REPUBLIC OF KENYA

THE NATIONAL TREASURY

MEDIUM TERM

BUDGET POLICY STATEMENT

APRIL 2013

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Foreword

This Budget Policy Statement has been prepared when the global economic prospects have somewhat improved but the road to recovery in the advanced economies remains bumpy. In emerging market and developing economies, activity has already picked up steam. These developments together with renewed investor confidence following successful elections bode well for accelerated growth prospects in Kenya.

On the domestic front, we have just gone through a successful general election and commenced the devolution process under a new Administration. Economic growth has improved and remains resilient. Fiscal and monetary policy remains supportive of growth, but current projected growth rates are not fast enough to support the employment creation and poverty reduction that the country requires. The overriding policy thrust of 2013 Budget Policy Statement, therefore, is to accelerate economic growth by sustaining macroeconomic stability; focusing on economic policies and structural reforms; and deepening investment in critical economic infrastructure aimed at promoting productivity and by extension facilitating expansion of the private sector that will spur resilience necessary for employment creation and poverty reduction. This is exactly the agenda of the new Administration.

The fiscal framework presented in the 2013 Budget Policy Statement provides the means for the country to implement the new Administration's economic agenda within a sustainable public finance path. It also facilitates the devolution process, following the coming on board of the county governments in March 2013. This calls for greater transparency and high quality in public financial management at both the county and national governments in order to ensure fiscal discipline and safeguard macroeconomic stability.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/THE NATIONAL TREASURY

Acknowledgement

This is the fifth Budget Policy Statement (BPS) to be tabled in Parliament and the first under the Public Financial Management Act, 2012. It outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of government spending plans, as a basis of 2013/14 budget and the medium-term. We expect the document to improve the understanding of Kenya's public finances and guide public debate on economic and development matters.

As usual, the preparation of the 2013 BPS continues to be a cooperative effort. Much of the information in this report was obtained from the Ministries and other government departments and agencies. We are grateful for their inputs. We are also grateful for the comments from the Macro Working Group and Public Sector Hearing of November 12-14, 2012 on the 2013/14 Budget Review and Outlook Paper (BROP), which provided inputs to this 2013 BPS, in addition to comments from the Commission for Revenue Allocation and other stakeholders.

A core team in the National Treasury spent a significant amount of time putting together this Statement. We are particularly grateful to the Economic Secretary, Dr. Geoffrey Mwau, Mr. Justus Nyamunga, Director, Economic Affairs, and Dr. KamauThugge, Senior Economic Advisor, for their support in the execution of this task. Special thanks go to contributors including Mr. John Njera, Ms. Naomi Matheri and Mr. Denis Muganga of Economic Affairs Department. In addition, we value the inputs received from Mr. Francis Anyona, Mr. Samuel Kiiru, Mrs Elizabeth Nzioka, and Ms Miriam Musyoki of Budgetary Supplies Department, and the entire team working on Fiscal Decentralization. Since it would not be possible to thank everybody individually in this page, I would like to take this opportunity to commend the entire staff of the National Treasury for their dedication, sacrifice and commitment to public service.

We are convinced working together and remaining focussed we will conquer poverty in all its manifestations.

JOSEPH K. KINYUA, CBS
PERMANENT SECRETARY/THE NATIONAL TREASURY

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Legal Basis for the Publication of the Budget Policy Statement

The Budget Policy Statement is published in accordance with Section 25 of the Public Finance Management Act, 2012. The law states that:

1) The National Treasury shall prepare and submit to Cabinet the Budget Policy Statement for approval.

2) The National Treasury shall submit the Budget Policy Statement approved in terms of subsection (1) to Parliament, by the 15th February in each year.

3) In preparing the Budget Policy Statement, the National Treasury shall set out the broad strategic priorities and policy goals that will guide the national government and the county governments in preparing their budgets both for the following financial year and over the medium term.

4) The National Treasury shall include in the Budget Policy Statement-

   (a) an assessment of the current state of the economy and the financial outlook over the medium term, 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 limits for the national government, including those of Parliament and the Judiciary and indicative transfers to county governments; and
   (d) the fiscal responsibility principles and financial objectives over the medium term including limits on total annual debt.

5) In preparing the Budget Policy Statement, the National Treasury shall seek and take into account the views of:-

   (a) The Commission on Revenue Allocation;
   (b) County governments;
   (c) Controller of Budget;
   (d) The Parliamentary Service Commission;
   (e) The Judicial Service Commission;
   (f) The Public; and
   (g) Any other interested persons or groups

6) Regulations made under the PFM Act shall prescribe circumstances and the manner in which persons or groups may make written or oral representations about the contents of the statement.
7) Parliament shall, not later than 14 days after the BPS is submitted to Parliament, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments.
8) The Cabinet Secretary shall take into account resolutions passed by Parliament in finalizing the budget for the relevant financial year.
9) The National Treasury shall publish and publicize the Budget Policy Statement not later than 15 days after submission of the Statement to Parliament.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 15) states that:

1) Over the medium term, a minimum of 30 percent of the national budget shall be allocated to development expenditure
2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
3) Over the medium term, the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
4) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
5) Fiscal risks shall be managed prudently
6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

I. REINVIGORATING GROWTH— OPPORTUNITIES FOR REFORM

Overview

1. The 2013/14 MTEF Budget is being prepared amid transition to a new Administration of the 4th Presidency, following the successful elections in March 2013. It is also happening when we are transiting to a devolved system of government under a new Constitution of Kenya that was promulgated in August 2010. As such, this budget policy statement sets out the priorities of the new administration in the context of medium term.

