ii) support more credible OSR projections; and, iii) develop a framework for monitoring improvements in OSR performance by Counties. Building on the 2015 County Revenue Baseline Study undertaken by the CoB, National Treasury's study estimates how much revenue each County could generate from key OSR streams if available fiscal instruments were effectively utilized, administrative inefficiencies resolved and evasion addressed. The study's main policy finding is that Counties should focus revenue improvement efforts on streams with a strong policy rationale, significant revenue potential and are cost-effective to collect. Not all revenue streams are suitable for revenue enhancement effort. In general, user charges are based on fee payment for accessing a service, and health services for instance, should not be targeted for revenue enhancement in case they make crucial healthcare inaccessible.

303. **Table 4.1** shows estimated 'low scenario' OSR potential from key streams, the policy rationale and legal basis of each stream. The study also finds a clear disconnect between Counties' revenue collection and policy objectives. To deal with the current proliferation of rates, bases and OSR administration approaches across County jurisdictions, the study recommends that common frameworks be established which, while ensuring countrywide consistency, will permit individual Counties to exercise discretion within their local contexts.

Table 4.1: County Governments' estimated own-source revenue potential by stream (Low scenario)

Revenue stream	Policy rationale	Legal basis	Computed potential* *(Ksh billions)*
Property tax	Closely linked to benefits of local goods and service provision, and to household wealth; main revenue source for subnational governments worldwide	Constitutional assignment (Article 209 (3))	66.2
Business licences	Broadening the tax base and appropriating share of profits given that national income tax system is still evolving and business formalization is still low	County function (7. Trade development and regulation, incl. trade licences)	23.4
Vehicle parking fees	Effective use of County property; basic congestion charge to correct for negative externalities from traffic	County function (5. County transport, incl. traffic and parking)	12.6
Liquor licences	Correcting for negative externalities from alcohol consumption, including on health, public safety and waste pollution	County function (4. (…) public entertainment (…) incl. liquor licensing)	10.2

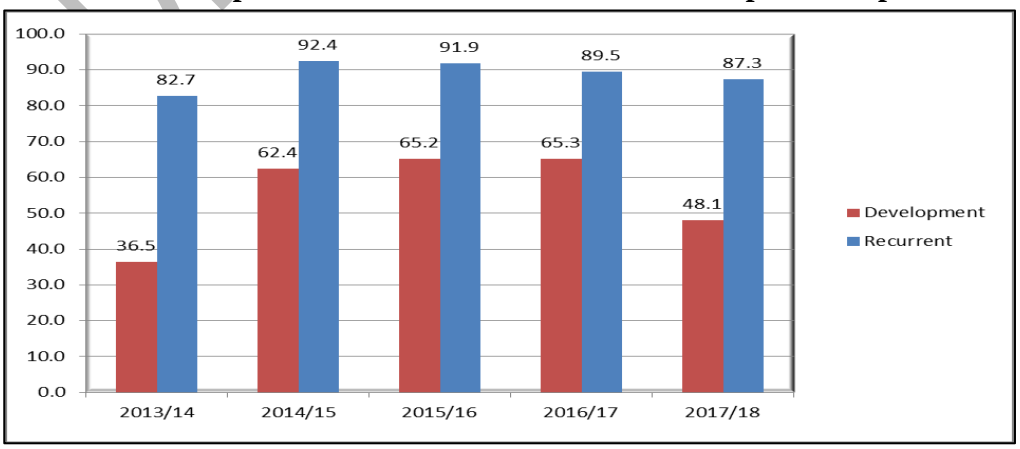
Revenue stream	Policy rationale	Legal basis	Computed potential* *(Ksh billions)*
Outdoor advertising charges	Effective use of County property; limiting of outdoor 'visual pollution'	County function (3. Control of (…) outdoor advertising)	6.3
Building permits	Appropriating share of 'windfall' profits from building construction; compliance with building codes for public health and safety, construction quality and easier property valuation	County function (8. County planning and development)	6.0
TOTAL			**124.7**

** The Study approach involved using micro-data drawn from household and enterprise surveys by the Kenya National Bureau of Statistics to identify suitable proxies for each revenue base. Revenue potential for each stream was then computed by applying the prevailing (or assumed) rate on the estimated tax base for each stream by County. For instance, the above revenue potential from property tax assumes exemption of 90 percent of 'lowest value' properties, and a 1 percent tax on 'high value' property (inclusive of developments thereon). Likewise, revenue potential for building permits assumes a 1 percent fee on all construction value. For the other streams, an overall base rate was determined, and thereafter adjusted by a County multiplier based on average County consumption per adult, relative to the national consumption. The Study report contains a more detailed methodological note.*

4.1.2 County Governments' budget absorption

304. Variances between County Governments' approved aggregate budgets and expenditure decreased from Ksh 91.7 billion in FY 2013/14 to Ksh 68.3 billion and then increased to Ksh 106.3 billion in FY 2017/18. While absorption rate of recurrent budget has remained high over the last five years (i.e. more than 80 percent in each year), absorption of development budget initially increased from 36.5 percent in FY 2013/14 to 65.2 percent in FY 206/17 before declining to 48.1 percent in FY 2017/18. (**Chart 4.3**). The low absorption rate is explained in large part by procurement challenges at the County Government level and capacity deficits, especially in terms of planning. Ongoing implementation of the Kenya Devolution Support Program (KDSP), a capacity building initiative, is expected to address challenges faced by Counties in planning, procurement and budget execution, among other areas.

Chart 4.3: Absorption Rates for Recurrent and Development Expenditure



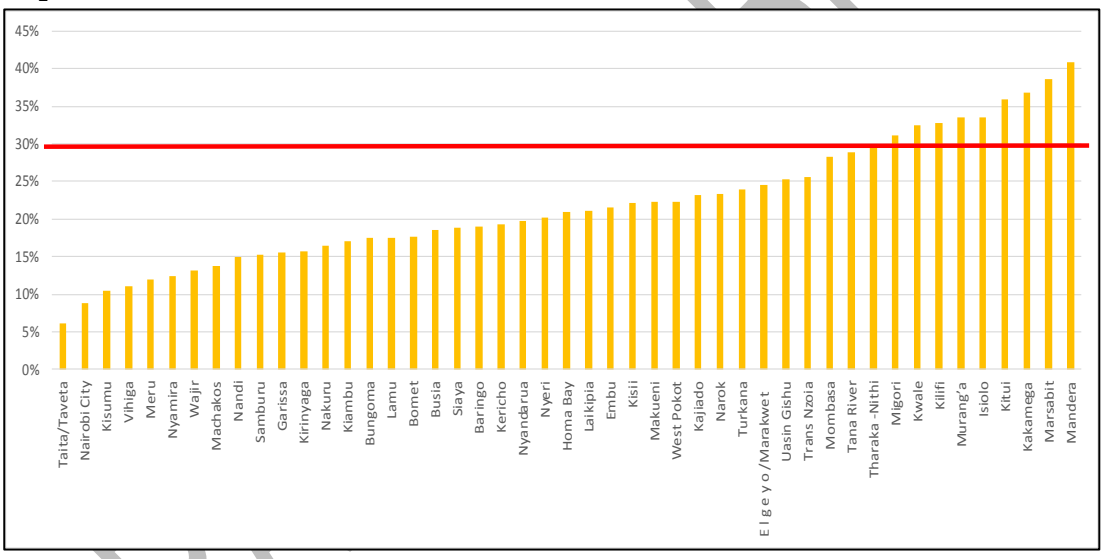
Source of Data: Controller of Budget

4.2 County Governments' Compliance with Fiscal Responsibility Principles

4.2.1 Compliance with the requirement for development spending allocations

305. Section 107(2) of the PFM Act 2012 requires that County Governments allocate a minimum of 30 percent of their budget to development expenditure. However, even though approved County budgets comply with this requirement, actual development expenditure for most of the Counties is below 30 percent. In the FY 2017/18, only 9 Counties complied with this requirement. Among the Counties with the lowest percentage of development to total expenditure are Taita Taveta, Nairobi, Kisumu, Vihiga, Meru, Wajir, Nyamira and Machakos, all which had below 15 percent (**Chart 4.4**).

Chart 4.4: FY 2017/18 Development Expenditure as a Percentage of Total Expenditure



Source of Data: Controller of Budget

4.2.2 Compliance with the requirement for expenditure on wages

306. Section 25(1)(b) of the PFM (County Governments) Regulations, 2015 requires that County Governments' wage bill shall not exceed 35 percent of their total revenue. In FY 2017/18, only 15 Counties complied with this requirement. Some Counties including Embu, Laikipia, Machakos, Nairobi and Wajir had wage expenditures above 50 percent of their total revenue. On average, County Governments have struggled to stay within the legal wage spending threshold since FY 2014/15. It is well recognized that a few Counties are fiscally constrained because the two previous horizontal revenue sharing criterion ignored disparities in expenditure need occasioned by uneven distribution of personnel attached to devolved functions. Considering the growing fiscal risks associated with uncontrolled expenditure on personnel emoluments, the National Treasury has -- on the basis of section 46(3)(c) of the PFM Act, 2012 requested all concerned

Counties to prepare and submit action plans including timelines, for achieving sustainable wage bills. Upon receipt of the plans, the National Treasury shall engage with all the Counties, review their plans and provide any required technical assistance.

4.3 Prudent Management of Fiscal Risks

4.3.1 Pending bills

307. According to the CoB, County Governments had as at June 2018, accumulated pending bills worth Ksh. 108.4 billion, including unremitted statutory deductions, salary arrears, outstanding payments to contractors and suppliers as well as to utilities. Three-quarters of the pending bills is recurrent in nature; 16 Counties have bills exceeding Ksh 1 billion; and, Nairobi County accounts for nearly 60 percent of the total. Based on section 94(1) of the PFM Act, such failure by County Governments to make payments as and when due, or default on financial obligations may indicate material breach of legally-established measures. Therefore, in line with section 96(3) of the PFM Act, the National Treasury has requested the Auditor-General to undertake a special audit to assess the financial state of concerned Counties and determine reasons for the possible breach. If any County is in breach, this will trigger the National Government's intervention as per Article 225 of the Constitution. In general, pending payments older than 90 days constitute a fiscal risk with major potential consequences to the economy, and County Accounting Officers are legally required to update the National Treasury on a monthly basis.

308. Meanwhile, the cash accounting method currently applied by County Governments presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities (as well as assets). This is due to the fact that cash accounting does not require recognition of liabilities as well as assets; rather, only their associated cash inflows and outflows. To deal with this challenge, the National Treasury and the Public Sector Accounting Standards Board (PSASB) have initiated a review of the Standard Chart of Accounts as well as development of policy guidelines on management of assets and liabilities. These are preparatory steps for a possible future migration to accrual accounting which PSASB has indicated to commence in FY 2020/2021. This will further enhance closer monitoring of County Governments' pending bills as they will have to be recognized on the face of financial statements. Adequate documentation of pending bills and assets will also facilitate their handover between County Government regimes.

4.3.2 Other risks identified in County financial reports

309. In order to better understand evolving intergovernmental fiscal relations issues and improve formulation and enforcement of policy measures, the National Treasury has been analysing County Governments' budgets, their financial statements and audit opinions over the last five years. Findings of the analyses have been consolidated into the County Governments' Fiscal Performance Report, which is hinged on the National Treasury's mandate in section 12(1)(a) of the PFM

Act, 2012. In addition to issues already highlighted in this chapter, the above report mentions the following among recurring issues, which the National Treasury is addressing primarily through enhanced capacity building for the Counties and more stringent enforcement:

a) Lack of reconciliation between financial statements and balances in the IFMIS, which arises when County Governments fail to post all their transactions on the system;
b) Procurement irregularities including unjustified single sourcing and contract variations, inflation of contract prices and undocumented purchases of assets;
c) Failure to establish public funds in line with section 116 of the PFM Act, 2012, which mainly undermines the legality of County Governments' mortgage and car loan schemes;
d) Weak human resource management practices, including ineffectiveness of County Public Service Boards, which contributes to uncontrolled hiring of non-core personnel outside approved staff establishments and remuneration guidelines;
e) Delayed submission of financial reports by County Accounting Officers and County public fund administrators contrary to sections 166(4) and 168(3) of the PFM Act, 2012; and,
f) Absence and/or ineffectiveness of internal audit committees in line with part XIII of the PFM (County Governments) Regulations, 2015.

4.3.3 Status of transfer of devolved functions

310. In FY 2017/18, the Intergovernmental Relations Technical Committee (IGRTC) assessed the status of transfer of devolved functions. The objective is to: i) eliminate risks associated with duplication between the two levels of Government; ii) identify budgetary resources to be assigned to either Government; iii) facilitate division of revenue raised nationally; and, iv) streamline funds flow with regards to conditional allocations. According to IGRTC's assessment, there are two categories of functions as follows:

a) *Functions that have been transferred but not fully operationalized at the County level:* These include: libraries; statistics; land survey, mapping and housing; cooperatives, mechanical and transport equipment; ferries and harbours. Some of these functions (e.g. libraries) are still being undertaken nationally due to administrative complexities (e.g. harmonization of salaries and pension schemes of personnel). Moreover, devolved libraries exist in only 33 Counties, hence mechanisms are required to achieve their equitable decentralization. Other functions (e.g. statistics, and ferries and harbours) are undergoing unbundling due to their concurrent nature. For these, legal regimes, standards and norms are needed to enable delivery by both levels of Government. Responsibility for museums will be legally transferred to County Governments in FY 2019/20, along with attendant budgetary resources.

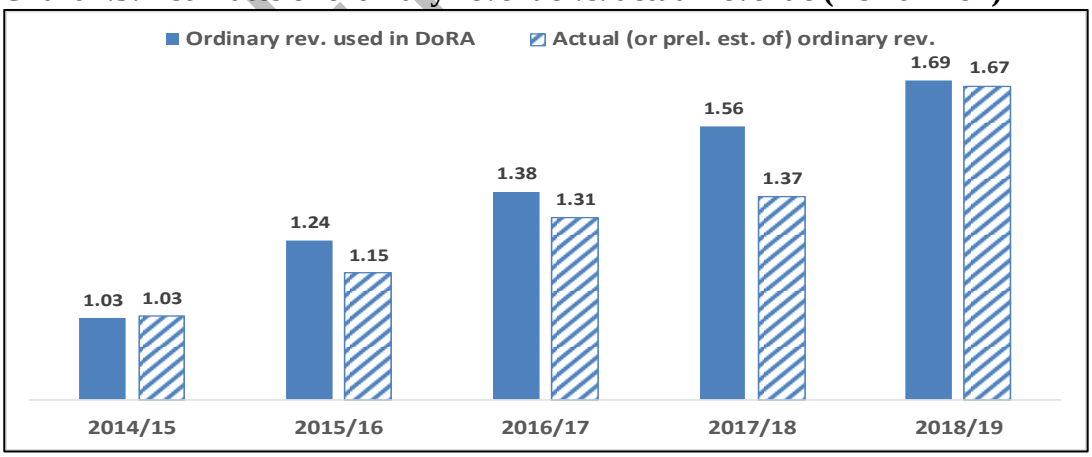
b) *Functions that are either overlapping or being duplicated:* These include: water (protection, reticulation and related services); agriculture (licensing, imposition of levies and charges); and, betting, casinos and gambling. For these functions, legislative amendments are required to align each function and institutional role with the Constitution. Also required are regulations and or intergovernmental sectoral agreements on how to achieve efficiency in the delivery of respective functions. As reported in the BPS 2018, some County Governments are still managing primary and secondary schools (including undertaking infrastructural development), whereas education is a National Government function. The main reason for this is that formal transfer of the assets has not yet been concluded. IGRTC is spearheading efforts to finalize this process.

4.4 Division of Revenue between the Two Levels of Government

4.4.1 Underperformance in revenue raised nationally

311. Since FY 2013/14, the Division of Revenue Act (DoRA) has been prepared based on annual estimates of ordinary (shareable) revenue. However, beginning FY 2015/16, ordinary revenue outturn has fallen short of estimates, (**Chart 4.5**). The largest shortfall of Ksh 195 billion was in FY 2017/18. Ordinary revenue as a share of GDP has also declined since FY 2013/14 by 1.7 percent of GDP from 17.2 percent in FY 2013/14 to 15.5 percent in FY 2017/18. As reflected elsewhere in this BPS, to reflect a lower forecasting base, the National Treasury has revised the revenue forecasts for FY 2018/19 and the medium term, the forecast for FY 2018/19 is now Ksh 117.7 billion lower than the original budget estimates.

Chart 4.5: Estimates of ordinary revenue vs. actual revenue (Ksh trillion)



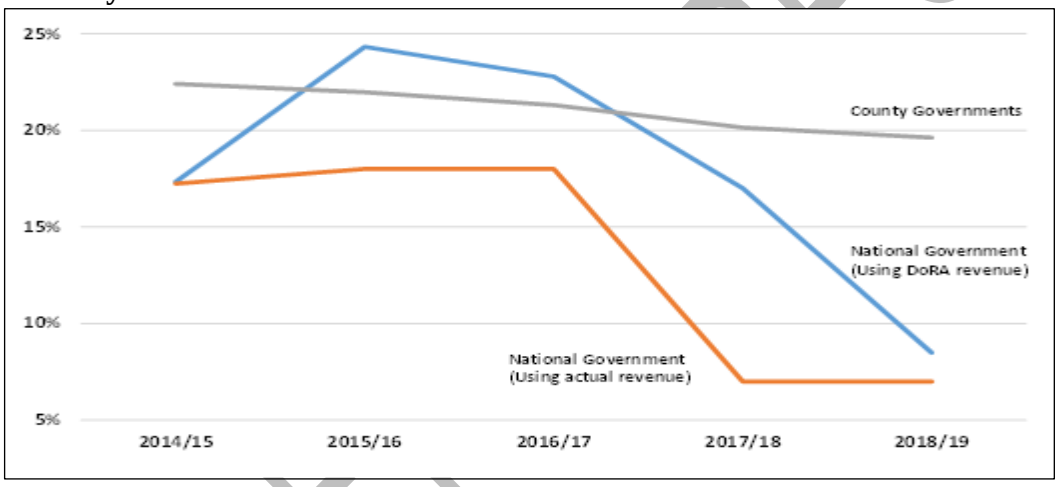
Note: For FY 2018/19, the data shown in lieu of actual is the latest forecast in this BPS.

312. According to the DoRA, if actual revenue raised nationally in any year falls short of projections, the shortfall is to be borne by the National Government, to the extent of the threshold prescribed in Regulations by the Cabinet Secretary. This threshold is yet to be prescribed, hence the National Government has solely borne the above shortfalls.

4.4.2 Implications for vertical revenue division

313. County Governments' equitable share grew from Ksh. 229.9 billion in FY 2014/15 to Ksh. 331.2 billion in FY 2018/19. During this period, the Counties' share remained stable at 22 percent of ordinary revenue. (**Chart 4.6**). In contrast, the National Government's equitable share after implementing Article 203(1) of the Constitution declined from Ksh. 177.9 billion to Ksh. 143.3 billion over the same period. Based on initial revenue estimates in the DoRA, the National Government's share dropped from 17.3 percent in FY 2014/15 to 8.5 percent in FY 2018/19. When actual ordinary revenue is retrospectively factored in, the difference between the National and the County Governments' equitable revenue share increases even further. This implies a deterioration in the vertical fiscal balance (i.e. a growing fiscal imbalance).

Chart 4.6: National and County Governments' revenue share as percent of ordinary revenue



Note: The National Government's share is computed after implementing provisions of Article 203(1) of the Constitution.

314. To address its deteriorating fiscal position, arising from the projected revenue shortfall in FY 2018/19, the National Government has cut back on its spending commitments. The National Government has reduced spending in FY 2018/19 by Ksh 37.6 billion. This is on top of budget reductions affecting 'national interest' and 'other national obligations'. The spending cuts were however, inadequate to cover the entire shortfall and the National Treasury has proposed that Counties' equitable share allocation for FY 2018/19 be reduced by Ksh 9 billion.

4.4.3 Measures to forestall further deterioration in the vertical fiscal balance

315. Implementation of Article 203(1) of the Constitution directly impinges on the balance of revenue raised nationally that is to be shared by the two levels of Government. As part of the effort to stabilize the division of revenue process, the National Treasury shall, through the Intergovernmental Budget and Economic Council (IBEC) seek constitutional interpretation as well as consensus among key actors on how best to treat 'national interest' and 'other national obligations'.

Through IBEC, the National Treasury will also continue to pursue compromise around a more fiscally sustainable method for adjusting upwards County Governments' annual equitable share. Against the backdrop of revenue underperformance, the current approach (which uses average month-on-month inflation for three years) as well as the earlier one (which used a composite index of revenue and GDP growths) are likely to introduce risks in the overall fiscal framework.

