REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

MEDIUM TERM

DRAFT 2020 BUDGET POLICY STATEMENT

UNLOCKING ECONOMIC POTENTIAL BY HARNESSING "THE BIG FOUR"

FEBRUARY 2020

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Foreword

The 2020 Budget Policy Statement (BPS) is prepared against a background of a weak global economy. Global economy is projected to grow marginally at 3.4 percent in 2020 from the estimated 3.0 percent in 2019. The sluggish global growth reflects the weak global trade and subdued investment and demand for capital goods. Growth in the Sub-Saharan African region is projected to rise to 3.6 percent in 2020 from 3.2 percent in 2019 largely on account of improved commodity prices and access to capital markets.

On the domestic scene, Kenya's economic growth has remained strong and resilient. The economy grew by 6.3 percent in 2018 up from a growth of 4.9 percent in 2017. In the year 2019, the economy is estimated to have expanded by 5.6 percent in part reflecting the impact of delayed rainfall in the first half of 2019 that affected agricultural production. We project the economy to further expand by above 6.1 percent in 2020 and 7.0 percent over the medium term. This growth will be supported by the strong services sector, stable macroeconomic environment and ongoing investments strategic priorities of the Government under the "Big Four" Agenda. In terms of fiscal years, economic growth is estimated at 6.2 percent in the FY 2020/21 up from an estimate of 5.8 percent in FY 2019/20.

The policy measures outlined in this Budget Policy Statement prioritize investments in the "Big Four" Agenda and are anchored on the National Development Plan as outlined in the Third Medium Term Plan (MTP III) of the Kenya Vision 2030. This being the third Budget Policy Statement since the onset of the "Big Four" Plan, the Government has made great strides in the implementation of the strategic interventions under the Plan which have contributed immensely to stimulating the economy and improving the lives of Kenyans. Building on these gains, the Government will strengthen implementation of programmes that make growth more inclusive and pursue measures that avail liquidity to private sector, including initiating innovative products to boost credit to Micro, Small and Medium Enterprises (MSME).

As we finalize preparation of the budget for the FY 2020/21, we are clearly conscious of our limited fiscal space occasioned by revenue shortfalls and rising expenditure pressures. To reverse this outcome, the Government will continue to pursue the fiscal consolidation policy. This policy is expected to provide and maintain necessary balance between revenues and expenditures so as to ensure that the overall fiscal deficit is kept under control and to a bare minimum so as safeguard macroeconomic stability. The reduction in the fiscal deficit will reduce the pace of growth of the public debt. In FY 2020/21, we target a fiscal deficit of 4.9 percent of GDP down from 6.3 percent of GDP in FY 2019/20. The fiscal deficit is projected to decline further to 3.3 percent of GDP over the medium term.

The expenditure priorities in this BPS have been critically reviewed to ensure that they are in accordance to the Government strategic priorities including the "Big Four" Agenda. Consequently, budget allocations have been premised on the sustainability, affordability and the degree to which the programmes contribute towards job creation and reduction in poverty and inequality.

The policy intentions outlined in this BPS have benefited from wide consultations. I would like to thank H.E. The President and H.E. The Deputy President for their guidance while developing this document. Much appreciation to my Cabinet colleagues, staff of the National Treasury and Planning, Stakeholders and the general public for their valuable contributions.

HON. (AMB). UKUR K. YATANI, EGH
CABINET SECRETARY/ NATIONAL TREASURY & PLANNING

Acknowledgement

The 2020 BPS has been prepared in compliance with the provisions of the Public Finance Management Act, 2012. It outlines the current state of the economy, provides macro-fiscal outlook over the medium term and specifies the set strategic priorities and policy goals together with a summary of Government spending plans, as a basis of the FY 2020/21 budget. This publication is expected to improve the public's understanding of Kenya's public finances and guide public debate on economic and development matters.

Despite the challenging global environment, Kenya's economy remains resilient and is poised to continue to register robust growth thanks to the strategic investment in the "Big Four" Plan and preserved macroeconomic stability. The policy measures outlined in this BPS are expected to further bolster broad-based growth as well as enhance the wellbeing of all Kenyans.

The Government will continue to prudently manage use of public resources over the 2020/21-2022/23 Medium Term Expenditure Framework (MTEF). While developing the draft budget proposals for the medium-term, Sector Working Groups reviewed budget performance for the past three years and reflected on priorities for the ensuing period while taking into account the available resources. The exercise was carried out to ensure that the budget programmes are in alignment with the "Big Four" Plan as prioritized in MTP III. Thus, funding will only be availed to these priority programmes that are supportive of accelerated inclusive growth and development.

The preparation of the 2020 BPS was a collaborative effort among various Government Agencies. We are grateful for their inputs. We thank all the spending units, the Ministries, Government Departments and Agencies for timely provision of information. We are also grateful for the comments from the Macro Working Group and Public Sector Hearings of January 2020 which provided inputs to the 2020 BPS, in addition to comments from the public. Finally, we are grateful to the dedicated team in the National Treasury and Planning that spent substantial amount of time putting together this BPS.

JULIUS MUIA, PhD, 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 to guide the National Government and the County Governments in preparing their budgets for the subsequent 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 the Cabinet the BPS for approval. Subsequently, the approved BPS is submitted to the 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, National Treasury shall take into account resolutions passed by Parliament in finalizing the budget for the FY 2020/21.

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 Fiscal Risks.

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. The Kenyan economy remains resilient and grew by an average of 5.5 percent in the first three quarters of 2019, mostly supported by strong performance in the services sector. Growth momentum is expected to pick up to 5.6 percent in 2019, 6.1 percent in 2020 and further to 7.0 percent over the medium term supported by a strong rebound in the agricultural output, steady recovery in industrial activities, robust performance in the services sector, and investments in strategic areas under the "Big Four" Plan.

2. The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. At 5.8 percent in December 2019, year-on-year overall inflation remained stable and within the 5 (+/-2.5) percent target largely due to lower food prices following favorable weather conditions. Inflation is expected to remain within target in 2020, largely due to lower energy prices and expected stability in food prices.

3. The foreign exchange market remains stable supported by the narrowing of the current account deficit. The current account deficit is estimated at 4.3 percent of GDP in 2019 down from 5.0 percent in 2018. The narrowing deficit reflects strong growth in diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports due to lower food imports and the decline in international oil prices.

1.2 Recent Economic Developments and Outlook

Global and Regional Economic Developments

4. Global growth is projected to pick up to 3.4 percent in 2020 from an estimated 3.0 percent growth in 2019 **(Table 1.1).** The projected pick up is on account of recoveries in stressed emerging markets and macroeconomic policy support in major economies.

Table 1.1: Global Economic Growth, Percent

REGION/COUNTRY	Actual 2018	Estimated 2019	Projected 2020
World	3.6	3.0	3.4
Advanced Economies	2.3	1.7	1.7
Of which: USA	2.9	2.4	2.1
Emerging and Developing Economies	4.5	3.9	4.6
Of which: China	6.6	6.1	5.8
India	6.8	6.1	7.0
Sub-Saharan Africa	*3.2*	*3.2*	*3.6*
Of which: South Africa	0.8	0.7	1.1
Nigeria	1.9	2.3	2.5
EAC-5	6.5	5.6	6.0
Of which: Kenya	6.3	5.6	6.1
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda			

Source of Data: October 2019 WEO; *Projections by the National Treasury

5. In advanced economies, growth is expected to slow down to 1.7 percent in 2020 from an estimated 2.3 percent in 2018 mainly due to trade tensions between the United States of America (U.S.A) and China, uncertainties surrounding the Brexit outcome, rising global oil prices due to tensions between U.S.A and Iran, and the pace of normalization of monetary policy in the advanced economies.

6. Among emerging markets and developing economies, growth is expected to pick up to 4.6 percent in 2020 from an estimated 3.9 percent in 2019 reflecting recoveries in stressed economies such as Turkey, Argentina and Iran as well pickup in growth for Brazil, Mexico, India, Russia and Saudi Arabia which recorded significant slowdowns in 2019 relative to 2018.

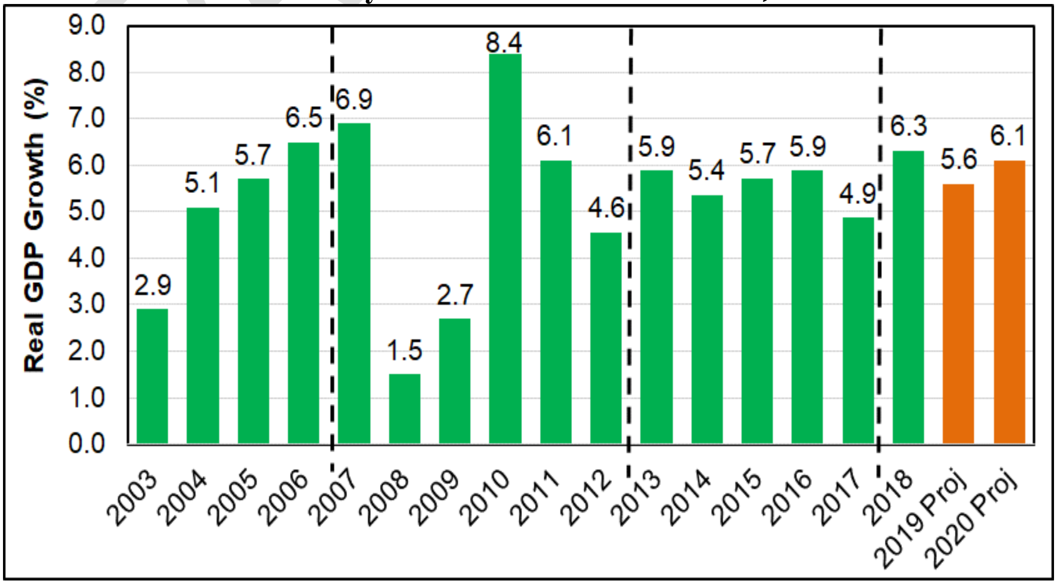
7. Growth prospects for sub-Saharan Africa continue to strengthen. Growth is projected to improve to 3.6 percent in 2020 from 3.2 percent in 2018 and 2019, supported by higher commodity prices, improved capital market access and contained fiscal imbalances in many countries.

8. Growth in the East African Community (EAC) region is estimated to improve to 6.0 percent in 2020 from 5.6 percent in 2019 mostly supported by the stable macroeconomic environment, rebound in agricultural activities on the backdrop of favorable weather conditions, ongoing infrastructure investments, and strong private consumption.

Domestic Economic Developments

9. 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 5.7 percent for the last six years (2013 to 2018) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 5.4 percent in the period 2003 to 2007. Growth is estimated at 5.6 percent in 2019 and projected to recover to 6.1 percent in 2020 **(Chart 1.1a).**

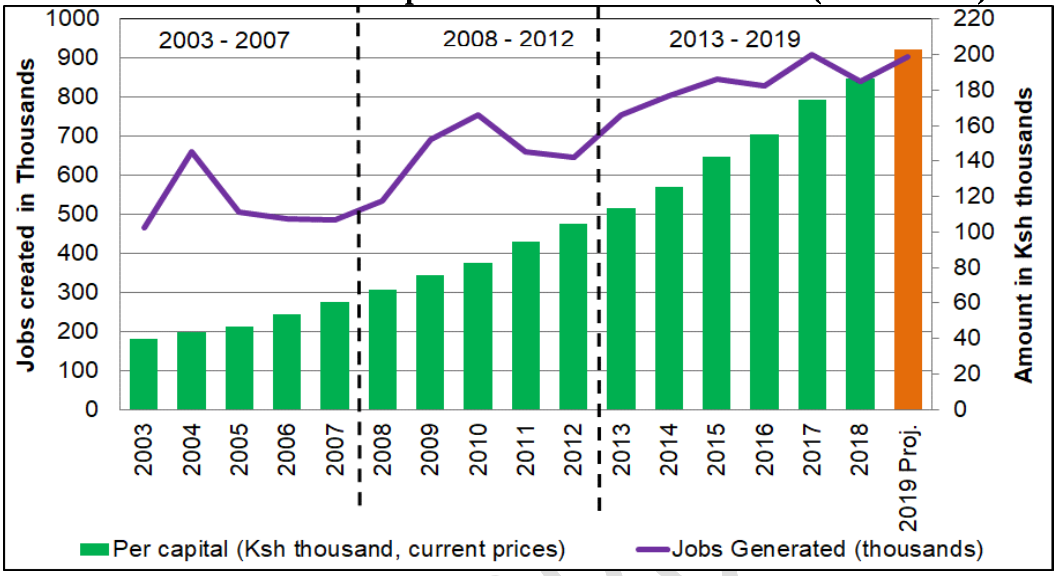
Chart 1.1a: Trends in Kenya's Economic Growth Rates, Percent



Source of Data: Kenya National Bureau of Statistics

10. Per capita income rose from Ksh 113,539 in 2013 to an estimated Ksh 202,859 in 2019, a 79 percent increase. This enabled generation of around 831,000 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)**.

Chart 1.1b: Trends in Per Capita Income and Job Created (2003 - 2019)



Source of Data: Kenya National Bureau of Statistics

11. A resilient non-agricultural sector continues to support economic growth. The economy grew by an average of 5.5 percent in the first three quarters of 2019 and the full year growth is estimated at 5.6 percent in 2019 down from 6.3 percent in 2018 **(Table 1.2)**.

Table 1.2: Sectoral Real GDP Growth Rates, Percent

Sectors	Sector Growth									Sector Contribution to Real GDP Growth								
	2017			2018			2019			2017			2018			2019		
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
Primary Industry	4.2	0.8	2.8	7.3	6.3	6.7	5.2	4.3	3.3	1.1	0.2	0.6	2.0	1.5	1.3	1.4	1.0	0.6
Agriculture, Forestry and Fishing	4.1	0.7	2.7	7.5	6.5	6.9	5.3	4.2	3.2	1.1	0.2	0.5	1.9	1.5	1.3	1.4	1.0	0.6
Mining and Quarrying	5.8	4.3	4.5	2.4	2.9	3.3	2.2	5.7	4.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Secondary Sector (Industry)	4.3	3.8	2.5	5.0	5.5	5.8	4.3	5.3	4.5	0.8	0.7	0.5	0.9	1.0	1.1	0.7	1.0	0.8
Manufacturing	1.6	0.1	0.1	3.8	4.7	4.6	3.2	4.2	3.1	0.2	0.0	0.0	0.4	0.5	0.5	0.3	0.4	0.3
Electricity and Water supply	8.2	8.3	5.8	6.5	8.4	7.8	6.1	5.6	4.9	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Construction	7.9	9.1	5.5	6.6	5.4	7.0	5.6	7.2	6.6	0.4	0.5	0.3	0.3	0.3	0.4	0.3	0.4	0.4
Tertiary sector (Services)	6.1	5.7	5.5	6.6	6.4	6.5	6.0	6.5	5.7	2.9	2.7	2.9	3.2	3.1	3.4	2.9	3.2	3.0
Wholesale and Retail trade	3.4	5.0	6.6	5.9	6.2	6.5	5.5	6.0	4.7	0.2	0.4	0.6	0.4	0.4	0.6	0.4	0.4	0.4
Accomodation and Restaurant	24.2	12.3	12.0	13.1	15.4	15.7	10.1	10.6	9.0	0.3	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1
Transport and Storage	7.3	6.5	5.1	8.5	8.4	9.0	6.7	7.2	7.1	0.4	0.4	0.4	0.5	0.6	0.7	0.4	0.5	0.5
Information and Communication	13.6	11.4	10.7	12.5	11.1	9.8	10.4	11.3	8.4	0.5	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.3
Financial and Insurance	3.8	3.3	2.3	5.2	4.5	5.3	5.5	7.2	5.6	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Public Administration	3.8	4.8	6.5	6.2	5.9	6.1	6.5	6.0	5.8	0.1	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2
Others	5.4	5.5	4.9	5.3	5.3	5.0	4.8	5.4	5.0	1.1	1.1	1.0	1.0	1.1	1.1	0.9	1.1	0.0
of which Real Estate	6.4	6.3	6.1	5.3	4.6	3.8	4.2	5.4	4.9	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.4	0.4
Taxes less subsidies	4.0	6.0	4.6	5.7	5.5	5.6	5.8	4.6	4.2	0.4	0.7	0.6	0.6	0.6	0.7	0.6	0.5	0.5
GDP at market price	5.2	4.4	4.5	6.6	6.3	6.4	5.7	5.6	5.1	5.2	4.4	4.5	6.6	6.3	6.4	5.7	5.6	5.1
of which Non-Agriculture	5.9	5.6	4.9	6.4	6.3	6.5	5.8	6.2	5.7	3.7	3.6	3.4	4.1	4.1	4.5	3.7	4.1	4.0

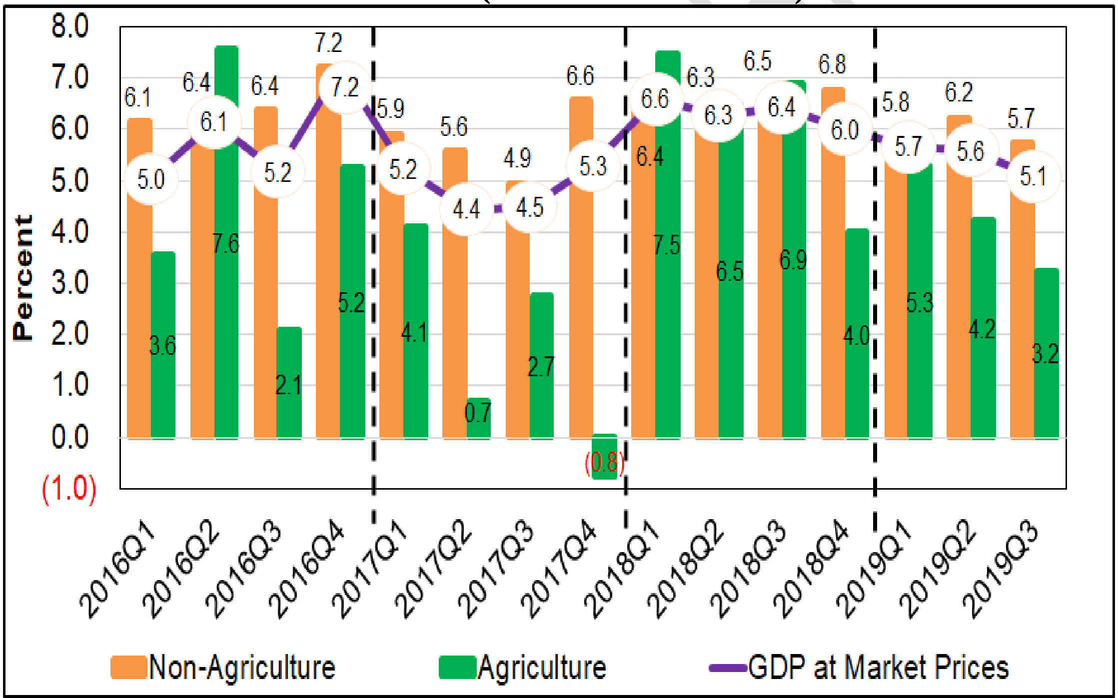
Source of Data: Kenya National Bureau of Statistics

12. In the third quarter of 2019, the economy grew by 5.1 percent compared to a growth of 6.4 percent in a similar quarter in 2018, mainly supported by strong performance in the services sub-sector such as information and communication, transportation and storage, and accommodation and restaurant.

13. The agriculture sector recorded a decreased growth of 3.2 percent in the third quarter of 2019 compared to a growth of 6.9 percent in a similar quarter of 2018, as a result of delayed long rains. Consequently, the sector's contribution to GDP growth declined to 0.6 percent in the third quarter of 2019 compared to 1.3 percent in the same period in 2018.

14. The non-agricultural sector (service and industry) remained vibrant and grew by 5.7 percent in the third quarter of 2019 down from a growth of 6.5 percent in a similar quarter in 2018. It has the largest percentage points contribution to real GDP growth at 4.0 in the third quarter of 2019, mainly supported by the services sector **(Chart 1.2).**

Chart 1.2: Economic Performance (Percent Growth Rates)



Source of Data: Kenya National Bureau of Statistics

15. Services remained the main source of growth and expanded by 5.7 percent in the third quarter of 2019 compared to a growth of 6.5 percent in the same quarter of 2018. The service sector was supported by improved growth in accommodation and restaurant (9.0 percent), transport and storage (7.1 percent) and financial and insurance (5.6 percent). Growth of activities in information and communication (8.4 percent) and real estate (4.9 percent) also remained vibrant.

16. The services sector contributed 3.0 percentage points to real GDP growth in the third quarter of 2019 largely supported by Transport and storage (0.5 percentage points), wholesale and retail trade (0.4 percentage points) and Real estate (0.4 percentage points).

17. The performance of industry declined to 4.5 percent in the third quarter of 2019 compared to 5.8 percent in the same quarter in 2018 following subdued activities in the manufacturing, electricity and water supply and construction sectors. The slowdown in the manufacturing sector was attributed to the fall in agro-processing activities, a reflection of declining agricultural production.

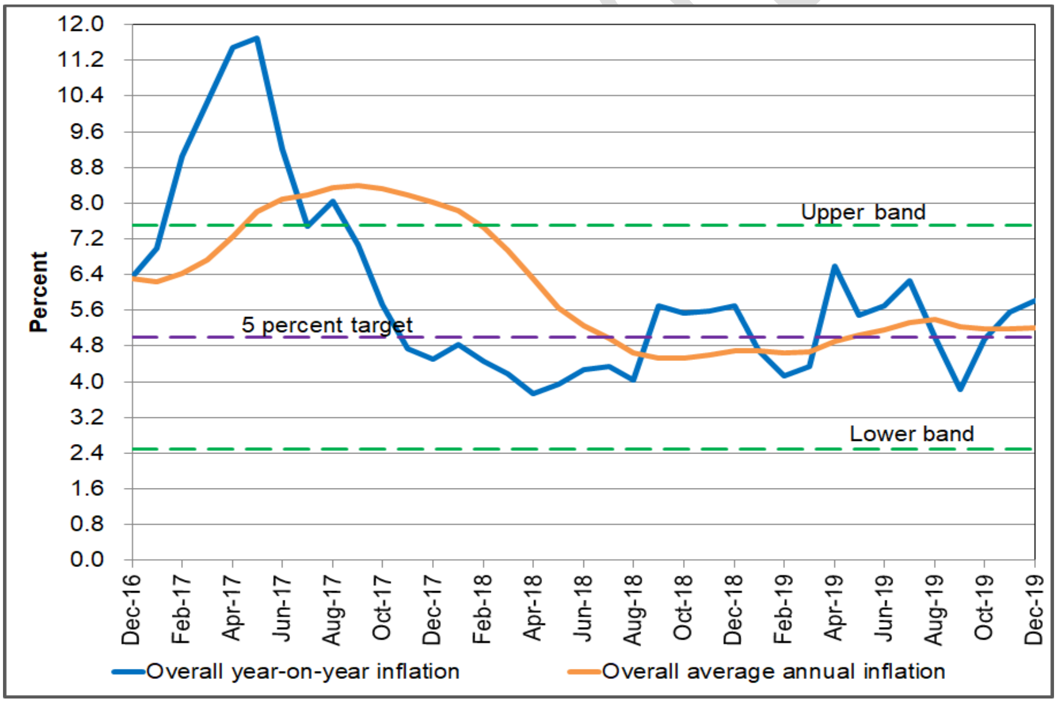
18. Growth in the electricity and water supply remained vibrant, driven by increased use of less input intensive sources of energy such as hydro generated electricity supported by sufficient rainfall, wind power and geothermal power generation coupled with growth of thermal generation.

19. The industry sector accounted for 0.8 percentage points of growth in the third quarter of 2019, largely driven by construction and manufacturing sectors with a contribution of 0.4 and 0.3 percentage points respectively.

Inflation Rate

20. Year-on-year overall inflation remained low, stable and within the Government target range of 5+/-2.5 percent in December 2019 at 5.8 percent up from 5.7 percent in December 2018 reflecting higher food prices **(Chart 1.3a)**.

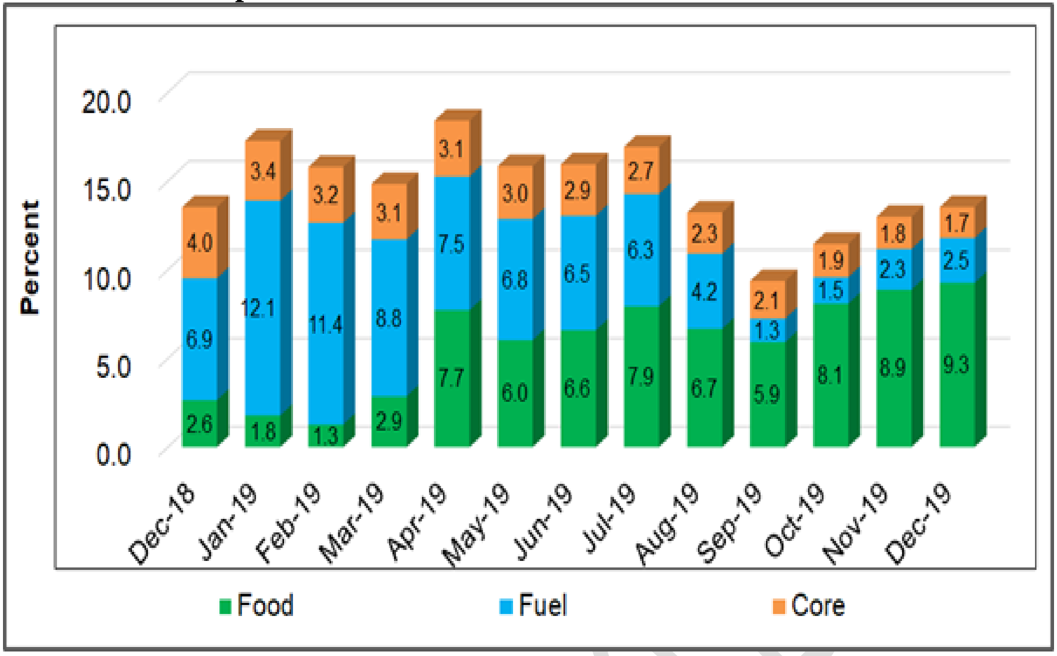
Chart 1.3a: Inflation Rate



Source of Data: Kenya National Bureau of Statistics

21. Core inflation (Non-Food-Non-Fuel) remained below 5.0 percent in the period under review reflecting subdued demand pressures in the economy. Fuel inflation declined from 6.9 percent in December 2018 to 2.5 percent in December 2019 on account of declining energy prices **(Chart 1.3b).**

Chart 1.3b: Components of Inflation

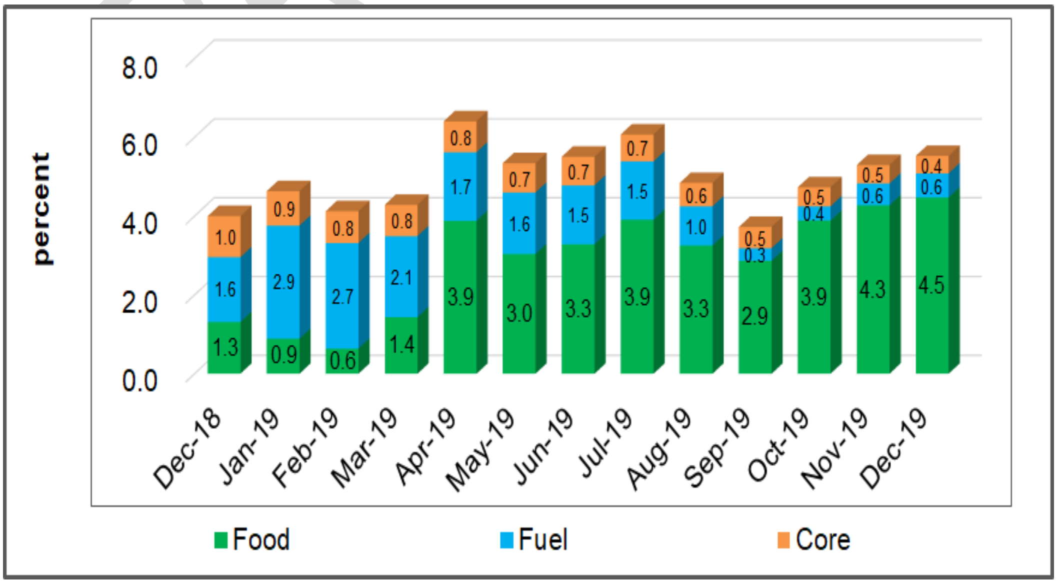


Source of Data: Kenya National Bureau of Statistics

22. The delay in the onset of rains resulted in lower agricultural activities and raised food inflation from March 2019. Food inflation increased from 2.6 percent in December 2018 to 9.3 percent in December 2019 reflecting rising prices of key food items.