2. According to the latest IMF World Economic Outlook (April 2013), global economic prospects have somewhat improved but the road to recovery in the advanced economies remains bumpy. World output growth is forecast to reach 3¼ percent in 2013 and 4 percent in 2014. In advanced economies, activity is expected to gradually accelerate, starting in the second half of 2013. In emerging market and developing economies, activity has already picked up steam. These developments together with renewed investor confidence following successful elections bode well for accelerated growth prospects in Kenya.

3. In the domestic front, we nevertheless recognize that rising imports, stagnating exports, food insecurity, declining agricultural and manufacturing productivity as well as weak transport and logistics remains a major concern to achieving our economy's full potential. In addition, as we transit to a devolved system of government we need to bear in mind that while fiscal decentralization can offer significant gains under the right conditions, it also carries the risk of accentuating inequities and compromising macroeconomic stability. Thus, addressing the challenges facing our economy and establishing strong foundations and correctly sequencing the devolution of responsibilities is critical to attaining good economic and financial governance.

4. Going forward, the Government will build on the current improved macroeconomic environment and implement appropriate economic policies and structural reforms to navigate through the challenges posed by the global and domestic developments in order to accelerate growth under an enhanced fiscal discipline.

5. Achieving the economic and social rights envisioned in the Constitution (Article 43) requires investing in our people through better and quality education and health as well as cushioning the vulnerable groups, while ensuring regional balance. At the same time, it needs a fast growing economy that generates jobs for the youth and ensures that the benefits are shared by all Kenyans. The

commitment and zeal of the new Administration to fundamentally improve the opportunities for all Kenyans is therefore consistent with this approach.

6. The broad development policies of new administration, outlined during the President's address to the Parliament on 16th April 2013, provides government with clear and progressive approach to reinvigorate inclusive growth and move the country to the next level of prosperity.

7. While details of these priorities will be articulated in the Second Medium Term Plan of Vision of 2030 that is currently under preparation, this Budget Policy Statement outlines economic policies and structural reforms as well as sector-based expenditure programmes that the Government intends to implement over the next three financial years in order to achieve the broad goal of the new Administration's development agenda. In particular, it emphasizes continued shift of resources in favour of growth and job creation, and to support stronger private-sector investment in pursuit of new economic opportunities. The proposed fiscal framework ensures continued fiscal discipline and provides support for sustained growth, broad-based development and employment growth that benefits all Kenyans.

New administration's actions to promote growth and development

8. The framework of economic agenda of the administration of the 4th Presidency is premised on anchoring stability to sustain higher and inclusive growth that opens economic opportunities and provides a better future for all Kenyans. Getting the desired higher and better balanced growth depends on choosing the right combination of economic policies and structural reforms and calibrating them correctly.

9. The new administration, in this regard, has set out a **9-point action plan** on which government policy can work in partnership with the private sector and development partners to reinvigorate inclusive growth:

- A first class logistics hub, covering transport, roads, railways, waterways, pipelines, ports, storage & energy.
- A modern agriculture that include opening up at least 1 million acres of new land through irrigation in order to end food insecurity.
- Diversify exports, adding value, creating new products and opening up new markets.
- Seal leakages in our revenue collection system and extend the tax base.

- Drive up value for money from public procurement to get what we pay for.
- Create a business climate that encourages innovation, investment and growth.
- Reduce the cost of the ordinary household's basket of goods, including food, housing, energy and transport.
- Deepen our relationships with our regional partners in order to expand our markets, create jobs and boost growth.
- Invest in our greatest capital resource – our people and provide what our Constitution demands – social protection for every Kenyan.

10. The overarching goal of the above actions is to transform the economy into a middle-income status sooner than later, with our exports competing across the world and powering growth at double-digits rate necessary to create jobs for our youth and lift 10 million of Kenyans out of poverty by 2017.

Time to make tough decisions

11. The Constitution envisages lean and effective Government. Consistent with this, the Government has reduced the number of Ministries from 44 to 18. In addition, the overall public sector is expected to play an effective role in the development agenda by ensuring strategic prioritization of scarce resources. As such, state enterprises and public entities will be rationalized and consolidated in order to remove duplications and overlaps so as to ensure resources are utilized more efficiently and productively towards national development priorities.

12. Also, in line with the policy of streamlining government, the Government will combine the bodies that promote Kenya in all aspects of the economy to create a single agency with the reach, expertise and profile to represent and promote our country abroad, attracting trade, investment and tourism from across the world. In addition, our embassies and missions will be rationalized and remodelled to market Kenya in their respective countries and link directly to this new trade promotion service.