316. The National Treasury proposes that County Governments be allocated an equitable share of revenue raised nationally of Ksh 310 billion in the FY 2019/20, and that the National Government be allocated Ksh 1,567.2 billion. For County Governments, this will translate into a Ksh 5.3 billion growth vis-à-vis the FY 2018/19 allocation of Ksh 305.96 billion as per the BROP 2018. **(Table 4.2)**.

Table 4.2: County Governments' Equitable Revenue Share (Ksh Million)

Budget item	2015/16	2016/17	2017/18	2018/19	2019/20
Baseline *(i.e. allocation in the previous FY)*	**226,660.0**	**259,774.5**	**280,300.0**	**302,000.0**	**304,962.0**
Baseline adjustments:					
1. Baseline adjustments (Due to additional functions)	2,946.0				
Adjusted baseline:	**229,606.0**	**259,774.5**	**280,300.0**	**302,000.0**	**304,962.0**
Additional revenue measures					
1. Adjustment for revenue growth	23,902.0	20,525.2	21,700.0	2,962.0	5,038.0
2. Other adjustments	4,500.0				
3. Adjustments negotiated in Parliament post-BPS	1,766.5				
Computed equitable revenue share allocation	**259,774.5**	**280,300.0**	**302,000.0**	**304,962.0**	**310,000.0**

**County Governments' equitable share for FY 2018/19 (Ksh 304,962 million) is based on the Budget Review and Outlook Paper (BROP) 2018.*

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

- From the National Governments' equitable revenue share, Ksh 14.16 billion for: i) level-5 hospitals; ii) rehabilitation of village polytechnics; iii) leasing of medical equipment; iv) compensation for foregone user fees; and, v) construction of County headquarters **(Table 4.3).**
- Equalization Fund to the marginalized areas amounting to Ksh 5.76 billion;
- Ksh 8.98 billion from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2018/19 collections by the Kenya Roads Board (KRB); and

Table 4.3: Division of Revenue Raised Nationally FY 2015/16 - 2019/20 (Ksh Million)

Type/level of allocation	2015/16	2016/17	2017/18	2018/19	2019/20
National Government	991,892.0	1,099,899.0	1,247,412.0	1,376,107.0	1,567,176.0
Of which:					
Free maternal healthcare	4,298.0	4,121.0			
Rehabilitation of Village polytechnics			2,000.0	2,000.0	2,000.0
Leasing of Medical Equipment	4,500.0	4,500.0	4,500.0	9,400.0	6,200.0
Compensation for user fees forgone	900.0	900.0	900.0	900.0	900.0
Level 5 hospitals	3,600.5	4,000.0	4,200.0	4,326.0	4,455.8
Special Purpose Grant (Emergency Med. Serv.)		200.0			
Supplement for construction of county headquarters			605.0	605.0	605.0
Equalization Fund	6,000.0	6,000.0	7,727.0	4,700.0	5,764.9
County equitable share	259,774.5	280,300.0	302,000.0	304,962.0	310,000.0
Total shareable revenue	**1,251,666.5**	**1,380,199.0**	**1,549,412.0**	**1,681,069.0**	**1,877,176**

- Ksh 38.5 billion from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant. **Table 4.4** shows the total disaggregation of revenues to be transferred to the County Governments.

Table 4.4: Disaggregation of County Governments' Allocation

Type/level of allocation	2015/16	2016/17	2017/18	2018/19	2019/20
County equitable share	259,774.5	280,300.0	302,000.0	304,962.0	310,000.0
Additional conditional allocations, of which:					
Free maternal healthcare	4,298.0	4,121.0	-	-	-
Leasing of medical equipment	4,500.0	4,500.0	4,500.0	9,400.0	6,200.0
Compensation for user fees forgone	900.0	900.0	900.0	900.0	900.0
Level 5 hospitals	3,600.5	4,000.0	4,200.0	4,326.0	4,455.8
Special Purpose Grant (Emergency Med. Serv.)	-	200.0	-	-	-
Supplement for construction of county headquarters			605.0	605.0	605.0
Rehabilitation of Village polytechnics			2,000.0	2,000.0	2,000.0
Allocation from Fuel Levy Fund (15% of collections)	3,300.0	4,306.8	7,875.0	8,269.0	8,984.1
Allocations from loans and grants	10,671.2	3,870.7	12,541.4	36,981.4	38,538.3
Total County Allocations	**287,044.2**	**302,198.5**	**334,621.4**	**367,443.4**	**371,683.1**

4.5 Horizontal Allocation of Revenue among the County Governments

318. As envisioned in Article 217 as well as the Six Schedule of the CRA is in the process of developing and recommending the third basis for allocating revenue raised nationally among the County Governments. For the moment, horizontal distribution of County Governments' equitable revenue share allocation for FY 2019/20 is based on the current formula, which uses six parameters with specific weights, namely: population (45 percent); basic equal share (26 percent); poverty (18 percent); land area (8 percent); fiscal responsibility (2 percent) and development factor (1 percent). Each additional conditional allocation is distributed based on its objectives, criteria for selecting beneficiary Counties and distribution formula. Accordingly, in FY 2019/20, the Counties will share an estimated Ksh 371.55 billion. **Table 4.5** shows the projected transfer to each County in FY 2019/20.

Table 4.5: Revenue Allocation for Each County Government

County	FY 2018/19		FY 2019/20										
	Equitable Share	Total Allocations	Allocation Ratio	Equitable Share	Level-5 Hospitals	Compensation for user fees foregone	Rehabiliation of Village Polytechnics	Road Maintenance Levy Fund	Leasing of Medical Equipment	Supplement for construction of county headquarters	Loans & Grants	Total Allocations	Per capita allocation (Kshs)
Baringo	4,940,384,400	5,778,725,715	1.62	5,022,000,000	-	13,191,000	35,605,000	145,541,813	131,914,894	-	322,825,892	**5,671,078,597**	10,208
Bomet	5,763,781,800	6,680,554,474	1.89	5,859,000,000	-	16,713,356	47,875,000	169,798,781	131,914,894	-	454,770,099	**6,680,072,130**	9,224
Bungoma	8,691,417,000	9,998,082,441	2.85	8,835,000,000	-	32,837,307	65,500,000	256,045,781	131,914,894	-	920,852,734	**10,242,150,715**	6,280
Busia	5,794,278,000	6,744,720,378	1.90	5,890,000,000	-	16,934,085	61,960,000	170,697,188	131,914,894	-	416,541,031	**6,688,047,197**	13,703
Elgeyo/Marakwet	3,659,544,000	4,457,455,034	1.20	3,720,000,000	-	8,788,919	41,800,000	107,808,750	131,914,894	-	352,407,368	**4,362,719,930**	11,791
Embu	4,330,460,400	5,421,155,761	1.42	4,402,000,000	310,342,613	10,724,225	37,900,000	127,573,688	131,914,894	-	579,492,895	**5,599,948,314**	10,848
Garissa	6,739,660,200	9,134,942,947	2.21	6,851,000,000	355,392,347	12,964,636	35,335,000	198,547,781	131,914,894	-	915,889,383	**8,501,044,040**	13,644
Homa Bay	6,495,690,600	7,419,924,616	2.13	6,603,000,000	-	22,185,346	46,675,000	191,360,531	131,914,894	-	597,301,103	**7,592,436,873**	7,878
Isiolo	3,812,025,000	4,685,826,269	1.25	3,875,000,000	-	3,472,461	21,235,000	112,300,781	131,914,894	121,000,000	395,695,130	**4,660,618,265**	32,525
Kajiado	5,824,774,200	6,812,115,049	1.91	5,921,000,000	-	16,955,365	40,345,000	171,595,594	131,914,894	-	616,594,684	**6,898,405,536**	10,037
Kakamega	10,033,249,800	11,888,141,665	3.29	10,199,000,000	440,486,289	37,789,290	69,910,000	295,575,656	131,914,894	-	699,868,864	**11,874,544,993**	7,151
Kericho	5,550,308,400	6,517,000,071	1.82	5,642,000,000	-	18,048,789	41,005,000	163,509,938	131,914,894	-	597,080,638	**6,593,559,258**	8,695
Kiambu	9,087,867,600	12,406,684,614	2.98	9,238,000,000	551,469,711	34,671,542	68,110,000	267,725,063	131,914,894	-	2,378,909,369	**12,670,800,578**	7,806
Kilifi	10,521,189,000	12,215,750,837	3.45	10,695,000,000	-	25,969,864	53,035,000	309,950,156	131,914,894	-	1,498,016,666	**12,713,886,580**	11,457
Kirinyanga	3,995,002,200	4,742,094,252	1.31	4,061,000,000	-	11,282,570	52,210,000	117,691,219	131,914,894	-	519,396,956	**4,893,495,639**	9,267
Kisii	7,471,569,000	8,979,452,357	2.45	7,595,000,000	430,475,237	26,138,997	70,090,000	220,109,531	131,914,894	-	682,244,542	**9,155,973,201**	7,946
Kisumu	6,709,164,000	8,783,717,505	2.20	6,820,000,000	380,419,977	21,299,489	41,650,000	197,649,375	131,914,894	-	1,082,077,868	**8,675,011,602**	8,953
Kitui	8,477,943,600	9,613,793,830	2.78	8,618,000,000	-	22,499,906	58,465,000	249,756,938	131,914,894	-	795,015,756	**9,875,652,493**	9,752
Kwale	7,319,088,000	8,647,570,910	2.40	7,440,000,000	-	15,209,593	41,860,000	215,617,500	131,914,894	-	980,216,075	**8,824,818,062**	13,578
Laikipia	3,995,002,200	4,783,508,025	1.31	4,061,000,000	-	9,968,208	28,525,000	117,691,219	131,914,894	-	302,578,964	**4,651,678,284**	11,652
Lamu	3,446,070,600	4,243,607,344	1.13	3,503,000,000	-	2,451,034	31,210,000	101,519,906	131,914,894	121,000,000	303,666,757	**4,194,762,591**	41,312
Machakos	8,081,493,000	10,333,845,617	2.65	8,215,000,000	395,436,555	24,129,039	54,295,000	238,077,656	131,914,894	-	1,377,349,081	**10,436,202,224**	9,500
Makueni	6,922,637,400	7,920,572,018	2.27	7,037,000,000	-	19,435,760	31,570,000	203,938,219	131,914,894	-	702,254,514	**8,126,113,386**	9,187
Mandera	9,850,272,600	10,960,277,905	3.23	10,013,000,000	-	25,474,920	31,240,000	290,185,219	131,914,894	-	591,013,860	**11,082,828,892**	10,805
Marsabit	6,800,652,600	7,737,611,745	2.23	6,913,000,000	-	6,643,714	26,275,000	200,344,594	131,914,894	-	516,877,661	**7,795,055,863**	26,772
Meru	7,776,531,000	9,107,881,832	2.55	7,905,000,000	385,425,503	31,648,428	66,025,000	229,093,594	131,914,894	-	529,643,439	**9,278,750,857**	6,841
Migori	6,526,186,800	7,938,813,470	2.14	6,634,000,000	-	21,655,884	31,750,000	192,258,938	131,914,894	-	1,063,015,013	**8,074,594,728**	8,804
Mombasa	7,990,004,400	9,608,055,293	2.62	8,122,000,000	400,442,081	23,385,934	39,895,000	235,382,438	131,914,894	-	1,656,359,269	**10,609,379,615**	11,294
Muranga	6,068,743,800	6,901,233,125	1.99	6,169,000,000	-	20,138,691	65,710,000	178,782,844	131,914,894	-	518,280,762	**7,083,827,190**	7,515
Nairobi	15,339,588,600	16,284,579,349	5.03	15,593,000,000	-	79,423,251	34,570,000	451,898,344	131,914,894	-	192,199,600	**16,483,006,088**	5,252
Nakuru	9,179,356,200	11,563,464,586	3.01	9,331,000,000	385,425,503	38,723,265	47,800,000	270,420,281	131,914,894	-	1,576,216,408	**11,781,500,351**	7,348
Nandi	5,214,850,200	6,228,558,378	1.71	5,301,000,000	-	18,086,363	37,255,000	153,627,469	131,914,894	-	681,341,621	**6,323,225,346**	8,398
Narok	6,190,728,600	7,058,421,235	2.03	6,293,000,000	-	20,595,297	30,820,000	182,376,469	131,914,894	-	536,312,751	**7,195,019,410**	8,456
Nyamira	4,635,422,400	5,451,219,340	1.52	4,712,000,000	-	13,175,221	52,915,000	136,557,750	131,914,894	-	567,192,854	**5,613,755,719**	9,384
Nyandarua	4,787,903,400	5,757,469,519	1.57	4,867,000,000	-	12,735,922	39,700,000	141,049,781	131,914,894	121,000,000	375,041,424	**5,688,442,021**	9,540
Nyeri	4,879,392,000	6,184,636,952	1.60	4,960,000,000	420,464,185	13,701,379	28,795,000	143,745,000	131,914,894	-	539,342,102	**6,237,962,559**	8,994
Samburu	4,299,964,200	5,116,193,687	1.41	4,371,000,000	-	5,235,578	20,905,000	126,675,281	131,914,894	-	535,672,418	**5,191,403,170**	23,181
Siaya	5,855,270,400	6,699,573,187	1.92	5,952,000,000	-	18,194,808	38,500,000	172,494,000	131,914,894	-	350,315,755	**6,663,419,456**	7,911
Taita Taveta	3,934,009,800	5,116,215,328	1.29	3,999,000,000	-	5,296,305	49,675,000	115,894,406	131,914,894	-	731,815,201	**5,033,595,806**	17,683
Tana River	5,397,827,400	6,402,983,240	1.77	5,487,000,000	-	5,682,537	24,490,000	159,017,906	131,914,894	121,000,000	389,533,835	**6,318,639,171**	26,319
Tharaka Nithi	3,537,559,200	4,329,735,296	1.16	3,596,000,000	-	8,218,119	40,090,000	104,215,125	131,914,894	121,000,000	305,117,021	**4,306,555,158**	11,788
Trans Nzoia	5,458,819,800	6,627,548,529	1.79	5,549,000,000	-	21,304,915	53,710,000	160,814,719	131,914,894	-	800,643,691	**6,717,388,218**	8,204
Turkana	10,460,196,600	11,501,934,005	3.43	10,633,000,000	-	25,634,941	25,285,000	308,153,344	131,914,894	-	822,967,592	**11,946,955,770**	13,967
Uasin Gishu	5,763,781,800	7,254,209,346	1.89	5,859,000,000	-	20,813,065	33,250,000	169,798,781	131,914,894	-	1,035,749,916	**7,250,526,655**	8,109
Vihiga	4,330,460,400	5,376,604,500	1.42	4,402,000,000	-	12,657,201	55,000,000	127,573,688	131,914,894	-	767,353,103	**5,496,498,885**	9,910
Wajir	8,233,974,000	10,305,710,437	2.70	8,370,000,000	-	15,784,997	21,295,000	242,569,688	131,914,894	-	713,458,149	**9,495,022,726**	14,344
West Pokot	4,787,903,400	5,721,212,183	1.57	4,867,000,000	-	12,128,484	28,885,000	141,049,781	131,914,894	-	361,783,864	**5,542,762,022**	10,811
GRAND TOTAL	**304,962,000,000**	**367,443,384,193**	**100.0**	**310,000,000,000**	**4,455,780,000**	**900,000,000**	**2,000,000,000**	**8,984,062,500**	**6,200,000,000**	**605,000,000**	**38,538,293,666**	**371,683,136,166**	**12,000**

4.6 Emerging Issues

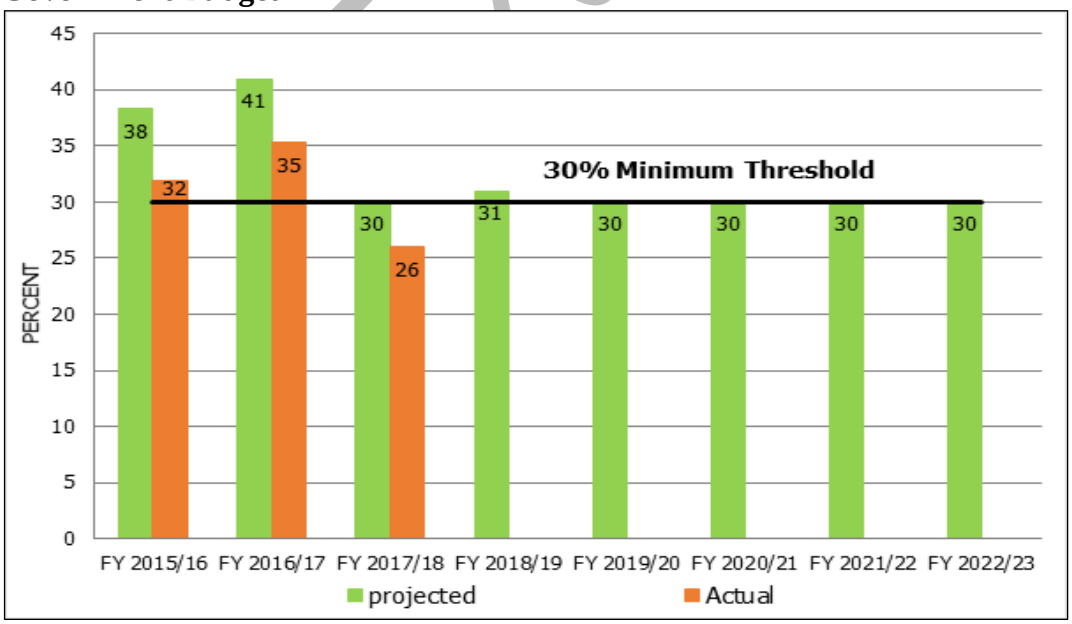
319. In November 2018, the National Treasury and Planning launched the Third Medium Plan (MTP) 2018 - 2022 of the Kenya Vision 2030 that focusses on transforming lives through advancing socio-economic development through the "Big Four" Plan. The third MTP advocates for the strengthening of intergovernmental relations between the National and County Governments as key towards ensuring efficient and effective service delivery.

ANNEX 1: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

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

a) Consistent with the requirements of the law, the National Government's allocation to development expenditures has been above the 30 percent of its total expenditures. In the FY 2017/18, the allocation to development in the revised budget was 30 percent of the total expenditures meeting the set threshold, the actual outturn however was 26 percent on account of lower absorption of development partner funded expenditures. In the fiscal outlays presented in this BPS, the National Government continue to observe this requirement and has allocated 30 percent of total expenditures to development in FY 2018/19 and over the medium term **(Chart 1.1).**

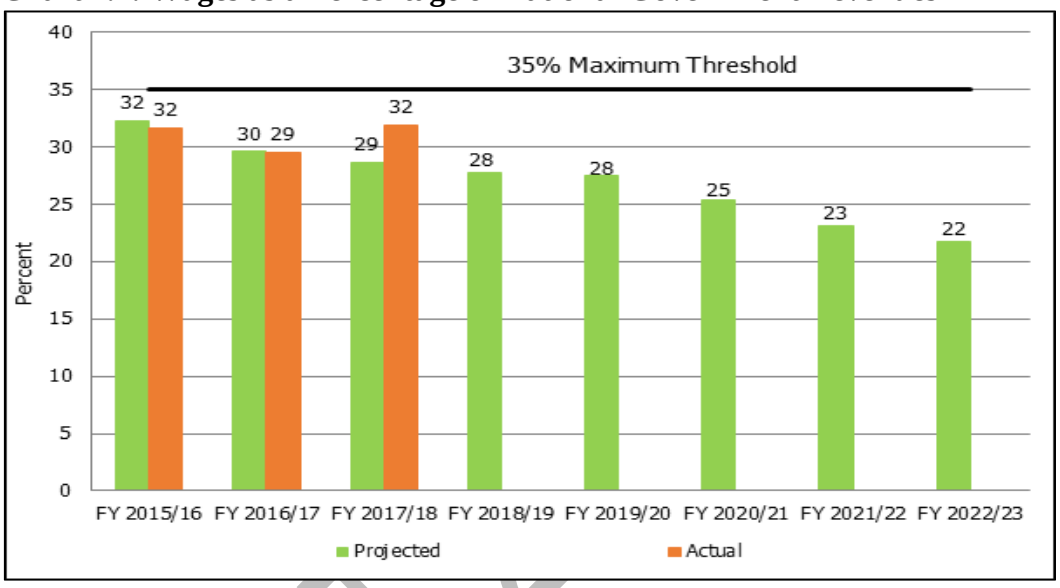
Chart 1.1: Development Expenditures as a Percent of Total National Government Budget



Source: National Treasury

b) The law requires that the National Government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the National Government's equitable share of the revenue raised nationally plus other revenues generated by the National Government pursuant to Article 209 (4) of the Constitution. In conformity to this regulation, the National Government share of wages and benefits to revenues was 32.0 percent in the FY 2017/18, and is projected at 27.0 percent in the FY 2018/19, declining to 23.0 percent by FY 2021/22 **(Chart 1.2).**

Chart 1.2: Wages as a Percentage of National Government Revenues



***Source: National Treasury*.**

c) PFM Act section 15(2) (c) requires the National Treasury to ensure that the National Government`s borrowings is used only for purposes of financing development expenditure and not for recurrent expenditure. This principle is adhered to by ensuring that any borrowing done is for financing development projects as approved by parliament in the National budget and in line with the Medium-Term Debt Strategy (MTDs).

d) The Act also requires that the public debt obligations be maintained at sustainable levels. Kenya`s debt ratios compared with internationally recognized sustainability thresholds continues to show that debt level remains sustainable, in addition, the Government's fiscal consolidation programme outlined elsewhere in this BPS is expected to ensure stronger debt sustainability position going forward **(Tables 1.1).**

Table 1.1: Kenya's Public Debt Sustainability Indicators

Indicator	Threshold	2016	2017	2018	2020	2022
PV of public Sector debt to GDP	**70**	50.6	55.4	60.6	56.9	53.1
PV of public Sector debt to Revenue	**300**	270.1	278.6	292.0	275.3	255.5

Source: IMF Country Report No. 18/295, October, 2018

e) Kenya's risk to debt distress has been raised from low to moderate on account of refinancing risks on external debt. . This is expected to be short term as the Government continues with its fiscal consolidation plan and implements the Government liability management strategy so as to restructure short term commercial loans by replacing them with long dated maturities. The liability management strategy also aims at limiting non-concessional loans to projects with high economic and social returns to stimulate growth and exports which will improve the debt sustainability ratios.

f) To manage fiscal risks prudently as required, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. Potential fiscal risks arising from contingent liabilities, including from Public Private Partnership projects among others are taken into account and a contingency provision made to cushion the economy from unforeseeable shocks.

g) On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government continues to carry out tax reforms through modernizing and simplifying tax laws. In order to lock in predictability and enhance compliance with tax system, the Government through the Finance Act, 2018, amended the Income Tax Act, Excise Duty Act, VAT Act and the Tax Procedures Act.