23. The contribution of core inflation to overall inflation has been low and stable reflecting muted demand pressures in the economy on account of prudent monetary policies. The major driver of overall inflation from December 2018 to March 2019 was fuel inflation. However, beginning March 2019 food inflation has been the major driver of inflation **(Chart 1.3c).**

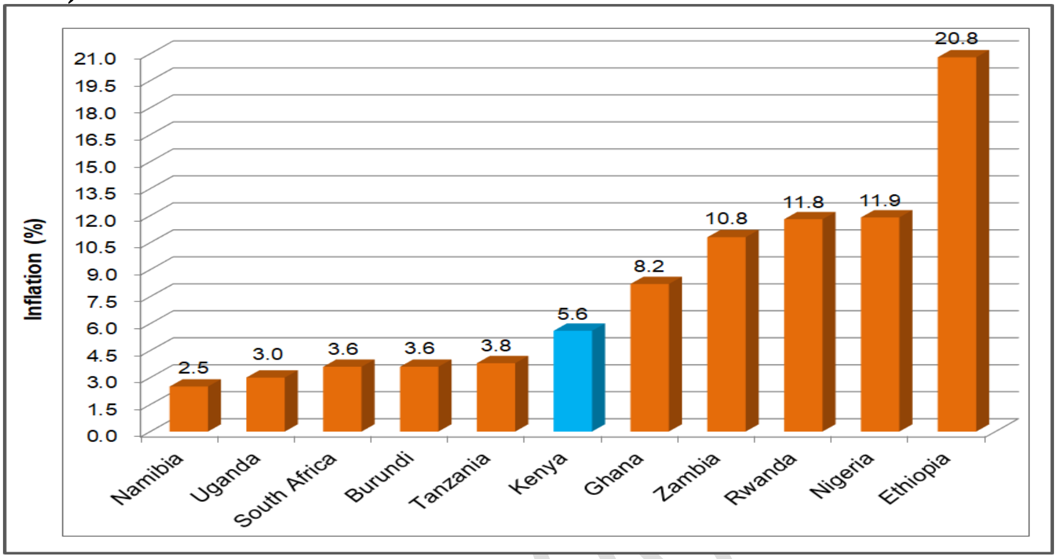
Chart 1.3c: Contribution to Inflation



Source of Data: Kenya National Bureau of Statistics

24. Kenya's rate of inflation compares favorably with the rest of Sub-Saharan African countries and its peers such as Nigeria and Ghana whose inflation rates were 11.9 percent and 8.2 percent, respectively in November 2019 **(Chart 1.3d).**

Chart 1.3d: Annual Inflation Rates in selected African Countries (September 2019)

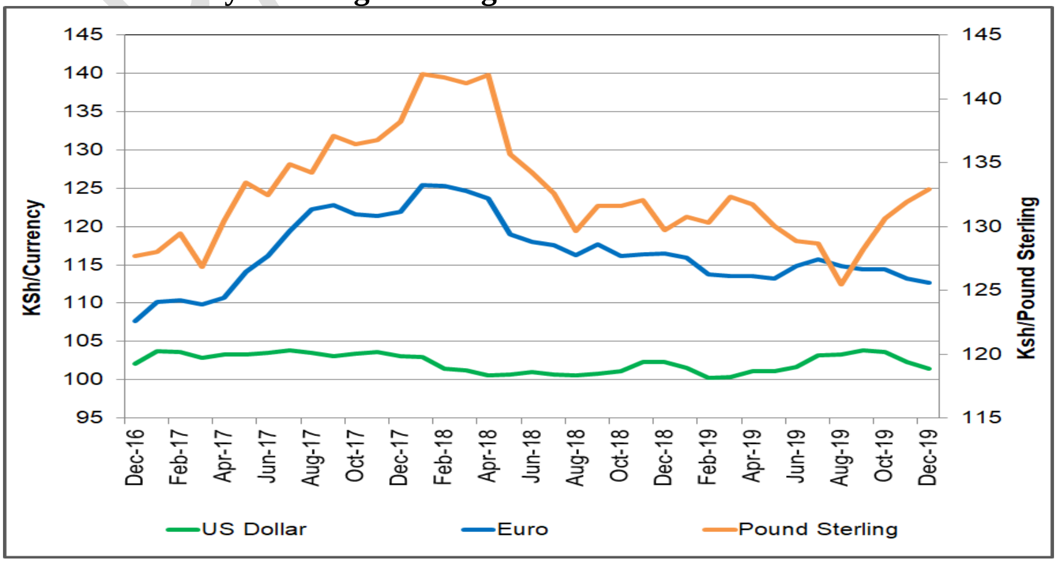


Source of Data: Various National Central Banks

Kenya Shilling Exchange Rate

25. The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate foreign reserve buffer. The Shilling appreciated against the US Dollar and the Euro exchanging at an average of Ksh 101.4 and Ksh 112.7 in December 2019 from Ksh 102.3 and Ksh 116.4 in December 2018, respectively. However, against the Sterling Pound, the Shilling weakened exchanging at an average of Ksh 133.0 in December 2019 compared to Ksh 129.7 in December 2018. **(Chart 1.4a).**

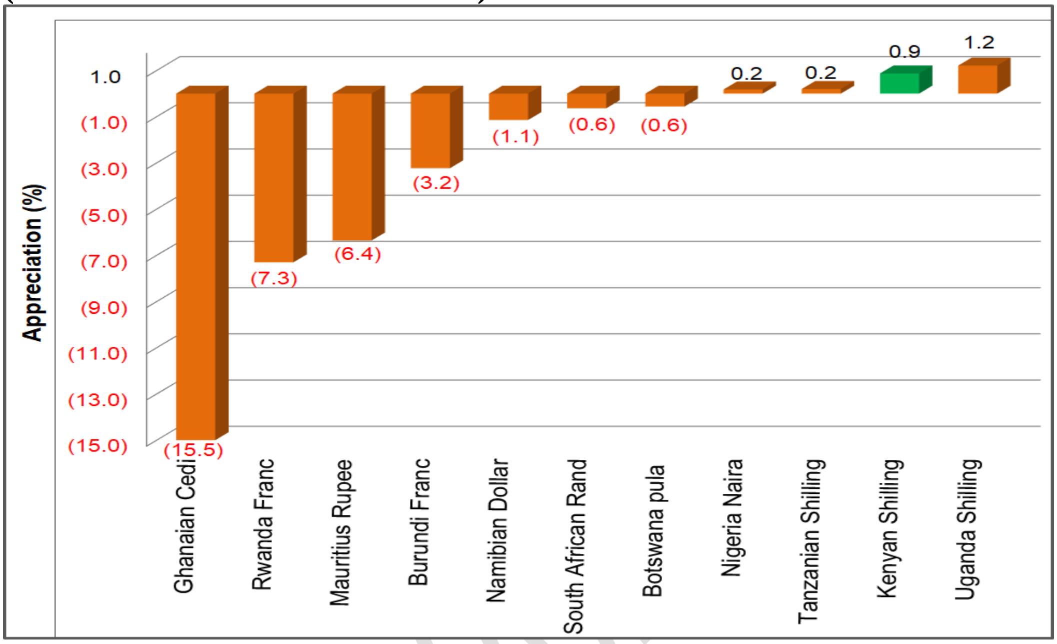
Chart 1.4a: Kenya Shilling Exchange Rate



Source of Data: Central Bank of Kenya

26. The Kenya Shilling has continued to display relatively less volatility, compared to most Sub-Saharan currencies **(Chart 1.4b).** This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism.

Chart 1.4b: Performance of selected currencies against the US Dollar (December 2018 to December 2019)



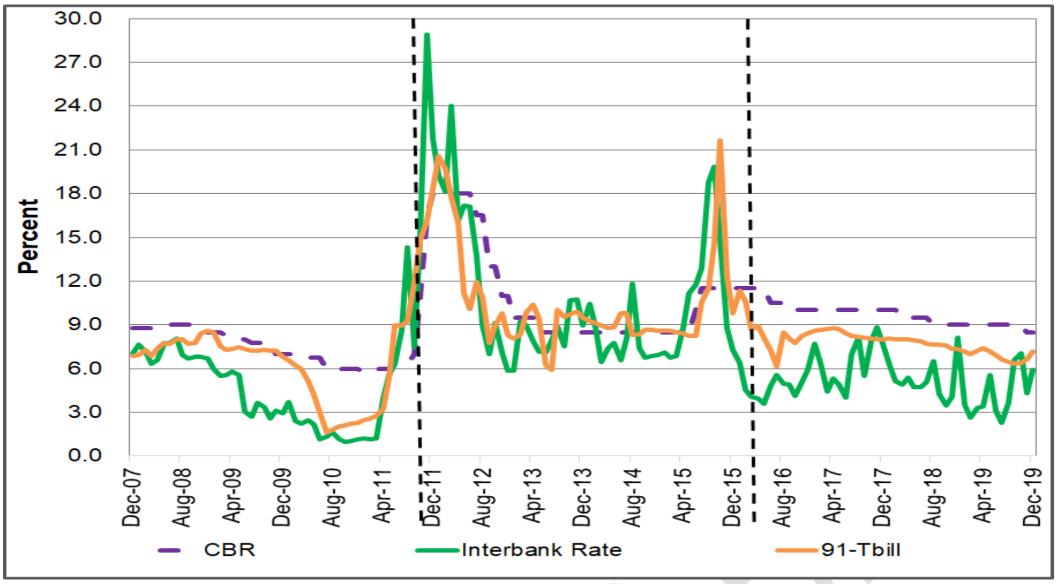
Source of Data: Various National Central Banks

Interest Rates

27. Interest rates were low and stable for the period 2008 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 to October 2019, except from June to December 2015 when world currencies were under pressure. During the period, the Central Bank Rate (CBR) was adjusted appropriately to anchor inflation expectations **(Chart 1.6)**. The Central Bank Rate was reduced to 8.5 percent on 25th November 2019 from 9.0 percent in August 2018 as there was room for easing monetary policy stance to support economic activity.

28. The interbank rate declined to 5.9 percent in December 2019 from 8.2 percent in December 2018 due to enhanced 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 bills rate declined to 7.2 percent in December 2019 compared to 7.3 percent in December 2018. The 182-day Treasury bills rate declined to 8.2 percent from 8.4 percent while 364-day increased to 9.8 percent from 9.7 percent.

Chart 1.6: Short-Term Interest Rates



Source of Data: Central Bank of Kenya

Money and Credit

29. Growth in broad money supply, M3, slowed down to 5.9 percent in the year to November 2019 compared to a growth of 8.4 percent in the year to November 2018 (**Table 1.3**). This was due to the decline in both net foreign assets (NFA) and net domestic assets (NDA). Despite the slowdown, growth in M3 was supported by an improvement in the growth of demand deposits despite a decline in the time and savings deposits, foreign currency deposits, and currency outside banks.

Table 1.3: Money Supply and Credit, Ksh billion

				Absolute Change		Percent change	
	2017 November	2018 November	2019 November	2017-2018 November	2018-2019 November	2017-2018 November	2018-2019 November
COMPONENTS OF M3							
1. Money supply, M1 (1.1+1.2+1.3)	1,376.5	1,409.6	1,460.2	33.1	50.6	2.4	3.6
1.1 currency outside banks	217.2	224.0	191.6	6.8	32.4	3.1	(14.5)
1.2 Demand deposits	1,101.3	1,117.3	1,180.4	16.0	63.1	1.5	5.6
1.3 Other deposits at CBK	57.9	68.3	88.2	10.4	19.9	17.9	29.2
2. Money supply, M2 (1+2.1)	2,534.7	2,699.4	2,849.4	164.8	150.0	6.5	5.6
2.1 Time and savings deposits	1,158.2	1,289.8	1,389.2	131.6	99.4	11.4	7.7
Money supply, M3 (2+3.1)	3,015.0	3,269.0	3,462.0	254.0	192.9	8.4	5.9
3.1 Foreign currency deposits	480.3	569.6	612.5	89.3	42.9	18.6	7.5
SOURCES OF M3							
1. Net foreign assets (1.1+1.2)	534.4	691.8	795.6	157.4	103.8	29.4	15.0
1.1 Central Bank	635.6	731.5	839.4	96.0	107.9	15.1	14.7
1.2 Banking Institutions	(101.1)	(39.8)	(43.8)	61.4	4.1	(60.7)	10.2
2. Net domestic assets (2.1+2.2)	2,480.6	2,577.3	2,666.4	96.7	89.1	3.9	3.5
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	3,206.3	3,358.9	3,605.5	152.6	246.6	4.8	7.3
2.1.1 Government (net)	740.7	828.6	903.9	87.9	75.3	11.9	9.1
2.1.2 Other public sector	112.4	107.0	100.7	5.3	6.3	(4.8)	(5.9)
2.1.3 Private sector	2,353.2	2,423.3	2,600.8	70.0	177.6	3.0	7.3
2.2 Other assets net	(725.7)	(781.6)	(939.1)	55.9	157.5	7.7	20.1

Source of Data: Central Bank of Kenya

30. NFA of the banking system in the year to November 2019 grew by 15.0 percent, a deterioration, compared to a growth of 29.4 percent in the year to November 2018. The decline in NFA of the Central Bank partly reflects declined foreign currency deposits. On the other hand, increase in NFA of commercial banks, partly reflected increase in growth of their deposit holdings with non-resident banks alongside decreased borrowings from non-residents.

31. Meanwhile, NDA declined to register a growth of 3.5 percent in the year to November 2019 from a growth of 3.9 percent over a similar period in 2018. This is largely due to a decline in net credit flows to other public sectors. However, net credit flows to the government and the private sector increased during the review period.

32. Annual credit to the private sector grew by 7.3 percent in the year to November 2019, compared to a growth of 3.0 percent in the year to November 2018. In particular, it was observed that credit to consumer durables, manufacturing, trade, finance and insurance and mining and quarrying sectors experienced strong growths of 25.9 percent, 5.7 percent, 7.3 percent, 15.8 and 31.2 percent, respectively. This offset the substantial loan repayments recorded in the building and construction sectors in the year to November 2019. Private sector credit growth is expected to strengthen in 2019 relative to 2018, due to the repeal of interest rate cap.

Balance of Payments

33. The overall balance of payments position improved to a deficit of US$ 873.3 million (0.9 percent of GDP) in the year to October 2019 from a deficit of US$ 1352.4 million (1.5 percent of GDP) in the year to October 2018 **(Table 1.4 & Chart 1.7).** This deficit was due to a decline in the capital and financial account despite an improvement in current accounts.

34. The capital account declined by US$ 38.6 million to US$ 223.6 million in the year to October 2019, reflecting a decline in project grants. Similarly, financial account deteriorated to US$ 6,346.3 million in October 2019 compared to US$ 5,829.5 million in October 2018. The financial inflows were mainly in the form of other investments, direct investments and portfolio investments which stood at US$ 3,680.8 million, US$ 1,357 million and US$ 1,284.4 million, respectively in October 2019. Other investment inflows mainly include foreign financing for Government infrastructure projects.

Table 1.4: Balance of Payments (million)

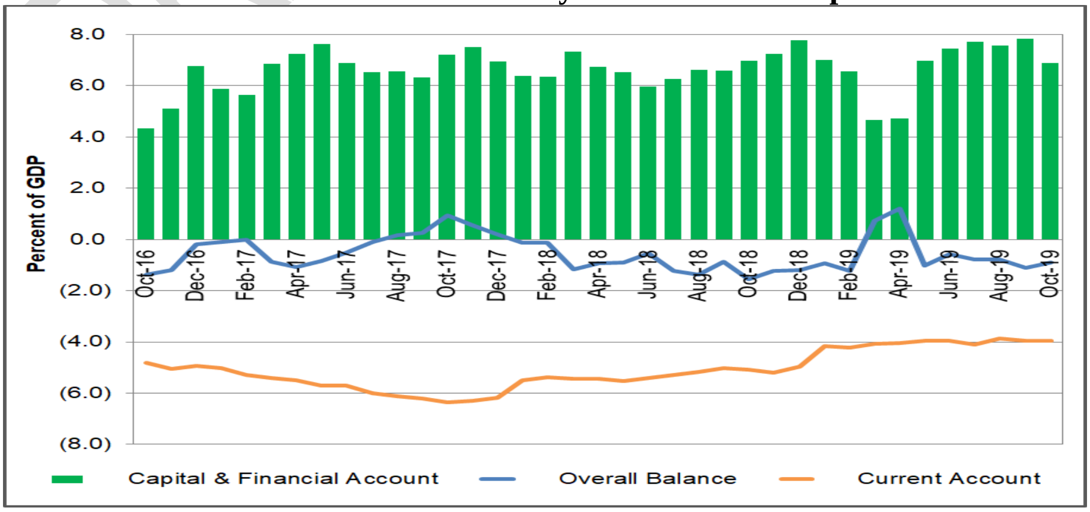
							Year to October 2019	
	Oct-18	Dec-18	Mar-19	Jun-19	Sep-19	Oct-19	absolute change	Percent Change
Overall Balance	(1352.4)	(1044.3)	721.0	(544.7)	(1060.1)	(873.3)	479.1	(35.4)
Current Account	(4452.8)	(4348.6)	(3984.3)	(3828.5)	(3752.5)	(3783.2)	669.7	(15.0)
o/w merchandise account (a-b)	(10218.2)	(10238.4)	(10172.3)	(10110.5)	(9896.2)	(9965.7)	252.6	(2.5)
a) Goods: exports	6169.8	6105.5	6075.7	5949.3	5866.0	5866.8	303.0	(4.9)
b) Goods: imports	16388.0	16344.0	16248.1	16059.8	15762.2	15832.5	555.5	(3.4)
Services: credit	5269.8	5477.3	5677.2	5704.3	5598.9	5571.2	301.3	5.7
Services: debit	3644.1	3864.7	3779.4	3812.0	3775.0	3760.7	116.5	3.2
Balance on goods and services	(8592.5)	(8625.9)	(8274.5)	(8218.1)	(8072.3)	(8155.2)	437.3	(5.1)
Primary income: credit	696.9	719.7	744.1	744.9	747.8	749.0	52.0	7.5
Primary income: debit	1510.7	1448.6	1634.9	1601.1	1693.1	1666.7	156.0	10.3
Balance on goods, services, and PI	(9406.3)	(9354.8)	(9165.3)	(9074.4)	(9017.6)	(9072.9)	333.4	(3.5)
Secondary income: credit	5004.9	5054.1	5228.5	5288.6	5304.7	5328.9	324.0	6.5
Secondary income: debit	51.4	47.9	47.4	42.8	39.7	39.2	12.2	(23.8)
Capital Account	262.2	262.5	222.2	214.9	211.2	223.6	38.6	(14.7)
Financial Account	(5829.5)	(6548.4)	(4361.2)	(6979.0)	(7252.5)	(6346.3)	516.9	8.9

Source of Data: Central Bank of Kenya

35. The current account balance narrowed by 35.4 percent to a deficit of US$ 3783.2 million (4.0 percent of GDP) in the year to October 2019 compared to a deficit of US$ 4,452.8 million (5.1 percent of GDP) in the year to October 2018. This reflects resilient performance of exports particularly horticulture and manufactured goods, strong diaspora remittances, higher receipt from tourism and transport services and lower imports of food and SGR-related equipment. The current account deficit is expected to narrow to 4.3 percent in 2019.

36. The deficit in the merchandise account narrowed by US$ 252.6 million to US$ 9965.7 million in the year to October 2018 reflecting a decline in merchandise import. Net services recorded a decline of 11.4 percent in the year to October 2019 mainly on account of higher receipts from transport and travels.

Chart 1.7: Performance of Balance of Payments and its Components



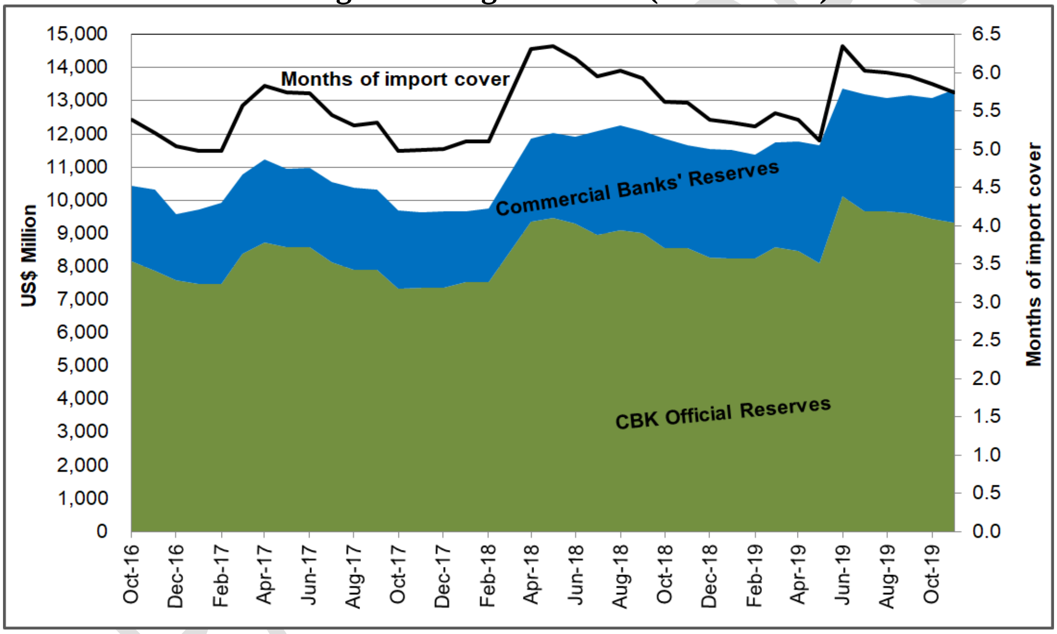
Source of Data: Central Bank of Kenya

Foreign Exchange Reserves

37. Foreign exchange reserves have increased from around 3.0 months of import cover in 2003 to above 5.0 months of import cover in 2019. This fulfils the requirement to maintain at least 4 months of imports cover, and the EAC region's convergence criteria of 4.5 months of imports cover and thus provide an adequate buffer against short term shocks in the foreign exchange market.

38. The banking system's foreign exchange holding remained strong at US$ 13,343.9 million in October 2019 from US$ 11,667.9 million in October 2018 **(Chart 1.8).** The official foreign exchange reserves held by the Central Bank improved to US$ 9,336.8 million (5.7 months of import cover) in October 2019 compared with US$ 8,553.9 million (5.6 months of import cover) in October 2018. Commercial banks holdings stood at US$ 4,007.2 million in October 2019 up from US$ 3,114.0 million in October 2018.

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

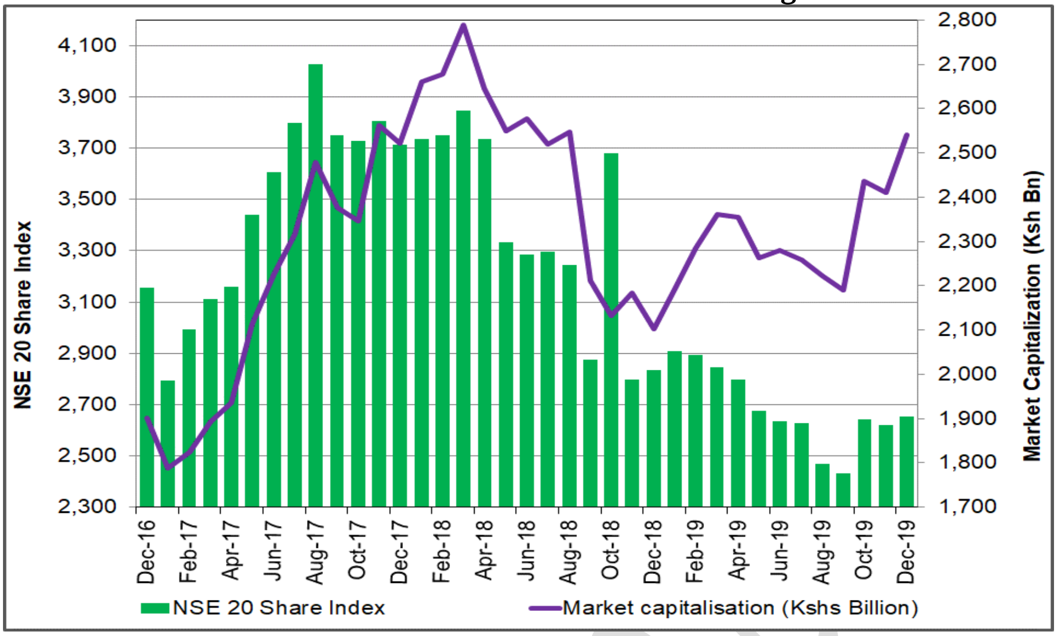


Source of Data: Central Bank of Kenya

Nairobi Securities Exchange

39. Activity in the capital market picked up in December 2019 compared to December 2018, with equity share prices rising as shown by the NSE 20 Share Index. The NSE 20 Share Index was at 2,654.4 points by end of December, 2019 compared to 2,383.8 points by end December, 2018. On the other hand, market capitalization improved from Ksh 2,102.0 billion to Ksh 2,540.0 billion over the same period.

Chart 1.9: Performance of the Nairobi Securities Exchange



Source of Data: Nairobi Securities Exchange

1.3 Fiscal Performance

40. Budget execution started on a slow note in the first quarter of the FY 2019/20. The slowdown was due to delays in the county allocation of revenue proposed in the revised Division of Revenue Bill, 2019. In addition, expenditure rationalization was effected to reflect lower revenues after the realization that the revenues would perform less than earlier projected leading to a wider fiscal deficit.

41. The exercise to clean-up the development project portfolio triggered by the budget rationalization on inclusion of new projects in the budget also slowed down the uptake of development expenditures in the first quarter of FY 2019/20. However, this picked up strongly in the second quarter of FY 2019/20.

42. The Government embarked on expenditure rationalization to ensure a sustainable fiscal position in the FY 2019/20 and the medium term, and reaffirm its commitment to the fiscal consolidation plan and to prudent fiscal management in general.

Revenue Performance

43. Revenue collection to December 2019 grew by 15.9 percent compared to the same period in the FY 2018/19. This growth was driven in part by a rebound effect, after the poor performance in the previous financial year as well as the effect of the tax policy measures introduced in the Finance Act 2019. Despite the growth, cumulative ordinary revenue fell short of the December target by Ksh 138.7 billion. The shortfall was in all broad categories of ordinary revenues with income tax recording the highest shortfall on account of depressed performance in Pay as You Earn followed by excise tax and VAT.

44. This shortfall 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 the

continued implementation of the Revenue Enhancement Initiatives (REI) by the Kenya Revenue Authority (KRA).

45. As the financial year progresses, we will closely monitor the performance of income tax from individuals (P.A.Y.E), excise taxes and taxes from international trade and transactions (Import duty) which performed below the cumulative December 2019 targets. Income tax from corporations is expected to bounce back to target levels by the third quarter due to the strong performance recorded in the economy in the first half of the financial year. Value Added Tax (VAT) on locally produced goods remained largely on target and is expected to remain on course into the second half of the year.

46. In nominal terms, total revenue collection including Appropriation in Aid (A.i.A) by December 2019 amounted to Ksh 920.6 billion (equivalent to 8.9 percent of GDP) against a target of Ksh 1,059.3 billion (equivalent to 10.2 percent of GDP). The recorded shortfall of Ksh 138.7 billion was due to underperformance in ordinary revenue by Ksh 88.4 billion and A.i.A amounting to Ksh 50.3 billion.

Expenditure Performance

47. Total expenditure and net lending for the period ending December 2019 amounted to Ksh 1,144.9 billion which was below the projected amount by Ksh 163.1 billion. Recurrent spending amounted to Ksh 772.5 billion while development expenditures and transfer to County Governments (equitable share only) were Ksh 250.2 billion and Ksh 112.0 billion respectively.

48. Recurrent spending was below the projected target by Ksh 24.8 billion mainly on account of lower than targeted pensions. The shortfall in pensions & other consolidated fund services (CFS) was due to slower than targeted processing of pension payments in the recurrent category. Similarly, development expenditures were below target by Ksh 98.0 billion on the account of below target absorption of foreign and domestically financed development expenditure by Ksh 42.3 billion and Ksh 52.6 billion respectively.

49. Fiscal operations of the Government by end of December 2019 in the FY 2019/20 resulted in an overall deficit of Ksh 214.0 billion against a projected deficit of Ksh 232.2 billion. This deficit was financed through net domestic borrowing of Ksh 152.9 billion and net foreign borrowing of Ksh 78.8 billion.

1.4 Fiscal Policy

50. 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 this BPS. This will ensure debt is maintained within sustainable levels. The fiscal deficit is expected to decline from 7.7 percent of GDP in FY 2018/19 to 3.3 percent by FY 2023/24. This deliberate fiscal consolidation plan also resonates well with the East African Monetary Union's (EAMU) protocol target ceiling of 3.0 percent of GDP.

51. To achieve this target, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization. In the FY 2019/20, the Government is implementing a raft of tax policy measures through

the tax amendment law and the Finance Act, 2019 whose revenue yield is estimated at about 0.3 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 the government's fiscal consolidation efforts.

52. Further, the establishment of Public Investment Management (PIM) Unit at the National Treasury continues to play a great role in enhancing 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 project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

53. In this regard, expenditures as a share of GDP are projected to decline from 26.0 percent in the FY 2018/19 to 23.6 percent in the FY 2020/21 and further to 21.7 percent in the FY 2023/24.

54. On the other hand, revenues as a share of GDP are projected to remain at 18.0 percent in the medium term. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.3 percent of GDP by FY 2023/24.

55. The Government continues to implement initiatives to boost revenue performance and enhance tax compliance. These revenue supporting initiatives have been implemented at considerable cost and will over the medium to long term help drive revenue performance. The initiatives include:

i. Government systems integration to allow for 3rd party data matching and improve service delivery;

ii. Implementation of a Consolidator framework to enhance trader traceability and accountability of all imports coming through the Eldoret International Airport;

iii. Integration of scanners which has drastically reduced cases of mis-declaration and concealment while simultaneously allowing for non-intrusive inspection;

iv. Identification and elimination of revenue administration gaps and stop revenue leakages, including leveraging on information technology to improve collection efficiency, through the use of third party data and ensure compliance of registered professionals;

v. Identification and implementation of strategies to improve Value Added Tax collection including fast tracking automation, enhanced tax payer education;

vi. Carrying out a comprehensive audit of all exemptions over the past 5 years to identify multiple use of a single exemption and make relevant tax demands; and,

vii. Fast track Tax Appeals Tribunal cases and get cases to move from Court to Alternative Dispute Resolutions

56. Given the expenditure rationalization and the revenue enhancement measures put in place, fiscal deficit inclusive of grants is projected to reduce from Ksh 715.2 billion (equivalent to 7.7 percent of GDP) in the FY 2018/19 to Ksh 569.4 billion (equivalent to 4.9 percent of GDP) in the FY 2020/21 and further to Ksh 547.2 billion (equivalent to 3.3 percent of GDP) in the FY 2023/24. To finance the fiscal deficit in the FY 2020/21, domestic borrowing is projected at Ksh 318.9 billion, foreign financing at Ksh 247.3 billion and other domestic financing Ksh 3.2 billion as reflected in **Table 1.5**. In the medium term, debt is projected to remain sustainable.

Table 1.5: Fiscal Framework (Ksh million)

	FY 2018/19		FY 2019/20			FY 2020/21	FY 2021/22	FY 2022/23
	Revised Budget II	Prel. Act.	Budget	BROP 2019	SUPP 1	Projections		
TOTAL REVENUE	1,794,522	1,698,817	2,115,902	2,090,536	2,084,246	2,133,491	2,372,325	2,665,041
Ordinary Revenue	1,588,132	1,496,930	1,877,176	1,851,811	1,843,813	1,856,705	2,106,116	2,381,804
Ministerial Appropriation in Aid	206,391	201,887	238,725	238,725	240,433	276,787	266,209	283,237
TOTAL EXPENDITURE AND NET LENDING	2,555,132	2,433,679	2,796,027	2,835,718	2,874,171	2,743,816	3,002,158	3,290,464
Recurrent	1,582,974	1,531,055	1,760,330	1,744,928	1,760,001	1,786,869	1,981,568	2,176,269
Development	607,199	541,884	652,348	707,440	730,820	575,984	626,128	705,471
County Transfer	364,958	360,740	378,350	378,350	378,350	375,962	389,462	403,723
Contigency Fund	-	-	5,000	5,000	5,000	5,000	5,000	5,000
BALANCE EXCLUSIVE OF GRANTS	(760,609)	(734,862)	(680,125)	(745,181)	(789,925)	(610,324)	(629,833)	(625,423)
Grants	34,990	19,702	38,785	38,785	41,804	40,940	43,057	46,929
BALANCE INCLUSIVE OF GRANTS	(725,619)	(715,160)	(641,341)	(706,397)	(748,121)	(569,384)	(586,776)	(578,494)
Adjustment to cash	75,104	-	-	66,170	90,748	-	-	-
Balance inclusive of Grants (Cash)	(650,515)	(715,160)	(641,341)	(640,227)	(657,374)	(569,384)	(586,776)	(578,494)
Discrepancy	-	5,894	-	-	-	-	-	-
TOTAL FINANCING	650,515	721,053	641,341	640,227	657,374	569,384	586,776	578,494
Net Foreign Financing	444,850	414,518	331,313	331,313	353,460	247,308	184,745	204,356
Other Domestic Financing	3,925	2,878	3,213	3,213	3,213	3,213	3,343	3,343
Net Domestic Financing	201,739	303,658	306,814	305,700	300,700	318,863	398,689	370,795
Nominal GDP (Fiscal Year)	9,510,446	9,348,273	10,765,655	10,355,352	10,355,352	11,633,380	13,031,233	14,657,719

Source: National Treasury

1.5 Economic Outlook

Global Growth Outlook

57. Owing to weaker trade and investment at the start of the year, global economic growth is expected at 3.4 percent in 2019 from a projection of 3.0 percent in 2019 down from 3.6 percent in 2018. The sluggish growth reflects the continued global trade sanctions between the U.S.A and China, subdued investment and demand for consumer durables in emerging markets and developing economies, rising energy prices and the continued Brexit-related uncertainties.