13. Under tight fiscal constraints, difficult choices must be made to ensure that scarce resources are directed towards priority areas of economic development and more effective service delivery, while ensuring that debt levels are sustainable. In addition to rationalization of the public service to make it lean, efficient, effective and accountable, the Government will adopt innovative ways to better deliver public service, including leveraging on ICT and leasing of assets and equipment and public private partnership. It will also develop and strictly enforce cost and standard benchmarks for service delivery, including infrastructure development.

14. The recurrent expenditure is reaching unsustainable levels, squeezing out resources meant for development. At over 12 percent of GDP, the wage bill is well above the internationally accepted standard of 7-8% and accounts for almost half of the revenue collected by Government. This is unsustainable and poses a serious threat to the funding of important development projects, and has the potential to severely affect the country's economic prospects. In addition, salary pressures will also impact on pensions, hence increasing the Government's contingent liability.

15. Over the medium term, government expenditure as a share of GDP will need to moderate so as to guard against accumulating large debt that will be burdensome to our future generation. Pursuing a sustainable level of debt is also vital as a means to provide room for the private sector to expand business and create the much needed jobs within an environment of low and stable inflation, interest rates and stable exchange rate.

16. Therefore, over the medium term, management of wage bill will be given careful attention with emphasis on the principle of moderation. In this regard, the Salaries and Remuneration Commission (SRC) will continue to set the salaries of state officers and recommend salaries of public officers that will ensure fiscal sustainability, among other key public finance principles. All arms of Government must set the example and lead the way in bringing the wage bill to sustainable level.

Policies to reinvigorating growth and making it inclusive

17. The Government recognizes the importance of achieving durable broad-based growth. As such, it will accelerate export-led growth so as to expand the levels of employment and reduce poverty. Key initiatives include enhancing the competitiveness of the economy, accessing new and emerging markets, continued investment in infrastructure, enhanced regional integration, and targeted support for small and medium enterprises.

18. The Government will ensure that the gains from growth are widely distributed through well targeted social safety programme and sustainable employment in order to guarantee a lasting reduction in poverty and progress towards achieving the Millennium Development Goals (MDGs). While increased spending on social sectors such as education and health has supported inclusive growth over the recent past, more needs to be done.

19. With limited resources, the Government will be more efficient in order to make meaningful gains in poverty reduction. Thus, the fiscal framework outlined in this BPS requires greater fiscal discipline and alignment of resources and priorities. In particular, better control of expenditure and a clear focus on core mandates by government departments will be required. Thus, in preparing the 2013/14 Budget and medium term plan, ministries and departments are expected

to identify savings that will contribute to financing government's targeted outcomes, while ensuring adequate devolution of resources to county government levels in line with the Constitution.

20. The Government is committed to delivering public services in an open and accountable manner. Thus, it will work with the Judiciary in fast tracking and deepening the reforms that are in progress - to secure access to justice for all Kenyans and promote a society where every person enjoys equal protection of the law.

21. The Government is committed to ensuring that our citizens live and work in a secure environment. While the Government has decisively dealt with external threat to our citizens, there are still challenges in internal security. Thus, the Government will improve security at our frontiers including progressively improving the ratio of police to citizens across Kenya by bringing it closer to the recommended standard of one police officer for every 450 citizens. It will also put in place measures that will strengthen the police service including equipping police units in order to increase effectiveness and rapid response to incidents of crime. It will also work towards ensuring that the police welfare is protected.

22. Unemployment and idleness are breeding grounds for crime and alcohol and drug abuse. The Government will work to put measures in place to harness the time and talents of the youth in order to grow our economy. Thus, sufficient national resource will be set aside to ensure that the youth engage in income generating programmes including making funds easily accessible to citizens in all parts of the country under a better delivery mechanism. Success in this approach will form the basis for consolidating and harmonizing existing youth and women's funds.

23. In line with engaging the youth in productive activities, the Government will foster the sport and the entertainment sectors, including establishing a National Lottery scheme that will support them. In consultation with the county governments, the Government will support the building of sports stadia in main towns across the country.

24. On infrastructure, the Government will continue to prioritize investment in roads, energy, rails and ports to drive economic growth, job creation and deepen our links with our regional partners. In particular, transport plans include new mass transport and commuter networks in cities, and long distance connections to our regional neighbours, as well as improvements to local roads so that our people can move goods easily across the country. Also, the country needs more new housing to meet the current shortage. Plans are underway to construct 250,000 houses annually, up from the present 50,000.

25. The Government will ensure food security by investing in and modernizing the agricultural sector. Through improved financing, irrigation, research & development, and the return of extension services we will enable farmers to move from subsistence to commercial farming.

26. On human capital development, the Government is committed to ensuring the highest attainable standard of health. Policies will aim to ensure that all Kenyans have access to well-equipped health facilities and well trained and motivated health care workers, in addition to developing systems to support and expand health care and improved sanitation. Working with county governments the Government will progressively roll out free primary healthcare to every Kenyan by 2020, starting with children, persons with disability, pregnant women and breastfeeding mothers.