ANNEX 2: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. Kenya's economic growth has remained strong and resilient against the backdrop of emerging global challenges, unfavourable weather conditions and political uncertainty. However, the economy remains vulnerable to both domestic and external shocks. For prudent management of risks, the PFM Act, 2012 requires the preparation of a "Statement of Fiscal Risks.

2. This "Statement of Specific Fiscal Risks" provides an assessment of fiscal risks that the Kenyan economy is exposed to that may affect the achievement of the macroeconomic targets and objectives detailed in this Budget Policy Statement. The fiscal risks arise from assumptions that underlie fiscal projections, the dynamics of public debt, state corporation operations, contingent liabilities, financial sector vulnerabilities and natural risks.

3. Some of the fiscal risks include public expenditure pressures coupled by revenue underperformance which could make it difficult for the Government to actualise and sustain macroeconomic policies detailed in this BPS. Other fiscal risks include shocks to exchange rates which could impact the size of debt servicing, the terms of trade and inflation; contingent liabilities from key state corporations; and the risks associated with the devolved system of governance.

4. The Statement also details other broad risks that may occur, hence fiscal implications and affect the performance of the economy and what the Government plans to do in the event that such risks occur.

Risk in Changes in Macroeconomic Assumptions

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

Table 2.0: Fiscal Sensitivity to Key Macroeconomic Variables, FY 2019/20

	Revenue	Expenditure	Budget Balance
Reduction in real GDP (%) by 1.0 % point	-18.1	-7.2	-10.8
Increase in inflation rate (%) by 1.0 % Point	18.0	7.9	10.1
Depreciation in exchange rate (Ksh/US$) by 10%	9.2	9.2	0.0
Increase in value of imported goods (US$) by 10%	0.7	0.0	0.7
All shocks Combined	9.6	9.8	-0.2

Source: Estimates from National Treasury

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

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

7. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2.1.**

8. Over the period 2015/16-2018/19, the average deviation between the assumed and provisional actual real GDP growth rates was 0.3 percentage point. With respect to inflation assumption, the largest deviation was in FY 2017/18 by -1.8 percentage point and over the period averaged 0.0 percentage point. The depreciation of the Kenyan Shilling exchange rate against major international currencies since the FY 2015/2016 was due to the strengthening of the US dollar but has since stabilized with less volatility.

9. The actual performance of fiscal aggregates vis-à-vis target was below target. Total revenue between FY 2015/16 and FY 2018/19 underperformed its target by an average of Ksh 95.6 billion while ordinary revenue was below target by an average of Ksh 56.2 billion. The underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments.

10. The average deviation of total expenditure and net lending between FY 2015/16 and FY 2018/19 was an underspending of Ksh 115.2 billion. This shortfall was attributed to lower absorption of both development expenditures and recurrent expenditures of Ksh 87.9 billion and Ksh 30.6 billion, respectively.

11. The slower-than-programmed spending on development budget poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing and improve efficiency of public investments, the National Treasury froze initiation of new capital projects until the completion of the ongoing ones. The National Treasury has established the Public Investment Management Unit which is responsible for ensuring that all capital projects are planned, appraised and evaluated before funds are finally committed in the budget.

Table 2.1: Deviations in Macroeconomic and Fiscal Aggregates

	2015/16			2016/17			2017/18			2018/19		
(In percentage points; unless specified)	Proj.	Act	Dev.	Proj.	Act	Dev.	Proj.	Prel Act	Dev.	Proj.	Rev.	Dev.
I. Key Macroeconomic Assumptions												
Real GDP	*5.8%*	*5.8%*	*0.0%*	*6.0%*	5.4%	*-0.6%*	*5.6%*	5.4%	*-0.1%*	*6.1%*	6.1%	*0.0%*
Inflation rate (avg)	*5.7%*	6.5%	*0.8%*	*8.1%*	8.1%	*0.0%*	*7.0%*	5.2%	*-1.8%*	*5.0%*	4.8%	*-0.2%*
Exchange rate (Ksh/US$), avg		102.1			102.4			102.4			102.4	
Export growth		-3.9%			-1.6%			5.5%			13.0%	
Import growth		-12.5%			2.1%			16.5%			13.7%	
II. Fiscal Aggregates (in Ksh billion)												
Total Revenue	1365.9	1262.2	-103.6	1514.1	1449.5	-64.6	1702.6	1550.1	-152.5	1933.0	1878.9	-54.0
Tax and non-tax	1299.9	1232.6	-67.3	1455.4	1422.5	-32.8	1659.6	1522.5	-137.2	1882.5	1831.5	-51.0
Ordinary Revenue	1184.4	1153.0	-31.4	1311.3	1306.6	-4.8	1489.6	1365.1	-124.6	1717.0	1651.5	-65.5
AiA	115.5	79.7	-35.9	144.0	116.0	-28.1	170.0	157.4	-12.6	165.5	179.9	14.5
Grants	66.0	29.6	-36.4	58.8	27.0	-31.8	43.0	27.6	-15.4	50.5	47.5	-3.0
Total Expenditure	2032.5	1781.9	-250.6	2326.9	2110.0	-216.9	2330.0	2146.7	-183.3	2482.0	2514.4	32.5
Recurrent	1085.3	1020.0	-65.3	1238.3	1165.0	-73.3	1441.9	1349.9	-92.0	1459.9	1513.3	53.4
Development	678.0	480.7	-197.3	803.9	639.9	-163.9	556.3	469.5	-86.8	637.9	631.2	-6.7
Domestic	316.5	298.2	-18.3	430.3	385.1	-45.2	317.5	266.0	-51.5	380.1	337.6	-42.5
External	353.0	173.9	-179.1	365.2	246.4	-118.9	236.4	201.0	-35.5	246.9	286.4	39.6
Net Lending	2.1	2.2	0.1	2.3	2.4	0.1	2.4	2.5	0.1	2.4	2.5	0.1
Equalization Fund	6.4	6.4	0.0	6.0	6.0	0.0	0.0	0.0	0.0	8.6	4.7	-3.9
Others	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0
County Allocation	264.2	276.2	12.0	284.7	305.0	20.3	331.7	327.3	-4.4	379.1	365.0	-14.2
Balance	-666.6	-519.7	146.9	-812.8	-660.5	152.3	-627.4	-596.6	30.8	-549.0	-635.5	-86.5
Financing	666.6	474.6	-192.1	812.8	697.2	-115.6	627.4	631.3	3.9	590.1	635.5	45.4
Net Foreign Financing	419.0	269.9	-149.1	463.9	385.7	-78.1	374.8	355.0	-19.8	205.6	321.5	115.8
Other	2.6	2.4	-0.2	2.1	2.3	0.2	3.8	2.6	-1.2	4.2	3.9	-0.3
Net Domestic Financing	245.0	202.3	-42.8	346.8	309.2	-37.6	248.7	273.7	25.0	380.3	310.1	-70.2
Others	245.0	202.3	-42.8	346.8	309.2	-37.6	248.7	273.7	25.0	380.3	310.1	-70.2
Memo items:												
Nominal GDP (Ksh billion)	6,444.0	6,739.2	295.2	7,435.2	7,658.1	222.9	8,679.0	8,792.6	113.6	9,997.7	10,030.2	32.5

Source: National Treasury

SPECIFIC FISCAL RISKS

12. This section covers specific fiscal risk that Kenya faces. Most of these risks have a linkage to infrastructure expansion in the country, a critical priority for the Government, which elevates the importance of effective risk management. The specific fiscal risks include:

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

Sustainability of Public Debt

13. The sustainability of Kenya's public debt depends on macroeconomic performance and prudent debt management. External financing on both concessional and non-concessional terms pose foreign exchange risk which may worsen the present value (PV) of debt. Contracting of new debt on short term maturities increases the refinancing risk. However, with the present fiscal consolidation efforts, the Government aims to contain the pace of borrowing and hence reduce the debt ratios. To reduce the refinancing risk, the Government's strategy is to restructure public loans using external and domestic loans of longer-term maturities.

14. The above notwithstanding, the Government recognizes the importance of managing public debt in a prudent way to ensure the debt burden is shared equally between the current and future generations. The latest Debt Sustainability Analysis (DSA) for Kenya indicates that Kenya's debt is sustainable.

15. Kenya is rated as a strong policy performer and a low middle income country as per the World Bank`s Country Policy and Institutional Assessment (CPIA) Index which classifies countries into three performance categories i.e. Strong, Medium and Poor. Each category has different indicative thresholds for debt burdens depending on the country`s policies and institutions and thus is subject to the threshold a 70 percent on the Present Value of Debt to GDP.

16. Kenya's debt ratios compared with internationally recognized threshold remains sustainable **(Table 2.2).** The present value of public sector debt to GDP ratio is well within internationally recognized thresholds.

Table 2.2: Public Debt Indicators

Indicator (Threshold)	2016	2017	2018	2020	2022
PV of public Sector debt to GDP ratio (**70**)	50.6	55.4	60.6	56.9	53.1
PV of public Sector debt-to-revenue ratio (**300**)	270.1	278.6	292.0	275.3	255.5

Source: IMF Staff Report for Kenya, October 2018

Explicit Contingent Liabilities

State Corporations/State Owned Enterprises

Governance

17. The Government continues to undertake reforms aimed at addressing systemic weaknesses in State Corporations/State Owned Enterprises and other Government investments as well as specific challenges facing individual entities. The Government together with other stakeholders undertook a successful restructuring of Kenya Airways. It is envisaged that the Airline will play a critical role in making Nairobi an international travel hub in the region. Some of the State Corporations undergoing restructuring include;

i. Reforming the Agricultural Finance Corporation (AFC) to help deliver on its mandate of ensuring food and nutrition security within "The Big Four" Plan; and

ii. Merging of the Industrial and Commercial Development Corporation (ICDC), the Industrial Development Bank (IDB) and the Tourism Finance Corporation (TFC) to create the Kenya Development Bank with enhanced capacity to offer affordable credit to boost manufacturing under "The Big Four" Plan.

18. The unbundling of regulatory functions in the ICT sector has unlocked great potential in the techno and financial sectors that are major drivers of the economy. These reforms premised on Government policy of a private sector led economy resulted in privatization of some Corporations like Kenya Commercial Bank which is now a major driver in the banking industry. Further, this led to the establishment of Safaricom by Government in partnership with private sector players. Safaricom has played a significant role in the economy by creating employment opportunities, remitting reasonable dividends to the national exchequer and tax revenues

19. In efforts to strengthen good corporate governance of State Corporations, the Government issued the Mwongozo guidelines for effective guidance on

governance and oversight of State Corporations. This, together with the establishment and operationalization of audit committees and risk management frameworks for Government entities including State Corporations under the PFM Act/Regulations are geared towards enhancing capacity for effective delivery of strategic objectives on behalf of the Government. In addition the Capital Market Authority has issued Regulations under the Capital Market Act (Cap 486) on code of governance requirements to be observed by companies listed at the NSE. This will enhance accountability, transparency and full disclosure by Companies listed in NSE which include Government-linked entities.

Public Debt

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

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

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

adversely impacted and hence impair their capacity to honour obligations arising from contracted debts and other liabilities.

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

Management of Government Assets

24. The National Government has established a National assets and Liabilities management department mandated to develop, through a consultative process, an overarching Assets and Liabilities Management framework. In addition, the Government will develop policies, guidelines and standards with the objective of ensuring that;

i. All Government Public entities maintains a complete and accurate register of assets and liabilities. The entities' registers will then inform the national register for the government of Kenya.

ii. All Government entities put in place consistent and seamless processes of managing Assets and Liabilities so that there is reduced mis- use and underutilization of Government Assets.

iii. There is a Rollout of standardized reporting tools on assets and liabilities management to all government entities.

iv. The Government undertake continuous research on global trends in assets and liability guidelines, legislation and regulations for the purpose of undertaking the assets and liabilities polities and Register.

v. There is identification of user requirements in relation to acquiring an efficient and integrated assets and liabilities management information system.

vi. Risk management and mitigation register for assets and liabilities is developed.

vii. There is adequate sensitization of all Government entities on the risks associated with acquisition of assets.

viii. Develop a framework for fleet management in National and County Governments.

Unfunded Pension Liabilities

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

Public Private Partnership (PPP) Projects

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

27. Currently, all of the country's generated electricity is private sector-led, with sixteen (16) active IPPs that generate a total of 699MW out a total of 2,278 MW effective capacity (contracted output from the stations under normal operating conditions) in Kenya as documented by the Kenya Power in its annual report for the year ended 30th June 2018. In addition, the transmission line evacuating the 300MW Lake Turkana Wind Power Project (LTWP) is complete and in use. The project is already injecting into the National Grid. At full capacity, it will be 300 MW of wind energy added onto the National Grid. The greatest economic impact from this new addition is expected to be seen in electricity tariff reduction for consumers.

Planned Infrastructure PPP Projects in Kenya

28. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and County Governments. A total of 76 projects are in the National Priority List of PPP projects as of December 2018. These projects are in various sectors i.e. Transport and Infrastructure, Energy,

Health, Education, Water and Environment, Housing, Tourism, Manufacturing, Agriculture and Livestock **(Annex Table 5)**. **Table 2.3** below highlights some of the projects that are currently at advanced stages of the PPP process.

Table 2.3: Planned PPP projects for the period 2019-2021

Sector
Roads PPP Toll Road Projects: *Procurement is ongoing for the following projects* o 2nd Nyali Bridge o Nairobi-Nakuru-Mau Summit road *The following projects are ready for tender* o Nairobi-Mombasa road o O&M Nairobi-Thika road Road Annuity Phase 1 *PPP projects at construction phase* o Lot 33 (Ngong-Kiserian-Isinya Road, and Kajiado-Mashuru-Isara Road)- 90.55 KM *PPP Project agreements have been signed for;* o Lot 3 (Modogashe-Habaswein-Wajir and El Wak-Rhamu-Mandera Roads)- 143 KM *Project agreements for the following projects are ready for signing;* o Lot 15 (select urban roads in Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi and Laikipia Counties)- 45.12 KM o Lot 18 (select urban roads in Kakamega, Vihiga, Bungoma and Busia Counties) - 35.1 KM *Contract negotiations with private party have been concluded for the following projects;* o Lot 32 (Illasit - Njukini – Taveta)- 66.5 KM *Contract negotiations with private party are ongoing for the following projects;* o Lot 8 (Bomas – Kiserian – Magadi , Bomas- Karen - Dagoret – Ruiru, Uplands-Githunguri-Ngewa-Ruiru)- 71.46 KM o Lot 10 (Nanyuki- Gwa Kungu, Laisamis-Ngurunit-Nursery (South Horr)- 219.6 KM
Transport o Likoni Aerial Cable Car- *PPP project agreements have been signed for the following projects and conditions precedent to Financial Close are being addressed.* o Shimoni Port- *feasibility study has been completed*
Energy *PPP project agreements have been signed for the following projects and conditions precedent to Financial Close are being addressed*

Sector
○ 1050MW Coal Power Plant in Lamu ○ 105 MW Menengai Phase 1 (*35 MW Sosian Menengai Geothermal Power Plant, 35 MW Quantum Menengai Geothermal Power Plant*) *Contract negotiations ongoing for the following project* ○ 105 MW Menengai Phase 1 (*35 MW Ormat Orpower Geothermal Power Plant*) *Feasibility study report has been completed for the following project* ○ 140 MW Geothermal PPP project at Olkaria
LAPSSET *Negotiations with private party are ongoing for the following projects* ○ O&M of Lamu Port (1st three berths)- ○ Lamu – Garissa- Isiolo Highway- *Negotiations with private party ongoing*
Health *Feasibility Study for the following project is being finalised* ○ 300 Bed Private Hospital at Kenyatta National Hospital *Preparations for procurement of Transaction Advisor are underway for the following projects* ○ Pwani University Teaching and Referral Hospital at Pwani University ○ Amenity Wing at Kisii Teaching and Referral Hospital, Kisii County ○ Cancer Centre at Meru Teaching and Referral Hospital, Meru County ○ Upgrading of Nyamira Level 5 Hospital, Nyamira County
Education *PPP Project Agreement has been signed for the following project;* ○ Kenyatta University Student Hostels *The following projects are at RFP stage of procurement;* ○ Moi University Student Hostels ○ University of Embu Student Hostels ○ South Eastern Kenya University Student Hostels *The following projects are ready for tender* ○ Egerton University ○ Kenya Technical Trainers College
Tourism ○ Nairobi International Convention and Exhibition Centre - *Feasibility Study has been completed*
Water and Environment *Projects ready for tender* ○ Nanyuki Bulk Water Supply, Laikipia County- *feasibility study report was approved. Preparations underway for procurement of Transaction Advisor for the tender phase of the project* ○ Murang'a Water Supply, Murang'a County- *Feasibility Study has been completed*

Sector
○ Nakuru Integrated Solid Waste Management, Nakuru County – *feasibility study is being finalized*
Housing ○ KCB Usalama Police Housing - *Negotiations with private party are ongoing* ○ Civil Servants Housing- *Procurement stage*
Manufacturing ○ Dongo Kundu Special Economic Zone- *Negotiations with private party are ongoing* ○ Development of Muguga Agri-City in Kiambu**,** Kiambu County **-** *Preparations for procurement of Transaction Advisor are underway*
Agriculture and Livestock ○ Export Quarantine Station & Livestock Export Zone – *project structuring for procurement ongoing*
The estimated total value of these projects is **USD Million 11,422**

29. The Government understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular and based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of multiple instruments of support and credit enhancement measures such as project development funding, Viability Gap Funding such as upfront capital grants contribution and operational grants or subsidies or unitary payments, as well as various forms of revenue guarantees, Partial Risk Guarantees (PRG), among others. The Government has finalized and is already implementing a policy on the issuance of Government Support Measures (GSM) with an objective of providing a clear structure and process for the issuance of Government Support instruments for public infrastructure projects. The GSM policy document is available at www.treasury.go.ke

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

31. To implement the FCCL Framework, an FCCL Unit has been established under the Directorate of Public Debt Management within the National Treasury and Planning and the Unit is responsible for: mandatory evaluation of all proposed PPP projects for financial risks and contingent liabilities as a condition of project approval; confirmation of this initial approval at feasibility stage, as well as at preferred bidder stage and also after the final negotiated project structure is secured; regular monitoring of all support measures for any amendment(s) or variation(s) to a project agreement's terms and conditions during the

implementation period of the project, as well as oversight of FCCL-impacting aspects of a project's overall outputs or any variations to the project agreement. Currently, the Government is in the process of strengthening the staffing levels of the FCCL Unit to make it fit for purpose

32. All Government Support Measures and other security instruments provided under the PPP Plan, together with all other contingent liabilities are integrated into the national debt management process. As part of the Annual Debt Report, published under Article 201 of the Constitution by the National Treasury, all FCCLs are disclosed and reported on in appropriate detail. In addition, as part of increasing accountability and transparency within the PPP space, the PPP Unit in collaboration with the World Bank finalized and unveiled a PPP Disclosure Framework in June 2018. The Disclosure Portal is available at www.pppunit.go.ke and will be routinely updated to ensure it serves the purposes for which it was set up.