58. As a result of the weaker prospects in the United States as its fiscal stimulus fades and the forthcoming increase in the consumption tax rate in Japan, growth in the advanced economies is expected to ease to 1.7 percent in 2020 from 2.3 percent in 2018.

59. Growth in the emerging markets and developing economies is expected to pick up to t 4.6 percent in 2020, from an estimated growth of 3.9 in 2019. Similarly, the sub-Saharan Africa region is expected to remain relatively robust growing by 3.6 percent in 2020 from 3.2 percent in 2019.

Domestic Growth Outlook

60. On the domestic scene, despite the challenging global environment, Kenya's economy has remained strong and resilient. The economy expanded by 6.3 percent in 2018 up from the 4.9 percent growth registered in 2017. The growth momentum continued in the first three quarters of 2019, with the economy expanding by an average of 5.4 percent. The latest economic indicators in the third quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.9 percent in the FY 2019/20. Economic growth is further projected to rise to 6.2 percent in the FY 2020/21 and 6.9 percent by FY 2023/24.

61. The growth outlook for the FY 2019/20 and the medium term is supported by a stable macroeconomic environment, investments in the strategic areas under the "Big Four" Plan and their enablers, and existing business and consumer confidence in the economy. Further, the ongoing public investments in infrastructure projects, growth in tourism, resilient exports and the associated benefits from regional economic integration in the sub region will reinforce the projected growth. The economic growth projections over the medium term are aligned to those of the MTP III **(Table 1.6 and Annex Table 1)**.

Table 1.6: Macroeconomic Framework

	2017/18	2018/19		2019/20			2020/21			2021/22			2022/23			2023/24	
	Prel. Act	Rev. Budget II	Prel. Act	Printed Estimates	BROP'19	Rev. Budget I	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BROP'19	BPS'20
	Annual percentage change																
National Account and Prices																	
Real GDP /*	5.6	6.3	5.9	6.2	5.9	5.9	6.4	6.2	6.2	6.7	6.4	6.3	7.0	6.7	6.6	6.9	6.8
GDP Deflator	6.7	4.9	3.9	6.5	4.9	4.9	6.0	5.1	5.5	6.0	5.1	5.4	5.8	5.1	5.3	5.2	5.4
CPI Index (eop)	5.1	5.3	5.1	5.2	5.2	5.2	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)	5.2	5.2	5.0	5.3	5.4	5.4	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)	0.8	-3.5	0.6	0.4	0.5	0.5	-1.8	0.3	0.8	1.1	1.1	1.1	-2.2	0.0	0.3	-0.2	0.4
	Percentage of GDP																
Investment and saving																	
Investment	18.6	21.9	19.7	24.4	24.2	24.2	23.3	24.1	21.4	25.0	25.5	22.2	27.9	28.7	22.5	31.2	22.6
Gross National Savings	13.9	17.1	15.2	19.8	19.2	19.2	17.4	19.1	16.6	19.7	21.2	17.7	22.8	24.9	19.5	26.5	21.3
Central Government Budget																	
Total revenue	17.9	18.9	18.2	19.7	20.2	20.1	18.5	18.5	18.3	18.8	18.3	18.2	18.8	18.4	18.2	18.3	18.1
Total expenditure and net lending	25.2	26.9	26.0	25.9	27.4	27.8	22.8	24.1	23.6	22.5	23.2	23.0	22.2	22.7	22.4	21.9	21.7
Overall Fiscal balance excl. grants	-7.3	-8.0	-7.9	-6.3	-7.2	-7.6	-4.3	-5.7	-5.2	-3.7	-4.9	-4.8	-3.4	-4.3	-4.3	-3.6	-3.6
Overall Fiscal balance, incl. grants, cash basis	-7.4	-6.8	-7.7	-5.9	-6.2	-6.3	-3.9	-5.3	-4.9	-3.3	-4.5	-4.5	-3.1	-4.0	-3.9	-3.4	-3.3
Nominal debt (eop), net of deposits	52.7	54.8	56.7	54.1	57.3	57.5	52.6	56.6	56.1	50.4	55.1	54.5	48.2	53.1	52.4	50.5	49.8
External sector																	
Current external balance, incl. official transfers	-4.7	-4.8	-4.5	-4.6	-4.9	-4.9	-5.9	-5.0	-4.8	-5.4	-4.3	-4.4	-5.1	-3.9	-2.9	-4.7	-1.3
Gross reserves in months of imports	6.3	7.0	6.4	7.1	6.4	6.4	7.2	6.4	6.4	7.3	6.4	6.4	7.4	6.4	6.4	6.4	6.4

1.6 Risks to the Economic Outlook

62. The macroeconomic outlook is faced with risks from both external and domestic sources. Risks from global economies relate to increased volatility in the global financial markets due to tensions between the U.S.A and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies. Further, the uncertainty of trade agreements such as between the United Kingdom and the European Union, the free trade area encompassing Canada, Mexico, and the U.S.A as well as uneven and sluggish growth in advanced and emerging market economies could hamper the forecasted growth. The low commodity prices and the risk of energy prices taking an upward trend, if the rising geopolitical tensions are not subdued, could negatively impact on our exports.

63. Domestically, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly related to wage related recurrent expenditures and the inevitable climate change and variability which has enhanced the frequency of disaster such as landslides, droughts and destruction of physical infrastructure. Locust invasion witnessed in the country in late 2019 and early 2020 poses a risk to agricultural production and food security. These shocks are likely

to have negative impact on energy generation and agricultural output leading to higher inflation that could slow down economic growth.

64. The Government continually monitors these risks to inform appropriate mitigating monetary and fiscal policy measures to preserve macroeconomic stability and strengthen resilience in the economy. To cushion the country against the downsides of the risks emanating from the global sphere, the Government is deepening reforms in the financial sector to ensure a stable and strong financial system in Kenya. The Government is also safeguarding macroeconomic stability through prudent fiscal and monetary policies. In particular, the Government continues to accumulate foreign exchange reserves to deal with any external shocks. Additionally, the diversified nature of our economy continues to offer resilience to the global challenges.

65. To protect the country from climate related risks and disasters, the Government has put in place various policies, strategies and financial risk protection instruments to cushion the economy against budget disturbances emanating from the need to address the unforeseen natural disaster. In particular, the Government has put in place a Disaster Risk Financing Strategy which outlines various financial protection instruments in the economy in the event of a disaster.

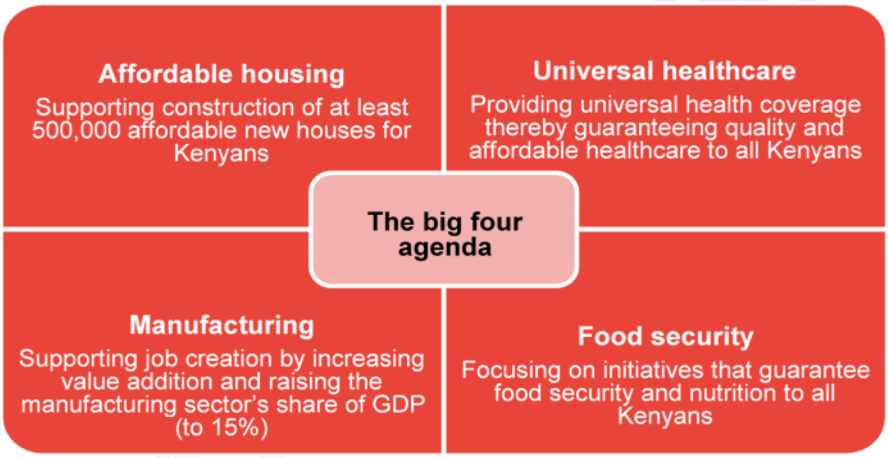
66. On risks emanating from domestic sources, the Government has laid foundations to enhance faster and lasting growth through the "Big Four" Plan, which will enhance growth momentum, and positively impact on the lives of people through jobs creation and poverty reduction. For example, the Government is expanding irrigation schemes to reduce dependence on rain-fed agriculture, diversifying exports and promoting value addition in agriculture. Further, the Government is accelerating infrastructure development to support manufacturing and expand intra-regional trade by deliberately targeting new markets for our products. In addition, the ongoing enhanced domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and reduce debt accumulation thus creating fiscal space necessary for economic sustainability.

II. UNLOCKING ECONOMIC POTENTIAL BY HARNESSING “THE BIG FOUR”

2.1 Preamble

67. The 2020 BPS seeks to accelerate the implementation of the “Big Four” Plan which has gained traction over the past two years. The “Big Four” (illustrated in **Chart 2.1**) is a solid development agenda designed to help achieve the social and economic pillars of our Vision 2030 and the development aspirations espoused in the Kenyan Constitution. Thus, actualization of policies and programmes under each pillar is expected to accelerate and sustain inclusive growth, create opportunities for decent jobs, reduce poverty and income inequality and ensure that we create a healthy and food secure society in which every Kenyan is guaranteed of affordable and decent housing.

Chart 2.1: The “Big Four” Plan



2.2 The “Big Four” Plan

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

68. To enhance the manufacturing sector, the Government continues to scale up the reforms to encourage investment and protect local industries against dumping. In this regard, efforts are at an advanced stage towards the development of Special Economic Zones (SEZ) and Industrial Parks across the country. Already, the Government is developing the Dongo Kundu SEZ which is expected to transform the coastal region, unlock more than 60,000 direct jobs and will promote the culture of “Buy Kenya, Build Kenya”. Additionally, the Government has launched the construction of the Naivasha Industrial Park which will boost job creation in the town and surrounding areas.

69. On agro processing, the Government is committed to revitalizing and restoring the contribution of major cash crops to the national income. The

Government will thus continue to support tea farmers to diversify tea varieties and at the same time restructure the coffee value chain to stimulate productivity and value addition. In addition, to boost cotton production and provide a ready market to farmers, the Government has modernized Rivatex East African Limited thereby expanding its capacity from producing 4,000 meters of cloth to 40,000 meters per day.

70. Kenya remains a leading producer of hides and skins in Africa. To ensure that all hides and skins are produced locally, the Government introduced tax incentives in the Finance Act 2019 which are expected to promote value addition and make locally produced goods competitive in various export markets. The Government also continues to improve infrastructure at Kinanie Leather Park and the development of other leather industrial parks.

71. Kenya’s coastal and marine environment is endowed with rich natural resources with massive economic potential. The recent launch of the Kenya Coast Guard has provided a major boost to fish production with fish stocks having more than doubled within a period of six months at the Liwatoni Fishing Complex. To further boost fish production, the Government in collaboration with Canada, is in the process of constructing fisheries infrastructure along the coast.

72. To boost the automotive industry, the Government is finalizing on the National Automotive Policy which targets to gradually and systematically reduce and eliminate the imports of used vehicles and used parts share in the domestic market by promoting assembly and production of automotive products locally. Already, the Government prioritized local motor vehicle assembly and manufacturing of spare parts which has witnessed Peugeot and Volkswagen assembly lines set up in Kenya. This is a positive beginning for the sector that is expected to rapidly expand and make Kenya the regional Motor Vehicle Assembly hub with resultant job opportunities for Kenyans, particularly for the youth.

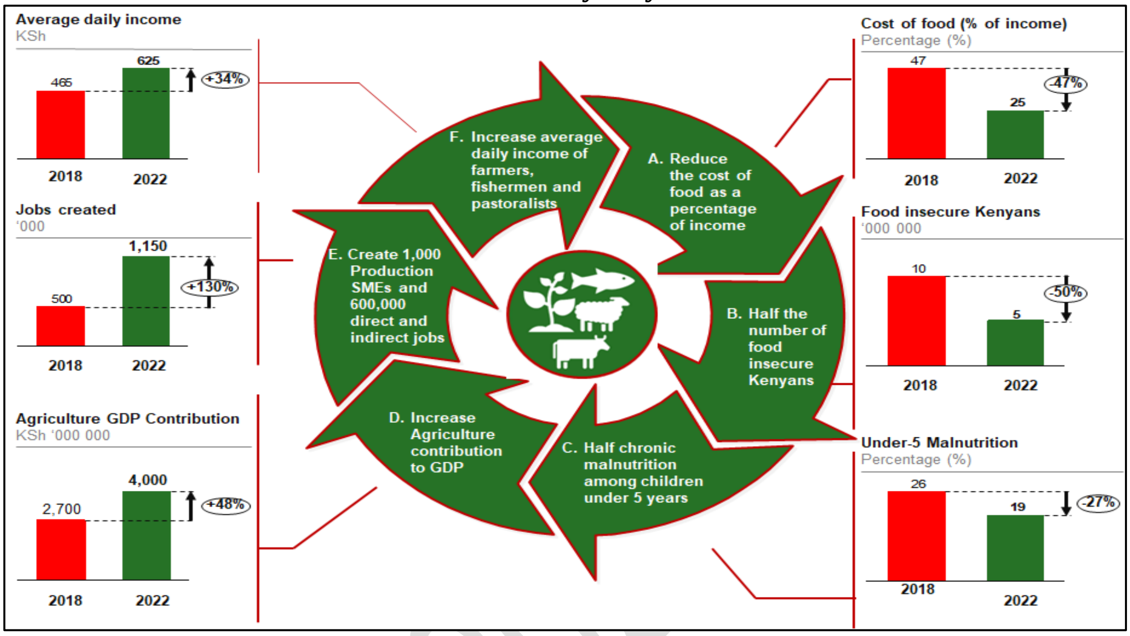
73. To further support the manufacturing, the Government continues to improve the business environment and fight illicit trade and contrabands. These efforts have borne fruits with Kenya improving to position 56 out of 190 countries in the World Doing Business Index. The Government will not relent and is committed to seeing Kenya ranked among the top thirty economies in the coming years. Particular focus will be placed on reducing the time and processes involved in establishing businesses, issuing construction permits, acquiring electricity, ease in accessing credit, paying taxes, and trading across borders. The Government will also continue investing in the energy sector, embrace ICT and sustain the war against corruption.

2.2.2 Enhancing Food and Nutrition Security to all Kenyans by 2022

74. Under this pillar of the “Big Four” Plan, the Government targets to ensure food and nutrition security. Overall strategy involves the reduction of food insecure Kenyans by expanding irrigation schemes, supporting large-scale production of staples, increasing access to agricultural inputs, implementing programmes to support smallholder farmers and promoting use of appropriate farming techniques (**Chart 2.2**). In a bid to eliminate child Malnutrition, the Government has successfully carried out the Cost of Hunger in Africa (COHA) Kenya Study and

estimated the economic and social impact of child under-nutrition in Kenya. Going forward, the Government is planning to develop an implementation plan and mobilizes resources to facilitate the execution of policy recommendations emanating from the Study findings.

Chart 2.2: The Food and Nutrition Security Key Outcomes



75. The Government has made great strides towards increasing the land under irrigation under the National Expanded Irrigation Programme. Notable achievements include: the launching of the Lower Nzoia Irrigation Project which targets 10,000 acres and once complete will serve 12,000 households; rehabilitation of Bura Irrigation Scheme is underway which once completed will increase land under irrigation from the current 6,000 acres to 15,000 acres. Further, the recent enacted Irrigation Act, 2019 is expected to hasten and improve coordination of irrigation activities in the country. These measures will greatly reduce the overreliance on rain-fed agriculture.

76. To boost maize production, the Government has without fail continued to provide subsidized fertilizer to farmers every planting season. During the 2019 planting season, the Government spent Ksh 2.0 billion on subsidized fertilizer in a bid to lower the cost of production for farmers. The Government has also put in place a Multi-Institutional Technical Team (MITT) whose work has been instrumental in development and implementation of strategies of managing Fall Army Worm.

77. To increase rice production, the Government has been working towards expanding the Mwea Irrigation Scheme by 10,000 acres through constructing dams, and improving roads and other infrastructure in the area. Already, the Government through the National Irrigation Board is constructing Thiba dam to improve the reliability of irrigation water and increase the area under irrigation. Additionally, the Lower Nzoia Irrigation Project is expected to contribute to increased rice production once it is complete.

78. Increasing fish production is one of the strategies that the Government is employing to attain food and nutrition security. Significant progress has made in this area. Fish production has more than doubled only six months after the launch of the Kenya Coast Guard Service at the Liwatoni Fishing Complex. In addition, the Government has committed financial resources towards the development of designated ports in the coast to facilitate landing by deep sea fishing vessels. Some of these fish landing sites under construction include Kichwa cha Kati and Ngomeni in Kilifi County, Gazi, Kibuyuni, and Vanga in Kwale, and two markets in Malindi and Mombasa.

79. To enhance income levels of farmers, the Government is promoting agriculture through structured trading by negotiating market access of their produce in international markets and restructuring the Kenya National Trading Corporation to better receive and manage farm produce. This will help reduce post-harvest losses and improve post-harvest handling of agricultural produce. In addition, the Government will continue to promote local produce abroad to deepen markets and further explore marine and aquaculture resources in view of the new global blue economy model.

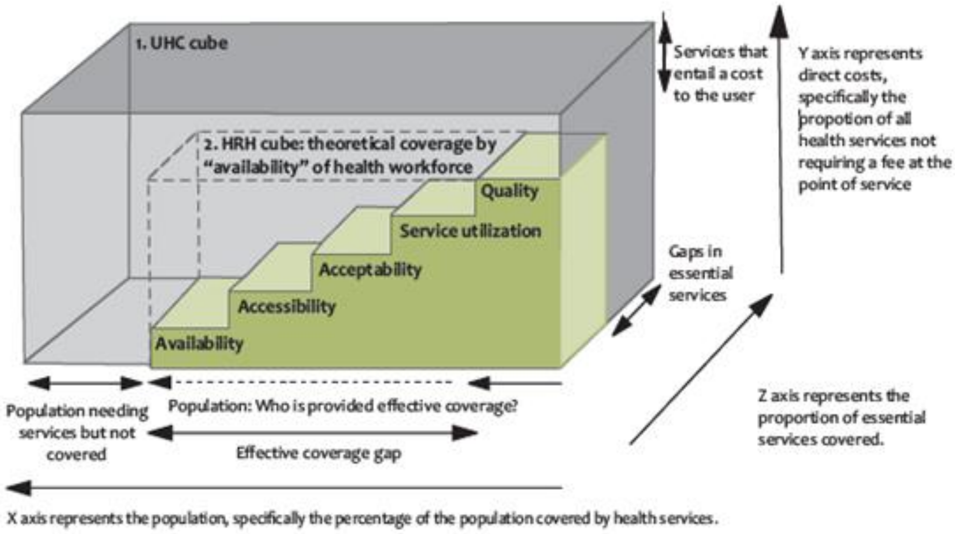
80. In a bid to enhance credit accessibility among maize farmers, the Government has commenced the operationalization of the Warehouse Receipt System (WRS) Act, 2019 with the goal of issuing warehouse receipts as collaterals to the financial sector. Currently, the Government is in the process of establishing a Warehouse Receipt Council which will be charged with seamless operationalization of the WRS.

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

81. The Government is committed to ensuring that every Kenyan has access to quality primary healthcare under the Universal Health Coverage (UHC) program. The roll out of UHC Pilot Programme marked a great milestone in the transformation of health services in this country. Notably, the Programme has enhanced access to essential health services, with an average of 39 percent reported in the pilot counties. The lessons from the pilot phase affirm that robust primary healthcare system is the right vehicle to secure sustainable Universal Health Coverage. In this regard, the Government has invested quality time to prepare for the full rollout of this programme in 2020, to cover the remaining 43 counties.

82. Moving forward, the Government will focus on primary healthcare, progressively address human resources needs, provide basic equipment in Primary Health Care facilities and ensure availability of Pharmaceutical and non-pharmaceutical commodities in all health facilities. The Government will also forge multi-sectoral collaboration to make UHC a success in the rest of the 43 counties upon full roll out of UHC slotted in early 2020 (**Chart 2.3**).

Chart 2.3: Achieving 100 percent Universal Health Coverage



83. Community Health Workers are crucial to the success of the UHC program and the Government through the Ministry of Health is in the process of reviewing community health strategy. Accordingly, the Government will create a sense of ownership and increasing motivation among community health workers through training, equipping, and provision of stipends.

84. To further enhance access to UHC, the Government is working towards building strong referral system which will reduce overcrowding and waiting times and at the same build patient confidence with the goal of changing treatment seeking behavior. To increase NHIF uptake, the Government availed resources in the 2019/20 budget to provide comprehensive medical cover to students in public secondary schools, elderly and vulnerable persons in all the NHIF-accredited mission and private hospitals.

2.2.4 Provision of Affordable and Decent Housing for All Kenyans

85. Access to adequate and affordable housing remains a key concern in Kenya. The recently concluded population census, estimates that 10 million Kenyans dwell in slums while over 90 percent of Kenyans living in urban areas live in rented houses, 65 percent of whom live in informal settlements. Access to financing is also a major problem for majority of Kenya evident in the fact that there are only 25,000 mortgages in the country. The Affordable Housing Program is therefore designed to address these challenges.

86. To realize the goal of constructing 500,000 affordable housing units by 2022, forging partnerships with the private sector and development partners is paramount. The recently launched Habitat Height, a project of the United Nations Office for Project Services (UNOPS), is an example of such strategic partnerships. Once complete, the project will avail 8,888 units of low cost units to Kenyans. The Government has already signed a Memorandum of Understanding (MoU) with UNOPS for the development of a further 200,000 units of which the Habitat Heights is a first of these units. The Government has also identified land where 100,000 units will be developed where the Government will ensure that the project

will have all the amenities of a modern metropolis as provided in the Urban Areas and Cities Act.

87. High cost of land is a major impediment to the development of affordable houses. Land and horizontal infrastructure adds up to 60 percent to the cost of any development. In this regard, the National and County Governments will avail their land for affordable houses projects at no cost. In addition, County Governments through the Kenya Urban Support Programme have committed to prioritize funding and development of infrastructure that will support the creation of sustainable affordable settlements.

88. To enhance affordability, the Government through the Finance Act, 2019 provided VAT exemptions for all inputs into the affordable housing development schemes. For the first time, home owners will be exempt of stamp duty under the Affordable Housing Scheme and doubling of the Home Ownership Saving Plan. Further, NEMA and National Construction Authority have been waived charges on constructions to reduce the cost of construction for ordinary Kenyans.

89. The Government also operationalized the National Housing Development Fund and the Kenya Mortgage Refinancing Company (KMRC) whose goal is provision of accessible and affordable financing. Notably, the Boma Yangu website which connects individuals to the Housing Fund, attracted the interest of over 270,000 Kenyans. The Government will amend the Housing Fund law to make contributions to the Housing Fund totally voluntary. The platform will provide real live evidence of demand aggregation to strategic partners of Affordable Housing Programme and at the same time allow individuals to see progress towards and a real connection to the dream of home ownership.

90. Social housing side of improving living conditions of Kenyans living in slums has also gained traction where resettlement of Kibera Zone B residents is underway to pave way for implementation of the development. The project will provide decent homes to about 4,400 households who have already been enumerated. The Government is in the process of selecting suitable investors to implement the decent homes project for Kibera B residents.

2.3 Enablers for the "Big Four" Plan

91. Investment in the enablers of the "Big Four" Plan play a major role in ensuring its success. This resonates well with the country's Economic Transformation Plan and the need to improve the welfare of Kenyans. To achieve this, the Government has prioritized spending in the following strategic areas and has realized notable progress.

2.3.1 Creation of Conducive Business Environment for Investment, Trade and Job Creation

92. The Government remains dedicated to creating and sustaining a more conducive business environment through achieving a stable macroeconomic environment, supporting business regulatory reforms, and enhancing security to attract investors, promote trade leading to job creation.

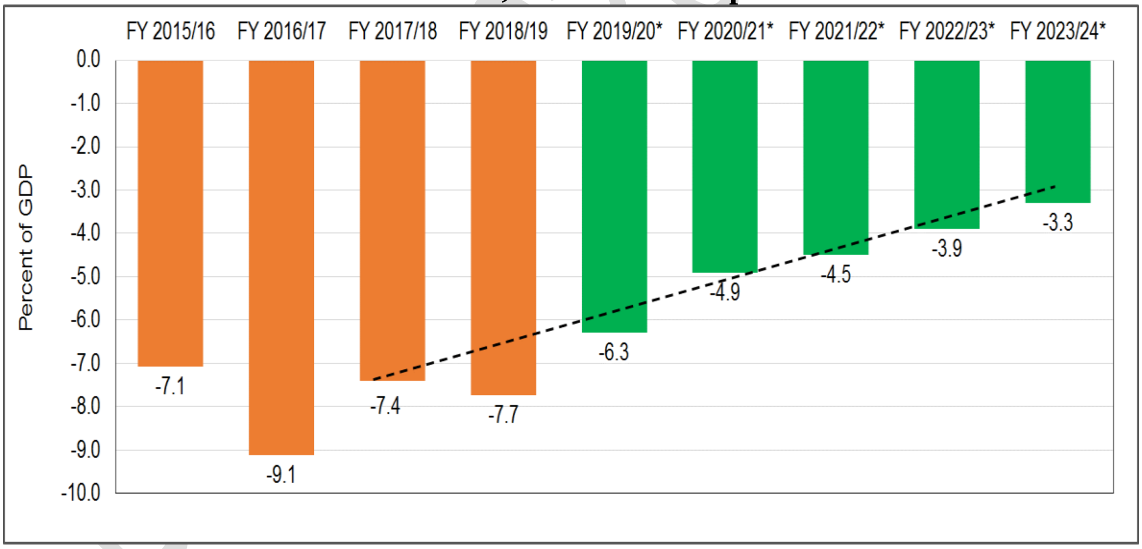
2.3.1.1 Stable Macroeconomic Environment

93. The Government strives to maintain macroeconomic stability which is critical for job creation by pursuing prudent fiscal and monetary policies that support strong economic growth, ensure price stability and maintain public debt at sustainable levels. This in turn supports attainment of the "Big Four" Plan.

94. In particular, the Government has continued to keep inflation rate within the target range of 5.0 (+/-2.5) percent to boost economic activity. In addition, the Government continues to foster a stable and competitive exchange rate to support exports and an adequate foreign exchange reserves as a buffer from external shocks.

95. To complement the monetary policy, the Government continues to sustain fiscal consolidation efforts including revenue mobilization and expenditure rationalization measures. These measures are expected to gradually reduce fiscal deficit from 7.7 percent in FY 2018/19 to 6.3 percent in FY 2019/20 and further to 3.3 percent of the GDP in FY 2023/24. Further, the nominal public debt on a net basis (as a percentage of GDP) is projected to decline from the estimated 56.9 percent of GDP in FY 2018/19 to 50.5 percent of GDP in the FY 2023/24 (**Chart 2.6**).

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



Source: National Treasury

2.3.1.2 Deficit Financing Policy

96. Kenya's debt sources include external creditors (multilateral, bilateral and commercial lenders) and domestic market through issuance of debt securities (T-Bills and T-Bonds). The net domestic financing for 2019/20 is Ksh. 300.7 billion while the Net Foreign Financing is Ksh. 353.5 billion. The fiscal deficit is being funded in an environment of floating market interest rates. The domestic sources have not been liquid on the short end of the yield curve for the first half of the Fiscal Year 2019/20. Market refinancing of maturing Treasury Bills was not adequate and other sources of revenue had to be utilized to redeem maturing

Treasury Bills. It is however, expected that the second half of the Fiscal Year will be more liquid so as to provide full funding of maturing treasury bills and bonds and provide resources to fully finance the Net Domestic Financing requirements.

97. Increasing fiscal constraints in concessional financial sources as well as Kenya`s graduation to lower middle-income economy has led to a slowdown in access to concessional funding. The cost of deficits financing and refinancing maturing debt has therefore remained higher since 2014 than in the previous years. Debt service burden will greatly benefit from fiscal consolidation so as to ensure that the relative service of debt service is brought down in the medium term. It is also expected that the country will restructure its debt portfolio by replacing expensive commercial debt with cheaper funds from alternative sources.

98. Further, the Government will continue to support the development of domestic debt market by implementing various financial reforms in the local debt market aimed at deepening it and improving efficiency to reduce yield and make credit affordable to all sectors.

99. In order to reduce vulnerabilities to risks of public debt, the National Treasury has formulated Debt Policy and Borrowing Policy to act as a guideline for borrowing and debt management practices of the National Government. The policy will improve the quality of decisions and articulation of policy goals, offer clearer guidelines for the structure of debt issuance, and act as a demonstration of commitment to long-term capital and financial planning. The policy is a good signal that the Government is committed to ensuring debt sustainability and to meet its debt obligations in a timely manner.

100. Accumulation of commercial borrowing, especially issuance of international sovereign debt securities will be curtailed to minimize the risks of external debt on the fiscal space. Increasingly debt and debt service obligations will be evaluated from an economic security perspective to inform public expenditure policy and in line with the Medium Term Debt Management Strategy. It is expected that better debt management will be complimented by reduced fiscal deficits and better selection of public investment projects underpinned by prudent pricings and costs containment. It is also anticipated that increased digitization of government services and service delivery systems will lead to reduced recurrent expenditures and eventual reduction of public expenditure and fiscal deficits and hence lower rate of debt accumulation.

2.3.1.3 Business Regulatory Reforms

101. The Government remains committed to making Kenya secure and attractive destination for investments critical for a strong and sustained high growth, poverty reduction and the attainment of the “Big Four” Plan. Towards this end, the Government continues to implement business regulatory reforms aimed at removing red-tape issues thereby reducing cost of doing business while enhancing service delivery to the public. These efforts have paid of, with the country’s ease of doing business ranking improving to position 56 in 2019 from position 61 in 2018 and position 80 in 2017. In addition, for four consecutive years (2016-2019), Kenya emerged the third best in sub-Saharan Africa. The Government’s target is

to further improve the country's ranking to top 30 globally and attain top 25 status in the next decade.