27. The Government will improve the link between education and employment driven by knowledge and technology. Measures to increase the number of institutes of technology in every county will be implemented, in addition to providing locally assembled free-laptops for standard one children starting 2014.

28. Other priorities include facilitating devolution, improving access to clean water and electricity, and adequate allocation to programmes that will deal with drought and floods.

29. The overriding policy thrust for 2013 Budget Policy Statement, therefore, is to accelerate economic growth through sustained macroeconomic stability and focusing on policies and structural reforms outlined above. These initiatives will happen within a disciplined spending path financed through a fiscal deficit (including grants) of 4.6 percent of GDP in 2013/14, moderating to 3.9 percent by 2015/16. Fiscal adjustment will be accompanied by shifts in the composition of public expenditure towards investment and economic development. Measures to strengthen public financial management and modernize and simplify the tax system will be implemented. In addition, the Government will continue to put in place measures to increase access to financial services while ensuring adequate supervision of banks, improve the operating environment for business to flourish, as well as enhanced security and enforcement of the rule of law and order.

Institutional reforms

30. So far, the institutional framework built on the foundation of our new Constitution has proven resilient and capable of mediating the challenges that arise from competition for political power. We have just come through successful general elections that were conducted peacefully and differences resolved constitutionally—thanks to the judiciary reforms built on our new legal framework.

31. Going forward, the President has laid a sound legislative agenda aimed at speedily completing the unfinished business of implementing the Constitution as per the deadlines. As such, a number of legislation aimed at entrenching civil liberties, supporting county governments, enabling public participation in decision, and ensuring diversity and gender balance will be speedily submitted to Parliament.

32. The budget making process in both national and county governments has been strengthened with the implementation of the new Public finance Management (PFM) law, enacted in 2012. The law provide for transparent formulation of budgets and prudent management of public resources, in addition to enhancing the contribution of Parliament to public finance management. Building on this legal framework, the National Treasury will shortly be submitting to Parliament the regulations to ensure effective implementation of the PFM Act.

33. Preparation of this budget policy statement is part of the institutional reforms entrenched in the PFM Act so as to ensure adherence to the principles of public finance outlined in Chapter 12 of the Constitution. The information provided here is to ensure that the processes of budget making are transparent and are consistent with prevailing economic situation and outlook, in addition to ensuring that the policy priorities of the Government are financeable within a sustainable fiscal framework.

34. Finally, aware that corruption limits access to much needed services, stifles efficiency and eats away at public values, and makes our country less attractive as an investment destination, the Government will act swiftly to end the scourge of corruption. In addition, measures will be taken to combat waste and inefficiency as well as reform procurement systems to enhance value for money.

Outline of the 2013 Budget Policy Statement

Recent economic developments and Outlook

35. The next section (II) outlines the economic context in which the 2013/14 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic scene. Overall, the macroeconomic environment has improved after the shocks in 2011, although risks still remain. This calls for caution in budgeting. Real GDP growth is estimated at 4.7 percent in 2012, up from 4.4 percent in 2011. Over the medium-term, growth is expected to pick gradually to over 6 percent, as global conditions improve and macroeconomic stability is sustained. Inflation is

expected to hover around the 5 percent target over the medium term, while interest rates and exchange rates are expected to remain stable.

Fiscal policy and budget framework

36. Section III outlines the fiscal framework that is supportive of the growth over the medium to long term, while continuing to provide adequate resources to facilitate transition to devolution and policy priorities of the new Government.

37. Due to revenue shortfalls and spending pressures from salary awards and security intervention in Somalia, the budget deficit increased in the current financial year. However, with improved revenue performance following tax reforms and moderation in spending, the fiscal position is expected to strengthen over the next three years with the budget deficit declining to about 3.9 percent in 2015/16. This will allow public debt to GDP to decline to below the 45 percent benchmark, by 2015/16.

Intergovernmental fiscal relations and Division of Revenue

38. The 2013/14 Budget will see full operation of the devolved system of governance following the just concluded general elections in March 2013. Section IV provides a framework of managing the transition to decentralised structure in line with the Constitution. The proposed division of revenue between national and county government as well as among counties is set out in this section.

Medium-Term Expenditure Framework

39. Section V presents the resource envelope and spending priorities for the proposed 2013/14 MTEF budget and the medium term. Sector achievements and priorities are also reviewed, along with indicative costing of the devolved functions for the 2013/14 MTEF period.

40. Overall, the ratio of Government spending to GDP will remain at around 30 percent over the MTEF period. Education, and Energy, Infrastructure and ICT sectors are the largest category of expenditure, followed by Governance, Justice, Law and Order, Public Administration and International Relations, and Health sectors. Defence expenditure has also risen recently with security intervention along the border and inside Somalia. On the non-discretionary category, debt servicing has been the fastest growing component of expenditure.