33. To support PPP project implementation, the PPP Project Facilitation Fund (PFF) (a multi-purpose revolving fund) established under the PPP Act became operational in June 2018 and provides a good Governance Framework for the more efficient development of the PPP programme in Kenya. The Fund is dedicated to four fundamental project-related functions: firstly, to support project preparation, secondly, to provide Viability Gap Funding for PPP projects, thirdly, to provide a source of liquidity for the management of Contingent Liabilities arising from PPP project implementation, and fourthly to support the technical mandate of the PPP Unit.

34. To entrench better outcomes in fiscal risk management in PPP projects, the National Treasury is also placing a lot of emphasis in project financial models, with the view to ensuring that project financial structured are optimized to achieve a balance between efficient and affordable project-debt repayment and equity pay-out, but more importantly, to ensure greater project-level transparency for more effective contract management structures for PPP projects. This way, overall fiscal exposure of Government is potentially lowered.

Implicit Contingent Liabilities

Natural Disasters and Man-made Hazards

35. The post-disaster needs assessment by the Government indicates that the natural disasters experienced in the recent past have adversely impacted Kenya's key sectors of the economy. For instance, the drought in 2016 adversely affected the growth of the agricultural sector thereby lowering economic growth with huge

budgetary implications. Furthermore, the floods experienced in 2018 impacted on agriculture, infrastructure such as electricity poles and transformers, roads, bridges and therefore affect households both directly and indirectly.

36. Beside the natural disasters, the Government is concerned about the rise in and intensity of man-made hazards and developments in energy and petroleum sector and their implications on lives and properties.

37. Once a disaster occurs the Government is always obligated to prevent social welfare reduction by incurring cost of returning normalcy. This in turn has fiscal implications. Therefore, to mitigate against this fiscal risk, the Government has prioritized disaster risk management. In this course, the Government has been sensitizing both the National Government and County Governments' staff on the five HYOGO Framework of Actions. The Government has also been implementing the Sendai Framework for Disaster Risk Reduction (SFDRR) 2015-2030 in order to address the increasing potential losses. Through this framework, the Government intends to substantially reduce disaster risks and loss of lives, livelihoods and health across the country.

38. The Government has also embarked on the development of the National Policy on Disaster Risk Management (DRM) and the Disaster Risk Management Bill in order to increase the understanding of disaster risk, strengthen disaster risk governance aimed at reducing disaster risk, enhance disaster preparedness for effective response, enhance coordination with all the 47 Counties DRM, and rebuild better recovery, rehabilitation and reconstruction.

39. To fully operationalize the DRM framework, the Government will develop an effective multi-hazard early warning system and preparedness, operationalize the National Drought Emergency Fund, develop DRM information database and hazard and risk mapping in the country, conduct capacity building and civic education on DRM, mainstreaming DRM in other sectors and set up a monitoring and evaluation framework for DRM. Further, the Government will implement the Disaster Risk Financing Strategy to enable the government to improve its response to the impact of natural disasters and improve efficiency and effectiveness of budget allocation and execution.

Climate Change Related Fiscal Risks to the Economy

40. The world is expected to get warmer majorly due to human activity and natural variability. Climate risks pose grave threats to Kenya's development goals through physical consequences that include changed precipitation patterns, rise in sea level,

more intense and frequent extreme weather events, and increased prevalence of vector-borne diseases as well as catastrophic events, such as prolonged droughts and flooding in many Counties.

41. Kenya's economy is largely dependent on rain-fed agriculture and tourism which are susceptible to climate variability and extreme weather events. Increasing inter-seasonal variability and declining rainfall in the rainy seasons have resulted into reduced agricultural yields in recent years. Recurrent droughts and floods which are worsened by increasing temperatures, heavy rainfall events and sea level rise, lead to severe crop and livestock losses, famine and displacement. The expanding informal settlements as a result of high population growth in urban areas are also at risk of water scarcity, flooding and heat.

42. Climate change impacts bring with them fiscal implications which affect the fiscal position by lowering tax revenues and increasing public spending to mitigate the resulting natural disasters. In particular, climate change results to substantial reallocation of resources towards mitigation, adaptation to climate change and addressing emergence of natural disasters. For example, the severe drought of mid-2016 and 2017 and floods in early 2018 let to reallocation of substantial funds to the affected areas.

43. In recognition of the serious threats posed by climate change, the Government has been leading the process of developing instruments for climate proofing vulnerable sectors of the economy through enhancing mitigation and adaptation measures. This includes the continued facilitation of adherence to the Climate Change Act, 2016; mainstreaming Climate Change actions in development planning, budgeting and implementation process through National Climate Change Action Plan (NCCAP); and setting up mechanisms to track climate change finances through Climate Change Budget Coding.

44. The Government is also implementing a Green Economy Strategy which seeks to guide development actors to adopt pathways with higher green growth. Further, the National Government is partnering with County Governments to implement climate change initiatives at the County level which include development of Climate Change Bills and policies in various Counties and Sectorial Climate Change Policies and initiatives. Further, the Government will operationalize the Kenya Climate Change Fund (CCF), increase mobilization of climate finances from the Green Climate Fund (GCF) and Green Bonds in order to finance mitigation and adaptation initiatives at the National and County Governments.

Evolving Acts of Terrorism (Violent Extremism)

45. The risk of terrorist attacks may hinder economic development through direct costs such as loss of labour and capital, and diversion of funds to counter terrorism. Other consequences include restriction of movement of people, religious animosity, and reduction in investments and tourism which is a great earner for Kenya.

46. The repercussions of terrorist attacks negatively impact on Government expenditure by increasing Government spending on security and peace restoration as well as redeeming the country's image and, hence, is a risk to the Government's fiscal framework.

47. Privy to the serious threats posed by terrorism, the Government is continuously prioritizing reforms that enhance security and sustain a conducive business environment. These reforms include development of counter-terrorism strategies that involve cooperation among all security agencies, enhanced specialised training and use of technology by security agencies specific to changing trends in crime, increasing collaboration with local communities on security matters, security modernization involving acquisition of modern security equipment, and raising awareness to potential threats.

Technological Disaster

48. Information, Communication and Technology (ICT) remains a key sector for the achievement of "The Big Four" Plan and the Kenya Vision 2030. It links strongly with all other sectors and plays a catalytic role in enhancing productivity and lowering the cost of achieving financial intermediation, e-commerce and governance. The sector also continues to be vital as the Government pursues to attain a knowledge-based society.

49. The number of mobile, internet and mobile money subscribers has increased sharply in the recent past signifying that more Kenyans have access to efficient financial services. Owing to the success of mobile money, various financial products have been leveraged on this payment channel increasing the inter linkages between this technology and the banking sector. The Government is also using the technology to provide services and receive payments online using products such as the IFMIS, GHRIS, and IPPD, iTax, e-procurement, Huduma centres and e-citizen. In this regard, large volumes of money are transacted through the mobile money systems, being payments to Government for services offered as well as payments to the private sector.

50. Therefore, given the importance of ICT in service delivery in the country, cybercrime, fraud and the disruption of the mobile money would lead to data corruption and substantial loss of potential Government revenue, customer deposits and market confidence. The Government might therefore, be under pressure to compensate losses and hence should be considered as a plausible fiscal risk.

51. Recognizing the possibility of occurrence of these threats, the Government is continuously sensitizing all users on the importance of enhancing cyber security. The Government has also established the Kenya Computer Incidence Response Team, the Cyber Command and Incidence Response Centre and developed the Information Security Policy to guide secure use of ICT in Government.

52. To secure the ICT Sector, the Government will implement the National Information Security programme by enhancing Government Common Core Network (GCCN) security, implementing security policies and deploying firewall at all the gateways, developing and implementing security framework of the entire Government cloud and establishing cyber security Research Institute.

Liabilities of the financial Sector via systemically important Banks

53. To combat terrorism and money laundering, the Government established the Financial Reporting Centre (FRC) under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) 2009. Further, the Government established the Kenya Depository Insurance Corporation (KDIC) through an Act of Parliament to provide deposit insurance scheme for depositors of member institutions. KDIC together with Central Bank of Kenya and other Government agencies are mandated to undertake joint monitoring and surveillance of financial institutions and suspicious financial transactions to detect any governance gaps, financial malpractices and challenges to institute early interventions to prevent major corporate scandals that have seen some financial institutions placed under receivership.

54. The establishment of FRC & KDIC together with Government efforts to enhance good corporate governance will go a long way in building public trust and investors' confidence in corporate bodies operating in the country. With enhanced public trust and investors' confidence in corporate bodies, the country will attract and retain the much-needed foreign direct investments to spur economic growth and development.

Devolved System of Government

55. Below is a summary of the main risks that have emerged from Kenya's fiscal decentralization, as well as the mitigation measures which are being put in place to address the risks:

RISKS	MITIGATION MEASURES
Underperformance of total (and ordinary) revenue presents a significant risk, as it undermines the basis for division of revenue between the two levels of Government.	The National Treasury has adjusted estimates of ordinary revenue to correct the division of revenue base. In addition, the National Government has proposed various expenditure rationalization measures to ensure its sustainable fiscal position, in addition to committing to a fiscal consolidation plan and to prudent fiscal management. The Counties are encouraged to pursue the same strategy. Finally, the National Treasury will through the IBEC, seek further consensus on how to improve implementation of Article 203(1) of the Constitution and also implement Counties' annual equitable share adjustments in a more fiscally sustainable manner.
The escalation in pending bills by County Governments, which is caused mainly by: i) uunderperformance of OSR; ii) ttechnical challenges with cash flow management; and, iii) violation of laid down procurement regulations.	This risk is being mitigated through the ongoing audit of County Governments' pending bills. The audit will lead to a better understanding of the extent of the risk and thereafter inform the design of specific mitigation measures. In addition, the National Treasury has formulated the *National Policy to Support Enhancement of County Governments' OSR.* Implementation of the Policy will lead to improved OSR performance. The National Treasury through various programmes (e.g. the Kenya Devolution Support Programme) is also enhancing capacity building and technical support to the Counties to address weaknesses in planning, and budget implementation.
Inability of many County Governments to attain at least one-third development spending, despite having budgeted to do so. This causes the risk of low creation, accumulation and upgrade of assets that should in the long-term, provide public goods and services, which further undermines economic growth.	This risk is being mitigated through enhanced capacity building for County Governments, especially in the area of procurement, which is a major bottleneck for absorption of the development budget.

Unsustainability of County Governments' wage bill, which is caused mainly by uncontrolled recruitment of non-core personnel without regard to approved staff establishment or remuneration guidelines.	As a basis for achieving more sustainable wage bills, the National Treasury has requested all concerned Counties to prepare and submit action plans.
Failure by County Governments to establish and facilitate legally-required municipal structures continues to deepen the risk of underfunding of urban areas and cities.	In order to encourage County Governments to establish and appropriate budgets for urban areas and cities, the Government in partnership with the World Bank have designed the Kenya Urban Support Program (KUSP). Through this programme, Counties will be incentivized and supported to establish charters as well as administrative structures for urban areas and cities. Additional resources will be provided to support development of necessary urban infrastructure e.g. street lighting, water supply infrastructure, urban roads and drainage systems.
The delayed finalization and adoption of a pension/retirement scheme for County Governments continues to present a major fiscal risk in terms of how projected liabilities are to be funded, the burden on future budgets and the welfare of personnel retiring from County public service.	The National Treasury continues to seek consensus among key actors on the need to urgently finalize the legal/regulatory framework on pensions for County Governments.

Annex Table 1: Macroeconomic Indicators

	2016/17	2017/18	2018/19			2019/20			2020/21			2021/22			2022/23	
	Act	Prel. Act	Rev. Budget	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BROP'18	BPS'19
annual percentage change, unless otherwise indicated																
National Account and Prices																
Real GDP	5.4	5.4	6.1	6.1	6.1	6.3	6.2	6.2	6.8	6.4	6.4	6.9	6.7	6.7		7.0
GDP deflator	8.4	8.4	7.0	7.0	7.5	6.1	6.8	6.5	5.9	5.9	6.0	5.8	5.8	6.0	6.9	5.8
CPI Index (eop)	6.7	5.0	5.0	5.0	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.8	5.0
CPI Index (avg)	8.1	5.2	5.0	5.0	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	0.7	0.0	-2.6	-2.6	-3.5	0.3	-1.4	-1.6	0.1	-1.5	-1.8	1.1	1.1	1.1	5.0	-2.2
Money and Credit (end of period)																
Net domestic assets	3.9	8.4	18.2	18.3	18.4	19.2	12.1	11.7	16.6	13.4	13.3	14.5	11.9	11.9		11.1
Net domestic credit to the Government	15.3	15.3	17.3	16.7	17.3	10.6	15.2	12.9	7.4	12.9	8.9	7.4	12.7	9.0	11.3	9.1
Credit to the rest of the economy	1.5	4.3	14.0	14.2	14.0	14.7	11.2	11.6	21.8	13.5	14.7	15.5	11.9	13.1	10.2	12.1
Broad Money, M3 (percent change)	6.0	10.5	13.5	13.6	14.1	19.8	13.5	13.1	13.7	12.7	12.8	13.8	13.0	13.1	12.0	13.2
Reserve money (percent change)	2.4	7.4	11.6	11.7	12.2	19.1	12.8	12.4	13.0	12.1	12.1	13.1	12.3	12.4	13.2	12.6
in percentage of GDP, unless otherwise indicated																
Investment and Saving																
Investment	17.9	21.1	22.8	22.9	24.0	22.6	22.5	24.0	22.8	21.8	23.3	23.4	23.4	25.0	25.8	27.9
Central Government	8.2	5.3	6.1	5.9	6.5	5.9	6.1	6.1	5.8	5.8	5.9	6.0	5.8	5.8	5.8	6.0
Other	9.6	15.8	16.7	17.0	17.5	16.7	16.4	17.9	17.0	16.1	17.4	17.4	17.7	19.2	20.0	21.9
Gross National Saving	14.0	15.5	17.6	17.6	18.2	17.1	17.3	18.1	18.0	16.7	17.4	19.2	19.0	19.7	21.7	22.8
Central Government	3.3	1.7	3.1	3.2	3.1	4.6	4.1	3.7	5.2	4.6	4.3	5.5	5.0	4.8	5.4	5.0
Other	10.7	13.8	14.4	14.4	15.0	12.5	13.2	14.4	12.9	12.0	13.1	13.7	13.9	14.9	16.3	17.9
Central Government Budget																
Total revenue	18.6	17.3	18.5	18.5	18.3	19.0	18.3	18.3	19.2	18.6	18.5	19.4	19.2	18.8	19.2	18.8
Total expenditure and net lending	27.6	24.4	25.1	24.8	25.1	23.8	23.5	23.8	22.9	22.6	22.8	22.5	22.4	22.4	22.1	22.2
Overall balance (commitment basis) excl. grants	-9.0	-7.1	-6.6	-6.2	-6.8	-4.8	-5.1	-5.5	-3.8	-4.0	-4.3	-3.4	-3.5	-3.6	-2.9	-3.4
Overall balance (commitment basis) incl. grants	-8.8	-6.8	-6.1	-5.8	-6.3	-4.3	-4.7	-5.0	-3.3	-3.6	-3.9	-3.0	-3.1	-3.3	-2.6	-3.0
Overall balance (commitment basis) incl. grants ext SGR	-7.4	-6.1	-5.6	-5.2	-5.3	-3.9	-4.3	-4.6	-2.8	-3.0	-3.3	-2.4	-2.5	-2.7	-2.3	-2.5
Primary budget balance	-5.3	-3.1	-2.1	-1.8	-2.5	-0.9	-1.3	-1.3	0.1	-0.2	-0.3	0.4	0.3	0.2	0.4	0.2
Net domestic borrowing	4.0	3.1	3.2	3.0	3.1	2.8	2.8	2.4	3.7	3.7	1.7	4.0	4.0	1.6	1.9	1.6
Total external support (grant & loans)	3.3	2.4	2.8	2.7	3.2	2.8	2.7	2.7	2.7	2.6	2.5	2.7	2.5	2.5	2.5	2.5
External Sector																
Exports value, goods and services	15.4	14.4	14.5	14.6	14.4	17.6	14.8	14.6	17.7	15.2	14.9	17.9	16.3	16.0	17.2	16.8
Imports value, goods and services	22.9	23.2	22.5	22.6	23.0	25.9	22.4	22.8	25.0	22.6	23.0	24.4	22.8	23.3	23.2	23.7
Current external balance, including official transfers	-3.9	-5.6	-5.2	-5.3	-5.8	-5.5	-5.2	-5.8	-4.8	-5.2	-5.9	-4.2	-4.5	-5.4	-4.1	-5.1
Gross international reserve coverage in months of next year imports (end of period)	5.1	6.1	6.2	6.2	6.2	6.3	6.2	6.2	6.3	6.3	6.3	6.3	6.4	6.3	6.4	6.4
Gross international reserve coverage in months of this year's imports (end of period)	6.5	6.9	7.0	7.0	7.0	6.9	7.1	7.1	7.0	7.2	7.2	7.1	7.3	7.3	7.4	7.4
Public debt																
Nominal central government debt (eop), net of deposits	51.9	51.5	51.1	51.1	51.5	51.0	49.7	50.6	48.2	47.7	48.7	43.6	46.2	46.3	43.4	43.9
Domestic (gross)	27.6	28.2	27.8	27.8	27.8	27.3	27.3	27.0	25.5	26.7	25.6	23.9	26.0	24.2	24.9	22.9
Domestic (net)	21.9	22.4	22.7	22.7	22.7	23.4	22.8	22.5	22.1	22.7	21.6	20.8	22.5	20.7	21.8	19.8
External	30.0	29.1	28.4	28.4	28.7	27.6	26.9	28.1	26.1	25.0	27.1	22.8	23.7	25.6	21.6	24.1
Memorandum Items:																
Nominal GDP (in Ksh Billion)	7,658	8,793	10,043	9,990	10,030	11,101	11,336	11,346	12,621	12,780	12,796	14,364	14,439	14,475	16,342	16,393
Nominal GDP (in US$ Million)	74,816	85,894	98,398	97,883	97,985	107,575	111,056	111,109	122,166	124,546	124,638	138,627	139,967	140,251	157,236	157,655