102. To attain this target, the Government will continue to implement various initiatives aimed at reducing the cost of doing business by accelerating infrastructure investment and reducing regulatory burdens. The business regulatory reforms will in particular focus on small and medium-sized enterprises (SMEs) who are instrumental in shaping Kenya's economy. Some of the reforms will involve reducing the number of trade facilitation agencies involved in the clearance of goods at the ports and enhancing customer relations.

2.3.1.4 Improving National Security

103. A safe and secure environment is a necessary precondition for achieving the "Big Four" Plan. Therefore, the Government continues to implement reforms targeted at improving the operational capacities of our security forces to protect Kenyans against external and internal attacks. In particular, the Government has increased allocations to all security agencies to improve their operations.

104. The Government continues to invest in the modernization of the National Police Service in order to improve their efficiency and comprehensively police all corners of the Republic. The recent launch of the digital occurrence book by the National Police Service will improve the efficiency of service delivery to Kenyans.

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

105. Infrastructure development contributes enormously towards improving our competitiveness and interconnectivity and laying ground for achieving the "Big Four" Plan. For this reason, the Government has continued to scale-up on a network of high-standard roads, railways, sea and airports, to enable Kenyans enjoy the benefits of expanded infrastructure facilities.

2.3.2.1 Expansion of the Road Network

106. The Government has scaled up investment in the road network by building more highways, urban roads and also to extending rural roads to previously unreached rural localities. This has opened up rural areas to economic activity, trade and commerce. Across the country, over 2,000 km of inter-city highways have been commissioned and are under construction, with another 500 km to be procured. In conjunction with various County Governments, investment has been placed in the building of over 3,500 Km of rural arteries roads in different parts of the country. Due to the heavy Government investments to improve the road network, almost every corner of our country now has a kilometer of top-grade roads, with others actively under construction. There are plans for greater expansion and key among them is the East Africa's first overpass from Jomo Kenyatta International Airport (JKIA) to Westlands, which was recently launched and presently under construction and the Mombasa-Nairobi six lane expressway.

107. Additionally, the Government is focused on developing urban roads to decongest cities and major towns. Under the Nairobi Regeneration Programme, the Government has repaired more than 80 kilometers of roads in Nairobi during the

first phase and will see all roads upgraded to the required standards at a cost of US $15m under the second phase.

2.3.2.2 Rail, Marine and Air Transport

Standard Gauge Railway

108. The completion of phase I of the Standard Gauge Railway (SGR) from Mombasa to Nairobi improved the movement of passengers and cargo across the two cities. By September 2019, Madaraka Express had ferried about 3.6 million passengers and 6.2 million cargo tonnage. With the completion and the launch of Phase 2A, SGR has created a link between Nairobi and the rest of towns in the Rift Valley such as Naivasha, Mai Mahiu, Ongata Rongai, Ngong and Suswa.

109. Building on these gains, the Government has embarked on financing negotiations and detailed designs for the construction of Phase 2B (Naivasha to Kisumu). The completion of Phase 2B 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 and Nyanza regions.

Sea Ports

110. The Government's continued massive investments have seen various ports and harbours expanded. Notably, following the Government's huge investments at the Kilindini port, the volume of the cleared cargo passing through the port annually has more than doubled. This has further led to creation of more than 8,000 jobs and a significant number of indirect beneficiaries. In addition, the Lamu Port is expected to begin initial operations as a trans-shipment hub for global shipping lines and create many job opportunities for Kenyans. Supported by a special economic zone, the Lamu Port will attract investors from all parts of the world to undertake various economic activities. To make it more useful, the Government is linking the Lamu Port to the LAPSSET Corridor through road infrastructure. This will see the port play a crucial role in the export of Kenya's crude oil. The Government is also reviving the Kenya National Shipping Lines in a bid to cement the country's position as both a regional and continental logistics hub.

111. The construction of free port under the Dongo Kundu Special Economic Zone and the rehabilitation of the Kisumu Port will further harness opportunities for inter-country transport and trade among the East African Countries around the Lake Victoria. The rehabilitation of the Kisumu Port will make Kisumu a regional economic hub in Lake Victoria a crucial transport corridor in the shipment of general cargo into and out of East African region.

Airports

112. The recent award of an International Civil Aviation Organization (ICAO) President's award to Kenya, reflects the country's commitment in resolving aviation security and oversight deficiencies. In addition, Kenya received a commendable score of 78.15 percent in a recent ICAO safety audit. These efforts

are geared towards making Kenya a strategic transport hub in support of the 'Big Four' Plan.

113. To further boost air transport, plans are underway to develop a second runway at Jomo Kenyatta international Airport (JKIA) in line with development objectives envisaged in the Kenya Vision 2030. Expansion of JKIA is geared towards enhancing economic efficiency, regional integration, and facilitating international trade all of which are key in supporting the manufacturing pillar of the "Big Four" Plan.

2.3.2.3 Enhancing Access to Adequate, Affordable and Reliable Energy Supply

114. Access to stable, reliable and affordable energy supply is directly linked to all aspects of socio-economic growth, hence critical for uplifting the welfare of Kenyans. Therefore, efficient production, transmission and distribution of affordable, clean and reliable energy to Kenyans remains a high Government priority.

115. In this regards, the Government through the through the Last Mile Project has connected millions of Kenyan households to affordable and reliable electricity. This has boosted businesses, reduced disparities between rural and urban areas spurred economic development in Kenyan rural areas. Building on this progress, the Government is in the process of implementing the Fourth Phase of the Last Mile Project which seeks to connect 280,475 more Kenyans in 32 Counties to the national grid. In addition, the Government will invest in the construction of additional electricity substations, transmission lines and distribution of transformers to all counties to boost the availability of electricity and to meet the growing demand for energy in Kenya.

116. To enhance energy generation, the Government is supporting exploration and distribution of oil and gas in the country and exploration of alternative energy sources such as solar, wind and small community hydro-power generation.

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

117. Information, Communication and Technology (ICT) forms the backbone of today's digital economy and has a strong potential to accelerate economic growth and improve the lives of Kenyans in fundamental ways. Therefore, the attainment of the "Big Four" Plan and prosperity as a nation is to a larger extent hinged on the country's ability to take full advantage of both the rapid technological change and the domestic potential to innovate in ICT.

118. To take advantage of the digital dividend and cement Kenya's leading position in the technology space, the Government continues to invest in ICT to boost literacy and digital skills, invest in digital infrastructure and improve access to affordable broadband connectivity. To this end, the Government is implementing the Digital Literacy Programme, expanding the Second Phase of the National Optic Fibre Backbone as well as installing an Internet Based 4000 Network. Other investments include the ongoing construction of the Konza Technopolis Complex and the Konza Data Centre and Smart City Facilities Project.

119. To make Kenya an industrialized information society and a globally competitive knowledge-based economy, the Government passed the National ICT Policy in November 2019. This will facilitate the creation of dignified jobs that provide financial security and independence to allow greater innovation and future thinking for the attainment of the "Big Four" Plan and Vision 2030 development goals. Further, the Digital Economy Blueprint developed by the Ministry of ICT seeks to make Kenya a digitally empowered citizenry, living in a digitally enabled society.

120. To strengthen the fight against cybercrimes and fraud which result to data corruption or loss, the Government enacted the Data Protection Act, 2019 which together with the Computer Misuse and Cybercrimes Act, 2018 will regulate the collection and processing of data in Kenya enhancing data security.

2.3.3 Investing in Sectoral Transformation for Broad Based Sustainable Economic Growth

2.3.3.1 Promoting Environmental Conservation and Water Supply

121. The Government remains committed to ensuring access to water and sanitation for all. Kenya being a water scarce country calls for deliberate efforts geared towards the development and expansion of the sector. Water management is critical for the realization of the "Big Four" plan and the Vision 2030 development goals.

122. In its efforts to ensure every Kenyan has access to clean, secure, and adequate water, the Government launched the Water Services Regulatory Board (WASREB) Guidelines aimed at streamlining the sector. Other guidelines already in place include; Provision of Water Services in Rural and Underserved Areas in Kenya, Water Safety Planning, Water Vending, and Corporate Governance as developed by WASREB. In addition, Ukunda town is set to benefit from Ksh 400 million Decentralized Treatment Facility (DTF) which will serve residents in the area. The Government has also established the National Water Harvesting Authority (NWHA) which plays an important role in ensuring sustainable water and drought management. To date, a total of 1,016 small dams and water pans have been constructed and 1,133 boreholes equipped.

123. The Government has also embraced the concept of green economy by fostering innovation in the financial sector by developing domestic green bond markets in collaboration with various players in the private sector. Green bonds will be very instrumental in protecting Kenya from adverse impact of extreme weather on agriculture. Kenya's first corporate green bond which was issued raised Ksh 4.3 billion for construction of environmentally-friendly student accommodation. Green bonds will be very instrumental in protecting Kenya from adverse impact of extreme weather on agriculture. With tax incentives in place, more green bonds are expected to be issued in Kenyan market.

124. Moving into the future, the Government will pay significant attention to development of policies and programmes touching on conservation and management of forests, wildlife resources, conservation of catchment areas, management of water resources, and climate change. Plans are underway to issue

the first sovereign Green Bond to finance public projects that are green (climate friendly).

2.3.3.2 Stimulating Tourism Recovery, Sports, Culture, and Arts

125. Tourism, Sports, Culture, and Arts sub-sectors contribute immensely to economic development through boosting job creation and generating foreign exchange. With this realization, concerted efforts have been geared towards sport development, promoting Kenya as preferred tourism destination, development of the film industry, preservation of various cultures, nurturing of talents and arts, and preservation of our national heritage.

126. Great strides have been made to support these sub-sectors. The Government has almost completed the rehabilitation of the Nyayo Stadium with sportsmen and women already enjoying state-of-the-art facilities at Kasarani Stadium. Through the Kenya Academy of Sports, the Government has established numerous satellite academies throughout the country whose aim is to develop talents at the grass root level.

127. The tourism sector is a one of the main foreign exchange earner for Kenya and generates many jobs each year especially in the restaurants and accommodation subsector. The Government will therefore continue providing an enabling environment for the sector to thrive in addition to marketing Kenya as preferred tourism destination.

128. The Government has over the years through the Kenya Cultural Centre supported development and performance of music, drama, and dance; exhibition of works of art and crafts; and fostered discussions of matters of literary, historical, scientific, and education importance. In furtherance of similar objectives plans are underway to establish an international arts and cultural center aimed at developing and nurturing talents among the youth. This is geared towards making arts and culture a source of livelihood.

2.3.3.3 Sustainable Management of Land for Social-Economic Development

129. Land is a vital resource in the attainment of the “Big Four” Plan and the Vision 2030. Construction of affordable houses for instance is heavily dependent on availability of affordable land. It is for this reason that the Government has formulated policies and programs to guide land use, access to land tittle, security of tenure, and development of a transparent and secure land registration system. In this regard, the Government launched the online Kenya Land Registry through which every Kenyan and investor can seamlessly search for land online.

130. In support of food and nutrition security, the Government is in the process of developing policy guidelines on leasing of idle arable land owned by public institutions. The Government will also facilitate transfer and registration of property by securitizing and reforming land registration process for quick and transparent registration of properties and is in the process of reviewing Sectional Properties Act and developing of relevant regulations to facilitate registration of properties owned on apartments.

131. The National Government will also continue extending its support to County Governments to strengthen their capacity to plan for urbanization and effective public land use planning for economic development. Further, National Spatial Plan (NSP) and National Land Use Policy (NLUP) already in place are critical policy frameworks for guiding county governments in formulation of responsive County spatial plans and Integrated Urban Development Plans.

2.3.4 Enhancing Service Delivery through Devolution

132. The National Government has remained committed to ensuring the success of devolution. Since 2013, the National Government has supported service delivery at the County Governments through sufficient funding as required by law and provision of technical capacity to improve on governance and ensure effective service delivery. Fiscal transfers to Counties have been significantly enhanced; including payments made in FY 2018/19. In total, for the period FY 2013/14 to FY 2018/19, County Governments received Ksh. 1.7 trillion cumulatively, 92.52 percent of which is equitable share, 3.56 percent being conditional grants that are part of national government share of revenue, 3.62 percent being allocations from Roads Maintenance Levy Fund (RMLF) and external loans and grants. Kshs 25.3 billion have been disbursed to County Governments as part of RMLF to assist in maintaining County Governments' roads.

2. Through conditional grants, the National Government has made a number of efforts to enhance service delivery at the County level. Most of these programmes are P4R (Programme for Results) which are aimed at incentivizing the County Governments to achieve certain agreed conditions. Among this include a World Bank Credit of Kshs 4.3 billion aimed at improving delivery, utilization and quality of primary health care services with focus on reproductive, maternal, new-born, child and adolescent health at the county level. Others include Kenya Urban Support Program (KUSP), which aims to support counties in financing infrastructure investments in urban areas; Kenya Devolution Support Program (KDSP) which aims at strengthening the County Governments PFM; Water and Sanitation Development Project (WSDP), which aims at improving water supply and sanitation services in six selected counties, and Agricultural Sector Development Support Programme (ASDSP), which aims at assisting in transformation of crop, livestock and fishery production into commercially oriented enterprises that ensure sustainable food and nutrition security, among others.

133. Low Own-Source Revenue (OSR) collection by County Governments undermines devolution and comprises service delivery. To unlock County Governments' huge own-source revenue (OSR) potential, the National Treasury and other stakeholders including the Council of Governors are implementing a policy framework that aims at supporting the enhancement of County Governments' OSR. The policy proposes a number of measures including legal and administrative reforms, automation of revenue collection and enforcement mechanisms among others. Increased OSR will not only enhance service delivery at the county level, but will also minimize the heavy reliance of County Governments from the exchequer.

134. To ensure success of the "Big Four" Plan launched in FY 2017/18 and consequently prioritized in the Third Medium Term Plan, the National Government is partnering with the County Governments to ensure speedy and efficient implementation of the plan in FY 2020/21. In December 2018, the Government launched Universal Health Care (UHC) which seeks to ensure quality affordable health care to all Kenyan citizens. Four counties were selected to pilot the project namely Kisumu, Nyeri, Isiolo and Machakos. In relation to affordable housing, the National Government has signed Memoranda of Understanding (MOU) with a number of Counties for development of at least 2,000 housing units in each county. Engagements with the rest of the counties are ongoing to ensure that all the counties are on board. The Government also launched Kenya Mortgage Refinancing Company to assist on coordination of this initiative.

135. Improvements in delivery of devolved services will be sustained only if County Governments adhere to existing fiscal rules. During the FY 2020/21, the National Treasury will maintain its focus on enforcing compliance with the Fiscal Responsibility Principles with focus on payment of pending bills, ensuring the County Governments reduce the wage bill to sustainable levels as specified in the PFM Act, as well as ensuring prudent management of fiscal risks that may occur due to mismanagement of public funds.

2.3.5 Investing in Kenyans for a Shared Prosperity

136. Investment in human capital is central to development and delivering substantial economic benefits. For this reason, the Government strategically invests human capital to support the achievement of the "Big Four" Plan and to meet the requirements of the Fourth Industrial Revolution. The Government has been investing in all social sectors leading to improvements in the country's human capital index.

137. The Government has also prioritized human capital development by revamping the education system to factor in inclusivity and equity to match the future needs of the global labour market. Principally, the Government is investing in quality and relevant education including revamping the technical, vocational training (TVET) sector which together with creating a strong manufacturing base will create a roadmap to achieving the "Big Four" and leading to the country's prosperity. The Government is also scaling up social safety nets to promote the wellness of vulnerable members.

138. The importance of skills in the attainment of the "Big Four" Plan cannot be over-emphasized. As such, the Government through the Public Service Commission has continued to design and implement human resource management and development policies, rules and regulations to equip staff with the required skills for effective implementation of the programmes under the "Big Four" Plan.

139. The Government is also reviewing the labour law to improve the adeptness of its labour in delivering on the "Big Four" Plan. This will also help respond to emerging issues and challenges in the labour market. The establishment of an Alternative Dispute Resolution (ADR) mechanism will provide conciliation and mediation services that are necessary for settling labour disputes thus reducing industrial strikes and lockouts. Additionally, the Government is developing an

integrated National Wages and Remuneration Policy to provide a framework and necessary guidance on wage levels, wage formation and adjustment mechanisms and other wage administration issues to be applicable in the country.

2.3.5.1 Investing in Quality and Relevant Education for all Kenyans

140. To break the traditional norm that education was a preserve for elites in society, the Government has continued to make sustained investments in the education sector. This has increased access to quality basic education and improved the outcomes of our public schools as seen in high literacy levels ranking among peer nations. In particular, Kenya has the highest rate of primary-to-secondary school transition, which is currently at 100 percent. Moreover, the huge investments in education have increased enrolment in both lower and higher institutions of learning.

141. To improve skill development and competencies of learners, the Government has been implementing the Competency-Based Curriculum since 2019. This curriculum extensively utilizes digital platforms that are fit for learning and meets demands of the 21st century.

142. Going forward, the Government will continue to prioritize the education sector and allocate resources to enhance access to basic and higher education, skills development and training, teacher recruitment, and infrastructure development as well as construction and equipping of technical institutions.

2.3.5.2 Strengthening the Social Safety Nets

143. To continue sharing the benefits of our growing economy and relieve the country of vulnerable members in society, the Government continues scaling up resources to Social Safety Nets Programmes (Inua Jamii) including the Kenya Hunger Safety Net Programme and the National Council for Persons Living with Disabilities Fund.

144. Going forward, the Government is in the process of developing a financing plan for the Hunger Safety Net Programme. The adoption of the financing plan will bring additional financial resources to the Hunger Safety Net Programme.

2.3.5.3 Empowering Youth, Women and Persons with Disabilities

145. The most pressing challenge in today's society is lack of jobs for the Kenyan youth. The Government is committed to solving this challenge by dedicating resources to youth empowerment programmes and supporting businesses owned by youth, women and persons living with disabilities.

146. In addition, the Government continues to implement the "Ajira Digital Program" to help bridge the gap between skills available and skills demand. Through the Ajira Digital Program and the Presidential Digital Talent Programme, the Government trains youths on online jobs.

147. The Government also continues to leverage on partnerships with businesses and other private organizations to create opportunities for the youth through internships, apprenticeships, mentorship and entrepreneurship. In May 2019, the Government launched the National Employment Authority to provide employment

and internship services and play a key role in facilitating foreign employment recruitment through private agencies. Also, the Government through the Public Service Commission (PSC) offered more than 3,100 youths internships in various public institutions. These programmes are key in increasing youth employability in Kenya.

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

2.3.6.1 Strengthening Governance and the Fight against Corruption

148. Corruption is detrimental to socio-economic development thus inhibiting efforts to better the lives of all Kenyans. As such, the Government has taken bold steps in implementing a raft of measures to strengthen accountability at all stages of the public finance management cycle which will immensely help in curbing loss of public funds. In particular, The Government has undertaken reforms to improve the Public Procurement and Disposal System in order to effectively and efficiently manage our resources as provided for in the Constitution.

149. Further, the Government continues to enhance allocations to all institutions mandated to fight corruption including the Ethics and Anti-Corruption Commission, the Office of the Director of Public Prosecutions, the Unclaimed Assets Recovery Agency, the Financial Reporting Centre, the Criminal Investigations Services and the Office of the Auditor General. This is to enable them bring all corruption suspects to book in record time, instill good governance and recover corruptly acquired assets.

2.3.6.2 Deepening Public Financial Management Reforms

150. The achievement of the "Big Four" Plan is strongly anchored on prudent management of available public resources. As such, the Government will continue to strengthen expenditure control and improve the efficiency and effectiveness of public spending through necessary public financial management reforms.

151. In particular, coupled with the expenditure rationalization and fiscal consolidation efforts, 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 and other public investments in critical sectors such as education, infrastructure, energy and social protection.

152. To improve project selection, budgeting and management, a new Public Investment Management (PIM) Unit has been created at the National Treasury and charged with the responsibility to establish 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, within budget and to required quality standards. The PIM Unit shall independently review major projects before they are included in the budget. The PIM processes will be automated to ensure operational effectiveness through establishment of a Public Investment Management Information System (PIMIS).

153. Going to FY 2020/21, the use of PIMIS will be mandatory for budget preparation, execution, monitoring and reporting on public investment projects. The PIM Regulations, as a minimum, will require that all projects ideas/concepts are subjected to the same quality assurance processes, 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 inclusion in the budget.

154. Further to that, the National Treasury will develop a detailed methodology manual on Economic Project Appraisal and Management that will be used to guide, train and strengthen the capacity of the both Ministries, Departments, Agencies (MDAs) and Counties on the preparation, appraisal and management of public investments. It will also develop a database of commodity specific conversion factor and estimate the National Parameters for Kenya. This database will contain Commodity-Specific Conversion Factors (CSCFs) that will be used for estimating economic values for both tradable commodities and non-tradable commodities.

2.3.6.3 Fostering Financial Sector Developments and Reforms

155. The Government has continued to implement measures and reforms aimed at further developing the financial sector. This has led to the country's better ranking in the Africa Financial Markets Index, particularly in the ease of access to foreign trading.

156. To cement the country's position as a regional financial hub, the Government is fast tracking the operationalization of the Nairobi International Financial Centre (NIFC) which is a key Vision 2030 flagship project. Development of regulations on NIFC activities and incentives are at an advanced stage. All these are geared towards facilitating and supporting the development of an efficient and competitive financial sector as envisaged in Vision 2030. On bank supervision and regulatory framework, the Government continues to strengthen implementation of the risk-based supervision to promote competition, safety and soundness of the financial sector.

157. To facilitate development of an orderly, fair and efficient capital market in Kenya, the Government has been promoting the diversification of products and services within the capital markets space. Some key initiatives include the implementation of the derivatives market, commodities exchange 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. The Government is also formulating a national policy for the insurance industry in Kenya to strengthen the framework of providing insurance services in the country.

158. In line with the Government's larger financial and pension inclusion agenda, the Government is seeking to further strengthen the legal and regulatory

framework in order to achieve more comprehensive pension coverage across the formal and informal sectors and better protect the beneficial interests and rights of pension subscribers. A National Pensions Policy is therefore being developed to ensure that individuals have retirement income from various sources that is sufficient to avoid old-age poverty.

159. The Government is in the process of developing a National Insurance Policy in order to increase Insurance Penetration. This will strengthen policy, legal and regulatory environment for improved access, usage and affordability of insurance products and services in Kenya.

160. Financial stability has become critical to the proper functioning of any economy across the globe. A financial crisis can lead to systemic risks where financial instability becomes so widespread that it impairs the functioning of a financial system to the point where economic growth and welfare suffer materially. To this end, the Government has initiated a process to formulate a macro-prudential policy and crisis management framework for the financial services sector in Kenya. This will complement the traditional micro-prudential frame works as measures to mitigate systemic risk in the financial services sector

161. To enhance access to credit, the Government has repealed the cap on the lending rate for banks which was introduced in September 2016. This is expected to enhance credit access to the private sector especially the micro, small and medium enterprises (MSMEs) who were starved of credit boost business activity and economic growth in the country.

162. To exploit Kenya's established lead in digital finance, the Government is implementing reforms aimed at accelerating the creation and adoption of digital financial services. Specifically, the Government is fast tracking the creation of a 'digital money grid' as a form of national infrastructure to unleash a new wave of innovation to provide financial solutions across all parts of the economy

III. BUDGET FOR FY 2020/21 AND THE MEDIUM TERM

3.1 Fiscal Framework Summary

163. The FY2020/21 Budget framework will continue with the fiscal consolidation policy to strengthen our debt sustainability position. With the fiscal consolidation strategy, MDAs will be encouraged adopt efficiency in allocation of resources and observing the concept of value for money with a view to promoting sustainability and affordability. This will ensure efficiency not only in tax administration but also in how tax revenues are utilized

164. The fiscal framework for the FY2020/21 Budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II.

Revenue Projections

165. In the FY2020/21 revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to Ksh 2,133.5 billion (18.3 percent of GDP) up from Ksh 2,084.2 billion (20.1 percent of GDP) in the FY 2019/20. Revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,856.7 billion (16.0 percent of GDP) in FY 2020/21 from Ksh 1,843.8 billion (17.8 percent of GDP) in FY 2019/20.

Expenditure Projections

166. While the Government expenditure is projected to decline as a share of GDP to 23.6 percent, the overall nominal expenditure and net lending for FY2020/21 is projected at Ksh 2,743.8 billion from the estimated Ksh 2,874.2 billion (27.8 percent of GDP) in the FY 2019/20 budget. The expenditures comprise of recurrent of Ksh 1,786.9 billion (15.4 percent of GDP) and development of Ksh 576.0 billion (5.0 percent of GDP).

Deficit Financing

167. Reflecting the projected expenditures and revenues, the fiscal deficit (including grants), is projected at Ksh 569.4 billion (4.9 percent of GDP) in FY 2020/21 against the estimated overall fiscal balance of Ksh 657.4 billion (6.3 percent of GDP) in FY 2019/20.

168. The fiscal deficit in FY 2020/21, will be financed by net external financing of Ksh 247.3 billion (2.1 percent of GDP), Ksh 318.9 billion (2.7 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.

3.2 FY2020/21 and Medium-Term Budget Priorities

169. The Government is committed to implementing priority programmes under the MTP III to achieve the aspirations of Kenyans as outlined in the Vision 2030 while taking into account the need to optimize use of taxes and other resources during the programming period.

170. The Government will in this regard develop a framework for better quality services based on strong links between resources, budgeting, monitoring and clear expectations for delivering planned outcomes.

171. Whilst consolidating earlier gains, the Medium-Term Budget for 2020/21 – 2022/23 will primarily focus on priority programmes aimed at achieving the "Big Four" Plan. The above priorities notwithstanding, the Government will continuously strive to ensure that public spending leads to high quality outcomes. Consequently, the medium-term spending programme will continue to focus on the quality of public spending.

172. Sustainability, affordability and strict prioritization are 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.

3.3 Budgetary Allocations for the FY2020/21 and the Medium-Term

173. 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 FY2020/21 – 2022/23 (Ksh Million)

	FY 2019/20 Supplementary Estimates No. 1. 2019/20	FY 2020/21	FY 2021/22	FY 2022/21
1. National Government	**2,006,964.1**	**1,864,305**	**1,967,570**	**2,009,266**
Executive	1,947,872.8	1,814,433	1,914,939	1,954,043
Judiciary	19,202.1	13,650	14,162	14,694
Parliament	39,889.3	36,222	38,468	40,529
2. Consolidated Fund Services*	**550,063.2**	**580,450**	**668,714**	**751,317**
3.County Governments**	**316,500.0**	**317,500**	**330,694**	344,836
TOTAL..................	**2,873,527.3**	**2,762,255**	**2,966,977**	**3,105,419**
% Share in Total Expenditure				
1 National Government	69.8%	67.5%	66.3%	67.7%
Executive	67.8%	65.7%	64.5%	65.9%
Judiciary	0.7%	0.5%	0.5%	0.5%
Parliament	1.4%	1.3%	1.3%	1.4%
2. Consolidated Fund Services*	19.1%	21.0%	22.5%	25.3%
3.County Governments**	11.0%	11.5%	11.1%	11.6%

Source: National Treasury

Allocation Baseline Ceilings

174. 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.

175. Development expenditures have been shared out on the basis of the flagship projects in Vision 2030, the "Big Four" Plan and the 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.

Criteria for Resource Allocation

176. The FY2020/21 Medium-Term Budget will be finalized after thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. Expenditure prioritization will be undertaken with a view to ensure provision of core services and minimizing costs through the elimination of duplication and inefficiencies.

177. The following criteria will serve as a guide for allocating resources:

(i) Linkage of Programmes to the 'Big Four' Plan either as drivers or enablers;
(ii) Linkage of the programme with the objectives of Medium-Term Plan III;
(iii) Degree to which a programme promotes job creation and addresses poverty reduction;
(iv) Degree to which the programme is addressing the core mandate of the MDAs;
(v) Expected outputs and outcomes from a programme;
(vi) Cost effectiveness and sustainability of the programme; and
(vii) Immediate response to the requirements and furtherance of the implementation of the Constitution.

178. Detailed budgets will be scrutinized and should additional resources become available in the process of firming up the resource envelope, the Government will redirect them to inadequately funded strategic priorities. Specifically, the following will receive priority:

- Interventions identified by the stakeholders consultation forums for the FY2020/21 Medium-Term Budget;

- Strategic interventions which are addressing areas of the "Big Four" Plan, namely; manufacturing and agro-processing, food security and nutrition, affordable housing, and universal health coverage; and
- Interventions aimed at enhancing job creation and poverty reduction.

3.4 Details of Sector Priorities

179. The medium-term budget framework for 2020/21 – 2022/23 has taken into account the need to ensure that resource allocation is aligned to prioritized programmes in the MTP III. In particular, the budget framework has focused on the "Big Four" Plan and the strategic policy initiatives of the Government to accelerate growth, employment creation and poverty reduction. **Table 3.2** provides the projected baseline ceilings for the FY2020/21 and the medium-term, classified by sector.