41. Section VI concludes.

Summary

42. This budget policy statement outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of government spending plans, as a basis of 2013/14 budget and medium-term. It also presents public investment strategy towards realizing the priorities outlined by the new Administration to be detailed in the next Second Medium Term Plan of Vision 2030. In this way, it contributes to improve understanding of Kenya's public finances and guide debate on economic and development matters.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Overview of recent economic performance

43. Economic growth was largely satisfactory in 2012, despite a somewhat stagnating demand for our exports in traditional markets. Favourable rains contributed to good harvests and hydropower generation and private sector activities benefited from improved macroeconomic environment. Inflation has declined steadily from double digits to below the 5 percent target in recent months. Short term interest rates have also eased in line with the drop in inflation, while the shilling exchange rate has stabilized against major currencies.

Growth remain resilient

44. Real GDP growth is estimated at 4.7-5 percent in 2012, up from 4.4 percent in 2011 (Chart 2.1). The improved growth benefited from better than expected rains, which contributed to good harvests and hydropower generation, as well as increased demand of exports in new markets. Growth would have been stronger were it not for the suppressed activities in some sectors of the economy due to tight credit conditions and lacklustre demand of Kenya's exports in the European market.

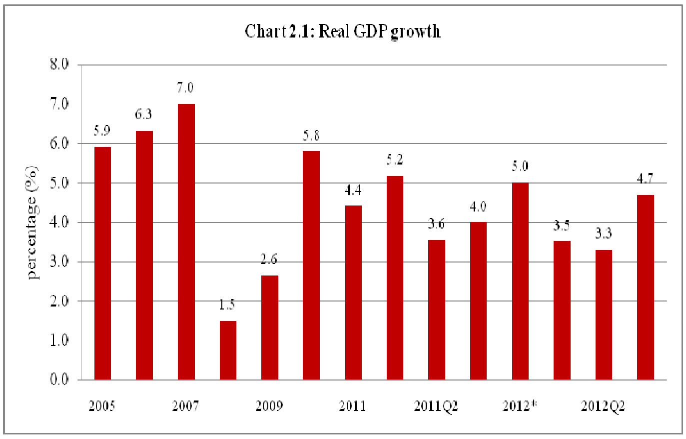


Chart 2.1: Real GDP growth

45. All sectors of the economy are expected to register positive growth. Electricity and water, agriculture, financial intermediation and wholesale and retail trade posted strong growth while performance in other sectors was moderate.

46. Recovery in agricultural production followed favourable weather conditions (adequate rain). Favourable weather also boosted hydroelectric power thus improving value added in electricity industry. Other sectors benefited from increased domestic demand in the run-up to the general elections and somewhat improved credit access with easing of interest rates. In addition, inflationary

47. Expectations were subdued helping to stabilize the shilling exchange rate and sustaining investor confidence.

48. The pace of current growth is, however, still well below the target of Vision 2030 of 10 percent necessary to draw more Kenyans into employment and reduce poverty significantly. Accelerating growth requires scaling up both public and private investment to raise Kenya's economic competitiveness and create more employment opportunities for all Kenyans.

Inflation has dropped consistently over the last one year

49. Overall inflation fell from a peak of 19.7 percent in November 2011 to 3.7 percent in January 2013. By February 2013, inflation had edged up slightly to 4.4 percent before easing again to 4.1 percent in March (Chart 2.2). The average inflation for 2012 was 9.6 percent, down from 14.0 percent in 2011.

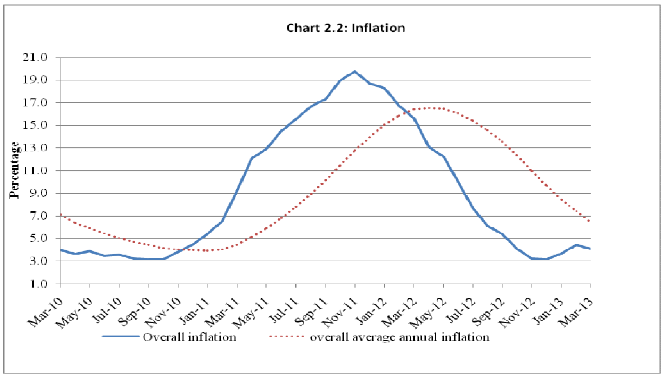


Chart 2.2: Inflation

50. The fall in inflation largely reflected a drop in food inflation. Favourable weather condition with adequate rain resulted in increased food supplies and use of hydro generated electricity. This had the effect of suppressing food and electricity prices A stable exchange rate coupled with stable international commodity prices over the recent months has also supported low inflation with less pass-through from import prices.

51. Going forward, we expect inflation to remain within the 5 percent target in the months ahead with appropriate monetary policy, barring any effects from the external shocks such as a surge in commodity prices. The risk to this outlook is the international oil market that still remains volatile due to tensions in the Middle East that could lead to oil supply disruptions.