Source: National Treasury

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

Annex Table 2: Government Fiscal Operations, Ksh Billion

	2016/17	2017/18	2018/19			2019/20			2020/21			2021/22			2022/23	
	Act	Prel. Act	Rev. Budget	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BROP'18	BPS'19
TOTAL REVENUE	**1,422.5**	**1,522.5**	**1,852.6**	**1,852.6**	**1,831.5**	**2,105.6**	**2,074.1**	**2,080.9**	**2,417.8**	**2,381.5**	**2,369.6**	**2,747.6**	**2,731.2**	**2,718.0**	**3,097.4**	**3,079.4**
Ordinary Revenue	1,306.6	1,365.1	1,672.6	1,672.6	1,651.5	1,931.0	1,870.4	1,877.2	2,229.1	2,154.8	2,142.8	2,548.4	2,478.6	2,465.4	2,815.6	2,798.0
Income Tax	625.1	640.6	769.4	769.4	777.0	935.0	872.3	884.4	1,090.6	1,013.9	1,027.6	1,259.6	1,178.7	1,194.2	1,344.0	1,361.9
Import duty (net)	89.9	93.9	135.5	135.5	120.6	132.1	152.2	135.4	150.0	170.9	152.1	170.4	191.9	170.8	217.5	191.8
Excise duty	165.5	167.8	230.3	230.3	210.1	241.1	260.9	242.2	276.3	295.8	274.6	315.6	337.2	313.0	385.5	357.7
Value Added Tax	339.0	356.9	426.1	426.1	435.9	508.8	477.9	496.0	586.0	555.9	571.8	665.5	640.6	658.8	724.2	744.6
Investment income	28.9	24.1	25.6	25.6	28.4	26.9	19.4	33.0	28.4	20.4	20.4	32.1	21.4	21.4	22.5	22.5
Other	58.2	81.8	85.6	85.6	79.6	87.1	87.6	86.1	97.7	97.8	96.3	105.1	108.7	107.2	121.9	119.4
Railway Development Levy	18.9	20.8	24.7	24.7	24.7	25.6	27.7	27.7	28.4	31.1	31.1	35.6	35.0	35.0	39.6	39.3
Ministerial and Departmental Fees (AiA)	97.0	136.6	155.2	155.2	155.2	148.9	176.0	176.0	160.3	195.6	195.6	163.5	217.6	217.6	242.2	242.2
EXPENDITURE AND NET LENDING	**2,110.0**	**2,146.7**	**2,509.1**	**2,474.3**	**2,514.4**	**2,636.0**	**2,656.6**	**2,704.7**	**2,892.9**	**2,890.8**	**2,916.3**	**3,234.1**	**3,234.5**	**3,245.5**	**3,609.0**	**3,635.5**
Recurrent expenditure	1,165.0	1,349.9	1,541.0	1,528.0	1,513.3	1,595.1	1,603.7	1,657.3	1,765.2	1,785.4	1,812.4	1,967.6	2,020.5	2,037.0	2,229.8	2,278.4
Interest payments	271.2	323.9	400.0	400.0	386.0	383.9	383.9	426.2	431.4	433.8	460.9	491.1	491.1	507.6	516.1	531.1
Domestic interest	212.9	239.5	285.6	285.6	271.6	271.8	271.8	287.8	312.6	315.0	315.0	359.4	359.4	359.4	374.4	374.4
Foreign Interest	58.4	84.4	114.4	114.4	114.4	112.1	112.1	138.5	118.8	118.8	145.9	131.6	131.6	148.2	141.6	156.6
Wages and Salaries/1	336.6	388.9	425.1	424.1	424.1	484.4	458.3	470.3	524.6	481.3	493.9	563.4	505.3	518.5	558.4	544.5
Contribution to civil service pension fund	0.0	0.0	10.3	0.0	0.0	24.0	16.9	16.9	25.4	25.4	25.4	33.8	33.8	33.8	50.7	50.7
Pensions etc	64.0	65.1	90.6	90.6	90.6	109.5	109.5	109.5	124.5	124.5	124.5	139.0	139.0	139.0	152.9	152.9
Other	363.0	445.9	487.8	486.1	485.9	466.8	507.7	507.8	521.0	588.7	569.5	600.4	714.8	698.1	813.3	857.3
Defense and NSIS	130.2	126.1	127.2	127.2	126.8	126.5	127.3	126.5	138.3	131.8	138.3	139.9	136.4	139.9	138.4	142.0
Development and Net lending	639.9	469.5	595.7	573.9	631.2	663.7	675.8	670.9	740.8	718.6	723.9	866.5	817.1	819.8	922.4	956
Domestically financed	385.1	266.0	338.7	334.4	337.6	375.2	387.3	391.3	425.1	417.8	429.8	499.5	475.1	485.1	542.3	577.8
o/w Domestically Financed (Net)	353.2	229.2	291.0	286.7	289.9	324.3	334.3	338.3	369.9	359.9	371.9	436.6	411.6	421.6	472.3	508.2
o/w Exchequer Issues	353.2	229.2	291.0	286.7	289.9	324.3	334.3	338.3	369.9	359.9	371.9	436.6	411.6	421.6	472.3	508.2
Ministerial Development AIA	31.0	36.9	47.7	47.7	47.7	50.9	53.0	53.0	55.1	57.9	57.9	62.9	63.5	63.5	70.0	69.6
Foreign financed	246.4	201.0	249.8	232.3	286.4	281.1	281.1	272.0	306.7	291.7	286.5	357.1	332.1	326.2	369.4	368.4
Net lending	2.4	2.5	2.5	2.5	2.5	1.6	1.6	1.7	2.5	2.5	1.1	2.5	2.5	1.1	2.5	1.1
Contingencies	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	8.0	5.0	5.0	8.0	8.0
County Allocation	305.0	327.3	367.4	367.4	365.0	372.2	372.2	371.6	381.9	381.9	374.9	391.9	391.9	383.7	448.8	393.6
Sharable	280.3	302.0	305.0	305.0	305.0	320.4	320.4	310.0	330.0	330.0	317.8	339.9	339.9	325.7	392.2	333.8
Others - GoK	24.7	25.3	62.5	62.5	60.0	4.5	51.8	61.6	4.6	51.9	57.1	4.7	52.0	58.0	56.6	59.8
Conditional Allocations	4.0	4.2	4.3	4.3	4.3	47.3	4.5	4.3	47.3	4.6	4.6	47.3	4.7	4.7	5.1	5.1
of which: Road Maintenance Levy 15%	4.3	10.6	8.3	8.3	9.0	8.3	8.3	9.0	8.3	8.3	8.3	8.3	8.3	8.3	9.0	9.0
Foreign Financed Transfers	1.8	7.5	37.0	37.0	37.0	29.4	29.4	38.5	29.4	29.4	34.7	29.4	29.4	35.4	32.4	35.6
Equalization Fund for Marginal areas	6.0	0.0	4.7	4.7	4.7	5.8	5.8	5.8	6.5	6.5	6.5	7.4	7.4	7.4	8.2	8.2
Fiscal Balance *(commitment basis excl. grants)*	**-687.4**	**-624.2**	**-656.5**	**-621.7**	**-683.0**	**-530.4**	**-582.5**	**-623.8**	**-475.1**	**-509.3**	**-546.7**	**-486.5**	**-503.3**	**-527.4**	**-511.6**	**-556.1**
Adjustment to cash basis	-14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**27.0**	**27.6**	**48.5**	**46.0**	**47.5**	**51.6**	**51.6**	**51.6**	**52.4**	**52.4**	**52.4**	**54.4**	**54.4**	**54.4**	**57.6**	**57.6**
Of which: Project grants	19.1	22.9	40.0	37.5	41.0	46.6	46.6	46.6	48.9	48.9	48.9	51.4	51.4	51.4	54.6	54.6
Programmme grants	7.4	4.7	8.5	8.5	6.5	5.0	5.0	5.0	3.5	3.5	3.5	3.0	3.0	3.0	3.0	3.0
County Health Facilities - DANIDA	0.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance *(cash basis incl. grants)*	**-674.7**	**-596.6**	**-608.0**	**-575.8**	**-635.5**	**-478.8**	**-530.9**	**-572.2**	**-422.6**	**-456.9**	**-494.2**	**-432.1**	**-448.9**	**-473.0**	**-453.9**	**-498.5**
Fiscal Balance *(cash basis incl. grants) Exl. SGR*	**-563.3**	**-532.8**	**-554.8**	**-522.6**	**-534.8**	**-433.1**	**-485.2**	**-526.5**	**-354.4**	**-388.6**	**-426.0**	**-347.1**	**-363.9**	**-388.0**	**-368.9**	**-413.5**
Adjustment to Cash Basis	**14.2**	**-34.7**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	22.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	**697.2**	**631.3**	**608.0**	**575.8**	**635.5**	**478.8**	**530.9**	**572.2**	**422.6**	**456.9**	**494.2**	**432.1**	**448.9**	**473.0**	**453.9**	**498.5**
Net Foreign Financing	385.7	355.0	287.0	272.0	321.5	232.7	217.0	306.5	229.5	147.2	284.2	227.1	108.8	245.6	145.8	248.0
Project loans	228.6	180.8	235.8	220.8	271.5	256.2	256.2	256.2	287.1	272.1	272.1	335.1	310.1	310.1	347.2	349.3
Programme loans	6.8	8.5	2.5	2.5	2.5	1.5	1.5	2.0	1.5	1.5	2.0	3.5	3.5	3.5	3.5	3.5
Commercial Financing	186.3	304.0	298.9	298.9	298.9	100.0	107.8	207.8	50.0	50.1	200.1	0.0	0.0	150.0	0.0	100.0
Repayments due	-35.9	-138.4	-250.3	-250.3	-251.4	-132.8	-148.5	-159.5	-109.2	-176.5	-190.0	-111.6	-204.8	-218.0	-204.8	-204.8
Other Domestic Financing	2.3	2.6	3.9	3.9	3.9	-5.7	-5.7	-5.7	-1.2	-1.2	-1.2	-2.2	-5.5	-5.5	-5.5	-5.5
Domestic Loan Repayments (Receipts)	2.3	2.4	3.9	3.9	3.9	4.3	4.3	4.3	4.3	4.3	4.3	4.5	4.5	4.5	4.5	4.5
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	-10.0	-10.0	-10.0	-5.6	-5.6	-5.6	-6.7	-10.0	-10.0	-10.0	-10.0
Net Domestic Financing	309.2	273.7	317.1	299.8	310.1	251.7	319.6	271.4	194.3	310.9	211.2	207.2	345.7	233.0	313.7	256.1
Others	309.2	273.7	317.1	299.8	310.1	251.7	319.6	271.4	194.3	310.9	211.2	207.2	345.7	233.0	313.7	256.1
Financing gap	22.6	34.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items																
External Debt	2,294.7	2,560.2	2,847.2	2,832.2	2,881.7	3,065.4	3,049.2	3,188.1	3,294.9	3,196.4	3,472.4	3,273.8	3,423.4	3,699.5	3,532.2	3,945.1
Domestic Debt (gross)	2,112.3	2,478.8	2,795.9	2,778.7	2,788.9	3,026.6	3,098.3	3,060.3	3,220.9	3,409.2	3,271.5	3,428.1	3,754.9	3,504.5	4,068.5	3,760.6
Domestic Debt (net)	1,677.8	1,969.8	2,286.9	2,269.6	2,279.9	2,592.1	2,589.2	2,551.2	2,786.4	2,900.2	2,762.5	2,993.7	3,245.8	2,995.5	3,559.5	3,251.6
Primary budget balance	-403.4	-272.7	-208.0	-175.8	-249.5	-94.9	-147.0	-145.9	8.8	-23.1	-33.4	59.0	42.2	34.6	62.2	32.6
Nominal GDP	7,658.1	8,792.6	9,990.0	9,990.0	10,030.2	11,100.8	11,335.6	11,346.5	12,620.8	12,780.4	12,795.9	14,363.9	14,439.1	14,475.2	16,341.7	16,393.0

Source: The National Treasury

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

Annex Table 3: Government Fiscal Operations, Percent of GDP

	2016/17	2017/18	2018/19			2019/20			2020/21			2021/22			2022/23	
	Act	Prel. Act	Rev. Budget	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BPS'18	BROP'18	BPS'19	BROP'18	BPS'19
TOTAL REVENUE	**18.6**	**17.3**	**18.5**	**18.5**	**18.3**	**19.0**	**18.3**	**18.3**	**19.2**	**18.6**	**18.5**	**19.1**	**18.9**	**18.8**	**19.0**	**18.8**
Ordinary Revenue	17.1	15.5	16.7	16.7	16.5	17.4	16.5	16.5	17.7	16.9	16.7	17.7	17.2	17.0	17.2	17.1
Income tax	8.2	7.3	7.7	7.7	7.7	8.4	7.7	7.8	8.6	7.9	8.0	8.8	8.2	8.3	8.2	8.3
Import duty (net)	1.2	1.1	1.4	1.4	1.2	1.2	1.3	1.2	1.2	1.3	1.2	1.2	1.3	1.2	1.3	1.2
Excise duty	2.2	1.9	2.3	2.3	2.1	2.2	2.3	2.1	2.2	2.3	2.1	2.2	2.3	2.2	2.4	2.2
Value Added Tax	4.4	4.1	4.3	4.3	4.3	4.6	4.2	4.4	4.6	4.3	4.5	4.6	4.4	4.6	4.4	4.5
Investment income	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7
Railway Development Levy	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Ministerial and Departmental Fees (AiA)	1.3	1.6	1.6	1.6	1.5	1.3	1.6	1.6	1.3	1.5	1.5	1.1	1.5	1.5	1.5	1.5
EXPENDITURE AND NET LENDING	**27.6**	**24.4**	**25.1**	**24.8**	**25.1**	**23.7**	**23.4**	**23.8**	**22.9**	**22.6**	**22.8**	**22.5**	**22.4**	**22.4**	**22.1**	**22.2**
Recurrent expenditure	15.2	15.4	15.4	15.3	15.1	14.4	14.1	14.6	14.0	14.0	14.2	13.7	14.0	14.1	13.6	13.9
Interest payments	3.5	3.7	4.0	4.0	3.8	3.5	3.4	3.8	3.4	3.4	3.6	3.4	3.4	3.5	3.2	3.2
Domestic interest	2.8	2.7	2.9	2.9	2.7	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.3	2.3
Foreign Interest	0.8	1.0	1.1	1.1	1.1	1.0	1.0	1.2	0.9	0.9	1.1	0.9	0.9	1.0	0.9	1.0
Wages and Salaries/1	4.4	4.4	4.3	4.2	4.2	4.4	4.0	4.1	4.2	3.8	3.9	3.9	3.5	3.6	3.4	3.3
Contribution to civil service pension fund	0.0	0.0	0.1	0.0	0.0	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Pensions etc	0.8	0.7	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9
Other	4.7	5.1	4.9	4.9	4.8	4.2	4.5	4.5	4.1	4.6	4.5	4.2	5.0	4.8	5.0	5.2
Defense and NSIS	1.7	1.4	1.3	1.3	1.3	1.1	1.1	1.1	1.1	1.0	1.1	1.0	0.9	1.0	0.8	0.9
Development and Net lending	8.4	5.3	6.0	5.7	6.3	6.0	6.0	5.9	5.9	5.6	5.7	6.0	5.7	5.7	5.6	5.8
Domestically financed	5.0	3.0	3.4	3.3	3.4	3.4	3.4	3.4	3.4	3.3	3.4	3.5	3.3	3.4	3.3	3.5
o/w Domestically Financed (Net)	4.6	2.6	2.9	2.9	2.9	2.9	2.9	3.0	2.9	2.8	2.9	3.0	2.9	2.9	2.9	3.1
o/w Exchequer Issues	4.6	2.6	2.9	2.9	2.9	2.9	2.9	3.0	2.9	2.8	2.9	3.0	2.9	2.9	2.9	3.1
Ministerial Development AIA	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Foreign financed	3.2	2.3	2.5	2.3	2.9	2.5	2.5	2.4	2.4	2.3	2.2	2.5	2.3	2.3	2.3	2.2
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
County Allocation	4.0	3.7	3.7	3.7	3.6	3.4	3.3	3.3	3.0	3.0	2.9	2.7	2.7	2.7	2.7	2.4
Sharable	3.7	3.4	3.1	3.1	3.0	2.9	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.3	2.4	2.0
Others - GoK	0.3	0.3	0.6	0.6	0.6	0.0	0.5	0.5	0.0	0.4	0.4	0.0	0.4	0.4	0.3	0.4
Conditional Allocations	0.1	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.0	0.3	0.0	0.0	0.0	0.0
of which: Road Maintenance Levy 15%	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign Financed Transfers	0.0	0.1	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fiscal Balance (commitment basis excl. grants)	**-9.0**	**-7.1**	**-6.6**	**-6.2**	**-6.8**	**-4.8**	**-5.1**	**-5.5**	**-3.8**	**-4.0**	**-4.3**	**-3.4**	**-3.5**	**-3.6**	**-3.1**	**-3.4**
Adjustment to cash basis	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Of which: Project grants	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Programmme grants	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (cash basis incl. grants)	**-8.8**	**-6.8**	**-6.1**	**-5.8**	**-6.3**	**-4.3**	**-4.7**	**-5.0**	**-3.3**	**-3.6**	**-3.9**	**-3.0**	**-3.1**	**-3.3**	**-2.8**	**-3.0**
Fiscal Balance (cash basis incl. grants) Exl. SGR	**-7.4**	**-6.1**	**-5.6**	**-5.2**	**-5.3**	**-3.9**	**-4.3**	**-4.6**	**-2.8**	**-3.0**	**-3.3**	**-2.4**	**-2.5**	**-2.7**	**-2.3**	**-2.5**
Adjustment to Cash Basis	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy		0.0														
FINANCING	**9.1**	**7.2**	**6.1**	**5.8**	**6.3**	**4.3**	**4.7**	**5.0**	**3.3**	**3.6**	**3.9**	**3.0**	**3.1**	**3.3**	**2.8**	**3.0**
Net Foreign Financing	5.0	4.0	2.9	2.7	3.2	2.1	1.9	2.7	1.8	1.2	2.2	1.6	0.8	1.7	0.9	1.5
Project loans	3.0	2.1	2.4	2.2	2.7	2.3	2.3	2.3	2.3	2.1	2.1	2.3	2.1	2.1	2.1	2.1
Programme loans	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing	2.4	3.5	3.0	3.0	3.0	0.9	1.0	1.8	0.4	0.4	1.6	0.0	0.0	1.0	0.0	0.6
Export Credt- Commercial Financing	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-0.5	-1.6	-2.5	-2.5	-2.5	-1.2	-1.3	-1.4	-0.9	-1.4	-1.5	-0.8	-1.4	-1.5	-1.3	-1.2
Other Domestic Financing	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Domestic Financing	**4.0**	**3.1**	**3.2**	**3.0**	**3.1**	**2.3**	**2.8**	**2.4**	**1.5**	**2.4**	**1.7**	**1.4**	**2.4**	**1.6**	**1.9**	**1.6**
Others	4.0	3.1	3.2	3.0	3.1	2.3	2.8	2.4	1.5	2.4	1.7	1.4	2.4	1.6	1.9	1.6
Financing gap	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items																
Total Public Debt (net)	51.9	51.5	51.1	51.1	51.5	51.0	49.7	50.6	48.2	47.7	48.7	43.6	46.2	46.3	43.4	43.9
External Debt	30.0	29.1	28.5	28.4	28.7	27.6	26.9	28.1	26.1	25.0	27.1	22.8	23.7	25.6	21.6	24.1
Domestic Debt (gross)	27.6	28.2	28.0	27.8	27.8	27.3	27.3	27.0	25.5	26.7	25.6	23.9	26.0	24.2	24.9	22.9
Domestic Debt (net)	21.9	22.4	22.9	22.7	22.7	23.4	22.8	22.5	22.1	22.7	21.6	20.8	22.5	20.7	21.8	19.8
Primary budget balance	-5.3	-3.1	-2.1	-1.8	-2.5	-0.9	-1.3	-1.3	0.1	-0.2	-0.3	0.4	0.3	0.2	0.4	0.2
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

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

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million)