Table 3.2: Medium Term Sector Ceilings, 202021/ - 2022/23 (KSh Million)

Code	Sector Title		Approved Budget	BPS Projection			% Share in Total Ministerial Expenditure			
			2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
010	**Agriculture, Rural & Urban Development**	**Sub_Total**	**59,638**	**48,285**	**52,842**	**53,912**	**3.1%**	**2.6%**	**2.7%**	**2.7%**
		Rec._Gross	18,957	17,522	17,912	18,351	1.0%	0.9%	0.9%	0.9%
		Dev._Gross	40,682	30,763	34,930	35,561	2.1%	1.6%	1.8%	1.8%
020	**Energy, Infrastructure & ICT**	**Sub_Total**	**435,107**	**404,634**	**430,377**	**428,815**	**22.6%**	**21.7%**	**21.8%**	**21.3%**
		Rec._Gross	89,726	87,835	92,500	92,356	4.7%	4.7%	4.7%	4.6%
		Dev._Gross	345,381	316,799	337,877	336,459	17.9%	17.0%	17.1%	16.7%
030	**General Economic & Commercial Affairs**	**Sub_Total**	**29,890**	**23,024**	**26,158**	**28,636**	**1.5%**	**1.2%**	**1.3%**	**1.4%**
		Rec._Gross	15,015	13,899	14,141	14,296	0.8%	0.7%	0.7%	0.7%
		Dev._Gross	14,875	9,125	12,018	14,340	0.8%	0.5%	0.6%	0.7%
040	**Health**	**Sub_Total**	**92,725**	**112,653**	**120,114**	**126,278**	**4.8%**	**6.0%**	**6.1%**	**6.3%**
		Rec._Gross	58,084	62,472	63,926	65,425	3.0%	3.4%	3.2%	3.3%
		Dev._Gross	34,641	50,180	56,188	60,853	1.8%	2.7%	2.9%	3.0%
050	**Education**	**Sub_Total**	**494,807**	**507,521**	**531,733**	**546,606**	**25.7%**	**27.2%**	**27.0%**	**27.2%**
		Rec._Gross	469,272	487,844	509,345	521,865	24.3%	26.2%	25.8%	25.9%
		Dev._Gross	25,535	19,677	22,389	24,741	1.3%	1.1%	1.1%	1.2%
060	**Governance, Justice, Law & Order**	**Sub_Total**	**209,625**	**195,581**	**219,118**	**224,557**	**10.9%**	**10.5%**	**11.1%**	**11.2%**
		Rec._Gross	192,380	187,120	209,187	214,740	10.0%	10.0%	10.6%	10.7%
		Dev._Gross	17,245	8,461	9,932	9,817	0.9%	0.5%	0.5%	0.5%
070	**Public Administration & International Relations**	**Sub_Total**	**288,821**	**259,845**	**261,456**	**265,248**	**15.0%**	**13.9%**	**13.3%**	**13.2%**
		Rec._Gross	185,080	169,528	160,758	164,894	9.6%	9.1%	8.2%	8.2%
		Dev._Gross	103,741	90,318	100,698	100,355	5.4%	4.8%	5.1%	5.0%
080	**National Security**	**Sub_Total**	**159,270**	**149,320**	**155,096**	**160,021**	**8.3%**	**8.0%**	**7.9%**	**8.0%**
		Rec._Gross	142,191	135,345	140,122	145,046	7.4%	7.3%	7.1%	7.2%
		Dev._Gross	17,079	13,974	14,974	14,974	0.9%	0.7%	0.8%	0.7%
090	**Social Protection, Culture & Recreation**	**Sub_Total**	**68,690**	**67,474**	**71,966**	**74,166**	**3.6%**	**3.6%**	**3.7%**	**3.7%**
		Rec._Gross	29,768	39,288	39,778	40,290	1.5%	2.1%	2.0%	2.0%
		Dev._Gross	38,921	28,186	32,188	33,876	2.0%	1.5%	1.6%	1.7%
0100	**Environment Protection, Water & Natural Resources**	**Sub_Total**	**90,247**	**96,467**	**102,005**	**104,394**	**4.7%**	**5.2%**	**5.2%**	**5.2%**
		Rec._Gross	24,133	24,615	24,896	25,394	1.3%	1.3%	1.3%	1.3%
		Dev._Gross	66,114	71,852	77,109	79,000	3.4%	3.9%	3.9%	3.9%
	Grand Total		**1,928,821**	**1,864,805**	**1,970,866**	**2,012,632**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
		Rec._Gross	1,224,607	1,225,468	1,272,565	1,302,657	63.5%	65.7%	64.6%	64.7%
		Dev._Gross	704,214	639,336	698,302	709,975	36.5%	34.3%	35.4%	35.3%

Source: National Treasury

Agriculture, Rural and Urban Development Sector

180. The overall goal of the sector is to attain food and nutrition security; sustainable management and utilization of land and the blue economy. The sector is a key player in economic and social development of the country through food production, employment and wealth creation, foreign exchange earnings, security of land tenure and land management. For example, the sector's contribution to GDP was 31.3% (equivalent to Ksh 2.209 trillion) in 2016, 29.7% (equivalent to Ksh 2.342 trillion in 2017), and 32.9% (equivalent to Ksh 2.929 trillion) in 2018.

181. The following key achievements were realized by this sector in the 2016/17-2018/19 MTEF period:- registered 1,277,596 land title deeds countrywide; developed the National Land Value Index in 17 counties; produced 2,724,560 straws of semen and 133.48 million doses of assorted vaccines; procured and distributed 284 milk coolers; subsidized 370,250 Metric Tonnes (MT) of fertilizer that benefitted 1.4 million farmers; increased area under irrigation through development of small-scale irrigation infrastructure to cover 545 ha; restocked water bodies with 8,000 fish brooders and 720,000 fingerlings; constructed fish quality control laboratories in Nairobi, Mombasa and Kisumu; procured an offshore Patrol Vessel (PV Doria); established two liquid nitrogen plants in Sotik (Bomet County) and Kirinyaga; produced and distributed 1,077,213 litres of liquid nitrogen; and sustained tsetse and trypanosomiasis control in 5 tsetse belts (lake Victoria, coastal, northern rift ,central and western).

182. Key outcomes expected in MTEF period 2020/21-2022/23 include improved land management for sustainable development; enhanced livestock resource management and development; increased production and productivity, increased food and nutrition security and incomes; conducive environment for sustainable development of agriculture and the blue economy; enhanced access and use of land and improved agricultural research for socio-economic development and industrialization.

183. To enable the Sector achieve these outcomes, it was allocated Ksh 17.52 billion for Recurrent and Ksh 30.76 billion for Development in the 2020/21, while for the FY2021/22 Ksh 52.84 billion was allocated of which Ksh 17.91 billion is for Recurrent and Ksh 34.93 billion is for Development, and Ksh 53.91 allocated for the FY2022/23 of which Ksh 18.35 billion is Recurrent and Ksh 35.56 billion is for Development expenditure.

Energy, Infrastructure and Information, Communication and Technology Sector

184. The sector plays a significant role, as a driver and an enabler in the implementation of the "Big Four" Plan. The housing sub-sector targets 500,000 affordable houses, while the rest of the sub-sectors provide the requisite infrastructure which will not only support the realization of the "Big Four" Plan but also the growth of the other sectors of the economy.

185. During implementation of 2016/17-2018/19 MTEF budget, the Sector realized significant achievements that include: construction of 3,939 Km of roads; 66 number of bridges; rehabilitation of 445 Km of roads; construction of second

container terminal phase 1 (berth 20 and 21 in Mombasa Port); installation of marine communication system in Lake Victoria; completion and operationalization of SGR between Mombasa and Nairobi; expansion and modernization of JKIA (Terminal building 1A, 1E & T2); sensitization of the public on potentials in the blue economy; development of 1,230 housing units for National Police and Prisons Services; completion of 228 affordable housing units in park road; construction of 42 km sewer line in Juja-Thika; completion of 19 markets; rehabilitation of one stadium in Narok County; completion of 6 stalled Government building projects; construction of 42 footbridges; laying of 4,542 Km fiber optic; establishment of 155 Constituency Innovation Hubs; modernization of training facilities at Kenya Institute of Mass Communication; establishment of 5 Studio Mashinani; installation of 87.7MW of geothermal and 360MW from wind and solar; construction of 1,832.5 km of transmission line and 12 new substations; connection of 2,361,310 new customers and 1,785 public facilities to the National grid; drilled 10 petroleum exploration wells; and exported 204,044 barrels of crude oil under the Early Oil Pilot Scheme.

186. In the 2020/21-2022/23 MTEF period, the sector aims at providing efficient, affordable, sustainable and reliable infrastructure and services in energy, transport, ICT and built environment. In this regard, the following programmes will be implemented: construction of 65,051 housing units; construction of Bus Rapid Transport (BRT) infrastructure such as 48 BRT stations; park and ride facilities, 4 depots and 60 km BRT lanes; 13 flagship markets; universal access of electricity by year 2022; construction of 2,946 km of transmission lines and 21 substations; promotion of clean cooking solutions; construction of 6,000 km of roads and missing link roads to identified industrial parks, health centers and housing units; completion of the first berth of Lamu port; construction of Naivasha Special Economic Zones; provision of connectivity of the "Big Four" projects; and provision of digital services to schools under DLP, among others.

Taking cognizance of the role of the sector in national development, in the FY2020/21, Ksh 408,939 Million has been allocated out of which Ksh 71,972 Million is earmarked for the "Big Four" Plan.

General Economic and Commerce Affairs Sector

187. The mandate of the sector is promotion and development of domestic and regional trade, tourism, industrialization and entrepreneurship, innovation, cooperative development and savings, mobilization and investment and regional integration, regional and basin-based development.

188. Remarkable achievements in the MTEF period, 2016/17 -2018/19 include: modernization of New KCC increased milk processing capacity from 300,000 litres/day to 500,000 litres/day; Ksh 1.7 Billion Coffee STABEX loan was cleared; growth in value of exports from Ksh 594 Billion to Ksh 613 Billion; ranking under World Bank Ease of Doing Business improved from 108 in 2016 to 61 in 2019; 136 firms are operating in EPZA creating 60,733 direct jobs opportunities; equipping of 2 laboratories at KIRDI Kisumu was completed; increased student enrollment in KITI from 1565 to 2105 ; Ksh 4.243 Billion was advanced to Micro and Small Enterprises (MSE) and large firms by KIE, IDB and ICDC; growth of international tourists arrivals from 1.34 Million to 2.03 Million; increase in income

from tourism from Ksh 99.7 Billion in 2016 to Ksh 157.4 Billion in 2018; growth with domestic tourism from 3.5 Million to 4.6 Million; Irrigated 2,765 acres; 468 tonnes of food produced; 2.8 Million trees planted; 40 water points developed and five (5) processing factories established.

189. The programmes prioritized for the MTEF period FY 2020/21-2022/23 are: Promotion of Industrial development and Investment; Standards and Business Incubation; Trade Development and Promotion; Cooperative Development and Management; East African Affairs and Regional Integration; Integrated Regional Development; Tourism Development and Promotion. As a driver of the 'Big Four' Plan, GECA will undertake targeted investments in manufacturing and agro-processing industry. As an enabler, the sector will also create an enabling environment for business, mobilization of resources for investments and industrial development, promotion of exports, promotion of sustainable tourism, deepen the EAC integration, and promote equitable regional socio-economic basin- based development.

190. During the MTEF period FY 2020/21-2022/23, the sector has a recurrent allocation of Ksh 14.0, billion, Ksh 14.3 billion and Ksh 14.5 billion for financial years 2020/21, 2021/22 and 2022/23 respectively. While during the same period, the sector has a development allocation of Ksh 9.1 billion, Ksh 12.0 billion Ksh 14.3 billion for 2020/21, 2021/22 and 2022/23 respectively.

Health Sector

191. Health sector's overall goal is to attain the highest possible standards of health care to all in accordance with the Constitution and the Kenya Vision 2030. As envisaged in the Constitution, health functions are largely devolved under the Fourth Schedule. The National and County Governments have their specific functions that are complementary towards achievement of quality, efficient and affordable Universal Health Coverage (UHC) for all Kenyans, being one of the pillars of the "Big Four" Plan.

192. During the 2016/17-2018/19 MTEF period, the sector recorded major achievements, among them; implementation of UHC. The pilot project for UHC was launched in December 2018 in four counties of Kisumu, Nyeri, Machakos and Isiolo. In these counties, all residents were enrolled and entitled to comprehensive quality health services at all points of service delivery. The lessons learnt in these counties are going to be used in the scale-up of the UHC programme in the country during the current financial year beginning January 2020.

193. The sector also carries out key interventions to ensure increased access to quality health for all Kenyans. Reduction of HIV prevalence in the country as well as maintaining the health of PLHIVs remained a key priority. The prevalence rate remained at 4.9 percent, with 1.1 million persons receiving life-saving ART. HIV positive expectant women receiving ARVs to prevent-mother-to-child-transmission of HIV was 94 percent of eligible mothers. Tuberculosis control also registered positive performance during the period under review, with treatment success rate being above 85 percent of treated cases.

194. The sector priorities in the MTEF period 2020/21 - 2022/23 are aligned to the health sector development Plan and will be achieved through full

implementation of UHC as part of the "Big Four" Plan. First on the list is scaling up UHC. The initiatives under this include the Linda Mama (free maternity health services), subsidies for the poor, elderly and vulnerable groups, persons with mental health, secondary school children and the informal sector and reducing out of pocket/catastrophic health expenditures through reforming the provider payment mechanisms and ensuring efficiency and equity in use and distribution of resources.

195. In the MTEF period 2020/21 - 2022/23 the sector has been allocated Ksh 112.9 billion of which Ksh 62.7 billion for Recurrent and Ksh 50.2 billion for Development in FY 2020/21, while for the FY2021/22 Ksh 120.4 billion was allocated of which Ksh 64.2 billion is for Recurrent and Ksh 56.2 billion is for Development, and Ksh 126.6 billion allocated for the FY2022/23 of which Ksh 65.7 billion is Recurrent and Ksh 60.9 billion is for Development expenditure.

Education Sector

196. The Education sector aims to achieve five goals namely (i) to provide access, equity, quality and relevant education and training at all levels; (ii) to establish, maintain and manage professional teaching and learning service for all basic learning and tertiary institutions (iii) formulate, review and implement appropriate policies, legal and institutional frameworks for the Sector; (iv) to promote innovativeness and popularize research, technology and innovation in industry and learning institutions; and (v) promote vibrant industry-institutional linkages in the area of skilling for employability.

197. The sector made significant achievements in the FY 2016/17 through to FY 2018/19. Key achievements include: - Primary schools increased from 21,953 to 22,746 while secondary schools increased from 9,966 to 11,399. Registered TVET institutions increased from 874 to 1,707 and universities increased from 70 to 74. In this regard enrolment in public Technical and Vocational Colleges increased from 101,108 in 2016/17 to 175,278 in FY 2018/19 while that of Youth Polytechnics grew from 77,465 to 89,598 and University enrolment increased from 539,749 to 559,210. These increases are attributed to sub sector initiatives like free primary education, 100% transition from primary to secondary that led to an increase in capitation at secondary education level from Ksh 12,870 to Ksh 22,244, the on-going revitalization of TVET and the placement of 12,096 students in 29 private universities in 2016 which increased to 17,362 students placed in 35 private universities in 2018.

198. The sector priorities in the MTEF period 2020/21 - 2022/23 will focus on enhancing the quality of education as guided by the strategic objectives as articulated in the MPT III and the Constitution of Kenya. Specifically the sector will continue to implement the free primary education, 100% transition from primary to secondary by providing capitation for all learners in public schools and paying examination fees. In addition revitalization of TVET will continue through physical infrastructure, equipping and operationalization of new institutions. The sector will also support the "Big Four" Plan through its programmes like provision of health insurance cover to all high school students and other initiatives in the University subsector and as an overall enabler in producing educated labour force.

199. To achieve the above outcomes in the MTEF period 2020/21 - 2022/23, the sector has been allocated Ksh 507.5 billion of which Ksh 487.8 billion for Recurrent and Ksh 19.7 billion for Development in FY 2020/21, while for the FY2021/22 Ksh 529.4 billion was allocated of which Ksh 507 billion is for Recurrent and Ksh 22.4 billion is for Development, and Ksh 544.2 billion allocated for the FY2022/23 of which Ksh 519.5 billion is Recurrent and Ksh 24.7 billion is for Development expenditure.

Environment Protection, Water and Natural Resources

200. The sector plays a critical role in Kenya's economy, securing, stewarding and sustaining the environment and natural capital of the country. The sector contributed significantly to GDP in 2018 and has a great potential in contributing to the attainment of the targeted annual GDP growth rate of 10% as envisioned in Vision 2030.

201. During the MTEF period 2016/17 - 2018/19, four Hydromet stations were established, urban sewerage coverage increased from 21.5% to 25% which translates to 0.9 million additional people being served. Poaching was reduced to 83% against a target of 80%; increased response rate to Human Wildlife Conflicts to 98% of all reported cases against a target of 100%; 102 Km of fence were constructed and 5,060 Km maintained. Over 777,000 Ha of degraded critical indigenous forest areas were protected for rehabilitation in 37 Counties and 681,690 Ha of new forest areas were gazetted in various Counties, 772 nature based enterprises were established, improved 4,544 Km of forest roads, maintenance of 300 Km of forest fire breaks for ease of protection. Completed and equipped Voi Gem cutting centre, Established geo-scientific data centre, enhanced revenue collection from Ksh 1.4 billion to Ksh 1.6 billion, initiated three (3) additional value added centers among other achievements.

202. In 2020/21 - 2022/23 MTEF period this sector has prioritized programs intended to promote sustainable utilization and management of environment and natural resources for socio-economic development. The sector will play an enabling role to the "Big Four" Plan through provision of water to industrial park in Naivasha and housing projects as well as all health facilities. Further, the sector will prioritize protection of forests and wildlife as well as water catchment areas. In addition the sector will ensure that environmentally sensitive areas are protected as well as sustaining the eradication of plastic use in the Country.

203. In order to achieve the priorities above in the MTEF period 2020/21 - 2022/23 the Sector has been allocated Ksh 96.9 billion of which Ksh 25.1 billion for Recurrent and Ksh 71.8 billion for Development in FY 2020/21 , while for the FY 2021/22 Ksh 102.7 billion was allocated of which Ksh 25.6 billion is for Recurrent and Ksh 77.1 billion is for Development, and Ksh 105.3 billion allocated for the FY 2022/23 of which Ksh 26.4 billion is Recurrent and Ksh 78.9 billion is for Development expenditure.

Governance, Justice, Law and Order Sector

204. The Sector plays a key role by establishing and maintaining a favourable environment for economic, social and political development of the country as

envisaged in the Kenya Vision 2030. Among the key functions of the sector is provision of Security and Enhancement of National Values and Ethics, which are enablers for Macro-Economic Performance.

205. During the MTEF period, 2016/17 -2018/19, the Sector recorded notable achievements in key programmes such as; acquisition of assorted security equipment, construction of the national forensic laboratory, improved police and prison officers' welfare through provision of housing units, execution of the General Elections in 2017, 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.

206. Key outputs planned in the MTEF period FY 2020/21-2022/23 include:- implementation of police reforms, equipping of the forensic laboratories, acquisition of additional assorted security equipment, installation of CCTV cameras in Nairobi, Mombasa and its environs, Kisumu, Nakuru and Eldoret; improved population management system; production of 3rd generation ID cards, enhancement of accountability and governance structures. Maintain security, law and order; strengthen systems of governance; ensure Constitutional compliance among state and non-state actors; provide safe custodial rehabilitation of offenders; improve access to justice; promote the rule of law, provide legal services and protect public interest; combat corruption; promote national values and ethics, ethnic harmony and cohesion; enhance access to immigration services and refugee management; enforce human rights and gender equality; ensure free, fair and credible elections; regulate gaming industry; reduce drugs and substance abuse; promote competitive politics and democracy; and build public confidence and trust in policing.

207. During the MTEF period FY 2020/21-2022/23, the Sector has a recurrent allocation of Kshs. 175.6, billion, Kshs. 196.8 billion and Kshs. 201.9 billion for financial years 2020/21, 2021/22 and 2022/23 respectively. While during the same period, the Sector has a development allocation of Ksh 8.5 billion, Ksh 9.9 billion Ksh 9.8 billion for 2020/21, 2021/22 and 2022/23 respectively.

Public Administration and International Relations Sector

208. The sector core mandate is unique as it cuts across the entire Public Service. The sector provides overall leadership and policy direction in the management of public & international affairs and resources while coordinating policy formulation, implementation, monitoring and evaluation there on.

209. During the MTEF period 2016/17 - 2018/19, a total of thirty-three (33) programmes were implemented within the sector. The sector made considerable achievement of the set targets for the programmes during the period under review. This includes but not limited to: provided overall leadership and policy direction to MDAs; expanded Kenya's diplomatic representation and footprint across the globe and strengthened Kenya's leadership role in shaping global Plan at the Bilateral and Multilateral levels; enhanced youth skills development and

mainstreaming; implemented performance management systems, improved resource mobilization, allocation and oversight in the public Sector and, facilitated the operationalization of key legislation including the legal, policy and regulatory frameworks.

210. During 2020/21 – 2022/23 MTEF period, the sector plans to implement thirty-three (33) programmes. The programmes will prioritize maintaining a stable macroeconomic environment to enable achievement of the "Big Four" Plan, provision of overall leadership and policy direction to MDAs, enhancing the image of the country as well as leadership role in the global plan, enhancing youth skills development as well as enhancing performance management systems in the public service.

211. Allocation of resources in the sector aims at achieving the outcomes highlighted above. In this regard, resource allocation for the MTEF period 2020/21 – 2022/23 is Ksh 223.6 billion, Ksh 223.1 billion and Ksh 224.9 billion for FY 2020/21, 2021/22 and 2022/23, respectively.

National Security

212. 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.

213. The sector 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.

214. In order to implement the prioritized programmes and minimize the above mentioned threats, the sector has been allocated Ksh 144.3 billion, Ksh 145.9 billion and Ksh 148.1 billion in FY2020/21, FY 2021/22 and FY 2022/23, respectively.

Social Protection, Culture and Recreation Sector

215. The sector plays a strategic role in the country's transformation and socio-economic development through implementation of special programmes for the development of the ASALs. Furthermore, the sector undertakes promotion of sustainable employment, harmonious industrial relations, productive workforce and gender equity and equality. Other key roles include empowerment of communities and vulnerable groups and safeguarding children's rights, promotion of diverse cultures, arts and sports to enhance cohesiveness and Kenya's regional and international competitiveness. The sector envisions a globally competitive workforce, sports, culture and recreation industry, and a resilient equitable and informed society.

216. Major achievements during the MTEF period 2016/17 - 2018/19 include: increased financial support to older persons, PWD, OVC and food-insecure households through cash transfer programmes; provision of assistive and supportive devices to PWD; distribution of relief food to food insecure persons in

ASAL; investment in drought preparedness and resilience; rescue and rehabilitation of street families; provision of support to vulnerable children; and capacity building for youth, women and PWD on entrepreneurship and successfully hosted IAAF under 18 Championship. Labour Attaché offices were established in three countries in the Middle East to cater for the welfare of Kenyan migrant workers. The sector also scaled-up the provision of sanitary towels to school going girls to reduce absenteeism; enhanced awareness on Gender Based Violence issues. In addition Thimlich Ohinga in Migori was elevated to a world heritage site among other achievements.

217. In the 2020/21-2022/23 MTEF period, the Sector's main focus will be to implement policies, programmes and projects outlined in the MTP III and contribute to the achievement of the "Big Four" Plan. The projected key programmes for implementation include manpower development, employment and productivity management, sports promotion, promotion of best labour practices, social development, children services, community development, gender empowerment, performing arts, culture development, accelerated ASALs development, National Safety Net and library services.

218. To implement the programmes outlined above, the sector requires a total of Ksh 54.17 billion, Ksh 57.16 billion and Ksh 60.93 billion for recurrent expenditure in the financial years 2020/21, 2021/22 and 2022/23 respectively against ceilings of Ksh 39.44 billion, Ksh 39.93 billion and Ksh 40.44 billion for the three years respectively. For development expenditure, a total of Ksh 45.41 billion, Ksh 48.47 billion and Ksh 52.53 billion will be required in the financial years 2020/21, 2021/22 and 2022/23 respectively against expenditure ceilings of Ksh 28.19 billion, Ksh 30.55 billion and Ksh 30.49 billion for the three years.

Programme Performance Information for 2020/21 - 2022/23 MTEF Period

219. **Annex Table 4a** of this BPS provides a summary of expenditures by programmes for the 2020/21 – 2022/23 period

220. **Annex Table 4b** of this BPS provides a detailed report with information on programmes outputs, key performance indicators, and the set targets for the 2020/21 – 2022/23 period.

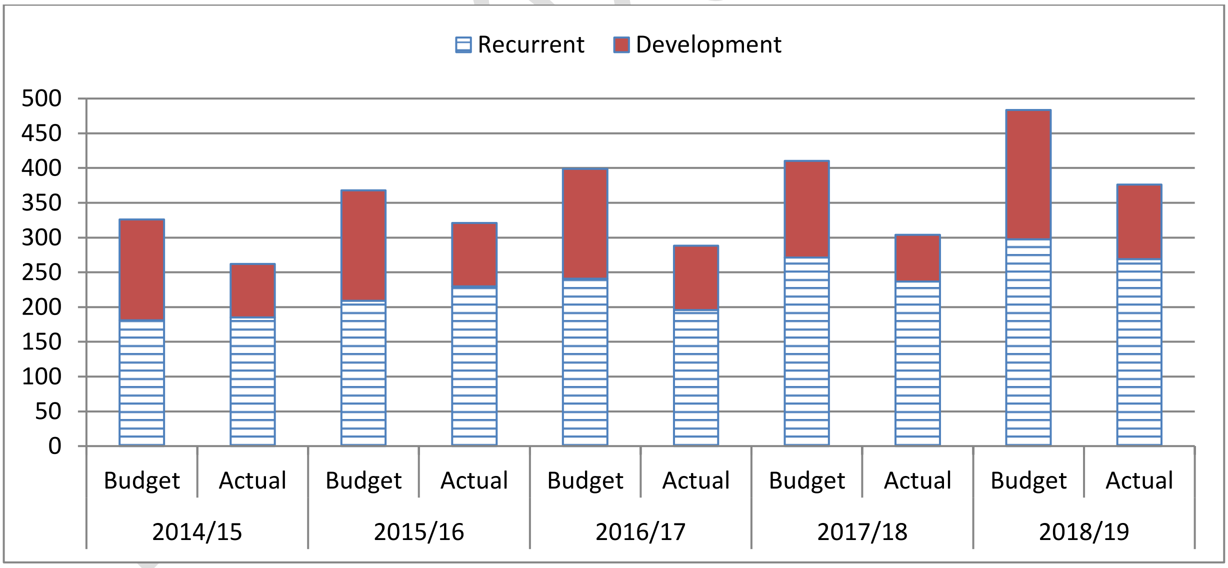
IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

4.1 Fiscal Performance of County Governments in FY 2018/19

221. In financial year (FY) 2018/19, the aggregate budget for County Governments was Ksh 483.47 billion, which was Ksh 72.97 billion (or 17.79 percent) higher than the previous year's budget. (**Chart 4.1**). County Governments' collective budget increased by 13.0 percent in FY 2015/16; 8 percent in FY 2016/17; 3.0 percent in FY 2017/18 and 18 percent in FY 2018/19. On the other hand, the County Governments' actual spending was Ksh 376.4 billion in FY 2018/19 from Ksh 303.8 billion in FY 2017/18 representing an expansion of 5.0 percent and 24.0 percent respectively in FY 2017/18 and FY 2018/19. The actual spending grew by 23.0 percent in FY 2015/16 but declined from Ksh 321 billion to Ksh 288 billion in the FY 2016/17.

222. In FY 2018/19 the aggregate recurrent and development budget was Ksh. 297.7 billion and Ksh 185.8 respectively however aggregate actual recurrent and development expenditure was Ksh 269 billion and Ksh 107.4 billion, respectively.

Chart 4.1: County Governments' Aggregate Budget and Outturn (Ksh. billions)



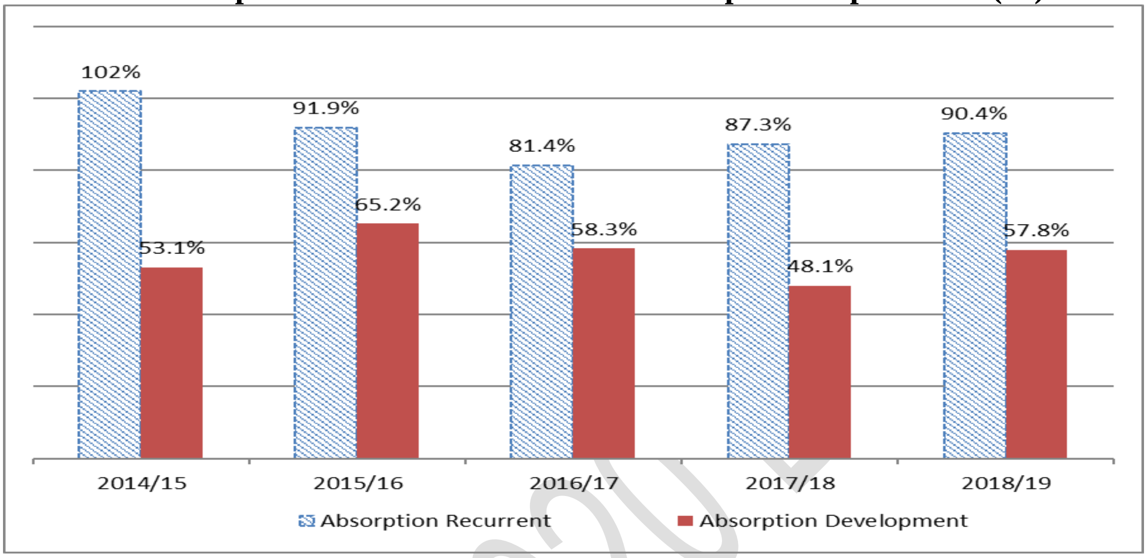
Source of Data: Controller of Budget

4.1.1 County Governments' Budget Absorption

223. Variances between County Governments' approved aggregate budgets and expenditure increased from Ksh 64 billion in FY 2014/15 to Ksh 107 billion in FY 2018/19. 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 53.1 percent in FY 2014/15 to 65.2 percent in FY 2015/16 before declining to 48.1 percent in FY 2017/18 and then increasing to 57.8 in FY 2018/19. (**Chart 4.2**). 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), and continuous capacity building to the County Governments is expected to address challenges faced by Counties in planning, procurement and budget execution, among other areas.

Chart 4.2: Absorption rates for recurrent and development expenditure (%)



Source of Data: Controller of Budget

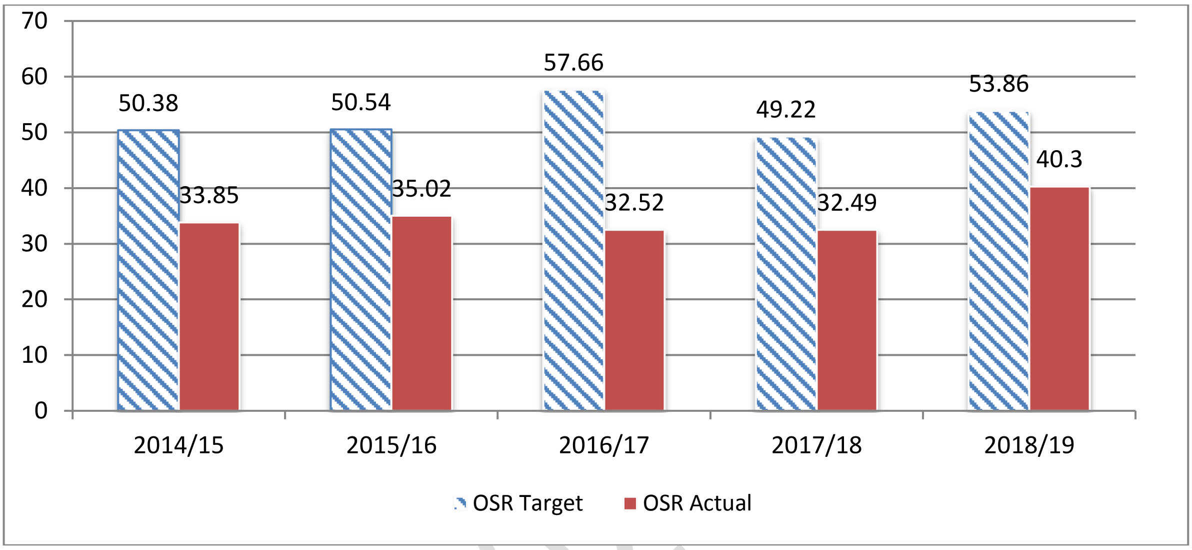
224. As far as County Governments' fiscal performance is concerned, the main challenges relate to low Own Source Revenue (OSR) collections vis-a-vis their OSR potential, high wage bill, accumulation of pending bills and unstable pattern of financial activity within each budget period. The rest of this chapter discusses these challenges, as well as efforts by the National Treasury to improve fiscal performance of the County Governments and ensure that the quality of spending is enhanced within the context of the Public Finance Management Act, 2012.