The external payments position has strengthened

52. Following improvement in the external payments position, official foreign exchange reserves held by the Central Bank of Kenya rose by about 30 percent to over US$ 5 billion (about 4 months of import cover) by the end of December 2012, from US$ 4.1 billion (or 3.6 months of import cover) in a similar period in 2011 (Chart 2.3). By March 2013, foreign

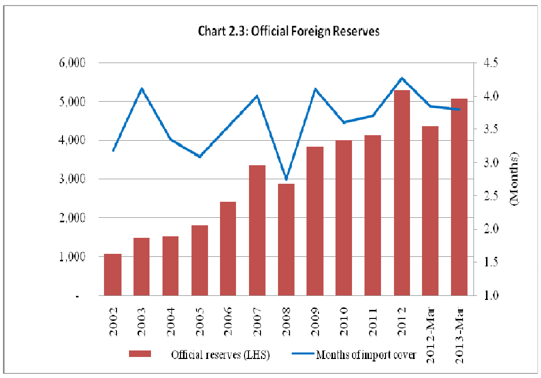


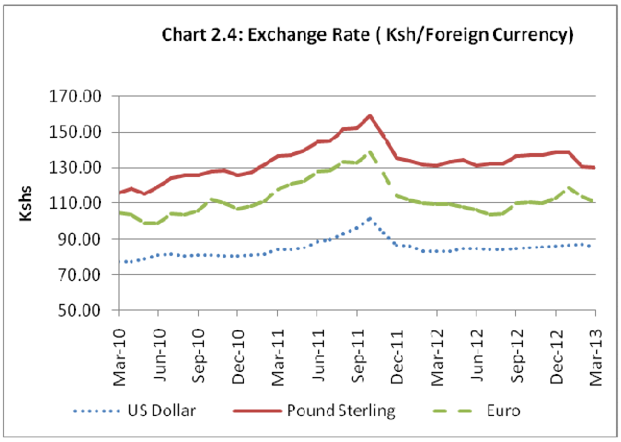
Chart 2.3: Official Foreign Reserves

exchange reserves continued to remain at conformable level, despite interventions from the CBK in the foreign exchange market.

53. The deficit in the current account was more than offset by the surplus in the capital and financial account, resulting in a surplus in the overall balance of payment in 2012, a turnaround from a deficit recorded in 2011. The improvement in capital and financial account surplus is attributed to the increase in official medium and long term loans as well as increased foreign direct investments.

The exchange rate has generally stabilized

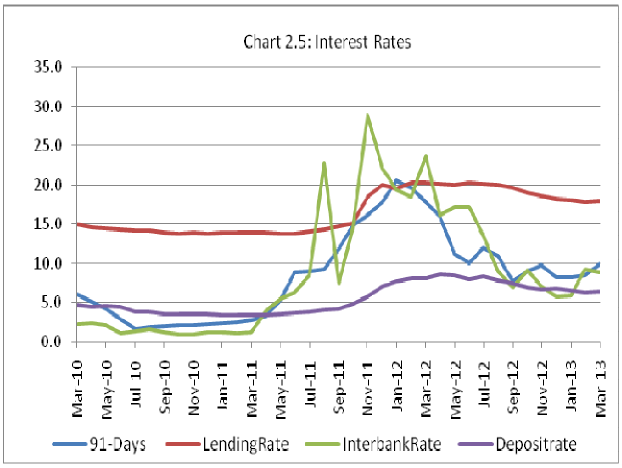
54. As a result of the increase in official foreign reserves, the shilling exchange rate against major international currencies has generally stabilised over the recent months after the sharp weakening in late 2011 (Chart 2.4).



55. In December 2012, the shilling exchanged at KSh 86.0 against the US dollar, KSh.138.8 against the Pound Sterling, and KSh. 112.8 against the Euro, compared with KSh 86.7, KSh 135.1 and KSh114.1 respectively, in December 2011. By March 2013, the shilling had gained further to trade at Ksh 85 per US dollar. The strengthening of the shilling against major international currencies reflects increased capital flows, easing oil prices, and reduced inflationary expectations following the tightening of monetary policy.

Interest rates have eased significantly in line with the drop in inflation

56. The interbank interest rates eased to single digits in recent months from an all-time high of about 30 percent in the last quarter of 2011. The drop in short-term interest rate reflects subdued inflationary expectation and ample liquidity in the financial system. Similarly, the 91-day Treasury bill rates have also dropped from 17.9 percent in December 2011 to 8-9 percent in March 2013 (Chart 2.5).



57. Recent downwards adjustment of the CBK policy rate from 18 percent in November 2011 to 16.5

percent in July 2012, 13 percent in September, 11 percent in November 2012 and further to 9.5 percent in January 2013 has led to reduction in short term interest rates. Commercial banks' lending rates, which had remained high at around 18-20 percent have started easing in recent months. Lending rates had remained sticky downwards due to the high cost of deposits that were locked in by banks during the period of tight liquidity in late 2011. Meanwhile, reflecting the stable liquidity conditions the government borrowing programme has progressed as planned with the cost declining as evidenced by the sharp fall in Treasury bill rates.

58. Activity in the stock market has been vibrant in the year to December 2012. The NSE share index has improved from 3,225 points in January 2012 to 4,417 points January 2013, representing an increase of 36.9 percent. This recent developments indicate improved performance in most of the market indices following return to macroeconomic stability.