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
AGRICULTURE, RURAL & URBAN DEVELOPMENT	**15,797.1**	**37,161.3**	**52,958.4**	**18,218.0**	**38,351.2**	**56,569.2**	**18,812.1**	**40,278.2**	**59,090.3**	**19,427.4**	**41,813.2**	**61,239.6**
1112 Ministry of Lands and Physical Planning	**2,690.5**	**3,345.2**	**6,035.7**	**2,672.0**	**3,113.0**	**5,785.0**	**2,757.0**	**3,413.0**	**6,170.0**	**2,846.0**	**3,448.0**	**6,293.0**
0101000 P. 1 Land Policy and Planning	2,690.5	3,345.2	6,035.7	2,672.0	3,113.0	5,785.0	2,757.0	3,413.0	6,170.0	2,846.0	3,448.0	6,293.0
1162 State Department for Livestock	**1,976.8**	**4,281.7**	**6,258.5**	**2,115.7**	**4,548.2**	**6,663.9**	**2,182.8**	**4,548.2**	**6,731.0**	**2,254.5**	**4,648.2**	**6,902.7**
0112000 P 6: Livestock Resources Management and Development	1,976.8	4,281.7	6,258.5	2,115.7	4,548.2	6,663.9	2,182.8	4,548.2	6,731.0	2,254.5	4,648.2	6,902.7
1165: State Department For Crop Development	**3,353.0**	**20,215.4**	**23,568.4**	**5,085.0**	**20,009.0**	**25,094.0**	**5,283.0**	**19,909.0**	**25,192.0**	**5,488.0**	**20,409.0**	**25,897.0**
0107000 P1: General Administration Planning and Support Services	2,501.6	194.0	2,695.6	2,670.0	740.0	3,410.0	2,782.0	740.0	3,522.0	2,825.0	640.0	3,465.0
0108000 P2: Crop Development and Management	693.5	18,562.1	19,255.6	2,253.0	17,810.0	20,063.0	2,326.0	17,710.0	20,036.0	2,487.0	18,310.0	20,797.0
0109000 P3: Agribusiness and Information Management	157.9	1,459.3	1,617.2	162.0	1,459.0	1,621.0	175.0	1,459.0	1,634.0	176.0	1,459.0	1,635.0
1164 State Department for Fisheries and the Blue Economy	**607.4**	**2,184.0**	**2,791.4**	**1,894.0**	**2,187.0**	**4,081.0**	**1,953.0**	**2,184.0**	**4,137.0**	**2,012.0**	**2,284.0**	**4,296.0**
0111000 P5: Fisheries Development and Management	302.3	1,174.0	1,476.3	1,521.0	1,177.0	2,698.0	1,570.0	1,174.0	2,744.0	1,616.0	1,274.0	2,890.0
0117000 General Administration, Planning and Support Services	163.0	-	163.0	192.0	-	192.0	200.0	-	200.0	212.0	-	212.0
0118000 Development and Coordination of the Blue Economy	142.1	1,010.0	1,152.1	181.0	1,010.0	1,191.0	183.0	1,010.0	1,193.0	184.0	1,010.0	1,194.0
1167 State Department for Irrigation	**823.2**	**6,659.0**	**7,482.2**	**943.0**	**7,794.0**	**8,737.0**	**969.0**	**9,024.0**	**9,993.0**	**996.0**	**9,824.0**	**10,820.0**
1014000 Irrigation and Land Reclamation	716.3	6,659.0	7,375.3	809.0	6,294.0	7,103.0	834.0	7,524.0	8,358.0	858.0	8,324.0	9,182.0
Programme 2: Water Harvesting and Storage for Irrigation.	-	-	-	-	1,500.0	1,500.0	-	1,500.0	1,500.0	-	1,500.0	1,500.0
Programme 3: General Administration, Planning and Support Services	107.0	-	107.0	134.0	-	134.0	135.0	-	135.0	138.0	-	138.0
1168 State Department for Agricultural Research	**5,085.9**	**475.9**	**5,561.8**	**4,274.0**	**700.0**	**4,974.0**	**4,388.0**	**1,200.0**	**5,588.0**	**4,504.0**	**1,200.0**	**5,704.0**
0120000 Agricultural Research & Development	5,085.9	475.9	5,561.8	4,274.0	700.0	4,974.0	4,388.0	1,200.0	5,588.0	4,504.0	1,200.0	5,704.0
2021 National Land Commission	**1,260.5**	**-**	**1,260.5**	**1,234.3**	**-**	**1,234.3**	**1,279.3**	**-**	**1,279.3**	**1,326.9**	**-**	**1,326.9**
0113000 P1: Land Administration and Management	1,260.5	-	1,260.5	1,234.3	-	1,234.3	1,279.3	-	1,279.3	1,326.9	-	1,326.9
ENERGY, INFRASTRUCTURE AND ICT	**80,792.7**	**338,003.9**	**418,795.7**	**92,177.0**	**319,094.0**	**411,270.0**	**96,357.0**	**320,945.0**	**417,302.0**	**98,007.0**	**326,290.0**	**424,297.0**
1091. State Department of Infrastructure	**58,364.0**	**121,685.4**	**180,049.4**	**61,451.0**	**111,013.0**	**172,464.0**	**64,324.0**	**118,329.0**	**182,653.0**	**64,368.0**	**121,706.0**	**186,074.0**
0202000 P.2 Road Transport	58,364.0	121,685.4	180,049.4	61,451.0	111,013.0	172,464.0	64,324.0	118,329.0	182,653.0	64,368.0	121,706.0	186,074.0
1092 State Department of Transport	**10,304.2**	**90,424.6**	**100,728.8**	**11,865.0**	**87,685.0**	**99,550.0**	**12,409.0**	**87,971.0**	**100,380.0**	**12,868.0**	**88,102.0**	**100,970.0**
0201000 P.1 General Administration, Planning and Support Services	306.7	1,108.0	1,414.7	349.0	590.0	939.0	356.0	230.0	586.0	364.0	50.0	414.0
0203000 P3 Rail Transport	-	74,755.6	74,755.6	-	69,956.0	69,956.0	-	69,756.0	69,756.0	-	69,756.0	69,756.0
0204000 P4 Marine Transport	815.2	12,226.0	13,041.2	1,286.0	15,426.0	16,712.0	1,304.0	15,799.0	17,103.0	1,367.0	15,939.0	17,306.0
0205000 P5 Air Transport	7,245.4	2,035.0	9,280.4	8,163.0	1,313.0	9,476.0	8,463.0	1,811.0	10,274.0	8,775.0	1,982.0	10,757.0
0216000000 Road Safety	1,936.9	300.0	2,236.9	2,067.0	400.0	2,467.0	2,286.0	375.0	2,661.0	2,362.0	375.0	2,737.0

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
ENERGY, INFRASTRUCTURE AND ICT	**80,792.7**	**338,003.9**	**418,795.7**	**92,177.0**	**319,094.0**	**411,270.0**	**96,357.0**	**320,945.0**	**417,302.0**	**98,007.0**	**326,290.0**	**424,297.0**
1093 State Department for Maritime Affairs	**1,668.7**	**-**	**1,668.7**	**2,173.0**	**494.0**	**2,667.0**	**2,396.0**	**69.0**	**2,465.0**	**2,423.0**	**31.0**	**2,454.0**
0204000 P4 Marine Transport	1,668.7	-	1,668.7	2,173.0	494.0	2,667.0	2,396.0	69.0	2,465.0	2,423.0	31.0	2,454.0
0219000 P1 Shipping and Maritime Affairs												
1094 State Department for Housing and Urban Development	**891.0**	**27,007.0**	**27,897.0**	**1,005.0**	**29,169.0**	**30,174.0**	**1,044.0**	**20,577.0**	**21,621.0**	**1,083.0**	**20,934.0**	**22,017.0**
0102000 Housing Development and Human Settlement	450.0	7,571.0	8,021.0	483.0	11,548.0	12,031.0	501.0	11,878.0	12,379.0	520.0	12,115.0	12,635.0
0105000 Urban and Metropolitan Development	217.0	19,436.0	19,652.0	284.0	17,621.0	17,905.0	296.0	8,699.0	8,995.0	308.0	8,819.0	9,127.0
0106000 General Administration Planning and Support Services	224.0	-	224.0	238.0	-	238.0	247.0	-	247.0	255.0	-	255.0
1095 State Department for Public Works	**2,251.0**	**2,095.0**	**4,346.0**	**2,360.0**	**2,103.0**	**4,462.0**	**2,447.0**	**2,649.0**	**5,096.0**	**2,547.0**	**2,696.0**	**5,243.0**
0103000 Government Buildings	468.0	1,575.0	2,043.0	617.0	1,537.0	2,154.0	634.0	1,770.0	2,404.0	655.0	1,703.0	2,358.0
0104000 Coastline Infrastructure and Pedestrian Access	105.0	384.0	489.0	73.0	178.0	251.0	74.0	492.0	566.0	76.0	475.0	551.0
0218000 Regulation and Development of the Construction Industry	1,287.0	136.0	1,423.0	1,399.0	349.0	1,747.0	1,452.0	325.0	1,777.0	1,502.0	518.0	2,020.0
0106000 General Administration Planning and Support Services	391.0	-	391.0	271.0	39.0	310.0	287.0	62.0	349.0	314.0	-	314.0
1122 State Department for Information Communications and Technology & Innovation	**1,738.7**	**26,958.6**	**28,697.3**	**2,687.0**	**19,611.0**	**22,298.0**	**2,797.0**	**20,004.0**	**22,801.0**	**2,919.0**	**20,399.0**	**23,318.0**
0207000 P1: General Administration Planning and Support Services	214.7	-	214.7	208.0	-	208.0	242.0	-	242.0	245.0	-	245.0
0210000 P4: ICT Infrastructure Development	379.1	24,398.0	24,777.1	339.0	16,183.0	16,522.0	354.0	16,280.0	16,634.0	384.0	16,308.0	16,692.0
0217000 P5 E-Government Services	1,144.8	2,560.6	3,705.5	1,375.0	3,258.0	4,633.0	1,396.0	3,548.0	4,944.0	1,424.0	3,900.0	5,324.0
Programme 4: Film Development Services	-	-	-	765.0	170.0	935.0	805.0	176.0	981.0	866.0	191.0	1,057.0
1123 State Department for Broadcasting & Telecommunications	**3,115.7**	**688.0**	**3,803.7**	**4,558.0**	**747.0**	**5,305.0**	**4,810.0**	**833.0**	**5,643.0**	**5,071.0**	**873.0**	**5,944.0**
0207000 P1: General Administration Planning and Support Services	228.6	-	228.6	233.0	-	233.0	242.0	-	242.0	251.0	-	251.0
0208000 P2: Information And Communication Services	2,679.6	438.0	3,117.6	4,102.0	578.0	4,680.0	4,327.0	733.0	5,060.0	4,561.0	662.0	5,223.0
0209010 P 3: Mass Media Skills Development	207.5	250.0	457.5	223.0	169.0	392.0	241.0	100.0	341.0	259.0	211.0	470.0
1152 State Department for Energy	**2,188.0**	**64,386.8**	**66,574.8**	**5,809.0**	**64,128.0**	**69,937.0**	**5,851.0**	**66,162.0**	**72,013.0**	**6,438.0**	**67,102.0**	**73,540.0**
0212000 Power Generation	906.0	12,265.8	13,171.8	1,600.0	11,648.0	13,248.0	1,582.0	13,028.0	14,610.0	1,684.0	9,377.0	11,061.0
0213000 Power Transmission and Distribution	788.9	50,784.2	51,573.1	3,652.0	48,558.0	52,210.0	3,691.0	49,588.0	53,279.0	4,155.0	54,932.0	59,087.0
0214000 Alternative Energy Technologies	149.5	1,208.0	1,357.5	199.0	3,807.0	4,006.0	204.0	3,436.0	3,640.0	208.0	2,708.0	2,916.0
0211000 General Administration Planning and Support Services	343.6	128.9	472.4	358.0	115.0	473.0	374.0	110.0	484.0	391.0	85.0	476.0
1193 State Department for Petroleum	**271.5**	**4,758.5**	**5,030.0**	**269.0**	**4,144.0**	**4,413.0**	**279.0**	**4,351.0**	**4,630.0**	**290.0**	**4,447.0**	**4,737.0**
0215000 Exploration and Distribution of Oil and Gas	271.5	4,758.5	5,030.0	269.0	4,144.0	4,413.0	279.0	4,351.0	4,630.0	290.0	4,447.0	4,737.0

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**10,645.7**	**21,317.9**	**31,963.6**	**10,734.3**	**13,209.1**	**23,943.4**	**11,018.6**	**14,446.1**	**25,464.7**	**11,423.1**	**14,901.6**	**26,324.7**
1172 State Department for Industralization	**2,733.6**	**4,298.0**	**7,031.6**	**2,797.6**	**4,515.0**	**7,312.6**	**2,893.9**	**4,215.0**	**7,108.9**	**2,981.6**	**4,415.0**	**7,396.6**
0301000 P.1 General Administration Planning and Support Services	445.5	180.0	625.5	479.4	230.0	709.4	495.9	480.0	975.9	513.2	480.0	993.2
0302000 P.2 Industrial Development and Investments	1,074.4	2,954.0	4,028.4	934.0	1,429.0	2,363.0	994.9	1,591.0	2,585.9	1,018.8	1,581.0	2,599.8
0303000 P.3 Standards and Business Incubation	1,213.7	1,164.0	2,377.7	1,384.2	2,856.0	4,240.2	1,403.1	2,144.0	3,547.1	1,449.6	2,354.0	3,803.6
1173 State Department for Cooperatives	**530.6**	**840.0**	**1,370.6**	**751.4**	**802.5**	**1,553.9**	**786.7**	**1,105.0**	**1,891.7**	**816.3**	**1,205.0**	**2,021.3**
0304000 P.4 Cooperative Development and Management	530.6	840.0	1,370.6	751.4	802.5	1,553.9	786.7	1,105.0	1,891.7	816.3	1,205.0	2,021.3
1174 State Department for Trade	**1,596.9**	**312.0**	**1,908.9**	**1,658.9**	**550.0**	**2,208.9**	**1,692.9**	**600.0**	**2,292.9**	**1,755.2**	**655.0**	**2,410.2**
0307000 P 3: Trade Development and Promotion	1,596.9	312.0	1,908.9	1,658.9	550.0	2,208.9	1,692.9	600.0	2,292.9	1,755.2	655.0	2,410.2
1221 State Department for East African Community	**553.1**	**65.0**	**618.1**	**521.2**	**65.0**	**586.2**	**542.1**	**65.0**	**607.1**	**563.9**	**65.0**	**628.9**
0305000 P 1: East African Affairs and Regional Integration	553.1	65.0	618.1	521.2	65.0	586.2	542.1	65.0	607.1	563.9	65.0	628.9
1201 State Department for Tourism	**3,236.0**	**2,520.0**	**5,756.0**	**2,928.9**	**1,530.0**	**4,458.9**	**3,010.0**	**2,414.5**	**5,424.5**	**3,152.1**	**2,315.0**	**5,467.1**
0306000 P 2: Tourism Development and Promotion	3,236.0	2,520.0	5,756.0	2,928.9	1,530.0	4,458.9	3,010.0	2,414.5	5,424.5	3,152.1	2,315.0	5,467.1
0307000 Trade Development and Promotion	-	-	-									
1222 State Department for Regional and Northern Corridor Development	**1,995.5**	**13,282.9**	**15,278.5**	**2,076.3**	**5,746.6**	**7,822.9**	**2,093.0**	**6,046.6**	**8,139.6**	**2,154.1**	**6,246.6**	**8,400.7**
1013000 Integrated Regional Development	1,995.5	13,282.9	15,278.5	2,076.3	5,746.6	7,822.9	2,093.0	6,046.6	8,139.6	2,154.1	6,246.6	8,400.7
HEALTH	**49,101.7**	**40,906.9**	**90,007.6**	**56,375.0**	**36,671.5**	**93,048.2**	**58,746.0**	**37,271.0**	**96,016.0**	**61,505.0**	**37,671.2**	**99,178.0**
1081 Ministry of Health	**49,101.7**	**40,906.9**	**90,007.6**	**56,375.0**	**36,671.5**	**93,048.2**	**58,746.0**	**37,271.0**	**96,016.0**	**61,505.0**	**37,671.2**	**99,178.0**
0401000 P.1 Preventive, Promotive & RMNCAH	1,686.2	8,270.2	9,956.4	1,820.0	9,556.0	11,377.0	1,876.0	9,850.0	11,726.0	1,934.0	10,054.0	11,989.0
0402000 P.2 National Referral & Specialized Services	22,694.7	17,510.3	40,205.0	27,110.0	12,815.4	39,925.6	28,055.0	12,350.0	40,404.0	29,304.0	12,243.0	41,547.0
0403000 P.3 Health Research and Development	6,470.3	746.4	7,216.7	9,150.0	771.0	9,920.6	9,726.0	828.0	10,554.0	10,352.0	898.0	11,250.0
0404000 P.4 General Administration, Planning & Support Services	6,890.5	1,900.0	8,790.5	7,054.0	800.0	7,854.0	7,285.0	1,450.0	8,735.0	7,522.0	1,620.0	9,142.0
0405000 P.5 Health Policy, Standards and Regulations	11,360.0	12,480.0	23,839.0	11,241.0	12,729.1	23,971.0	11,804.0	12,793.0	24,597.0	12,393.0	12,856.2	25,250.0

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
EDUCATION	**410,097.6**	**32,230.8**	**442,328.4**	**444,721.2**	**28,983.0**	**473,705.2**	**456,717.7**	**35,818.8**	**492,538.4**	**467,271.4**	**36,709.0**	**503,981.4**
1066. State Department for Early Learning & Basic Education	**88,678.5**	**10,418.8**	**99,097.3**	**90,929.0**	**10,652.0**	**101,581.0**	**91,987.0**	**14,239.0**	**106,227.0**	**92,877.0**	**14,426.0**	**107,304.0**
0501000 P.1 Primary Education	16,619.5	4,100.4	20,719.9	17,784.0	5,081.0	22,865.0	19,036.0	7,836.0	26,873.0	19,403.0	7,867.0	27,271.0
0502000 P.2 Secondary Education	63,415.3	5,918.9	69,334.2	64,594.0	5,103.0	69,697.0	64,194.0	6,222.0	70,416.0	64,510.0	6,371.0	70,881.0
0503000 P.3 Quality Assurance and Standards	3,962.8	257.0	4,219.8	3,959.0	325.0	4,284.0	4,049.0	10.0	4,059.0	4,140.0	10.0	4,150.0
0508000 P. 8 General Administration, Planning and Support Services	4,680.8	142.6	4,823.3	4,592.0	143.0	4,735.0	4,708.0	171.0	4,879.0	4,824.0	178.0	5,002.0
1064 State Department for Vocational and Technical Training	**7,672.2**	**8,338.0**	**16,010.2**	**7,648.0**	**7,569.0**	**15,217.0**	**7,835.0**	**8,557.0**	**16,392.0**	**8,026.0**	**8,789.0**	**16,815.0**
0505000 P.5 Technical Vocational Education and Training	7,446.2	6,338.0	13,784.2	7,436.0	5,569.0	13,005.0	7,620.0	6,557.0	14,177.0	7,808.0	6,789.0	14,597.0
0507000 P.7 Youth Training and Development	51.7	2,000.0	2,051.7	48.0	2,000.0	2,048.0	49.0	2,000.0	2,049.0	50.0	2,000.0	2,050.0
0508000 P. 8 General Administration, Planning and Support Services	174.2	-	174.2	164.0	-	164.0	166.0	-	166.0	168.0	-	168.0
1065 State Department for University Education	**87,150.8**	**13,338.0**	**100,488.8**	**92,802.0**	**10,247.0**	**103,050.0**	**94,752.0**	**12,276.0**	**107,029.0**	**96,601.0**	**12,741.0**	**109,342.0**
0504000 P.4 University Education	84,606.5	13,140.5	97,747.0	90,180.0	9,057.0	99,238.0	92,074.0	10,926.0	103,001.0	93,867.0	11,354.0	105,221.0
0506000 P. 6 Research, Science, Technology and Innovation	2,291.2	197.5	2,488.7	2,252.0	1,190.0	3,442.0	2,302.0	1,350.0	3,652.0	2,353.0	1,387.0	3,740.0
0508000 P. 8 General Administration, Planning and Support Services	253.0	-	253.0	370.0	-	370.0	376.0	-	376.0	381.0	-	381.0
1068 State Department for Post Training and Skills Development	**45.5**	**-**	**45.5**	**165.5**	**-**	**165.5**	**179.3**	**-**	**179.3**	**180.1**	**-**	**180.1**
Programme 1: General Administration Planning and Support Services	45.5	-	45.5	72.0	-	72.0	79.3	-	79.3	80.9	-	80.9
Programme 2: Workplace Readiness Services	-	-	-	48.5	-	48.5	50.9	-	50.9	50.7	-	50.7
Programme 3: Post-Training Information Management	-	-	-	45.0	-	45.0	49.1	-	49.1	48.5	-	48.5
2091 Teachers Service Commission	**226,550.8**	**136.0**	**226,686.8**	**253,176.8**	**515.0**	**253,691.8**	**261,964.4**	**746.8**	**262,711.2**	**269,587.3**	**753.0**	**270,340.3**
0509000 P.1 Teacher Resource Management	219,711.0	-	219,711.0	246,408.8	-	246,408.8	255,020.8	-	255,020.8	262,466.5	-	262,466.5
0510000 P.2 Governance and Standards	30.7	-	30.7	27.2	400.0	427.2	27.4	605.1	632.5	27.5	605.1	632.7
0511000 P.3 General Administration, Planning and Support Services	6,809.1	136.0	6,945.1	6,740.7	115.0	6,855.7	6,916.3	141.6	7,057.9	7,093.3	147.9	7,241.2
GOVERNANCE, JUSTICE, LAW AND ORDER	**167,810.6**	**22,342.6**	**190,153.2**	**182,055.1**	**18,784.0**	**200,839.1**	**188,493.0**	**22,801.7**	**211,294.7**	**194,481.7**	**22,369.7**	**216,851.4**
1021 State Department for Interior	**109,039.3**	**17,308.7**	**126,348.0**	**121,163.5**	**12,608.7**	**133,772.2**	**125,354.5**	**17,588.7**	**142,943.2**	**129,086.5**	**17,988.7**	**147,075.2**
0601000 P.1 Policing Services	85,674.5	9,852.1	95,526.6	97,233.4	6,852.1	104,085.5	101,412.5	9,932.1	111,344.6	104,435.9	10,122.2	114,558.0
0602000 P.2 Planning, Policy Coordination and Support Service	17,941.5	4,236.6	22,178.1	19,311.0	4,186.6	23,497.6	19,201.6	4,286.6	23,488.2	19,694.5	4,356.5	24,051.0
0603000 P3 Government Printing Services	720.4	150.0	870.4	739.5	200.0	939.5	752.3	200.0	952.3	770.1	200.0	970.1
0605000 P.4 Population Management Services	4,586.2	3,070.0	7,656.2	3,766.8	1,370.0	5,136.8	3,872.2	3,170.0	7,042.2	4,066.7	3,310.0	7,376.7
0624000 P.3 Betting Control, Licensing and Regulation Services	116.7	-	116.7	112.8	-	112.8	116.0	-	116.0	119.4	-	119.4