4.1.2 County Governments' Own-Source Revenue

225. In FY 2018/19, County Governments' actual OSR collection of was Kshs 40.30 billion against a target of Ksh 53.86 which was a significant improvement from the achievement of FY 2017/18 which recorded 32.49 billion (**Chart 4.3**). This represents a better OSR outturn in FY 2018/19 (of 74.8 percent compared to 66 percent in FY 2017/18. Counties' OSR performance has improved in the last two years both as a proportion of targeted collections and also in absolute terms. According to the report from the Controller of Budget, 12 counties surpassed their revenue targets in the FY 2018/19. These counties include Bungoma (104.7%), Elgeyo Marakwet (108.8%), Isiolo (107.2%), Kiambu (100.2%), Kirinyaga (100.6%), Kwale (103.9%), Laikipia (102%), Lamu (116%), Nakuru (104.8%), Narok (109.1%), Taita Taveta (110.9%) and Tana River 104.4%). This could be attributed to improved revenue collection or better revenue forecasting. However, a number of Counties OSR performance was below target. These include Migori, Wajir, Kisii and Meru with collections of 25%, 30%, 36% and 44.8% respectively of their targeted OSR.

226. However, many counties have not met their revenue targets in the past, a clear indication OSR forecasting still remains a challenge. To address this, the National Treasury will partner with the relevant stakeholders to train the County Governments on Tax Analysis and Revenue Forecasting.

Chart 4.3: County Governments' Own-Source-Revenue Performance (Ksh billions)



Source of Data: Controller of Budget

227. 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. The Policy highlights a number of challenges contributing to the underperformance of OSR among the Counties. These challenges include; i) absence of revenue policies and legislation; ii) low automation and integration of revenue administration; iii) inappropriate institutional arrangements; and, iv) lack of effective internal controls and audit mechanisms among others.

228. Further, the policy proposes a legal framework to ensure that County Governments comply with Article 209(5) of the Constitution when formulating their revenue raising measures. In this regard, a draft legislation, the County Governments (Revenue Raising Process) Bill, 2018, was developed and is currently in the second reading stage at the National Assembly.

229. In March 2019, a Multiagency Secretariat, headed by the National Treasury was constituted to coordinate the implementation of the OSR Policy. Among the TORs of this Secretariat include dissemination the policy to various stakeholders and spearheading the proposed reforms. To this end, members of the Secretariat met with the Departmental Committee on Finance and National Planning of the National Assembly in November 2019 as part of efforts to disseminate this policy. The Committee was generally in support of the Policy and emphasized on the need to have it disseminated country wide and specifically to the County Governments. This was done by the Secretariat to the Executive Arm of the County Governments

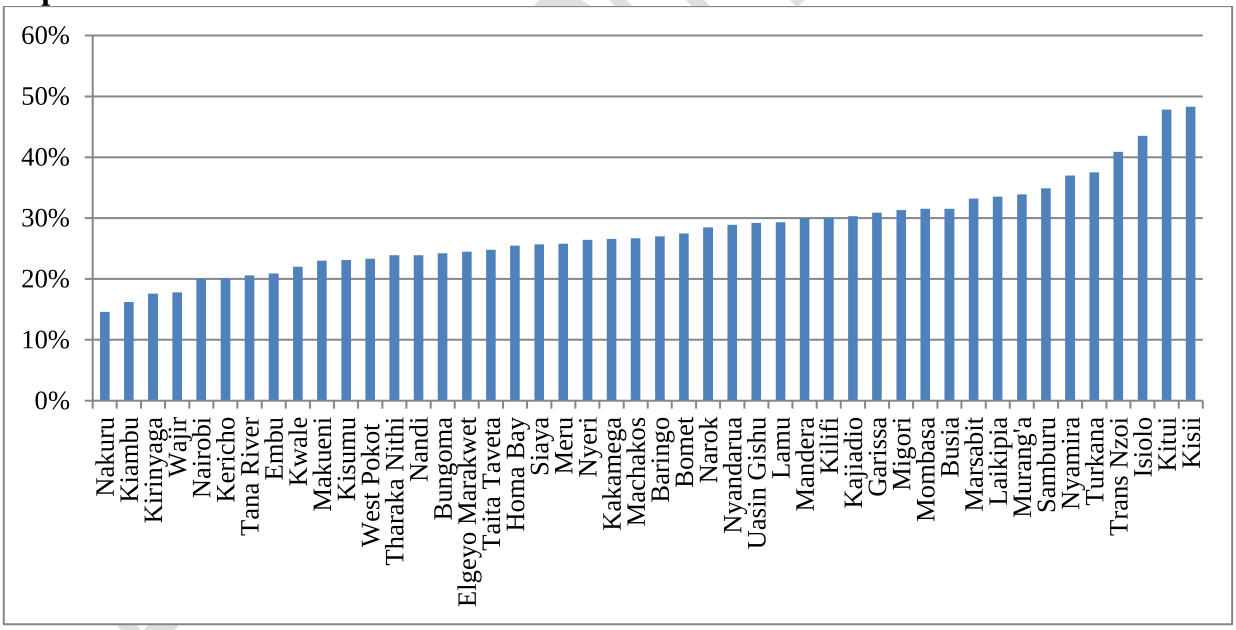
in December 2019. Dissemination to the County Assemblies is scheduled to take place within the third quarter of the FY 2019/20.

4.2 County Governments' Compliance with Fiscal Responsibility Principles

4.2.1 Compliance with the Requirement for Development Spending Allocations

230. 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 fall below 30 percent. In the FY 2018/19, only 17 Counties had actual development expenditures as a percentage of total budget of 30 percent and above. Among the Counties with the lowest percentage of development to total expenditure are Nakuru, Kiambu, Kirinyaga, Wajir and Nairobi, all which had below 20 percent (**Chart 4.4**).

Chart 4.4: FY 2018/19 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

231. 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 2018/19, only 5 Counties namely Tana River, Marsabit, Turkana, Mandera and Kilifi complied with this requirement. Some Counties including Nakuru, Baringo, Nyamira and Homa Bay 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. To this end, enhanced OSR may help county governments to comply with this provision.

4.3 Prudent Management of Fiscal Risks

4.3.1 Pending Bills

232. Article 225 of the Constitution read together with Section 96 of the PFM Act gives the Cabinet Secretary responsible for Finance powers to stop transfer of funds to a County Government whenever such County Government is in persistent material breach of its obligations or financial commitments. Based on Section 94 (1) of the PFM Act, failure by County Governments to make payments as and when due, or default on financial obligations may indicate material breach of legally-established measures. The National Treasury has been receiving a number of complaints from members of the public that some County Governments are reluctant to settle their dues even where the correct procedure had been followed and the right documentation provided. Therefore, in line with Section 96(3) of the PFM Act, the National Treasury requested the Auditor-General to undertake a special audit to assess the status of the County Governments pending bills.

233. As at 30th June, 2018, this special audit report indicated that out of a total Ksh 88.98 billion pending bills presented for audit to the OAG, bills amounting to Ksh 51.2 billion (58%) were reported as payable while Ksh 37.7 billion (42%) lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment. This position was communicated to the County Governments with a requirement to immediately commence payment of these bills. As at 8th January 2020, the amount of eligible pending bills paid was Ksh 30.35 billion leaving an outstanding balance of Ksh 20.94 billion.

234. To ensure full compliance, significant resources have been made available to the County Governments to clear their pending bills. As at, 8th January 2020, National Treasury had cumulatively released to County Governments Ksh 126.57 billion as their equitable share of revenue raised nationally and Ksh 7.05 billion as conditional grants in the FY 2019/20. Processing of subsequent disbursements will be based on submission of monthly reports on payments of pending bills in line with the County Governments payment plans submitted to National Treasury and Controller of Budget.

235. In relation to the ineligible pending bills, IBEC through a resolution of 18th June 2019 instructed all the County Governments to establish Ineligible Pending Bills Committee to verify the bills. Once verified, it was resolved that they should be prioritized and paid within this FY, 2019/20.

236. There has been a challenge of variance in figures of pending bills submitted to the Office of Controller of Budget from those disclosed in their annual financial statements and summited to the Auditor General.

237. To this end, the National Treasury has developed a solution to enable counties capture the pending bills at the beginning of every financial year and make payments from authorized list of pending bills without requesting auto create from the National Treasury. The National Treasury also conducted the on-sight training

on pending bills solution to procurement and accounting officers. This solution is meant to facilitate tracking and monitoring of county governments list of pending bills. This will further ensure transparency and accountability in capture and payment of eligible pending bills

238. Moreover, County Governments are still facing challenges in terms of monthly and annual financial reporting of pending bills and other liabilities (as well as assets) due to the cash accounting method currently being applied. In addition, tracking of resources allocated to specific government interventions such as the "Big Four" Plan, Climate change mitigation, gender issues, etc, remains a major challenge. To address this challenge, the National Treasury and Planning in partnership with UNICEF is in the process of revising the Standard Chart of Accounts (SCOA). The exercise which commenced in July 2018, among other objectives, is expected to: i) better address the financial reporting needs of County Governments including facilitating the generation of sector specific reports; ii) improve support to programme-based budgeting; iii) align accounting and reporting to 2014 Government Finance Statistics (GFS) Manual; and, iv) prepare for a possible future migration from cash- to accrual-based accounting as proposed by the Public Sector Accounting Standards Board (PSASB).

4.3.2 Other Risks Identified in County Financial Reports

239. In order to better understand evolving intergovernmental fiscal relations issues and to guide on policy interventions, the National Treasury has been analysing County Governments' budgets, their financial statements and audit opinions over the last six years. Findings of the analyses will be consolidated into the County Governments' Fiscal Performance Report, which will be published within the calendar year 2020. In addition to issues already highlighted in this chapter, the analysis has identified the following 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) 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;
d) High staff turnover especially after every general election leading to service disruption. As part of the solution to this, the National Treasury will conduct a Training Needs Assessment to the County Governments to inform future capacity building programmes.

e) Failure by County Government to submit statutory deductions, especially pensions under the new contributory scheme. If this is not well executed, it could jeopardize the lives of the ageing work force at the County Governments
f) Weak link between County Integrated Development Plans, Annual Development Plans, County Fiscal Strategy Paper and budget implementation. The analysis indicate that once these documents are prepared and submitted, they are abandoned as other priorities get implemented in the budget
g) Escalation of governance-related investigations and court cases, which may comprise service delivery at the affected County Governments

4.3.3 Status of Transfer of Devolved Functions

240. The transfer of assets previously owned by the defunct Local Authorities is being done and the final report has been submitted to IBEC. Other the other hand, the exercise on the transfer of assets of the devolved functions is currently on going.

241. So far, the Library function has been transferred through Kenya Gazette Supplement No. 140 of 9th August 2019, Legal Notice 142. In addition, the transfer of the following functions is on-going; Museums, Disaster Management and Cooperatives.

4.4 Division of Revenue between the Two Levels of Government

242. As per the 2019 Budget Review and Outlook Paper (BROP), the National Treasury proposed that County Governments be allocated Ksh 317.8 billion as their equitable revenue share for FY 2020/21. In the BPS 2020, the National Treasury proposes allocation of Ksh 317.8 billion to the Counties. The proposed allocation represents a Ksh 1.3 billion increase over the FY 2019/20 allocation. As it is equivalent to 30.6 percent of the last audited accounts (Ksh 1,038 billion for FY 2014/15) as approved by Parliament, the proposed allocation also meets the requirement of Article 203(2) of the Constitution.

243. In general, the above proposal is informed by two key aspects. The first aspect relates to ordinary revenue underperformance witnessed in recent years (Table 4.1; columns C & D). This underperformance has over time, undermined the base for the division of revenue, hence the need for a systematic correction or adjustment to the base. In each year that revenue outturn was below original estimates, the National Government has borne the entire shortfall; Counties' allocation has remained as per the Division of Revenue Act (DoRA) (columns E & F). At the same time, it is useful to consider the National Government's revenue share in net terms. This is because it is from the National Government's equitable revenue share that provisions of Article 203(1) of the Constitution are fulfilled, and additional transfers to the Counties in form of conditional allocations are derived. Accordingly, net issues to the National Government have consistently remained lower than projections, and are also declining faster than County allocations (columns G & H).

Table 4.1: Revenue Underperformance and its Implications on the Division of Revenue

FY	Ordinary revenue (Ksh millions)		Shortfall in ordinary revenue		Counties' allocation		National Gov't net issues	
	Estimate	Actual	Ksh millions	%	Ksh millions	%	Ksh millions	%
	A	B	C = (B-A)	D = (C/A)	E	F = (E/A)	G	H = (G/A)
2016/17	1,380,199	1,306,568	-73,631	-5.3%	280,300	20.3%	1,124,482	81.5%
2017/18	1,560,276	1,365,063	-195,213	-12.5%	302,000	19.4%	1,080,199	69.2%
2018/19	1,688,492	1,510,000	-178,492	-10.6%	314,000	18.6%	1,199,030	71.0%
2019/20	1,776,637				316,500	17.8%	1,405,556	79.1%
2020/21	1,883,694				317,800	16.9%	1,297,061	68.9%

Notes: *Column G (National Government's net issues) excludes:* ***i)*** *domestic and foreign interest;* ***ii)*** *contribution to civil service pension and other CFS;* ***iii)*** *recurrent conditional transfers to Counties (i.e. "level-5" and "foregone user fees");* ***iv)*** *ministerial recurrent and development AIA;* ***v)*** *foreign financing and net lending;* ***vi)*** *Equalization Fund; and,* ***vii)*** *capital transfers to Counties funded from the National Government's equitable revenue share.*

244. A second aspect that has informed the National Treasury's division of revenue proposal relates to the need for sustainability. This is specifically against the backdrop of escalating pressure on the fiscal framework occasioned by Consolidated Fund Services (CFS) i.e. debt repayment, pensions and gratuities, and some salaries for Constitutional Offices and Independent Commissions. In this context, the above division of revenue proposal is expected to contribute towards: i) helping correct imbalances witnessed in the past between government revenues and expenditures; ii) averting a structural (or permanent) deficit; and, iii) stemming further deterioration of the debt-to-GDP ratio.

245. The National Treasury notes that the Commission on Revenue Allocation (CRA) has already submitted to Parliament its FY 2020/21 division of revenue recommendations1. In its submission, CRA recommends that County Governments be allocated Ksh. 321.74 billion, while the National Government be allocated Ksh 1,561.96 billion i.e. before implementing provisions of Article 203(1) of the Constitution, and before transferring conditional allocations to the Counties. In arriving at this proposal, CRA has adjusted the 3-year average development spending for each level of Government by 5.7 percent -- the country's GDP growth rate over the period 2016/2018. Further, in CRA's proposal, the National Government's allocation includes Ksh. 71.01 billion "for the purpose of investing in the strategic areas under the "Big Four" Plan.

[1] CRA's FY 2020/21 Division of Revenue recommendations were submitted to Parliament on 20th December, 2019. Details of the recommendations may be found here: https://www.crakenya.org/

246. To deal with the divergent recommendations by the National Treasury and the CRA, further engagements are scheduled to take place with all key actors under the auspices of the Intergovernmental Budget and Economic Council (IBEC). These engagements will among other things, seek to avert a stalemate in the FY 2020/21 division of revenue process, the kind that took place in FY 2019/20. From past experience, achieving consensus at the IBEC level paves way for an early approval in Parliament of DoRA as well as the County Allocation of Revenue Act (CARA) thus enabling timely commencement of budget implementation activities at both levels of Government. **Table 4.2** summarizes the ordinary revenue as shared by the two levels of government.

Table 4.2: Division of Revenue Raised Nationally FY 2016/17 – 2020/21 (Ksh Million)

Type/level of allocation	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
National Government	1,099,899	1,247,412	1,367,069	1,554,916.5	1,516,400
Of which:					
Free maternal healthcare	4,121				
Rehabilitation of Village polytechnics		2,000	2,000	2,000	2,000
Leasing of Medical Equipment	4,500	4,500	9,400	7,000	7,000
Compensation for user fees forgone	900	900	900	900	900
Level 5 hospitals	4,000	4,200	4,326	4,326	4,326
Special Purpose Grant (Emergency Med. Serv.)	200				
Supplement for construction of county headquarters		605	605	300	300
Equalization Fund	6,000	7,727	4,700	5,760	6,500
County equitable share	280,300	302,000	314,000	316,500	317,800
Total shareable revenue	**1,380,199**	**1,549,412**	**1,681,069**	**1,877,176**	**1,840,700**

247. In addition to their proposed equitable share of revenue, County Governments will receive additional funds as conditional grants. These include the following:

- From the National Governments' equitable revenue share, **Ksh 14.5 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
- Equalization Fund to the marginalized areas amounting to **Ksh 6.5 billion**;
- **Ksh 9.4 billion** from the Road Maintenance Fuel Levy Fund (RMLF). As in previous years, this is calculated at 15 percent of projected FY 2019/20 collections by the Kenya Roads Board (KRB); and
- Ksh **30.2 billion** from proceeds of external loans and grants, which will finance devolved functions in accordance with the signed financing agreement for each loan/grant. **Table 4.3** shows the disaggregation of total proposed transfers to the Counties.

Table 4.3: Disaggregation of County Governments' Allocation

Type/level of allocation	2016/17	2017/18	2018/19	2019/20	2020/21
County equitable share	280,300	302,000	314,000	316,500	317,800
Additional conditional allocations, of which:					
Free maternal healthcare	4,121	-	-	-	-
Leasing of medical equipment	4,500	4,500	9,400	7,000	7,000
Compensation for user fees forgone	900	900	900	900	900
Level 5 hospitals	4,000	4,200	4,326	4,326	4,326
Special Purpose Grant (Emergency Med. Serv.)	200	-	-	-	-
Supplement for construction of county headquarters		605	605	300	300
Rehabilitation of Village polytechnics		2,000	2,000	2,000	2,000
Allocation from Fuel Levy Fund (15% of collections)	4,306.8	7,875	8,269	8.98	9,433
Allocations from loans and grants	3,870.7	12,541.4	33,241.9	39,089.9	30,204.3
Total County Allocations	**302,198.5**	**334,621.4**	**372,741.9**	**370,124.9**	**371,963.3**

4.5 Horizontal Allocation of Revenue among the County Governments

248. In April 2019, the CRA submitted to the Senate Recommendations Concerning the Third Basis for Revenue Sharing among County Governments for the Period FY 2019/20 – 2023/242. A summary of the proposed third formula -- as well as the current and previous ones -- is shown in Table 4.4. If approved in time, the proposed third formula will become effective in FY 2020/21.

Table 4.4: Previous, Current and Proposed Revenue Sharing Frameworks

Indicator	1st formula	2nd formula	Proposed 3rd formula
Health index			17%
Agricultural index			10%
County population	45%	45%	18%
Basic equal share	25%	26%	20%
Rural access index			4%
Urban households			5%
Land area	8%	8%	8%
Poverty	20%	18%	14%
Fiscal effort index		2%	2%
Fiscal responsibility (prudence)	2%		2%
Development factor		1%	
TOTAL	**100%**	**100%**	**100%**

[2] Details of CRA's proposed third formula for revenue distribution may be found here: https://www.crakenya.org/

249. In general, the proposed third formula aims to align funding to the Counties and the devolved functions. The formula's objectives are to: i) enhance service delivery; ii) promote balanced development; iii) incentivize the Counties to adhere to fiscal responsibility principles; and, iv) incentivize the Counties to optimize collection of own-source revenue. A key feature of the proposed formula is that it adopts the use of 'sector weights' to capture relative demand for different services between Counties. Furthermore, the formula includes a 'phasing-in' mechanism according to which 15 percent of the increment in County Governments' aggregate equitable share of revenue would be set aside to cushion Counties which would experience a reduction exceeding 5 percent of their individual allocation. The intended effect of this mechanism is to minimize disruption of service delivery and development programmes within the Counties.

250. Pending Parliament's approval of CRA's proposed third formula, the horizontal distribution of County Governments' equitable revenue share allocation for FY 2020/21 shall be based on the current formula, which uses six parameters with specific weights as shown in the **Table 4.4** above. On the other hand, each additional conditional allocation shall be distributed based on its objectives, criteria for selecting beneficiary Counties and distribution formula. Accordingly, in FY 2020/21, the Counties will share an estimated Ksh. 381.4 billion. Table 4.5 shows the projected transfer to each County in FY 2020/21.

Table 4.5: Revenue Allocation for Each County Government

County	FY 2019/20		FY 2020/21										
	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	5,095,650,000	5,735,598,489	1.62	5,148,360,000	-	13,191,000	20,916,170	152,818,903	148,936,170	-	434,339,263	**5,918,561,506**	10,653
Bomet	5,507,100,000	6,316,709,334	1.74	5,529,720,000	-	16,713,356	49,041,170	164,138,822	148,936,170	-	470,975,357	**6,379,524,875**	8,809
Bungoma	8,893,650,000	10,323,135,388	2.83	8,993,740,000	-	32,837,307	68,346,170	266,961,417	148,936,170	-	376,922,526	**9,887,743,590**	6,063
Busia	6,013,500,000	6,850,420,495	1.93	6,133,540,000	-	16,934,085	57,651,170	182,062,027	148,936,170	-	457,658,804	**6,996,782,256**	14,335
Elgeyo/Marakwet	3,861,300,000	4,531,745,040	1.22	3,877,160,000	-	8,788,919	28,326,170	115,085,841	148,936,170	-	451,406,116	**4,629,703,215**	12,513
Embu	4,304,400,000	5,485,859,024	1.44	4,576,320,000	301,040,462	10,724,225	27,036,170	135,839,025	148,936,170	-	384,183,435	**5,584,079,487**	10,817
Garissa	7,026,300,000	8,654,383,282	2.22	7,055,160,000	344,739,884	12,964,636	18,351,170	209,418,497	148,936,170	-	934,781,540	**8,724,351,897**	14,002
Homa Bay	6,741,450,000	7,721,875,171	2.13	6,769,140,000	-	22,185,346	39,456,170	200,928,558	148,936,170	-	309,416,619	**7,490,062,863**	7,771
Isiolo	4,241,100,000	5,031,755,943	1.32	4,194,960,000	-	3,472,461	4,266,170	124,519,106	148,936,170	100,000,000	577,117,295	**5,153,271,202**	35,963
Kajiado	6,424,950,000	7,417,723,307	2.02	6,419,560,000	-	16,955,365	28,926,170	190,551,966	148,936,170	-	559,702,274	**7,364,631,945**	10,715
Kakamega	10,412,850,000	12,119,705,238	3.34	10,614,520,000	427,283,237	37,789,290	102,831,170	315,071,072	148,936,170	-	485,462,055	**12,131,892,994**	7,306
Kericho	5,380,500,000	6,312,206,681	1.72	5,466,160,000	-	18,048,789	22,866,170	162,252,169	148,936,170	-	445,266,392	**6,263,529,690**	8,260
Kiambu	9,431,700,000	12,841,250,928	3.11	9,883,580,000	538,716,763	34,671,542	62,406,170	293,374,561	148,936,170	-	357,387,255	**11,319,072,461**	6,973
Kilifi	10,444,500,000	12,458,238,784	3.35	10,646,300,000	-	25,969,864	80,466,170	316,014,398	148,936,170	-	1,253,234,710	**12,470,921,313**	11,238
Kirinyanga	4,241,100,000	5,061,084,155	1.35	4,290,300,000	-	11,282,570	27,321,170	127,349,086	148,936,170	-	295,037,247	**4,900,226,244**	9,280
Kisii	7,785,900,000	9,341,831,923	2.47	7,849,660,000	417,572,254	26,138,997	70,986,170	233,001,661	148,936,170	-	364,718,901	**9,111,014,154**	7,907
Kisumu	6,836,400,000	8,713,938,639	2.16	6,864,480,000	369,017,341	21,299,489	45,816,170	203,758,538	148,936,170	-	425,782,038	**8,079,089,746**	8,338
Kitui	8,830,350,000	10,105,524,197	2.8	8,898,400,000	-	22,499,906	92,646,170	264,131,438	148,936,170	-	323,076,845	**9,749,690,529**	9,627
Kwale	7,785,900,000	9,196,541,797	2.42	7,690,760,000	-	15,209,593	56,766,170	228,285,028	148,936,170	-	732,337,859	**8,872,294,820**	13,651
Laikipia	4,177,800,000	4,775,259,988	1.52	4,830,560,000	-	9,968,208	18,741,170	143,385,638	148,936,170	-	412,138,832	**5,563,730,018**	13,936
Lamu	2,595,300,000	3,271,800,295	0.87	2,764,860,000	-	2,451,034	44,421,170	82,069,411	148,936,170	50,000,000	453,357,718	**3,546,095,504**	34,923
Machakos	7,754,250,000	9,944,929,657	2.54	8,072,120,000	383,583,815	24,129,039	63,186,170	239,604,947	148,936,170	-	405,961,434	**9,337,521,575**	8,500
Makueni	7,406,100,000	8,532,765,528	2.3	7,309,400,000	-	19,435,760	68,721,170	216,965,109	148,936,170	-	388,984,714	**8,152,442,923**	9,217
Mandera	10,222,950,000	11,286,152,190	3.23	10,264,940,000	-	25,474,920	15,546,170	304,694,480	148,936,170	-	681,208,984	**11,440,800,724**	11,154
Marsabit	6,773,100,000	7,647,080,951	2.17	6,896,260,000	-	6,643,714	11,196,170	204,701,864	148,936,170	-	616,904,659	**7,884,642,578**	27,080
Meru	8,039,100,000	9,393,443,078	2.56	8,135,680,000	373,872,832	31,648,428	58,686,170	241,491,600	148,936,170	-	320,613,089	**9,310,928,290**	6,865
Migori	6,773,100,000	8,214,478,026	2.17	6,896,260,000	-	21,655,884	36,861,170	204,701,864	148,936,170	-	332,385,398	**7,640,800,486**	8,331
Mombasa	7,057,950,000	9,486,367,295	2.35	7,468,300,000	388,439,306	23,385,934	18,906,170	221,681,742	148,936,170	-	1,292,389,448	**9,562,038,772**	10,179
Muranga	6,298,350,000	7,233,235,488	2.04	6,483,120,000	-	20,138,691	98,436,170	192,438,619	148,936,170	-	423,235,015	**7,366,304,665**	7,815
Nairobi	15,919,950,000	16,800,884,386	5.04	16,017,120,000	-	79,423,251	16,431,170	475,436,588	148,936,170	-	166,720,323	**16,904,067,502**	5,386
Nakuru	10,476,150,000	12,972,701,629	3.08	9,788,240,000	373,872,832	38,723,265	66,711,170	290,544,581	148,936,170	-	327,483,267	**11,034,511,286**	6,882
Nandi	5,348,850,000	6,402,316,832	1.7	5,402,600,000	-	18,086,363	28,341,170	160,365,516	148,936,170	-	433,775,389	**6,192,104,608**	8,224
Narok	8,039,100,000	8,978,106,427	2.25	7,150,500,000	-	20,595,297	16,506,170	212,248,477	148,936,170	-	404,396,552	**7,953,182,666**	9,347
Nyamira	4,810,800,000	5,729,209,017	1.55	4,925,900,000	-	13,175,221	60,831,170	146,215,617	148,936,170	-	549,161,906	**5,844,220,085**	9,769
Nyandarua	4,874,100,000	5,693,630,100	1.55	4,925,900,000	-	12,735,922	31,416,170	146,215,617	148,936,170	50,000,000	484,866,657	**5,800,070,537**	9,727
Nyeri	5,412,150,000	6,716,240,413	1.61	5,116,580,000	407,861,272	13,701,379	49,371,170	151,875,577	148,936,170	-	413,326,122	**6,301,651,689**	9,086
Samburu	4,620,900,000	5,442,873,499	1.26	4,004,280,000	-	5,235,578	10,971,170	118,859,147	148,936,170	-	335,728,670	**4,624,010,735**	20,648
Siaya	5,791,950,000	6,542,494,466	1.85	5,879,300,000	-	18,194,808	48,621,170	174,515,414	148,936,170	-	482,259,557	**6,751,827,119**	8,016
Taita Taveta	4,241,100,000	5,288,651,135	1.39	4,417,420,000	-	5,296,305	58,056,170	131,122,392	148,936,170	-	794,169,323	**5,555,000,360**	19,515
Tana River	5,855,250,000	6,693,314,719	1.77	5,625,060,000	-	5,682,537	15,096,170	166,968,802	148,936,170	50,000,000	550,425,744	**6,562,169,423**	27,334
Tharaka Nithi	3,924,600,000	4,540,542,890	1.22	3,877,160,000	-	8,218,119	61,221,170	115,085,841	148,936,170	50,000,000	489,787,815	**4,750,409,115**	13,003
Trans Nzoia	5,760,300,000	6,976,361,734	1.83	5,815,740,000	-	21,304,915	44,331,170	172,628,761	148,936,170	-	363,274,338	**6,566,215,354**	8,020
Turkana	10,539,450,000	11,835,530,006	3.34	10,614,520,000	-	25,634,941	13,131,170	315,071,072	148,936,170	-	809,914,377	**11,927,207,730**	13,943
Uasin Gishu	6,330,000,000	7,801,490,366	1.91	6,069,980,000	-	20,813,065	40,551,170	180,175,373	148,936,170	-	504,253,916	**6,964,709,695**	7,789
Vihiga	4,652,550,000	5,801,784,214	1.43	4,544,540,000	-	12,657,201	70,401,170	134,895,698	148,936,170	-	388,286,930	**5,299,717,170**	9,556
Wajir	8,545,500,000	9,670,631,024	2.7	8,580,600,000	-	15,784,997	12,336,170	254,698,172	148,936,170	-	871,896,369	**9,884,251,878**	14,932
West Pokot	5,000,700,000	5,703,288,726	1.58	5,021,240,000	-	12,128,484	16,551,170	149,045,597	148,936,170	-	502,634,431	**5,850,535,852**	11,411
GRAND TOTAL	**316,500,000,000**	**373,595,091,894**	**100.0**	**317,800,000,000**	**4,326,000,000**	**900,000,000**	**2,000,000,000**	**9,433,265,625**	**7,000,000,000**	**300,000,000**	**30,204,347,510**	**371,963,613,135**	**12,017**

4.6 Emerging Issues

4.6.1 County Corporations

251. Section 182 of the PFM Act allows County Governments to create County Corporations for Investment purposes or to take care of County Government interests. However, some County Governments have created, or have proposed to create multiple Corporations which cannot financially sustain themselves leaving them to depend on the county revenues to run their operations. This poses a major threat to the wage bill, which many counties are currently struggling with. To address this, discussions are ongoing among the Salaries and Remuneration Commission (SRC), National Treasury, Council of Governors, State Department of Devolution and other stake holders on how this will be addressed.