Fiscal performance and emerging challenges

2012/13 Budget

59. The macroeconomic assumptions underlying the 2012/13 budget were detailed in the 2012 BPS. The budget assumed continued economic growth and stable macroeconomic environment. In addition, the financial objectives were aimed at containing non-priority and unproductive recurrent expenditure so as to bring the budget deficit down and ensure sustainable public debt.

60. Parliament approved the 2012/13 budget with expenditures amounting to KSh. 1,263.3 billion, comprising of recurrent expenditure of KSh. 805.3 billion, development expenditures of KSh. 447.0 billion, a contingency fund of KSh 5.0 billion, implementation of the Constitution of KSh 3 billion, and KSh 3 billion for Equalization Fund. These expenditures are expected to be financed by total revenue (including A-I-A) amounting to KSh. 955.0 billion, use of LATF funds carried forward from previous years of Ksh 1.3 billion, donor grants of KSh. 56.2 billion, net foreign financing of KSh. 144.1 billion, and domestic borrowing of KSh.106.7 billion.

Implementation progress and emerging fiscal challenges

61. Implementation of the FY 2012/13 budget begun at a slow pace in the early months of the financial year following transition to the new IFMIS platform but subsequently picked up well. Fiscal outcome for the first eight months of the financial year was generally satisfactory, but revenue shortfalls continue to persist amid rising expenditure pressures.

62. Expenditure pressures relate to general elections and salary demands from the health, education and police personnel, in addition to continuing security interventions in the country and Somalia. These raised the recurrent expenditure budget by about Kshs. 50 billion with teachers' salaries and defence taking about Kshs. 30 billion and Kshs. 6 billion, respectively. Expenditure pressures presented a high risks to the stability of the budget for 2012/13 in the face of resource requirements for the implementation of the decentralized governance system.

63. Table 2.1 provides the cumulative budget out-turn for the first eight months of the FY 2012/13 budget. Revenues shortfall has persisted, with cumulative revenue receipts amounting to KSh. 503.2 billion against a target of KSh. 585.9 billion, an underperformance of KSh. 82.7 billion. The shortfall was in respect of KSh. 66.7 billion in ordinary revenue and KSh. 16.0 billion in Appropriations–in–Aid (A-I-A). All major tax heads particularly VAT underperformed. The shortfall in A-i-A partly reflected underreporting by line ministries.

Table 2.1 Cummulative Budget Outturn for FY 2012/13 (Ksh billion)

	July'12-February'13			Jun-13		
	Target	**Actual***	***Dev.***	**Budget**	**Revised**	***Percent of June'13 Rev. Forecast***
TOTAL REVENUE	**585,915**	**503,170**	***(82,745)***	**955,028**	**932,356**	***54.0%***
Ordinary revenue	**540,058**	**473,286**	***(66,771)***	**870,187**	**842,567**	***56.2%***
Taxes on Intl. Trade & Transactions (Import Duty)	44,270	37,906	*(6,364)*	67,384	61,484	*61.7%*
Excise Taxes	59,047	56,523	*(2,524)*	91,910	91,810	*61.6%*
Taxes on Income, Profits & Capital gains (Income Tax)	229,201	214,701	*(14,500)*	383,456	370,600	*57.9%*
Taxes on goods and services (VAT)	149,780	119,700	*(30,080)*	231,523	216,000	*55.4%*
Other Revenue	57,761	44,456	*(13,304)*	95,914	102,673	*43.3%*
Ministerial Appropriation in Aid	**45,858**	**29,884**	***(15,974)***	**84,841**	**89,789**	***33.3%***
TOTAL EXPENDITURE AND NET LENDING	**805,735**	**662,742**	***(142,993)***	**1,263,323**	**1,313,045**	***50.5%***
Recurrent	**521,827**	**501,040**	***(20,787)***	**802,645**	**854,541**	***58.6%***
of which:						
Interest payments	68,655	78,940	*10,285*	105,849	105,849	*74.6%*
Pensions etc	28,677	19,510	*(9,167)*	41,012	41,012	*47.6%*
Wages & Salaries	174,267	184,484	*10,217*	261,400	292,239	*63.1%*
Development	**281,408**	**161,702**	***(119,706)***	**455,678**	**443,721**	***36.4%***
of which:			*0*			
Domestically Financed (Gross)	140,576	113,349	*(27,228)*	227,259	207,799	*54.5%*
Foreign Financed	139,568	47,090	*(92,478)*	225,966	233,468	*20.2%*
Net Lending	1,264	1,264	*0*	2,453	2,453	*51.5%*
CCF	**2,500**	**0**	***(2,500)***	**5,000**	**5,000**	***0.0%***
OVERAL BALANCE (excl. grant)	**(219,819)**	**(159,572)**	***60,248***	**(308,295)**	**(380,689)**	***41.9%***
GRANTS	**32,741**	**11,094**	***(21,647)***	**56,175**	**56,473**	***19.6%***
BALANCE INCLUSIVE OF GRANTS	**(187,078)**	**(148,478)**	***38,600***	**(252,120)**	**(324,216)**	***45.8%***
Adjustments to cash basis	*1,318*	*0*	*(1,318)*	*1,318*	*1,318*	*0.0%*
BALANCE INCLUSIVE OF GRANTS (CASH BASIS)	(185,760)	(148,478)	*37,282*	(250,802)	(322,898)	*46.0%*
TOTAL FINANCING	185,760	143,955	*(41,805)*	250,802	322,898	*44.6%*
NET FOREIGN FINANCING	89,684	18,854	*(70,830)*	144,062	157,898	*11.9%*
NET DOMESTIC FINANCING	96,077	125,101	*29,025*	106,740	165,000	*75.8%*
Discrepancy	*0*	*4,522*	*4,522*	*0*	*0*	