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million)..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
GOVERNANCE, JUSTICE, LAW AND ORDER	**167,810.6**	**22,342.6**	**190,153.2**	**182,055.1**	**18,784.0**	**200,839.1**	**188,493.0**	**22,801.7**	**211,294.7**	**194,481.7**	**22,369.7**	**216,851.4**
1024 State Department for Immigration	**1,885.0**	**690.3**	**2,575.3**	**2,071.2**	**1,090.3**	**3,161.5**	**2,149.3**	**820.0**	**2,969.3**	**2,222.8**	**900.0**	**3,122.8**
Migration and Citizen Services Management	1,885.0	690.3	2,575.3	2,071.2	1,090.3	3,161.5	2,149.3	820.0	2,969.3	2,222.8	900.0	3,122.8
1023 State Department for Correctional Services	**26,049.1**	**1,812.6**	**27,861.7**	**26,102.3**	**812.6**	**26,914.9**	**27,091.4**	**2,000.0**	**29,091.4**	**27,982.6**	**1,100.0**	**29,082.6**
0604000 P1 Correctional services	25,250.8	1,749.4	27,000.2	25,650.8	812.6	26,463.4	26,671.0	2,000.0	28,671.0	27,528.2	1,100.0	28,628.2
0623000 P.2 General Administration, Planning and Support Services	457.9	63.2	521.1	451.5	-	451.5	420.4	-	420.4	454.4	-	454.4
Programme 3. Betting Control Licensing &Regulation Services	-	-	-	-	-	-	-	-	-	-	-	-
P.3-Planning, policy Co-ordination and Support Services	340.3	-	340.3	-	-	-	-	-	-	-	-	-
1252 State Law Office and Department of Justice	**4,238.0**	**714.0**	**4,952.0**	**5,009.6**	**714.0**	**5,723.6**	**5,232.9**	**850.0**	**6,082.9**	**5,471.7**	**838.0**	**6,309.7**
0606000 P.1 Legal Services	1,812.4	-	1,812.4	2,606.8	-	2,606.8	2,708.9	-	2,708.9	2,819.5	-	2,819.5
0607000 P.2 Governance, Legal Training and Constitutional Affairs	1,780.8	648.0	2,428.8	1,776.9	658.5	2,435.4	1,850.0	488.0	2,338.0	1,926.6	488.0	2,414.6
0609000 P. 4 General Administration, Planning and Support Services	644.8	66.0	710.8	625.8	55.5	681.3	673.9	362.0	1,035.9	725.6	350.0	1,075.6
1261 The Judiciary	**12,907.5**	**1,549.0**	**14,456.5**	**13,066.6**	**3,390.4**	**16,457.0**	**13,435.9**	**1,500.0**	**14,935.9**	**13,884.4**	**1,500.0**	**15,384.4**
0610000 P 1: Dispensation of Justice	12,907.5	1,549.0	14,456.5	13,066.6	3,390.4	16,457.0	13,435.9	1,500.0	14,935.9	13,884.4	1,500.0	15,384.4
1271 Ethics and Anti-Corruption Commission	**2,801.5**	**125.0**	**2,926.5**	**2,941.6**	**25.0**	**2,966.6**	**3,055.7**	**-**	**3,055.7**	**3,155.6**	**-**	**3,155.6**
0611000 P.1 Ethics and Anti-Corruption	2,801.5	125.0	2,926.5	2,941.6	25.0	2,966.6	3,055.7	-	3,055.7	3,155.6	-	3,155.6
1291 Office of the Director of Public Prosecutions	**2,812.3**	**100.0**	**2,912.3**	**2,941.2**	**100.0**	**3,041.2**	**3,055.4**	**-**	**3,055.4**	**3,155.6**	**-**	**3,155.6**
0612000 P.1 Public Prosecution Services	2,812.3	100.0	2,912.3	2,941.2	100.0	3,041.2	3,055.4	-	3,055.4	3,155.6	-	3,155.6
1311 Office of Registrar of Political Parties	**822.2**	**-**	**822.2**	**811.7**	**-**	**811.7**	**841.8**	**-**	**841.8**	**891.9**	**-**	**891.9**
0614000 P.1 Registration, Regulation and Funding of Political Parties	822.2	-	822.2	811.7	-	811.7	841.8	-	841.8	891.9	-	891.9
1321 Witness Protection Agency	**483.1**	**-**	**483.1**	**481.6**	**-**	**481.6**	**495.4**	**-**	**495.4**	**512.0**	**-**	**512.0**
0615000 P.1 Witness Protection	483.1	-	483.1	481.6	-	481.6	495.4	-	495.4	512.0	-	512.0
201 Kenya National Commission on Human Rights	**395.4**	**-**	**395.4**	**392.0**	**-**	**392.0**	**406.1**	**-**	**406.1**	**419.5**	**-**	**419.5**
0616000 P 1: Protection and Promotion of Human Rights	395.4	-	395.4	392.0	-	392.0	406.1	-	406.1	419.5	-	419.5
2031 Independent Electoral and Boundaries Commission	**4,190.6**	**43.0**	**4,233.6**	**4,760.4**	**43.0**	**4,803.4**	**4,911.0**	**43.0**	**4,954.0**	**5,079.4**	**43.0**	**5,122.4**
0617000 P.1 : Management of Electoral Processes	3,780.2	43.0	3,823.2	4,260.4	43.0	4,303.4	4,411.0	43.0	4,454.0	4,579.4	43.0	4,622.4
P2 Delimitation of electoral boundaries	410.5	-	410.5	500.0	-	500.0	500.0	-	500.0	500.0	-	500.0
205 Judicial Service Commission	**364.0**	**-**	**364.0**	**480.1**	**-**	**480.1**	**549.7**	**-**	**549.7**	**619.7**	**-**	**619.7**
0619000 P. 1 General Administration, Planning and Support Services	364.0	-	364.0	480.1	-	480.1	549.7	-	549.7	619.7	-	619.7
210 National Police Service Commission	**630.6**	**-**	**630.6**	**656.9**	**-**	**656.9**	**698.2**	**-**	**698.2**	**742.2**	**-**	**742.2**
0620000 P.1 National Police Service Human Resource Management	630.6	-	630.6	656.9	-	656.9	698.2	-	698.2	742.2	-	742.2
214 National Gender and Equality Commission	**375.0**	**-**	**375.0**	**368.9**	**-**	**368.9**	**381.7**	**-**	**381.7**	**394.9**	**-**	**394.9**
0621000 P 1: Promotion of Gender Equality and Freedom from Discrimination	375.0	-	375.0	368.9	-	368.9	381.7	-	381.7	394.9	-	394.9
215 Independent Police Oversight Authority	**817.0**	**-**	**817.0**	**807.7**	**-**	**807.7**	**834.0**	**-**	**834.0**	**862.8**	**-**	**862.8**
0622000 P.1 Policing Oversight Services	817.0	-	817.0	807.7	-	807.7	834.0	-	834.0	862.8	-	862.8

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**161,331.7**	**89,695.6**	**251,027.3**	**173,310.9**	**98,806.2**	**272,118.1**	**184,072.2**	**105,134.2**	**284,606.4**	**167,058.5**	**106,720.4**	**273,778.9**
1011 The Presidency	**7,536.0**	**1,108.8**	**8,644.8**	**7,956.0**	**1,105.0**	**9,060.0**	**8,264.0**	**1,180.0**	**9,444.0**	**8,586.0**	**1,248.0**	**9,833.0**
0702000 P2 Cabinet Affairs	1,808.5	714.2	2,522.7	1,311.0	713.0	2,024.0	1,350.0	714.0	2,064.0	1,440.0	714.0	2,154.0
0704000 P4 State House Affairs	3,250.9	305.0	3,556.0	3,877.0	304.0	4,180.0	4,047.0	376.0	4,423.0	4,061.0	444.0	4,505.0
0734000 P.6 Deputy President Services	2,215.4	89.6	2,305.0	2,072.0	88.0	2,160.0	2,171.0	90.0	2,261.0	2,388.0	90.0	2,477.0
0703000 P3 Government Advisory Services	261.2	-	261.2	696.0	-	696.0	696.0	-	696.0	697.0	-	697.0
1032 State Department for Devolution	**3,613.5**	**37,958.6**	**41,572.0**	**993.0**	**8,196.0**	**9,189.0**	**1,007.0**	**8,200.0**	**9,207.0**	**1,020.0**	**8,203.0**	**9,223.0**
0732000 P.3 General Administration, Planning and Support Services	342.0	1,173.0	1,515.0	352.0	-	352.0	357.0	-	357.0	365.0	-	365.0
0712000 P7: Devolution Services	835.7	36,671.6	37,507.3	136.0	8,082.0	8,218.0	141.0	8,143.0	8,284.0	146.0	8,203.0	8,349.0
P 4 Management of Intergovernmental Relations	700.0	114.0	814.0	453.0	114.0	567.0	457.0	57.0	514.0	457.0	-	457.0
P.8: Special Initiatives	1,735.8	-	1,735.8	52.0	-	52.0	52.0	-	52.0	52.0	-	52.0
1051 Ministry of Foreign Affairs and International Trade	**15,170.2**	**1,937.7**	**17,107.9**	**16,130.8**	**1,958.0**	**18,088.8**	**16,550.0**	**2,078.0**	**18,628.0**	**17,096.0**	**2,185.0**	**19,281.0**
0715000 P.2 Foreign Relation and Diplomacy	13,537.9	1,644.7	15,182.6	13,950.8	1,665.0	15,615.8	14,237.0	1,778.0	16,015.0	14,649.0	1,885.0	16,534.0
0742000 P5 Economic and Commercial Diplomacy	81.9	-	81.9	80.0	-	80.0	84.0	-	84.0	87.0	-	87.0
Foreign Policy Research, Capacity Development and Technical Cooperation	130.4	200.0	330.4	142.0	200.0	342.0	143.0	200.0	343.0	144.0	200.0	344.0
0714000 P.1 General Administration Planning and Support Services	1,420.0	93.0	1,513.0	1,958.0	93.0	2,051.0	2,086.0	100.0	2,186.0	2,216.0	100.0	2,316.0
1071 The National Treasury	**68,546.4**	**38,577.5**	**107,123.9**	**77,005.4**	**35,898.0**	**112,904.4**	**92,404.0**	**38,983.0**	**126,787.0**	**72,617.0**	**39,855.0**	**112,472.0**
0717000 P1 : General Administration Planning and Support Services	62,481.9	3,445.9	65,927.8	70,915.4	3,448.0	74,364.4	86,295.0	3,448.0	85,143.0	66,499.0	4,511.0	71,010.0
0718000 P2: Public Financial Management	4,317.3	34,210.8	38,528.1	4,343.0	31,529.0	35,872.0	4,362.0	34,614.0	38,976.0	4,371.0	34,423.0	38,794.0
0719000 P3: Economic and Financial Policy Formulation and Management	1,332.6	865.8	2,198.4	1,332.0	866.0	2,198.0	1,332.0	866.0	2,198.0	1,332.0	866.0	2,198.0
0720000 P4: Market Competition	339.0	55.0	394.0	339.0	55.0	394.0	339.0	55.0	394.0	339.0	55.0	394.0
0740000 P5 Government Clearing Services	75.6	-	75.6	76.0	-	76.0	76.0	-	76.0	76.0	-	76.0
1072 State Department for Planning	**10,382.1**	**2,602.5**	**12,984.6**	**11,887.0**	**41,365.0**	**53,252.0**	**4,735.0**	**43,426.0**	**48,160.0**	**4,671.0**	**43,480.0**	**48,151.0**
0706000 P1 : Economic Policy and National Planning	1,516.3	1,057.0	2,573.2	1,682.0	39,803.0	41,486.0	1,717.0	41,834.0	43,550.0	1,752.0	41,847.0	43,599.0
0707000 P2 : National Statistical Information Services	8,340.6	1,434.5	9,775.1	9,683.0	1,435.0	11,117.0	2,488.0	1,435.0	3,923.0	2,380.0	1,465.0	3,845.0
0708000 P3: Monitoring and Evaluation Services	124.0	111.0	235.0	120.0	127.0	247.0	128.0	157.0	285.0	137.0	168.0	305.0
0709000 P4: General Administration Planning and Support Services	401.3	-	401.3	402.0	-	402.0	402.0	-	402.0	402.0	-	402.0

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**161,331.7**	**89,695.6**	**251,027.3**	**173,310.9**	**98,806.2**	**272,118.1**	**184,072.2**	**105,134.2**	**284,606.4**	**167,058.5**	**106,720.4**	**273,778.9**
1213 State Department for Public Service	**5,999.0**	**1,399.0**	**7,398.0**	**6,587.0**	**1,498.0**	**8,085.0**	**6,674.0**	**1,470.0**	**8,144.0**	**6,727.0**	**1,580.0**	**8,307.0**
0710000 P 5: Public Service Transformation	1,850.0	1,399.0	3,249.0	2,042.0	1,498.0	3,540.0	2,116.0	1,470.0	3,586.0	2,152.0	1,580.0	3,732.0
Programme: General Administration Planning and Support Services	4,149.0	-	4,149.0	4,545.0	-	4,545.0	4,558.0	-	4,558.0	4,575.0	-	4,575.0
1214 State Department for Youth	**7,442.0**	**2,670.0**	**10,112.0**	**10,378.0**	**5,847.2**	**16,226.2**	**10,635.0**	**6,321.2**	**16,957.2**	**10,944.0**	**6,611.4**	**17,556.4**
0711000 P6: Youth Empowerment	7,442.0	2,670.0	10,112.0	10,378.0	5,847.2	16,226.2	10,635.0	6,321.2	16,957.2	10,944.0	6,611.4	17,556.4
2041 Parliamentary Service Commission	**12,274.0**	**2,700.0**	**14,974.0**	**12,046.8**	**2,650.0**	**14,696.8**	**12,539.8**	**3,150.0**	**15,689.8**	**13,052.8**	**3,200.0**	**16,252.8**
0722000 P.2 Senate Affairs	6,326.8	-	6,326.8	6,661.6	2,650.0	9,311.6	6,859.6	3,150.0	10,009.6	7,467.6	3,200.0	10,667.6
0723000 P. 3 General Administration, Planning and Support Services	5,947.2	2,700.0	8,647.2	5,385.2	-	5,385.2	5,680.2	-	5,680.2	5,585.2	-	5,585.2
2042 National Assembly	**21,855.0**	**-**	**21,855.0**	**21,542.9**	**-**	**21,542.9**	**22,354.4**	**-**	**22,354.4**	**23,198.7**	**-**	**23,198.7**
0721000 P.1 National Legislation, Representation and Oversight	21,855.0	-	21,855.0	21,542.9	-	21,542.9	22,354.4	-	22,354.4	23,198.7	-	23,198.7
2061 The Commission on Revenue Allocation	**434.6**	**-**	**434.6**	**438.0**	**-**	**438.0**	**454.0**	**-**	**454.0**	**471.0**	**-**	**471.0**
0724000 P.1 Inter-Governmental Revenue and Financial Matters	434.6	-	434.6	438.0	-	438.0	454.0	-	454.0	471.0	-	471.0
2071 Public Service Commission	**1,160.2**	**59.3**	**1,219.5**	**1,171.0**	**65.0**	**1,236.0**	**1,213.0**	**74.0**	**1,287.0**	**1,258.0**	**81.0**	**1,339.0**
0725000 P.1 General Administration, Planning and Support Services	806.4	59.3	865.7	747.0	65.0	812.0	775.0	74.0	849.0	804.0	81.0	885.0
0726000 P.2 Human Resource management and Development	202.1	-	202.1	237.0	-	237.0	244.0	-	244.0	253.0	-	253.0
0727000 P.3 Governance and National Values	151.7	-	151.7	168.0	-	168.0	174.0	-	174.0	180.0	-	180.0
Performance and Productivity Management	-	-	-	19.0	-	19.0	20.0	-	20.0	21.0	-	21.0
2081 Salaries and Remuneration Commission	**564.2**	**-**	**564.2**	**563.0**	**-**	**563.0**	**584.0**	**-**	**584.0**	**606.0**	**-**	**606.0**
0728000 P.1 Salaries and Remuneration Management	564.2	-	564.2	563.0	-	563.0	584.0	-	584.0	606.0	-	606.0
2111 Auditor-General	**5,236.7**	**682.2**	**5,918.9**	**5,389.0**	**224.0**	**5,613.0**	**5,496.0**	**252.0**	**5,748.0**	**5,607.0**	**277.0**	**5,884.0**
0729000 P.1 Audit Services	5,236.7	682.2	5,918.9	5,389.0	224.0	5,613.0	5,496.0	252.0	5,748.0	5,607.0	277.0	5,884.0
2121 Controller of Budget	**618.5**	**-**	**618.5**	**723.0**	**-**	**723.0**	**643.0**	**-**	**643.0**	**667.0**	**-**	**667.0**
0730000 P.1 Control and Management of Public finances	618.5	-	618.5	723.0	-	723.0	643.0	-	643.0	667.0	-	667.0
2131 The Commission on Administrative Justice	**499.4**	**-**	**499.4**	**500.0**	**-**	**500.0**	**519.0**	**-**	**519.0**	**537.0**	**-**	**537.0**
0731000 P.1 Promotion of Administrative Justice	499.4	-	499.4	500.0	-	500.0	519.0	-	519.0	537.0	-	537.0

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
NATIONAL SECURITY	**127,290.4**	**14,974.3**	**142,264.7**	**131,122.0**	**14,974.0**	**146,096.0**	**136,206.0**	**14,974.0**	**151,180.0**	**137,249.0**	**14,974.0**	**152,223.0**
1041 Ministry of Defence	**96,079.4**	**14,974.3**	**111,053.7**	**99,062.0**	**14,974.0**	**114,036.0**	**102,052.0**	**14,974.0**	**117,026.0**	**102,595.0**	**14,974.0**	**117,569.0**
0801000 P.1: Defence	94,378.0	14,974.3	109,352.3	97,230.0	14,974.0	112,204.0	100,080.0	14,974.0	115,054.0	100,482.0	14,974.0	115,456.0
0802000 P.2 Civil Aid	200.0	-	200.0	200.0	-	200.0	200.0	-	200.0	200.0	-	200.0
0803000 P.3 General Administration, Planning and Support Services	1,301.4	-	1,301.4	1,432.0	-	1,432.0	1,472.0	-	1,472.0	1,513.0	-	1,513.0
National Space Management	200.0	-	200.0	200.0	-	200.0	300.0	-	300.0	400.0	-	400.0
1231 National Intelligence Service	**31,211.0**	**-**	**31,211.0**	**32,060.0**	**-**	**32,060.0**	**34,154.0**	**-**	**34,154.0**	**34,654.0**	**-**	**34,654.0**
0804000 P.1 National Security Intelligence	31,211.0	-	31,211.0	32,060.0	-	32,060.0	34,154.0	-	34,154.0	34,654.0	-	34,654.0
SOCIAL PROTECTION, CULTURE AND RECREATION	**28,500.0**	**24,368.1**	**52,868.1**	**30,542.6**	**24,664.8**	**55,207.4**	**28,978.4**	**24,839.0**	**53,817.4**	**29,434.3**	**23,022.1**	**52,456.4**
1035 State Department for Development of the ASAL	**1,034.5**	**5,358.0**	**6,392.5**	**1,059.7**	**4,778.7**	**5,838.4**	**1,088.8**	**4,831.7**	**5,920.5**	**1,123.0**	**3,877.7**	**5,000.7**
0733000 Accelerated ASAL Development	1,034.5	5,358.0	6,392.5	1,059.7	4,778.7	5,838.4	1,088.8	4,831.7	5,920.5	1,123.0	3,877.7	5,000.7
1132 State Department for Sports Development	**1,502.0**	**675.0**	**2,177.0**	**3,263.0**	**700.0**	**3,963.0**	**1,523.8**	**850.0**	**2,373.8**	**1,580.9**	**2,185.0**	**3,765.9**
0901000 P.1 Sports	1,502.0	675.0	2,177.0	3,263.0	700.0	3,963.0	1,523.8	850.0	2,373.8	1,580.9	2,185.0	3,765.9
0905000 P.5 General Administration, Planning and Support Services												
1133 State Department for Heritage and Culture	**3,057.5**	**881.6**	**3,939.1**	**3,061.1**	**572.0**	**3,633.1**	**2,908.3**	**945.0**	**3,853.3**	**2,997.0**	**920.0**	**3,917.0**
0902000 P.2 Culture Development	1,408.4	506.6	1,915.0	1,988.9	139.0	2,127.9	1,844.2	933.0	2,777.2	1,900.7	920.0	2,820.7
0903000 P.3 The Arts	774.9	75.0	849.9	-	-	-	-	-	-	-	-	-
0904000 P.4 Library Services	687.9	300.0	987.9	759.2	433.0	1,192.2	778.1	12.0	790.1	797.1	-	797.1
0905000 P.5 General Administration, Planning and Support Services	186.2	-	186.2	313.0	-	313.0	286.0	-	286.0	299.3	-	299.3
1184 State Department for Labour	**2,537.2**	**1,549.4**	**4,086.6**	**2,695.9**	**3,590.1**	**6,286.0**	**2,818.1**	**2,956.3**	**5,774.4**	**2,902.0**	**796.4**	**3,698.4**
0906000 P 1: Promotion of the Best Labour Practice	684.4	150.9	835.3	669.4	48.1	717.5	722.4	286.7	1,009.1	749.8	135.0	884.8
0907000 P 2: Manpower Development, Employment and Productivity Management	1,175.7	1,398.5	2,574.2	1,485.4	3,542.0	5,027.4	1,510.7	2,669.6	4,180.3	1,553.8	661.4	2,215.2
0910000 P 5: General Administration Planning and Support Services	677.0	-	677.0	541.1	-	541.1	585.0	-	585.0	598.4	-	598.4
1185 State Department for Social Protection	**18,811.7**	**12,491.1**	**31,302.8**	**18,856.3**	**12,244.0**	**31,100.3**	**18,971.0**	**12,476.0**	**31,447.0**	**19,106.2**	**12,463.0**	**31,569.2**
0908000 P 3: Social Development and Children Services	3,271.7	1,202.2	4,473.9	3,259.3	983.0	4,242.3	3,162.9	1,193.0	4,355.9	3,294.2	1,178.0	4,472.2
0909000 P 4: National Social Safety Net	15,242.4	11,288.9	26,531.3	15,346.0	11,261.0	26,607.0	15,552.2	11,283.0	26,835.2	15,507.0	11,285.0	26,792.0
0910000 P 5: General Administration Planning and Support Services	297.6	-	297.6	251.0	-	251.0	256.0	-	256.0	305.0	-	305.0
1212 State Department for Gender	**1,557.1**	**3,413.0**	**4,970.1**	**1,606.6**	**2,780.0**	**4,386.6**	**1,668.5**	**2,780.0**	**4,448.5**	**1,725.2**	**2,780.0**	**4,505.2**
0911000 P 1: Community Development	-	2,675.0	2,675.0	-	2,130.0	2,130.0	-	2,130.0	2,130.0	-	2,130.0	2,130.0
0912000 P 2: Gender Empowerment	1,293.7	738.0	2,031.7	1,257.0	650.0	1,907.0	1,309.3	650.0	1,959.3	1,354.6	650.0	2,004.6
0913000 General Administration, Planning and Support Services	263.3	-	263.3	349.6	-	349.6	359.1	-	359.1	370.5	-	370.5