4.6.2 County Borrowing

252. Section 58 (2) of the PFM Act sets out the conditions that a County Government should meet before obtaining a credit guarantee from the National Government. Some of these conditions include compliance with the Fiscal Responsibility Principles and a demonstration that financial position of the borrower over the medium term is likely to be satisfactory among others. In the recent past, some counties have been obtaining unqualified audit reports and there are indications that some County Governments are in the right direction as far as the borrowing requirements are concerned. To this end, the World Bank in conjunction with CRA unveiled the Credit Worthiness Academy for the County Governments and financial officials with a view of helping them to master the underlying principles of creditworthiness. At the moment, counties are voluntarily participating in this self-assessment programme.

4.6.3 County Revenue Management System

253. To address the challenges that county governments face with respect to revenue administration, the National Treasury constituted a multiagency team to develop an Integrated Revenue Collection System for County Governments. This team is currently working on the best option for the County Governments that will enhance efficiency and create value for money for the County Governments.

4.6.4 Conditional Grants

254. The National Government since FY 2014/15 has been allocating additional conditional allocations to County Governments based on its policy priorities. However, it was realized that Ministries, State Departments and Agencies (MDAs) and Development Partners (DPs) had over the years been making late submissions

of requests for additional conditional allocations to County Governments for inclusion in Division of Revenue Bill (DoRB) and County Allocation of Revenue Bill (CARB). These late submissions often required National Treasury to make requests to Parliament to make amendments to the two bills in order to accommodate the new grants as requested. Further it was also noted that there had been inconsistencies in the frameworks for management of these grants as submitted by MDAs with the Treasury Circular No. 8/2017 on "Guidelines for the Management of Intergovernmental Fiscal Transfers in Kenya".

255. In order address the above challenges and institutionalize Management of Intergovernmental Fiscal Transfers. The National Treasury and Planning organized for a stakeholder workshop in May, 2019. To this end, only additional conditional allocations with duly signed financing agreements, approved donor commitment and counterpart funding having been secured at the sector should be submitted for inclusion in DoRB and CARB. Any additional conditional allocations not included in DoRB and CARB by January should be held in abeyance till the next financial year.

256. Further, all disbursement should be done through the National Treasury pursuant to Circular No. 8/2017. Otherwise, any financing agreement in respect of funds flow and disbursement inconsistent with PFMA, its Regulations and this circular should be amended accordingly. In this regard, the MDAs should notify the National Treasury to disburse the funds and notify the county governments of any disbursement.

4.6.5 Financing of Urban Areas and Cities

257. The Constitution of Kenya (2010) and the Urban Areas and Cities Act (UACA) 2011 conferred the responsibility for local urban services delivery previously performed by local authorities to county governments, including refuse removal, solid waste disposal, storm water management, water and sanitation, informal settlements, housing, public mass transport, and electricity and gas reticulation. The composition of most counties is predominantly rural, and county governments have the responsibility to share a common pool of resources to ensure service delivery over both urban and rural areas.

258. Five cities have been recognized since adopting of the UACA, 2011: Nairobi, Mombasa and Kisumu were recognized as cities with passing of the Act in 2011, while Nakuru and Eldoret were recognized with amendment to the UACA in 2017. Though County Governments have established cities and municipal boards, in line with the provisions UACA provision of basic services including sewage systems, water reticulation, solid waste disposal, and storm water drainage remains poor in urban areas across the country. Further Population density presents unique service delivery challenges in cities. Kenya is urbanizing rapidly, with half of the country's population expected to live in urban areas by 2033. Currently, over 30% of the population lives in cities, with more than 250,000 individuals moving to cities and urban areas every year.

259. With the population growth of cities, there has been an urbanization of poverty with 22% of the population in the Kenya's five cities living in slums. The number of individuals living in slums varies significantly by city, with 36% of residents in Nairobi living in slums while 24% of Mombasa residents living in slum areas. Conversely, cities account for the majority of global economic growth and centers of employment and high productivity. Nairobi alone accounts for 22 percent of the national GDP, and the five counties together account for 39 of the national GDP.

260. The framework for management of urban areas has been weak in the current arrangement under devolution. The lack of clarity in the UACA regarding the urban hierarchy and the absence of regulations to operationalize the Act have discouraged most county governments from issuing charters and establishing urban boards. Kenyan urban centres are not currently able to meet the rapidly growing demands for infrastructure and services due to poor management and limited investment. Rapid urbanization has left Kenyan cities with huge unmet demand for critical infrastructure and basic services, which has constrained the productivity of businesses and negatively impacted the quality of life of residents. Access to key urban services including sewerage systems, water reticulation, solid waste disposal, and storm water drainage and mass transport systems remains poor.

261. There have been initiatives to address the challenges of financing of cities and urban areas. The National Government has continued to invest in cities and municipalities in Kenya. Some of this programmes include;

a) Kenya Urban Support Project (KUSP) - Urban Institutional Grants (UIG).

262. This is a conditional allocation to County Governments financed by a credit from the World Bank to provide support to 45 participating County Governments for the formulation of urban development plans including the establishment and operation of urban institutional arrangements such as charters, board's administrations and operation of Urban Institutional arrangements and for the preparation and financing of urban infrastructure investments. In the 2019/20 FY, the government has allocated Kshs 11.86 Billion to the programme.

b) Nairobi Metropolitan Services Improvement Project (NaMSIP)

263. NaMSIP supports the growth of the Nairobi Metropolitan Region (NMR) into a world class African metropolis through the design and implementation of critical urban services including transport, storm water management, street lighting and disaster management, sanitation and solid waste management. It is implemented in collaboration with five County governments which comprise the NMR namely; Nairobi, Kiambu, Machakos, Kajiado and Murang'a.

264. From the foregoing, there is need to come up with innovative ways of financing cities and urban areas. The National Treasury has identified monitoring and evaluation of the fiscal and financing framework for urban areas and cities as one of its strategic goals. In this regard, Ministry of Devolution and ASAL, National Treasury and Planning, Ministry of Infrastructure Housing and Urban

Development and County Governments will engage stakeholders to come up with innovative ways of financing urban areas and cities for enhanced service delivery.

4.6.6 Equalization Fund

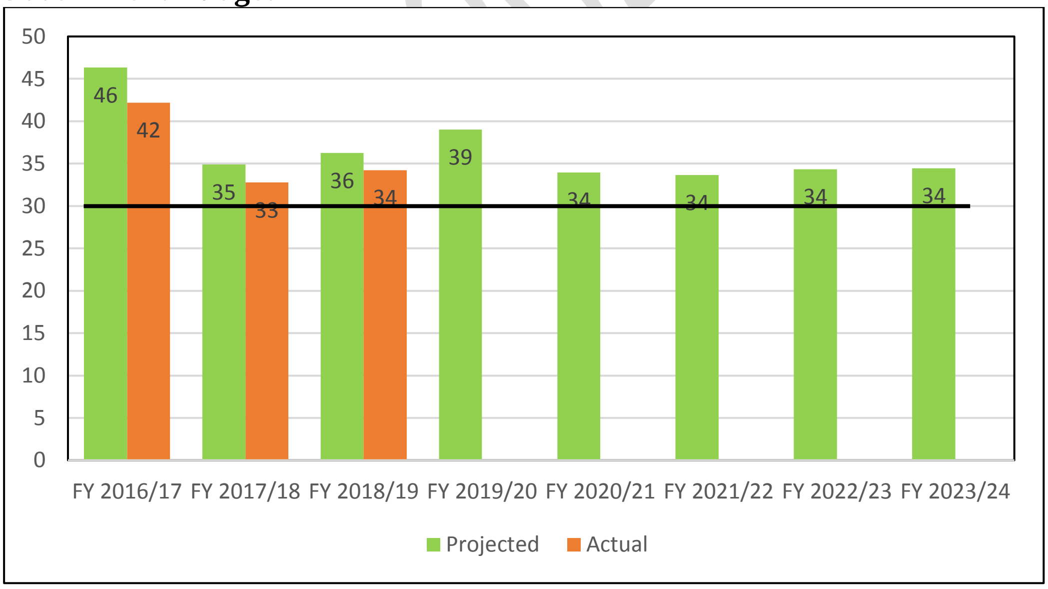
265. There is a High court ruling declaring that among other things the guidelines on administration of equalization fund unconstitutional null and void. This will have a bearing on the implementation of ongoing projects, including possible litigation from contractors, due to disruption of the administrative structure of the Fund. Towards this end, the National Treasury has sought the legal opinion of the Attorney General (AG) on the bearing of the Court decision and especially on completed and ongoing projects which may attract litigation from the contractors. The National Treasury, in consultation with stakeholders will prepare a policy and or a statutory instrument on administration of the equalization fund in line with the direction of the court.

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 2018/19, the allocation to development expenditures to the total expenditures was 34 percent meeting the set threshold. In the fiscal outlays presented in this BPS, the National Government continue to observe this requirement and has allocated more than 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

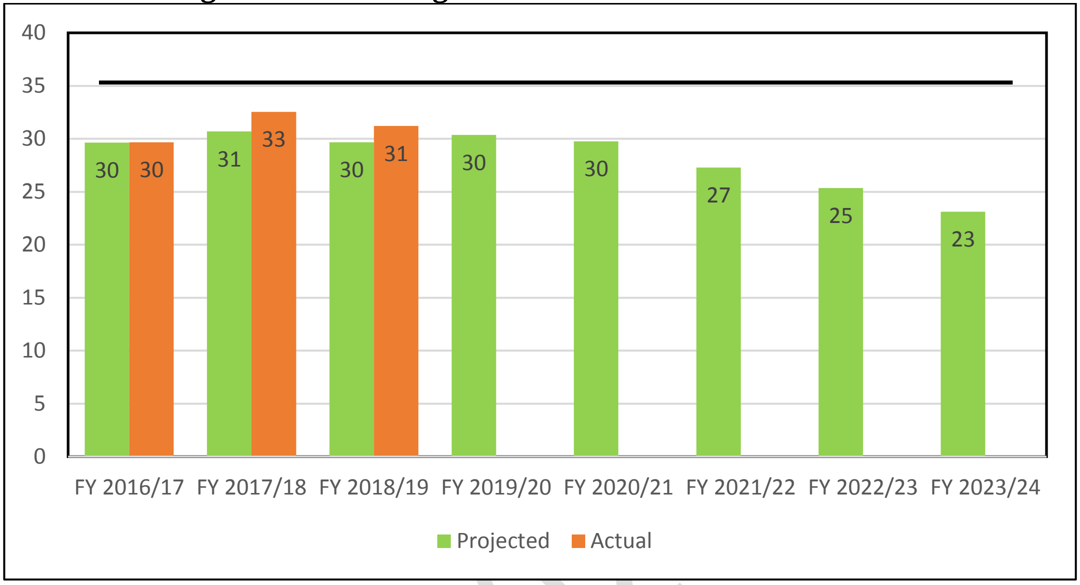


Source: National Treasury

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 31.0 percent in the FY 2018/19, and is projected at 30.0 percent in the FY 2019/20, declining to 23.0 percent by FY 2023/24 **(Chart 1.2).**

Chart 1.2: Wages as a Percentage of National Government Revenues



Source: National Treasury.

c) The principle of ensuring that the national government`s borrowings is used only for purposes of financing development expenditure and not for recurrent expenditure as per the PFM Act section 15(2) (c) is adhered to by the National Treasury as finances raised through borrowing are used to finance only development projects as approved by parliament in the National budget.

d) The Act also requires that the National Treasury ensures that public debt and obligations remain at sustainable levels. The Government is committed to adhering to this at all times. Kenya`s overall debt ratios compared with internationally recognized threshold continues to show that debt level remains sustainable.

e) For the external debt sustainability, Kenya`s risk remain as moderate, however, this is expected to be temporary as implementation of fiscal consolidation reforms continue.

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 amidst emerging global challenges, unfavourable weather conditions and elevated public expenditure pressures coupled by revenue underperformance. However, the economy is prone 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 Section 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, and operations of state corporations, contingent liabilities, financial sector vulnerabilities and natural risks. Emergence of these risks could make it difficult for the Government to actualise and sustain macroeconomic policies detailed in this BPS. Thus, this section also details the measures that the Government is implementing to mitigate such risks.

Risk in Changes in Macroeconomic Assumptions

3. Macroeconomic variables play a key role in the formulation of the budget. Therefore, unexpected changes in their outcome pose risks to both revenue and expenditure projections in this BPS. **Table 2.1** below summarizes the likely impact of such changes on the fiscal outcomes.

Table 2.1: Fiscal Sensitivity to Key Macroeconomic Variables, FY 2020/21

	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			

4. 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

5. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table 2.2**.

Table 2.2: 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

6. 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.

7. 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. This led to higher than projected fiscal deficits and hence higher accumulation of public debt.

8. 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.

9. 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.

SPECIFIC FISCAL RISKS

10. 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. Foreign exchange depreciation effect on the public debt service;
ii. Explicit Contingent Liabilities
iii. Implicit Contingent Liabilities
iv. Fiscal Risks Related to Devolution

Foreign exchange depreciation effect on the Public Debt Service

11. Kenya faces a fiscal risk in the event of depreciation of the Kenya Shilling due to the fact that 50 percent of her debt is held in external currencies. Such an event will lead to increase in debt service over and above the CFS budget in local currency. Prudent macroeconomic management (including monetary policy and fiscal consolidation) will help keep the exchange stable.

12. In addition, contracting of new debt on short term maturities increases the refinancing risk. To cushion the country against the downsides of the risks emanating from the global sphere, the Government is deepening reforms in the domestic debt market to ensure a stable and strong financial system in Kenya capable of funding increasing share of the fiscal deficits.

Explicit Contingent Liabilities

State Corporations/State Owned Enterprises (SOEs)

Governance

13. A presidential taskforce was constituted and key among its recommendations was restructuring of State-owned corporations. In line with a presidential directive to implement these recommendations, the Government was able to successfully restructure Kenya Airways with the goal of tapping into the airline's potential and 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 through provision of cheap credit to farmers; and
ii. Consolidation of Industrial and Commercial Development Corporation (ICDC), IDB Capital, and Tourism Finance Corporation (TFC) to form Kenya Development Bank to boost manufacturing under "The Big Four" Plan.

14. 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.

15. The Government has continued to strengthen corporate governance of State Corporations through the Mwongozo guidelines. 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.

Restructuring of State Corporations/State Owned Enterprises (SOEs)

16. In order to enhance the contribution of the State Corporations to the Country's economic and social progress, key reforms aimed at addressing systemic weaknesses and challenges facing the individual institutions in the Parastatals sub-

sector will be pursued. The specific restructuring initiatives will include merging of the Industrial and Commercial Development Corporation (ICDC) with the Industrial Development Bank (IDB) and the Tourism Finance Corporation (TFC) to create the Kenya Development Bank with enhanced capacity to meet the financing requirements of key sector; and implementation of initiatives to address the challenges of government investments in the banking sector. The merging process of ICDC, TFC and IDB are at an advanced stage. It is noted that in 2018/2019 FY, the merging of Export Promotion Council and Brand Kenya was completed to form the Kenya Export Promotion and Branding Agency (KEPROBA).

17. The Government Privatization Programme remains on course. The Privatization objectives aims at unlocking the potential of the identified to capacity expansion, modernization, performance and efficiency improvement, mobilization of private capital, improved competitiveness and reduced reliance on public financing. Arising from change in policy objectives however, the cabinet approved the removal of Kenya Pipeline Company, KenGen, New KCC and National Bank of Kenya from the privatization program in 2018/2019 FY.

i. On privatization of hotels, the offer to transfer shares of TFC made in 2014 by the Privatization Commission of Kenya to the other shareholders of Hilton Hotel, Intercontinental Hotel, Mountain Lodge and The Ark Hotel expired without successful offers. The PCK has therefore restarted the privatization process of these hotels. The privatization process of other hotels i.e. Kabarnet Hotels, Mt Elgon Hotel Limited, Kenya Safari Lodges and Hotels is ongoing.
ii. In regard to the privatization of sugar companies, structured engagements with all primary stakeholders in the sugar industry are on-going. Consultations have been held with the Council of Governors with a view to identifying sustainable solutions to the challenges facing the operations of the state-owned sugar milling companies.

National Government Loans and Guarantees to State Corporations

18. Under the State Corporations Act, State Corporations have legal capacity to contract debts and other liabilities to finance their requirements. Approval to procure such loans however, must be obtained from the Parent Ministry with the concurrence of the National Treasury as required under the State Corporations Act. Government Loans to State Corporations are either direct or on-lent. Direct loans refer to loans that the Government lends to State Corporations from exchequer resources. On the other hand, on lent-loans are procured by GOK mainly from bilateral and multilateral sources and on-lend to State Corporations. Capital grants or loans to State Corporations are effected through a Subsidiary Loan/ Grant Agreements between the National Treasury and the individual State Corporations. The Loan/Grant Subsidiary Agreements spell out the terms and conditions of the financing.

19. When a State Corporation's Statement of Financial Position is not able to support a debt for a project that is of national importance, the National Government may be called upon to provide a guarantee. The National Treasury however, provide a guarantee upon approval by Parliament. The debt may be denominated in foreign or domestic currencies. As at 30th June, 2019 total outstanding Government guaranteed debt was Ksh 159,405 million from Ksh 138,803 million as at 30th June, 2018. It is to be noted that even though the Government did not issue new guarantees during 2018/2019 FY, the total stock of guarantees increased. The increase to the tune of Ksh 20,602 million was attributed to drawdown of the already guaranteed debt as detained in the Table below.

Table 2.3 National Government Loans and Guarantees to State Corporations

Agency	June 30 2016	June 30 2017	June 30 2018	June 30 2019
KBC	2,224	1,386	1,035	357
Tana and Athi River Dev. Authority	1,156	811	673	279
East Africa Portland Cement	1,438	1,008	836	346
KenGen	29,571	27,700	25,784	43,035
KPA	22099	21,825	30,141	34,061
KRC	4,044	4,667	4,547	4,603
Kenya Airways	0	77,784	75,787	76,724
Total	**60,532**	**135,181**	**138,803**	**159,405**

20. Except for Kenya Broadcasting Corporation, East African Portland Cement and Tana Athi River Development Authority who have defaulted in their obligation to repay GoK guarantee loans, the other State Corporations are servicing their loans. In 2017/2018 Financial Year, GoK paid a total sum of Ksh 1,374 million on behalf of State Corporations that were in financial distress that comprised of Ksh 301 million on behalf of Tana Athi River Development Authority, Ksh 379 million on behalf of East African Portland Cement and Ksh 739 million on behalf of Kenya Broadcasting Corporation.

Contingent Liabilities of SOEs

21. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, they are currently not a major cause of concern. The government is cautious in issuance of guarantees and other support measures to the state owned enterprises. However, as the principal owner of all State Corporations/State Owned Enterprises, the Government is the natural underwriter of risk that they face.

22. Contingent liabilities are potential liabilities that may occur depending on the outcome of uncertain future event and are generally not shown in the statement of financial position, but must be given adequate disclosure. However, a contingent liability is only recorded in the financial statements if the contingency is probable and the amount of the liability can reasonably be estimated. Contingent liability can be explicit or implicit. Explicit contingent liabilities are specific government obligations established by law or a contract authorized by law. The government is legally mandated to settle such an obligation when it becomes due. On the other

hand, implicit contingent liabilities represent a moral obligation or expected burden for the government not in the legal sense, but based on public expectations and political pressures e.g. GOK intervention in revival of Uchumi supermarket, revival bid of Mumias Sugar Company and Kenya Airways.

23. Contingent liabilities are frequently not recorded directly in the budget and thus are not subjected to budgetary oversight. These could lead to poor quantification of Contingent Liabilities and the possibility of large unplanned expenditures if the guarantee materializes. There is need for monitoring of these contingent liabilities to avoid fiscal difficulties in the budget year in case they happen.

24. A study that conducted few years ago identified some sources of liabilities in state corporations including on-going court cases, penalties for non-compliance with statutory deductions, poor and non-performance of state corporations leading to calls on government guarantees, under insurance of assets, and liabilities associated with defined-benefit pension schemes.

25. While Government at times has a stake in state owned enterprises and other Government investments in public companies, its contractual obligations may be limited. However, due to the strategic nature of those state owned enterprises and public companies in view of the national interest and the overall impact of their failure to the economy, the Government may be morally obligated to bail out those state owned enterprises and public companies in financial distress. This may pose serious fiscal risk and challenge to budget implementation as The National Treasury has to provide budgetary resources to bail out those state owned enterprises and public companies in the course of the budget year.

Rising Pension Liabilities

26. Currently the Public Service Pension Scheme (PSPS) is governed by the Pensions Act Cap 189 and operates on a non-contributory basis. Benefits accrued under the non-contributory scheme are budgeted for and drawn directly from the CFS. With the increasing number of retired officers and the increased life expectancy rate the non-contributory scheme has continued to contribute to the increased wage bill in the Government. The actuarial study conducted in year 2009 found there was a contingent Pension Liability of Kshs 499 billion at the time. The liability increased to Ksh 990 billion in year 2014 magnifying the need for a more sustainable scheme for public servants.

27. The Public Service Superannuation Scheme (PSSS) Act, 2012 is a legislation of Parliament that established the contributory Public Service Superannuation Scheme for providing retirement benefits to persons in the public service and aimed at reforming the Public Service Pension Scheme for civil servants. The Act was assented to on 9th May, 2012. The Cabinet Secretary is expected to appoint and gazette 1st of May 2020 to be the commencement date of the Act.

28. With the coming into force of the Public Service Superannuation Scheme Act, specifically Section 6, the concept of mandatory contributions to a scheme has been introduced to the public service. Every member shall contribute to the PSPS at the rate of 7.5 percent, which is deducted from his or her monthly pensionable salary while the government makes a contribution for each member at the rate of at least 15 percent of the member's monthly pensionable salary. A member may also make voluntary addition to their contributions towards their retirement benefits in the PSSS. The government is also mandated to take out and maintain a life insurance policy that has disability benefits in favour of every member of the scheme. The policies must be worth a minimum of five times the member's annual pensionable emoluments.

Public Private Partnership (PPP) Projects

29. 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 beginning 1996.

30. Currently, all of the Country's generated electricity is private sector-led, with sixteen (16) active IPPs that generate a total of 699 MW 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 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

31. Following the adoption of the PPP Policy in 2011, and the enactment of the PPP Act in 2013, as well as the establishment and operationalization of critical PPP institutions (the PPP Committee, the PPP Unit and the Petition Committee), there has been a steady growth in the quality and size of the PPP pipeline of projects, drawn from diverse economic sectors and county governments. A total of 80 projects are in the National Priority List of PPP projects as of November 2019. These projects are in various sectors i.e. Transport and Infrastructure, Energy, Health, Education, Water and Environment, Housing, Tourism, Manufacturing, Agriculture and Livestock. The **Table 2.4** below highlights some of the projects that are currently at advanced stages of the PPP process.

Table 2.4: 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 O&M Nairobi-Thika Highway o O&M Nairobi Southern Bypass o Nairobi-Mombasa Highway Road Annuity Phase 1 *PPP projects at construction phase* o Lot 33 (Ngong-Kiserian-Isinya Road, and Kajido-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 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 o Lot 32 (Illasit - Njukini – Taveta)- 66.5 KM o Nairobi JKIA James Gichuru Road Expressway The following project has been tendered Lot 6 (The project is the construction and rehabilitation of a total 233.3 km comprising of Kilgoris - Lolgorian (B3) Kehancha – Lolgorian, Turbo - Shikhendu – Endebess Kakamega – Ingotse –Namukoye - Nzoia River –Musikoma(JN C33) Road, Ugunja - Ukwala – Ruambwa, Ruambwa - Port Victoria and Kimaeti - Malakisi – Lwakhakha through Njukini) *Contract negotiations with private party have been ongoing for the following projects;* o Nairobi-Nakuru- Mau Summit Highway o Lot 8(The project is the construction and rehabilitation of the 71.5 km roads to augment the existing roads from Bomas to Magadi; Bomas to Ruiru via Dagoreti and other link roads) o Lot 10 (Nanyuki – Gwa Kungu (B22) Road- 83.6 Km and Laisamis – Ngurunit-Nursery (South Horr) (B74) Road- 136 Km) o Lot 20 (The project is the construction and rehabilitation of a total 65.5 km comprising of Kamiti-Roysambu-Kasarani-Mwiki Roads, James Gichuru-Thika By-pass, Kajiado By-pass, Komarock road)

Sector
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 O&M Shimoni Port- *ready for tender*
Energy *PPP project agreements have been signed for the following projects and conditions precedent to Financial Close are being addressed* o 1050MW Coal Power Plant in Lamu o 105 MW Menengai Phase 1 (*35 MW Sosian Menengai Geothermal Power Plant, 35 MW Quantum Menengai Geothermal Power Plant*) o 35MW Sosian Menengai Geothermal Power Plant Project o *35MW Quantum Menengai Geothermal Power Plant Project* o *35MW Orpower 22 Geothermal Power Plant Project* *Contract negotiations ongoing for the following project* o 105 MW Menengai Phase 1 (*35 MW Ormat Orpower Geothermal Power Plant*) *the following project has been tendered* o 140 MW Geothermal PPP project at Olkaria
LAPSSET *Negotiations with private party are ongoing for the following projects* o O&M of Lamu Port (1st three berths) o Lamu – Garissa- Isiolo Highway- *Negotiations with private party ongoing*
Health *The following project has been tendered* o 300 Bed Private Hospital at Kenyatta National Hospital *Preparations for procurement of Transaction Advisor are underway for the following projects* o Pwani University Teaching and Referral Hospital at Pwani University o Amenity Wing at Kisii Teaching and Referral Hospital, Kisii County o Cancer Centre at Meru Teaching and Referral Hospital, Meru County o Upgrading of Nyamira Level 5 Hospital, Nyamira County
Education *PPP Project Agreement has been signed for the following project;* o Kenyatta University Student Hostels *The following projects are at RFP stage of procurement;* o Moi University Student Hostels o University of Embu Student Hostels

Sector
○ 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- ○ Murang'a Water Supply, Murang'a County- *Feasibility Study has been completed* ○ 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* ○ Naivasha 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**

33. 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 . Annex Table 5.

34. 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.

35. 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

36. 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. The Annex Table 5 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.

37. 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.

38. 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

39. Kenya is prone to both natural and human inflicted hazards. Losses resulting from these disasters can be economic, environmental and social, and reduce the coping abilities of the affected population and increase vulnerability to recurring disasters. 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 the 2016-2017 period 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. Delayed long rains which were expected between March and May 2019 affected agriculture productivity and the manufacturing sector in 2019.

40. This was followed by excessive rains in October 2019 which resulted to floods and landslides in various parts of the country. Over 30 counties affected. Most affected ASAL counties include: West Pokot, Wajir, Mandera, Marsabit, Turkana, Makueni, Garissa, Tana River, Kwale, Lamu, Taita Taveta, and Isiolo. This resulted in Loss of lives of at least 130 people, more than 160,000 people affected by floods or landslides, about 20,000 people displaced countrywide, damage of infrastructure, livestock washed away, farmland crops destroyed, learning in schools disrupted, impassable roads hampered transport, food supply & other essential commodities.

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

42. 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 and has been sensitizing both the National Government and County Governments' staff on 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.

43. The Government developed a Disaster Risk Management (DRM) policy which was approved by Parliament in May 2019. The policy aims 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.

44. To fully operationalize the DRM framework, the Government has developed an effective multi-hazard early warning system and preparedness, operationalized the National Drought Emergency Fund. Further, the Government has been implementing National Disaster Risk Financing Strategy to improve its response to the impact of disasters and improve efficiency and effectiveness of budget allocation and execution.

45. Through one of the Strategic priorities of the Strategy, the Government seeks to strengthen and expand the portfolio of sovereign disaster risk financing instruments. The Government has added the Development Policy Credit with a Catastrophe Deferred Draw-Down Option (Cat DDO) into its portfolio of instruments. Following the recent floods, Kenya accessed USD 70 Million for response from this instrument. In addition to being a credit line that can provide immediate liquidity to the country when a natural disaster strikes, this instrument has promoted institutional reforms in the disaster risk management framework of the country.

Climate Change Related Fiscal Risks to the Economy

46. Temperature is expected to increase majorly due to human activity and natural variability brought by climate change. The physical consequences of such rise 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. This pose grave threats to Kenya’s development goals.

47. Our economy is largely dependent on rain-fed agriculture and tourism which are vulnerable 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 lead to stresses on health, fragile ecosystem and water system, 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. Other economic consequences include, changes in trading patterns and international investment flows and financial market disruption.

48. The fiscal implications could be among the most powerful effects of climate change. Climate developments will directly affect 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 and late 2019 let to reallocation of substantial funds to the affected areas.

49. 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; continued facilitation of adherence to

the Climate Change Act, 2016, 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 and implementing of the National Policy on Climate Finance. However, climate change continues to pose significant fiscal risk especially through potential flooding and drought incidences.

50. 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.

Evolving Acts of Terrorism (Violent Extremism)

51. Terrorist attacks may hinder economic development through direct costs such as loss of labour and capital, and diversion of funds to counter terrorism. In recent past, Kenya faced terror attacks including in; Westgate shopping mall in Nairobi (September 2013), Eastleigh (April 2014), Thika highway attack (May 2014), Gikomba market attack (November 2014), Mandera bus attack (November 2014), Mandera quarry workers attack (December 2014), Garissa University College attack (April 2015) and most recent, Dusit D2 attack (January 2019). These attacks resulted into loss of lives, destruction of property, loss of business, restriction of movement of people, religious animosity, and reduction in investments and tourism which is a great earner for Kenya.

52. The direct and other indirect costs including loss of jobs have negative repercussions on Government revenue from tax, increased 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.

53. 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

54. 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.

55. 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.

56. If this system was to be compromised through cybercrime, fraud and the disruption of the mobile money, it 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.

57. 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.

58. To secure the ICT Sector, the Government has enhanced Government Common Core Network (GCCN) security, implemented security policies and deployed firewall at all the gateways, developed security framework of the entire Government cloud and established cyber security Research Institute.

Financial Integrity

59. 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. Prior to the establishment of KDIC, deposit insurance was being handled by the Deposit Protection Fund under the Central Bank of Kenya.

60. KDIC together with Central Bank of Kenya, FRC 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.

61. 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.

62. To enhance the fight against money laundering and terrorist financing, the National Treasury has formed a taskforce to carry out a National Risk Assessment (NRA) on money laundering and terrorist financing. This involves making judgment on money laundering and terrorist financing threats, vulnerabilities and consequences. The aim of conducting the NRA is to identify, understand and assess the money laundering and terrorist financing risks faced by Kenya, inform efficient allocation of resources and mitigate those risks. NRA will enable Kenya identify the high risk activities, people, products, services, transactions and geographic areas and is the foundation for implementation of effective anti-money laundering and countering the financing of terrorism regime.

Fiscal Risks Related to Devolution

63. The constitution of Kenya provides for two levels of government, The National and County governments which are both independent and inter-dependent. County governments, under Article 209 of the Constitution, has power to collect assigned revenues, budgets and spend. The counties spend as per the functions assigned to them under schedule 4 of the Constitution (Devolved function). They are financed through Central Government Transfers, Own Source Revenues and conditional allocations.

64. However, major risks have emerged from Kenya’s fiscal decentralization, which require prudent management especially by the County governments. These include:

i. 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.
ii. Dependence by some counties on one major own-source revenue hence exposing them to fiscal shocks occasioned by a dip in their main revenue source.
iii. The escalation in pending bills by County Governments, which is caused mainly by underperformance of OSR, technical challenges with cash flow management and violation of laid down procurement regulations.
iv. Duplication of functions that risk generating intergovernmental conflicts, wasteful spending and financing gaps that could adversely affect implementation of fiscal framework.

Annex Table 1: Macroeconomic Indicators

	2017/18	2018/19		2019/20			2020/21			2021/22				2022/23			2023/24	
	Act	Rev. Budget II	Prel. Act	Printed Estimates	BROP'19	Rev. Budget I	BPS'19	BROP'19	BPS'20	BPS'18	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BROP'19	BPS'20
						annual percentage change, unless otherwise indicated												
National Account and Prices																		
Real GDP	5.6	6.3	5.9	6.2	5.9	5.9	6.4	6.2	6.2	6.9	6.7	6.4	6.3	7.0	6.7	6.6	6.9	6.8
GDP deflator	6.7	4.9	3.9	6.5	4.9	4.9	6.0	5.1	5.5	5.8	6.0	5.1	5.4	5.8	5.1	5.3	5.2	5.4
CPI Index (eop)	5.1	5.3	5.1	5.2	5.2	5.2	5.0	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)	5.2	5.2	5.0	5.3	5.4	5.4	5.0	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)	0.8	-3.5	0.6	0.4	0.5	0.5	-1.8	0.3	0.8	1.1	1.1	1.1	1.1	-2.2	0.0	0.3	-0.2	0.4
Money and Credit (end of period)																		
Net domestic assets	9.3	17.6	4.7	12.0	17.9	17.9	13.3	7.1	11.1	14.5	11.9	13.2	15.5	11.1	12.5	17.1	6.8	12.1
Net domestic credit to the Government	15.3	15.3	19.5	14.0	14.2	14.0	9.1	15.1	13.0	7.4	9.2	14.1	14.4	9.2	11.5	11.7	13.7	14.0
Credit to the rest of the economy	4.3	13.9	4.3	11.5	13.5	13.6	14.6	4.6	9.6	15.5	13.0	12.0	14.5	12.1	12.1	17.1	5.1	11.1
Broad Money, M3 (percent change)	11.1	11.6	9.2	13.2	10.8	10.8	12.8	11.7	12.0	13.8	13.1	11.9	12.0	13.2	12.3	12.5	12.4	12.6
Reserve money (percent change)	7.4	9.7	2.5	12.5	3.6	3.6	12.1	7.4	7.8	13.1	12.4	7.6	7.8	12.6	8.0	8.2	8.2	8.4
						in percentage of GDP, unless otherwise indicated												
Investment and Saving																		
Investment	18.6	21.9	19.7	24.4	24.2	24.2	23.3	24.1	21.4	23.4	25.0	25.5	22.2	27.9	28.7	22.5	31.2	22.6
Central Government	5.5	6.6	5.8	6.1	7.0	7.2	5.9	5.3	5.2	6.0	5.8	5.1	5.0	6.0	5.1	5.0	4.9	4.8
Other	13.1	15.3	13.8	18.3	17.1	16.9	17.4	18.8	16.2	17.4	19.2	20.4	17.2	21.9	23.7	17.5	26.3	17.8
Gross National Saving	13.9	17.1	15.2	19.8	19.2	19.2	17.4	19.1	16.6	19.2	19.7	21.2	17.7	22.8	24.9	19.5	26.5	21.3
Central Government	1.8	2.7	1.8	3.4	3.3	3.1	4.3	2.7	2.9	5.5	4.8	3.1	3.1	5.0	3.4	3.4	3.8	3.8
Other	12.2	14.4	13.4	16.4	15.9	16.1	13.1	16.5	13.6	13.7	14.9	18.2	14.7	17.9	21.4	16.1	22.7	17.5
Central Government Budget																		
Total revenue	17.9	18.9	18.2	19.7	20.2	20.1	18.5	18.5	18.3	19.4	18.8	18.3	18.2	18.8	18.4	18.2	18.3	18.1
Total expenditure and net lending	25.2	26.9	26.0	25.9	27.4	27.8	22.8	24.1	23.6	22.5	22.5	23.2	23.0	22.2	22.7	22.4	21.9	21.7
Overall Fiscal balance excl. grants	-7.3	-8.0	-7.9	-6.3	-7.2	-7.6	-4.3	-5.7	-5.2	-3.4	-3.7	-4.9	-4.8	-3.4	-4.3	-4.3	-3.6	-3.6
Overall Fiscal balance, incl. grants, cash basis	-7.4	-6.8	-7.7	-5.9	-6.2	-6.3	-3.9	-5.3	-4.9	-3.0	-3.3	-4.5	-4.5	-3.1	-4.0	-3.9	-3.4	-3.3
Primary budget balance	-3.2	-3.8	-3.6	-1.8	-2.6	-3.0	-0.3	-0.3	-0.9	0.4	0.2	0.2	-0.4	0.2	0.2	0.1	0.7	0.7
Net domestic borrowing	3.2	2.1	3.2	2.8	3.0	2.9	1.7	1.7	2.7	4.0	1.7	1.7	3.1	1.6	1.6	2.5	3.0	3.0
Total external support (grant & loans)	2.4	3.0	2.6	3.7	3.7	4.7	2.5	2.5	2.4	2.7	2.5	2.5	2.3	2.5	2.5	2.2	2.1	2.1
External Sector																		
Exports value, goods and services	14.6	14.9	14.5	15.3	15.6	15.6	14.9	16.1	14.0	17.9	16.0	17.5	13.8	16.8	18.6	13.8	18.6	13.7
Imports value, goods and services	22.6	22.5	21.9	22.5	23.1	23.1	23.0	23.3	21.3	24.4	23.3	23.7	20.6	23.7	24.2	18.8	24.9	17.1
Current external balance, including official transfers	-4.7	-4.8	-4.5	-4.6	-4.9	-4.9	-5.9	-5.0	-4.8	-4.2	-5.4	-4.3	-4.4	-5.1	-3.9	-2.9	-4.7	-1.3
Gross reserves in months of next yr's imports	5.4	6.2	5.3	6.2	4.7	4.7	6.3	5.6	5.9	6.3	6.3	5.6	6.2	6.4	5.6	6.3	5.6	6.3
Gross reserves in months of this yr's imports	6.3	7.0	6.4	7.1	6.4	6.4	7.2	6.4	6.4	7.1	7.3	6.4	6.4	7.4	6.4	6.4	6.4	6.4
Public debt																		
Nominal debt (eop), net of deposits	52.7	54.8	56.7	54.1	57.3	57.5	52.6	56.6	56.1	43.6	50.4	55.1	54.5	48.2	53.1	52.4	50.5	49.8
Domestic (gross)	29.1	28.9	29.8	28.3	29.9	29.8	27.3	29.9	29.3	23.9	26.4	29.8	29.2	25.5	29.1	28.5	28.9	28.3
Domestic (net)	22.6	23.6	24.4	23.5	25.0	24.9	23.1	25.5	24.9	20.8	22.8	25.9	25.3	22.2	25.6	25.0	25.8	25.2
External	30.0	31.2	32.3	30.6	32.4	32.6	29.5	31.1	31.2	22.8	27.6	29.2	29.2	26.0	27.4	27.4	24.7	24.6
Memorandum Items:																		
Nominal GDP (in Ksh Billion)/*	8,525	9,510	9,348	10,766	10,355	10,355	12,796	11,564	11,633	14,364	14,475	12,935	13,031	16,393	14,522	14,658	16,326	16,509
Nominal GDP (in US$ Million)	83,277	92,907	91,323	104,748	100,868	100,868	124,638	112,533	113,205	138,627	140,251	125,145	126,071	157,655	139,421	140,719	155,246	156,984

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

	2017/18	2018/19	2019/20			2020/21			2021/22			2022/23			2023/24	
	Act	Prel. Act	Printed Estimates	BROP'19	Rev. Budget I	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BROP'19	BPS'20
TOTAL REVENUE	**1,522.5**	**1,698.8**	**2,115.9**	**2,090.5**	**2,084.2**	**2,369.6**	**2,135.5**	**2,133.5**	**2,718.0**	**2,372.3**	**2,372.3**	**3,079.4**	**2,665.0**	**2,665.0**	**2,985.2**	**2,985.2**
Ordinary Revenue	1,365.1	1,496.9	1,877.2	1,851.8	1,843.8	2,142.8	1,883.7	1,856.7	2,465.4	2,106.1	2,106.1	2,798.0	2,381.8	2,381.8	2,690.9	2,690.9
Income Tax	640.6	685.4	884.4	808.2	804.5	1,027.6	863.9	862.3	1,194.2	981.9	981.9	1,361.9	1,121.3	1,121.3	1,280.6	1,280.6
Import duty (net)	93.9	107.7	135.4	129.3	128.2	152.1	137.5	126.5	170.8	147.7	147.7	191.8	164.1	164.1	182.3	182.3
Excise duty	167.8	194.3	242.2	266.5	261.6	274.6	260.0	258.0	313.0	272.0	272.0	357.7	303.1	303.1	338.1	338.1
Value Added Tax	356.9	413.2	496.0	462.7	464.5	571.8	514.9	496.4	658.8	587.0	587.0	744.6	664.1	664.1	747.8	747.8
Investment income	24.1	23.8	33.0	19.7	19.7	20.4	18.5	21.0	21.4	18.4	18.4	22.5	19.3	19.3	20.2	20.2
Other	81.8	72.6	86.1	165.6	165.3	96.3	88.8	92.5	107.2	99.2	99.2	119.4	109.9	109.9	121.8	121.8
Railway Development Levy	20.8	21.3	27.7	27.7	28.4	31.1	27.8	27.8	35.0	29.2	29.2	39.3	32.5	*32.5*	*36.1*	*36.1*
Ministerial and Departmental Fees (AiA)	136.6	180.6	211.0	211.0	212.0	195.6	224.0	249.0	217.6	237.0	237.0	242.2	250.8	250.8	258.3	258.3
EXPENDITURE AND NET LENDING	**2,146.7**	**2,433.7**	**2,789.5**	**2,835.7**	**2,874.2**	**2,922.3**	**2,790.6**	**2,743.8**	**3,251.5**	**3,002.2**	**3,002.2**	**3,641.5**	**3,290.5**	**3,290.5**	**3,579.4**	**3,579.4**
Recurrent expenditure	1,349.9	1,531.1	1,760.3	1,744.9	1,760.0	1,818.4	1,823.0	1,786.9	2,043.0	1,982.8	1,981.6	2,284.4	2,177.7	2,176.3	2,374.3	2,372.9
Interest payments	323.9	375.7	441.5	441.5	441.5	460.9	476.0	459.0	507.6	529.7	529.7	531.1	598.4	598.4	661.6	661.6
Domestic interest	239.5	272.4	290.5	290.5	290.5	315.0	313.6	311.4	359.4	359.4	359.4	374.4	403.4	403.4	454.2	454.2
Foreign Interest	84.4	103.4	150.9	150.9	150.9	145.9	162.4	147.6	148.2	170.2	170.2	156.6	195.0	195.0	207.5	207.5
Wages and Salaries/1	388.9	417.5	483.5	483.5	487.6	493.9	510.7	490.7	518.5	541.3	541.3	544.5	573.8	573.8	591.0	591.0
Contribution to civil service pension fund	0.0	0.0	10.3	4.8	4.8	25.4	20.4	20.4	33.8	21.6	21.6	50.7	22.9	22.9	24.3	24.3
Pensions etc	65.1	70.8	108.6	108.6	108.6	124.5	124.5	121.5	139.0	139.0	139.0	152.9	152.9	152.9	170.5	170.5
Other	445.9	531.7	574.2	570.1	575.4	569.5	556.1	550.0	698.1	614.3	613.0	857.2	689.6	688.2	784.8	783.4
Defense and NSIS	126.1	135.3	142.2	136.4	142.1	144.3	135.3	145.3	145.9	136.9	136.9	148.1	140.0	140.0	142.0	142.0
Development and Net lending	469.5	541.9	652.3	707.4	730.8	723.8	587.5	576.0	819.6	626.1	626.1	955.4	705.5	705	770	770.4
Domestically financed	266.0	307.0	390.2	445.3	442.5	429.8	338.4	326.9	485.1	359.2	359.2	577.8	410.3	410.3	456.0	456.0
o/w Domestically Financed (Net)	229.2	262.2	323.0	378.1	374.2	371.9	269.2	257.7	421.6	286.6	286.6	508.2	332.2	332.2	372.9	372.9
o/w Exchequer Issues	229.2	262.2	323.0	378.1	374.2	371.9	269.2	257.7	421.6	286.6	286.6	508.2	332.2	332.2	372.9	372.9
Ministerial Development AIA	36.9	44.8	67.2	67.2	68.3	57.9	69.2	94.2	63.5	72.7	72.7	69.6	78.1	78.1	83.1	83.1
Foreign financed	201.0	225.4	255.8	255.8	281.9	286.3	242.6	242.6	326.0	260.1	260.1	368.2	287.7	287.7	306.4	306.4
Net lending	2.5	2.5	0.6	0.6	0.6	1.1	0.0	0.0	1.1	0.0	0.0	1.1	0.0	0.0	0.0	0.0
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	5.0	5.0
County Allocation	327.3	360.7	371.8	378.3	378.3	375.0	375.0	376.0	383.8	388.2	389.5	393.7	402.3	403.7	429.7	431.2
Sharable	302.0	314.0	310.0	316.5	316.5	317.8	317.8	317.5	325.7	330.7	330.7	333.8	344.8	344.8	371.2	371.2
Conditional Allocation	25.3	46.7	61.8	61.8	61.8	57.3	57.3	58.5	58.1	57.5	58.8	59.9	57.5	58.9	58.5	59.9
Level Five Hospital	4.2	4.3	4.5	4.5	4.5	4.6	4.6	4.6	4.7	4.7	4.7	5.1	4.8	4.8	5.0	5.0
Road Maintenance Levy 15%	10.6	9.4	9.0	9.0	9.0	8.3	8.3	9.4	8.3	8.6	9.9	9.0	9.0	10.4	9.4	10.8
Capital Transfers	2.0	8.8	8.8	8.8	8.8	8.7	8.7	8.7	8.7	7.7	7.7	9.2	6.5	6.5	6.3	6.3
Recurrent Transfers	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Foreign Financed Transfers	7.5	23.3	38.7	38.7	38.7	34.8	34.8	34.8	35.5	35.5	35.5	35.7	36.2	36.2	37.0	37.0
Equalization Fund for Marginal areas	0.0	7.0	5.8	5.8	5.8	6.5	6.5	6.5	7.4	6.8	6.8	8.2	7.5	7.5	8.0	8.0
Fiscal Balance *(commitment basis excl. grants)*	**-624.2**	**-734.9**	**-673.6**	**-745.2**	**-789.9**	**-552.7**	**-655.1**	**-610.3**	**-533.4**	**-629.8**	**-629.8**	**-562.1**	**-625.4**	**-625.4**	**-594.2**	**-594.2**
Grants	**27.6**	**19.7**	**38.8**	**38.8**	**41.8**	**52.4**	**40.9**	**40.9**	**54.4**	**43.1**	**43.1**	**57.6**	**46.9**	**46.9**	**46.9**	**46.9**
Of which: Project grants	22.9	15.4	33.8	33.8	37.8	48.9	37.9	37.9	51.4	42.1	42.1	54.6	46.9	46.9	46.9	46.9
Programmme grants	4.7	4.3	5.0	5.0	4.0	3.5	3.0	3.0	3.0	1.0	1.0	3.0	0.0	0.0	0.0	0.0
Fiscal Balance *(incl. grants)*	**-596.6**	**-715.2**	**-634.8**	**-706.4**	**-748.1**	**-500.2**	**-614.1**	**-569.4**	**-479.0**	**-586.8**	**-586.8**	**-504.5**	**-578.5**	**-578.5**	**-547.2**	**-547.2**
Adjustment to Cash Basis	-34.7	5.9	0.0	66.2	90.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance *(incl. grants) Cash Basis*	**-631.3**	**-721.1**	**-634.8**	**-640.2**	**-657.4**	**-500.2**	**-614.1**	**-569.4**	**-479.0**	**-586.8**	**-586.8**	**-504.5**	**-578.5**	**-578.5**	**-547.2**	**-547.2**
Statistical discrepancy	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
FINANCING	**631.3**	**721.1**	**634.8**	**640.2**	**657.4**	**500.2**	**614.1**	**569.38**	**479.0**	**586.8**	**586.8**	**504.5**	**578.5**	**578.5**	**547.2**	**547.2**
Net Foreign Financing	355.0	414.5	331.3	331.3	353.5	284.2	240.8	247.31	245.6	184.7	184.7	248.0	204.4	204.4	50.4	50.4
Project loans	180.8	222.3	247.6	247.6	269.8	272.1	239.1	239.13	310.1	253.5	253.5	349.3	277.0	277.0	296.4	296.4
Programme loans	8.5	84.8	2.0	2.0	2.0	2.0	2.0	2.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Commercial Financing	304.0	373.7	213.1	213.1	213.1	200.1	180.3	180.3	150.0	150.0	150.0	100.0	200.0	200.0	250.0	250.0
Repayments due	-138.4	-266.2	-131.4	-131.4	-131.4	-190.0	-180.6	-174.1	-218.0	-222.3	-222.3	-204.8	-276.2	-276.2	-499.6	-499.6
Other Domestic Financing	2.6	2.9	3.2	3.2	3.2	-1.2	3.2	3.2	-5.5	3.3	3.3	-5.5	3.3	3.3	3.3	3.3
Net Domestic Financing	273.7	303.7	300.3	305.7	300.7	217.2	370.1	318.9	239.0	398.7	398.7	262.1	370.8	370.8	493.5	493.5
Financing gap	34.7	5.9	0.0	-66.2	-90.7	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	2,560.2	3,023.1	3,354.5	3,354.5	3,376.6	3,472.4	3,595.3	3,623.9	3,699.5	3,780.0	3,808.7	3,945.1	3,984.4	4,013.0	4,034.8	4,063.4
Domestic Debt (gross)	2,478.8	2,785.9	3,086.3	3,091.6	3,086.6	3,283.7	3,461.7	3,405.5	3,522.6	3,860.4	3,804.2	3,784.7	4,231.2	4,175.0	4,724.8	4,668.5
Domestic Debt (net)	1,928.1	2,278.5	2,578.8	2,584.2	2,579.2	2,774.6	2,954.3	2,898.1	3,013.6	3,353.0	3,296.8	3,275.7	3,723.8	3,667.6	4,217.3	4,161.1
Primary budget balance	-272.7	-339.4	-193.4	-264.9	-306.6	-39.4	-138.1	-110.4	28.6	-57.1	-57.1	26.6	19.9	19.9	114.4	114.4
Nominal GDP/*	8,524.7	9,348.3	10,765.7	10,355.4	10,355.4	12,795.9	11,564.3	11,633.4	14,475.2	12,935.5	13,031.2	16,393.0	14,522.5	14,657.7	16,326.4	16,509.1

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

	2017/18	2018/19	2019/20			2020/21			2021/22			2022/23			2023/24	
	Act	Prel. Act	Printed Estimate	BROP'19	Rev. Budget	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BPS'19	BROP'19	BPS'20	BROP'19	BPS'20
TOTAL REVENUE	**17.9**	**18.2**	**19.7**	**20.2**	**20.1**	**18.5**	**18.5**	**18.3**	**18.8**	**18.3**	**18.2**	**18.8**	**18.4**	**18.2**	**18.3**	**18.1**
Ordinary Revenue	16.0	16.0	17.4	17.9	17.8	16.7	16.3	16.0	17.0	16.3	16.2	17.1	16.4	16.2	16.5	16.3
Income tax	7.5	7.3	8.2	7.8	7.8	8.0	7.5	7.4	8.3	7.6	7.5	8.3	7.7	7.6	7.8	7.8
Import duty (net)	1.1	1.2	1.3	1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.1	1.2	1.1	1.1	1.1	1.1
Excise duty	2.0	2.1	2.3	2.6	2.5	2.1	2.2	2.2	2.2	2.1	2.1	2.2	2.1	2.1	2.1	2.0
Value Added Tax	4.2	4.4	4.6	4.5	4.5	4.5	4.5	4.3	4.6	4.5	4.5	4.5	4.6	4.5	4.6	4.5
Investment income	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	1.0	0.8	0.8	1.6	1.6	0.8	0.8	0.8	0.7	0.8	0.8	0.7	0.8	0.7	0.7	0.7
Railway Development Levy	0.2	0.2	0.3	0.3	0.3	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)	1.6	1.9	2.0	2.0	2.0	1.5	1.9	2.1	1.5	1.8	1.8	1.5	1.7	1.7	1.6	1.6
EXPENDITURE AND NET LENDING	**25.2**	**26.0**	**25.9**	**27.4**	**27.8**	**22.8**	**24.1**	**23.6**	**22.5**	**23.2**	**23.0**	**22.2**	**22.7**	**22.4**	**21.9**	**21.7**
Recurrent expenditure	15.8	16.4	16.4	16.9	17.0	14.2	15.8	15.4	14.1	15.3	15.2	13.9	15.0	14.8	14.5	14.4
Interest payments	3.8	4.0	4.1	4.3	4.3	3.6	4.1	3.9	3.5	4.1	4.1	3.2	4.1	4.1	4.1	4.0
Domestic interest	2.8	2.9	2.7	2.8	2.8	2.5	2.7	2.7	2.5	2.8	2.8	2.3	2.8	2.8	2.8	2.8
Foreign Interest	1.0	1.1	1.4	1.5	1.5	1.1	1.4	1.3	1.0	1.3	1.3	1.0	1.3	1.3	1.3	1.3
Wages and Salaries/1	4.6	4.5	4.5	4.7	4.7	3.9	4.4	4.2	3.6	4.2	4.2	3.3	4.0	3.9	3.6	3.6
Contribution to civil service pension fund	0.0	0.0	0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.1
Pensions etc	0.8	0.8	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.1	1.1	0.9	1.1	1.0	1.0	1.0
Other	5.2	5.7	5.3	5.5	5.6	4.5	4.8	4.7	4.8	4.7	4.7	5.2	4.7	4.7	4.8	4.7
Defense and NSIS	1.5	1.4	1.3	1.3	1.4	1.1	1.2	1.2	1.0	1.1	1.1	0.9	1.0	1.0	0.9	0.9
Development and Net lending	5.5	5.8	6.1	6.8	7.1	5.7	5.1	5.0	5.7	4.8	4.8	5.8	4.9	4.8	4.7	4.7
Domestically financed	3.1	3.3	3.6	4.3	4.3	3.4	2.9	2.8	3.4	2.8	2.8	3.5	2.8	2.8	2.8	2.8
o/w Domestically Financed (Net)	2.7	2.8	3.0	3.7	3.6	2.9	2.3	2.2	2.9	2.2	2.2	3.1	2.3	2.3	2.3	2.3
o/w Exchequer Issues	2.7	2.8	3.0	3.7	3.6	2.9	2.3	2.2	2.9	2.2	2.2	3.1	2.3	2.3	2.3	2.3
Ministerial Development AIA	0.4	0.5	0.6	0.6	0.7	0.5	0.6	0.8	0.4	0.6	0.6	0.4	0.5	0.5	0.5	0.5
Foreign financed	2.4	2.4	2.4	2.5	2.7	2.2	2.1	2.1	2.3	2.0	2.0	2.2	2.0	2.0	1.9	1.9
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	0.0	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
County Allocation	3.8	3.9	3.5	3.7	3.7	2.9	3.2	3.2	2.7	3.0	3.0	2.4	2.8	2.8	2.6	2.6
Sharable	3.5	3.4	2.9	3.1	3.1	2.5	2.7	2.7	2.3	2.6	2.5	2.0	2.4	2.4	2.3	2.2
Conditional Allocation	0.3	0.5	0.6	0.6	0.6	0.4	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Level Five Hospital	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
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
Capital Transfers	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	**0.0**
Recurrent Transfers	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**
Foreign Financed Transfers	0.1	0.2	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.0
Fiscal Balance (commitment basis excl. grants)	**-7.3**	**-7.9**	**-6.3**	**-7.2**	**-7.6**	**-4.3**	**-5.7**	**-5.2**	**-3.7**	**-4.9**	**-4.8**	**-3.4**	**-4.3**	**-4.3**	**-3.6**	**-3.6**
Grants	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Of which: Project grants	0.3	0.2	0.3	0.3	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Programmme grants	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	0.0
Fiscal Balance (incl. grants)	**-7.0**	**-7.7**	**-5.9**	**-6.8**	**-7.2**	**-3.9**	**-5.3**	**-4.9**	**-3.3**	**-4.5**	**-4.5**	**-3.1**	**-4.0**	**-3.9**	**-3.4**	**-3.3**
Adjustment to Cash Basis	-0.4	0.1	0.0	0.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (incl. grants) Cash Basis	**-7.4**	**-7.7**	**-5.9**	**-6.2**	**-6.3**	**-3.9**	**-5.3**	**-4.9**	**-3.3**	**-4.5**	**-4.5**	**-3.1**	**-4.0**	**-3.9**	**-3.4**	**-3.3**
Statistical discrepancy	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
FINANCING	**7.4**	**7.7**	**5.9**	**6.2**	**6.3**	**3.9**	**5.3**	**4.9**	**3.3**	**4.5**	**4.5**	**3.1**	**4.0**	**3.9**	**3.4**	**3.3**
Net Foreign Financing	4.2	4.4	3.1	3.2	3.4	2.2	2.1	2.1	1.7	1.4	1.4	1.5	1.4	1.4	0.3	0.3
Project loans	2.1	2.4	2.3	2.4	2.6	2.1	2.1	2.1	2.1	2.0	1.9	2.1	1.9	1.9	1.8	1.8
Programme loans	0.1	0.9	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	3.6	4.0	2.0	2.1	2.1	1.6	1.6	1.6	1.0	1.2	1.2	0.6	1.4	1.4	1.5	1.5
Repayments due	-1.6	-2.8	-1.2	-1.3	-1.3	-1.5	-1.6	-1.5	-1.5	-1.7	-1.7	-1.2	-1.9	-1.9	-3.1	-3.0
Other Domestic Financing	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
Net Domestic Financing	**3.2**	**3.2**	**2.8**	**3.0**	**2.9**	**1.7**	**3.2**	**2.7**	**1.7**	**3.1**	**3.1**	**1.6**	**2.6**	**2.5**	**3.0**	**3.0**
Financing gap	0.4	0.1	0.0	-0.6	-0.9	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	30.0	32.3	31.2	32.4	32.6	27.1	31.1	31.2	25.6	29.2	29.2	24.1	27.4	27.4	24.7	24.6
Domestic Debt (gross)	29.1	29.8	28.7	29.9	29.8	25.7	29.9	29.3	24.3	29.8	29.2	23.1	29.1	28.5	28.9	28.3
Domestic Debt (net)	22.6	24.4	24.0	25.0	24.9	21.7	25.5	24.9	20.8	25.9	25.3	20.0	25.6	25.0	25.8	25.2
Primary budget balance	-3.2	-3.6	-1.8	-2.6	-3.0	-0.3	-1.2	-0.9	0.2	-0.4	-0.4	0.2	0.1	0.1	0.7	0.7
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 5: Public Private Partnerships (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	25 year 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 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	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: Commission ing is ongoing	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 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	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	108	Financial Close: 18th November, 2013	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	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)
		region, on a 20-year PPA with KPLC.		Status: Operational	payments was signed on 14th March 2013. PRG amount US$ 35 Mn and Euros 7 Mn		
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: Operational	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 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	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 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	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)**
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: In development	Letter of support covering political risks issued on 26th July, 2013	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	NO
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: January 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 5% 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 12% per annum	NO
9.	Mumias Power Plant – 35MW	10 Years-BOO	50	Financial Close: July, 2008	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)
				Status: Operational			
10.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Status: Operational	None	None	NO
11.	74MW Tsavo	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: September 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 10% 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	1.11	Operational	None	None	NO
13.	Power Technology Solutions Ltd. Gikira Kianjora	Feed in Tariff Power Plant on a BOO basis	2.01	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)
	Small Hydro Power Stations 0.514MW						
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	Financial Close Pending	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 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO
15.	100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Pending	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 10% 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)**
16.	Akiira Geothermal Power Project	Feed in Tariff Power Plant on a BOO basis	240.73	Status: Financial Close Pending	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 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO
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 Pending	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 10% 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 Pending	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 Pending	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)
20.	40 MW Selenkei Solar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Pending	Letter of support covering political risks issued		NO
21.	40 MW Malindi Solar Power Project	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Pending	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 10% 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

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)**
23	Chania Green	Feed in Tariff Power Plant on a BOO basis	102	Construction ongoing	Letter of support covering political risks issued	1.Total amount Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. All amounts paid to Seller by way of subscription in Seller capital, less dividends and other distribution made to shareholders of Seller 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	NO
24	Iberafrica	Feed in Tariff Power Plant on a BOO basis	216	Operational	None	None	NO
25	Orpower22	Feed in Tariff Power Plant on a BOO basis	120	Financial Close Pending	Letter of support covering political risks issued	Total project costs incurred by the Seller as at the time of termination, less 4% depreciation for every year of service from the Full Commercial Operation Date.	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)
26	Biojoule	Feed in Tariff Power Plant on a BOO basis	6	Operational	Letter of support covering political risks issued	Monthly Liquidated Damages, until the operating year when the agreement would have terminated by effluxion of time, an amount equivalent to the average monthly revenue which the seller would have earned.	NO
27	Regen Terem	Feed in Tariff Power Plant on a BOO basis	20	Operational	None	Total project costs incurred by the Seller as at the time of termination, less 5% depreciation for every year of service from the Full Commercial Operation Date.	NO
28	Chania Power	Feed in Tariff Power Plant on a BOO basis	2	Operational	None	Total project costs incurred by the Seller as at the time of termination, less 5% depreciation for every year of service from the Full Commercial Operation Date. However, Seller and Buyer may agree on	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)
						alternative arrangements.	
29	Gura (KTDA)	Feed in Tariff Power Plant on a BOO basis	8	Commissioning is ongoing	None	All amounts owed between the parties shall be paid upon termination	NO
30	Strathmore University	Located at Strathmore University. BOO with a Term of 20yrs	0.4	Status: Operational	None	None	NO

*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.

THE NATIONAL TREASURY AND PLANNING
FEBRUARY 2020