Annex Table 4: Summary of Expenditure by Programmes, 2019/20 - 2021/22 (Ksh Million) ..Contd

Sector/ Vote/Programme Details	FY 2018/19 Estimates			2019/20 Ceiling			2020/21 Projection			2021/22 Projection		
	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
1108 Ministry of Environment and Forestry	**10,096.9**	**6,003.0**	**16,099.9**	**10,133.0**	**5,867.0**	**16,000.0**	**10,156.0**	**6,300.0**	**16,456.0**	**10,216.0**	**6,480.0**	**16,696.0**
1012000 P.3 Meteorological Services	1,074.1	1,082.3	2,156.4	1,144.0	1,044.0	2,188.0	1,152.0	1,237.0	2,389.0	1,191.0	1,287.0	2,478.0
1002000 P.2 Environment Management and Protection	1,483.6	1,724.7	3,208.3	1,483.0	1,623.0	3,106.0	1,484.0	1,780.0	3,264.0	1,492.0	1,835.0	3,327.0
1010000 P.1 General Administration, Planning and Support Services	321.8	-	321.8	375.0	-	375.0	386.0	-	386.0	394.0	-	394.0
Programme 4: Forests and Water Towers Conservation	7,084.9	3,012.0	10,096.9	7,083.0	3,092.0	10,175.0	7,084.0	3,192.0	10,276.0	7,085.0	3,262.0	10,347.0
1119 Ministry of Mining	**971.2**	**325.0**	**1,296.2**	**733.0**	**313.0**	**1,046.0**	**776.0**	**763.0**	**1,539.0**	**804.0**	**779.0**	**1,583.0**
1007000 P.1 General Administration Planning and Support Services	706.0	25.0	731.0	393.0	-	393.0	364.0	-	364.0	370.0	-	370.0
Programme 1: Geological Surveys and Geo information	-	-	-	166.0	103.0	269.0	202.0	493.0	695.0	213.0	508.0	721.0
1009000 Mineral Resources Management	265.2	300.0	565.2	174.0	210.0	384.0	210.0	270.0	480.0	221.0	271.0	492.0
1203 State Department for Wildlife	**6,404.0**	**1,126.0**	**7,530.0**	**7,806.0**	**1,094.0**	**8,900.0**	**8,454.0**	**1,456.0**	**9,910.0**	**9,142.0**	**1,498.0**	**10,640.0**
Programme 1: Wildlife Conservation and Management	6,404.0	1,126.0	7,530.0	7,806.0	1,094.0	8,900.0	8,454.0	1,456.0	9,910.0	9,142.0	1,498.0	10,640.0
Total	**1,072,982.8**	**677,226.9**	**1,750,207.6**	**1,162,220.5**	**653,120.8**	**1,815,344.0**	**1,203,290.9**	**678,061.0**	**1,876,752.8**	**1,210,636.3**	**686,874.2**	**1,897,512.3**

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

No.	**Project Name**	**Project Description**	**Project Value ($ Mn)**	**Status**	**Type/Value/ Government Support Measure**	**Amount of Termination Payment (Default by GOK)**	**Call on Government Support Measure (Y/N)**
1.	Africa Geothermal International 140 MW	25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya	**760**	Financial Close: 3rd April, 2014 Status: Under Construction	Letter of support being finalized	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO
2.	Lake Turkana Wind Power – 300 MW	The wind turbine farm is being developed on BOO basis in Loyangalani, Marsabit West, on a 20 Year PPA with Kenya Power	847	Financial Close: 24th March, 2014 Status: Under Arbitration	Letter of support covering political risks issued on 28th February, 2013 Indemnity Agreement LC to be replaced with Escrow Account	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO
3.	Gulf Power – 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th November, 2013 Status: Under Construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG amount US$ 35 Mn and Euros 7 Mn	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
4.	Triumph Power – 82 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	156.5	Financial Close: 7th August 2013 Status: Under construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US$ 45 Mn	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: operational from August 2013	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35 Mn and Euros 7.7 Mn	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO
6.	Kinangop Power – 60.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under Arbitration	Letter of support covering political risks issued on 26th July, 2013	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10percent	NO*

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
7.	Orpower 150MW Olkaria III Geothermal power plant** (1st plant 48MW,2nd Plant 36MW,3rd plant 16MW and 4th Plant 29MW)	Description: 20 year - BOO	558	Financial Close: Jan, 1999 Status: Operational	Letter of support covering political risks issued on 16th April, 2015 Indemnity Agreement LC covering PRG payments of Amount US$ 31Mn	1. Total Project cost depreciated at 5percent per annum 2. Expenses incurred by the seller as a result of termination 3. Losses incurred by the Seller	NO
8.	Rabai Power Plant – 90 MW	20 year - BOO	155	Financial Close: October, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12percent per annum	NO
9.	Mumias Power Plant – 35MW	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	NO
10.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Financial Close: None Status: Operational	None	None	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	1. Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10percent per annum. 2. Expenses incurred by the Seller as a result of termination. 3. The value of the stock of fuel and other consumables and spare parts at the Plant	NO
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	NO
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	NO
14.	1050 MW Lamu Power Project	Located in Manda Bay, the Lamu Coal Power Plant is on a BOO basis over a 20- year period	2,000	Status: Financial Close Impending	Letter of support covering political risks issued on 4th August, 2017	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10percent discount rate 3. Redundancy payments/ Termination & Breakage costs	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
						4. Value of unpaid construction works as at termination	
15.	100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10percent discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO
16.	Akiira Geothermal Power Project	Feed in Tariff Power Plant on a BOO basis		Status: Financial Close Impending	Letter of support covering political risks issued	1.Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10percent discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
17.	35MW Geothermal Quantum Power Project	Located in Nakuru County,the Quantum Power project is based on BOO arrangement over 20 years	90	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10percent discount rate 4. Redundancy payments/ Termination & Breakage costs 3. Value of unpaid construction works as at termination	NO
18.	35 MW Geothermal Sosian Power Project	Located in Nakuru County, the Sosian Power project is based on BOO arrangement over 20 years	79	Status: Financial Close Impending	Letter of support covering political risks issued		NO
19.	40 MW Cedate Solar Power	Feed in Tariff Power Plant on a BOO basis	77	Status: Financial Close Impending	Letter of support covering political risks issued		NO
20.	40 MW Selenkei Solar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Impending	Letter of support covering political risks issued		NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ Government Support Measure	Amount of Termination Payment (Default by GOK)	Call on Government Support Measure (Y/N)
21.	40 MW Malindi Solar Power Project	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10percent discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO
22.	40 MW Alten Solar Power Project	Feed in Tariff Power Plant on BOO basis	105	Status: Financial Close Pending	Letter of support covering political risks issued	None	NO

*With respect to Kinangop Wind Power, it is recognized that a claim under the Government Letter of Support was lodged, and the matter was determined in favour of the Government of Kenya in June 2018 by an arbitration Panel sitting in London under ICC Arbitration Rules

**The Orpower's Olkaria III Geothermal power plant is currently operating at 129MW from the existing 4 plants; however, the PPA indicates the project is sized at 150MW, with the outstanding 21MW not yet implemented.

***The project value for Orpower's Olkaria III Geothermal project of USD 558 Mn is for the already installed 129MW. It does not include the cost of the yet-to-be-implemented 21MW, which would bring the project to 150MW.

Annex Table 6: Summary of Public Participation Highlights

Sector	Issues	Proposed way forward/Action taken/Response
Governance Justice Law and Order Sector	**Policy Issues** • Number of foreigners in Kenya • Fee of Ksh 100 on replacement of lost ID cards **Governance Issues** • Rampant corruption at the Immigration Department • Perceived competition of subsectors in the sector in the fight against illicit brew • Actions the Government was taking to secure our waters for the blue economy **Project Implementation Issues** • CCTV cameras not working in the City	• The government is ensuring that the names of all foreigners in the Country are available. We have various categories of foreigners and they are not enemies since we also have our citizens out there. The public is also requested to ensure that any illegal immigrant is reported. • By Law issuance of IDs is not free. It is only the Government in its effort to facilitate people to get IDs for the elections waived the fee. What is in the law for replacement is Ksh 300 but GoK is charging Ksh100 • The Government is committed to fight corruption of all forms and there is an interagency committee composed of DPP, EACC, NIS, and DCI among others dealing with the vice. The State Department of Immigration has been sanctioning any individual found to be corrupt. The citizens are encouraged to use the number available in the department to report those who are engaged in malpractice. • There is no competition between subsectors in the sector on fight against illicit brew but there is a multiagency team that is working together with significant success in the fight against the illicit brew. • The Kenya Coast Guard been established and has some money to take it through the financial year to operate to ensure our waters are safe for activities in the blue economy to thrive. • The CCTV cameras in the city are working and have been in use by the police since 2014 and have led to reduced crime rate in the city.

Sector	Issues	Proposed way forward/Action taken/Response
Agriculture Rural and Urban Development Sector	**Policy Issues** • Fish importation from China • Reforms on coffee under the Big Four • Exploitation of farmers by brokers • Linkage of all produce to markets. **Governance Issues** • Restructuring of NCPB • Whether Migingo is in Kenya or Uganda	• Kenya produces 180,000 MT of fish against a requirement of 500,000mt a year hence the gap is covered through importation. The government is working towards producing more fish. It is however not true that fish from China has mercury. The government is working towards separating locally produced fish with that imported from other countries. • There is a coffee revitalization committee in the office of the president and the sector will implement its recommendations. • To ensure that farmers are not exploited, the government is providing infrastructure to ensure access to the markets as well as maintaining stable prices. • The government has started a wide restructuring of NCPB which will include warehouse receipting. Adoption of smart storage facilities and upgrading old infrastructure to minimize wastage is also ongoing. In addition there is a different approach in distribution of fertilizer by targeting the actual farmers like the KTDA does. • The issue of Migingo is before parliament after a report was done on whose territory it is.
Education Sector	**Policy Issues** • Relocation of KTTC from Gigiri • Training of teachers on competence based curriculum by the Universities	• As regards the KTTC, engagement with the UN is still ongoing • For implementation of Competency Based Curriculum the deans, VCs and DVC academics have been involved. There are three practitioners at KICD council to ensure the inputs of the universities are taken up. • The audit report on income generation by Universities is accounted for under the AIA and the universities are generating close to Ksh. 38 billion annually.

Sector	Issues	Proposed way forward/Action taken/Response
	Governance Issues • Audit report of money generated through parallel programme in the Universities • Disaggregation of data generated by the ministry by gender and age. **Project Implementation Issues** • Contribution of provision of sanitary towels to girls staying in school. • Digital literacy programme (DLP) implementation **Resource Allocation Issues** • Differentiated Unit Costing (DUC) and funding of young universities • Allocation of money for 100% transition to high school • Special needs education funding reduction	• With regard to data it is disaggregated by gender and will always be maintained to ensure monitoring. • Provision of sanitary towels is done together with State Department for Gender working with women representatives and this has helped retain the girls in school. • DLP is being implemented together with Ministry of ICT and the government is going towards implementing this through computer labs. There is a plan to connect the high schools to the internet. Further, there is an assembling plant for the tablets at Moi University. • The sector admitted that the DUC and small universities there will be challenges in application and that the Universities funding board is working on perfecting it towards the intended intentions. • Funding in high schools is Ksh 22,000 per student of which Ksh 6,000 will be used for development. Ksh 2,000 for boarding students should go to development. Also the per capita investment for children with special needs has been going up. The sector stated that the budget is aligned to the National Sector plan (NASEP) and that there is allocation under the national research fund for training of staff at the universities.

Sector	Issues	Proposed way forward/Action taken/Response
Energy Infrastructure And ICT Sector	**<u>Project Implementation Issues</u>** • Cost of constructing a kilometre of the Standard Gauge Railway (SGR) • Causes of variation of cost of road construction • Cartels in tendering of roads • Implementation of 60% local content **<u>Resource Allocation Issues</u>** • Gross underfunding of the film sector	• The construction cost of SGR from Mombasa to Nairobi was Ksh 400billion while that of Nairobi to Naivasha will be Ksh 170billion • Roads are designed based on the volume of vehicles using them. Class A roads has high volume of traffic hence the roads are stronger hence the costs will be higher. The roads 10,000 programme opens up production areas to markets. The volume is low hence the construction is of lower standards hence Ksh 35-45 million per kilometre depending on the area under construction big highways is between Ksh 100-150 million. Further, there are three categories of roads urban, rural and highways and their construction is going on across the country. • As regards the tendering of infrastructure projects KIBIT trains contractors on how to bid. • The sector recognized that Film had indeed not been given the recognition it deserves and acknowledged that film has been transferred to the Ministry of ICT where it will rightly be given priority. Further 60% local content is the set target by 2022 for 2019 is 40% the targets will be achieved by 2022.
Health Sector	**<u>Policy Issues</u>** • Universal Health Coverage (UHC) implementation • Training of health workers • Emphasis on curative care rather than preventative care • Increase of community health workers.	• Rolling out of UHC is currently on pilot basis in 4 selected counties given that health is devolved. Further, the Ministry is ensuring that KEMSA is strengthened to provide medicine and other commodities to all counties and in this regard KEMSA has mapped the requirements of all counties in preparation of UHC. • The human resources for health the focus is on primary healthcare to ensure that there is prevention of infections. The workers including community workers must then get into the system and training is ongoing at the counties. Training is

Sector	Issues	Proposed way forward/Action taken/Response
	• NHIF coverage of whole medical bill expenses **Resource Allocation Issues** • Ring-fencing health funding	a national function and currently there are doctors going through training however the fiscal resources are scarce hence need to prioritize. • Accessing medical services in public facilities has been made easy and affordable since NHIF provides access to medical benefits depending on the premiums paid. • The allocation to the sector has grown over the years from 5% to almost 7% and this is exclusive to the amounts that counties budget for health at their level.
Social Protection, Culture and Recreation Sector	**Policy Issues** • Eradication of FGM and cattle rustling • Pensioners not benefitting from cash transfer **Project Implementation Issues** • Nyayo readiness for Jamhuri day celebrations • Review of cash transfer stipend upwards from Ksh.2000 per month **Governance Issues** • Disaggregation of data on disabled persons	• There is a department that is focusing on Gender Based Violence (GBV) and the public needs to provide information on those who are practicing FGM since it is a form of GBV. • Opening up of Northern Kenya through roads and other infrastructure like water pans and dams to reduce inter-communal conflicts would reduce cattle rustling. Conflict management is also being controlled through some resilience projects. • It was also clarified that those on pensions may not be eligible since they are on a pension scheme. • Nyayo stadium will be ready for Jamhuri Day cerebrations and by March 2019 it will be ready for sporting activities. • As regards the cash transfer, the government is targeting 1.2million Kenyans hence increasing the stipend would mean we reduce the targeted Kenyans. • The government is coming up with a disaggregated data on disabled persons and old age is not a disability. Indeed the sector was aware of a few cases where care givers are not honest with the older person's money.

Sector	Issues	Proposed way forward/Action taken/Response
	Resource Allocation Issues • Allocation to the Heroes Council.	• The Heroes Council has an allocation for operationalization in the next financial year.
Environmental Protection Water and Natural Resources Sector	**Project Implementation Issues** • Projects implemented by the Ministry of water • Protection of kikuyu springs • Bidding for projects by contractors • Clean-up of Nairobi rivers • The role of the Nairobi Regeneration committee **Policy Issues** • Contribution of the sector to the Big 4 agenda of affordable housing since this involves use of trees and plans to introduce trees to be used for construction • The current tree cover in Kenya	• Waste water recycling is a function of the County Governments the Ministry has 106 water projects of which 43 are entirely GoK. • Kikuyu springs are in the process of being gazetted which will ensure it is well protected since it is the oldest source of water for Nairobi. • Projects are competitively sourced and there is no single sourcing. The Public Procurement and Asset Disposal Act provisions were observed. • The Nairobi regeneration committee is active and Nairobi river rehabilitation and cleaning is ongoing. Further, the mapping of the river is ongoing to check the level of degradation for targeting. And the recovery of all the riparian areas is ongoing. • As regards contribution to affordable housing the sector concurred that there is need to strike a balance between usage and conservation and in that line, the moratorium on logging has been extended as the government is working towards finding a solution to supply of timber so as to mitigate the effects of the moratorium. • The current forest cover is 7.3% and this is targeted to grow to 10% by 2022.

Sector	Issues	Proposed way forward/Action taken/Response
Public Administration and International Relations Sector	**Policy Issues** • Transformation of NYS to a SAGA • Increase in the number of Kenyan Embassies and its benefits eg Somalia • Migingo issue • Launching of projects by high ranking officials • Payment of taxes by foreign contractors	• NYS was started in 1964 and has been transformed despite the many challenges it has had. There is NYS Bill in Parliament to transform NYS as a parastatals where the Director General will be the accounting officer with a Council while the Ministry will only provide oversight. The commercial arm will include hiring of equipment and tendering of roads, agriculture, tailoring, water bottling and bakery. This will ensure that NYS will be self-sustaining. • Regarding the establishment of a foreign mission office in Somalia it is because Somalia is a neighbor and a country in problems hence it is important for our presence so as to secure our relationship and help the country deal with its problems since we have over 30,000 Kenyans working there. • The sector reiterated that Migingo Island has always been a part of Kenya and will remain so. There are negotiations going on to end the problems surrounding the island permanently. • It is the duty of the head of state to go to the various parts of the country to get in touch with the citizens and also to see the progress of development. • The sector goes to great lengths to ensure maximum benefit to Kenya when negotiating for contracts and they also works towards advancing the benefits of our interests hence the Coordination of presidential travels to safeguards our interests.
General Economic and Commercial Affairs Sector	**Policy Issues** • Protection of intellectual property rights • Status of KNTC	• There is a framework for registration of original designs and industrial property legislation in place.

Sector	Issues	Proposed way forward/Action taken/Response
	• Protection of Kenyan sugar farmers • Status of KPPCU • EAC integration and harmonization of standards	• KNTC is still there and functional however under the commodities exchange programme their warehouses will be utilized after the bill in parliament on warehouse receipting is passed. • There is a trade revenue law to safeguard local trade and protect the Country from dumping. • The sector acknowledged that the growth in exports has been at lower pace than the imports. This has led to coming up with the national trade policy to reverse the situation. • The sector also stated that KPPCU has been moved to the State Department for Cooperatives and it will be revitalized to ensure it is turned around. • Kenya has harmonized over 1000 standards and it is the plan of the sector to harmonize the remaining standards in line with EAC resolutions.

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