*Preliminary
Source: National Treasury

64. Expenditure execution lagged behind but the pace of execution was higher than last year. Total expenditure (based on disbursement) amounted to

KSh. 662.7 billion against a target of KSh. 805.7 billion. This reflected an overall under-spending of KSh. 143 billion, of which KSh. 20.8 billion was in respect of recurrent expenditure and KSh. 119.7 billion was in respect of development expenditure. Most of the under-execution in development expenditures was in respected to those financed through foreign resources, which were below target by KSh. 92.5 billion.

65. A large part of the deficit was financed through domestic sources with cumulative domestic borrowing as at end of February 2013 surpassing the target by KSh. 29.0 billion to stand at KSh. 125.1 billion compared to the target of KSh. 96.1 billion.

66. To confront the challenges of revenue shortfall and expenditure pressures, the Government has stepped up efforts in tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2012/13. We have also rationalized expenditures so as to live within the fiscal framework.

67. A revised budget for 2012/13 was approved by Parliament in January 2013. We have accommodated wage increases for doctors, nurses, teachers, and lecturers, while reprioritizing expenditures and preserving the expanded coverage of the social safety nets and allocation for implementation of devolution. The Government will take additional measures including further adjustments to the budget considering that the revenue shortfall that is expected to the entire financial year.

Macroeconomic policies and outlook

External environment

68. According to the IMF latest World Economic Outlook released in April 2013, global economic prospects have somewhat improved again but the road to recovery in the advanced economies will remain bumpy. World output growth is forecast to reach 3¼ percent in 2013 and 4 percent in 2014 (Table 2.2).

69. In advanced economies, activity is expected to gradually accelerate, starting in the second half of 2013. The projections are based on the assumption that policy makers in Europe will adopt policies that would gradually ease financial constraints in periphery economies such as Greece and that the USA would carefully manage fiscal policy in order to avoid major cutback in spending that would disrupt the economy.

Table 2.2: Annual percentage change in GDP and CPI for selected regions/countries, 2011 – 2014								
	2011	2012	2013	2014	2011	2012	2013	2014
Region/Country	**Actual**		**GDP Proj.**		**Actual**		**CPI Proj.**	
World	**3.9**	3.2	**3.3**	**4.0**				
Advanced Economies	**1.6**	**1.2**	**1.4**	**2.2**	**2.7**	**2.0**	**1.7**	**2.0**
USA	1.8	2.2	1.9	3.0	3.1	2.0	1.8	1.7
Euro Area	1.4	–0.6	-0.3	1.1	2.7	2.5	1.7	1.5
Japan	–0.6	2	1.6	1.4	-0.3	0.0	0.1	3.0
UK	0.9	0.2	0.7	1.5	4.5	2.8	2.7	2.5
Emerging & Developing Economies	**6.3**	**5.1**	**5.3**	**5.7**	**7.2**	**5.9**	**5.6**	**4.8**
Developing Asia	**8.1**	**6.6**	**7.1**	**7.3**	**6.4**	**4.5**	**5.0**	**5.0**
China	9.3	7.8	8.0	8.2	5.4	2.6	3.0	3.0
India	7.7	4	5.7	6.2	8.9	9.3	10.8	10.7
MENA	**3.9**	**4.7**	**3.1**	**3.7**	**9.7**	**10.7**	**9.4**	**9.0**
Sub-Saharan Africa	**5.3**	**4.8**	**5.6**	**6.1**	**9.3**	**9.1**	**7.2**	**6.3**
South Africa	3.5	2.5	2.8	3.3	5.0	5.7	5.8	5.5
Kenya***	4.4	4.7	5.8	6.2	14.0	9.4	7.9	5.0
Tanzania	6.4	6.9	7.0	7.2	12.7	16.0	9.0	5.9
Uganda	6.7	2.6	4.8	6.2	18.7	14.1	5.5	5.0

Source: IMF World Economic Outlook, April 2013

70. In emerging market and developing economies, activity has already picked up steam. Developing Asia comprising of China and India are expected to grow by 7.1 percent and 7.3 percent, respectively, for 2013 and 2014, while the sub-Saharan region is expected to expand by 5.6 percent in 2013 and 6.1percent in 2014. Real GDP growth in Latin America is projected at 3.0 percent in 2012.

71. Kenya is well integrated with the world economy and any favourable developments are likely to impact positively on our growth prospects. Thus, the somewhat expected improved external environment could potentially have a positive impact on the demand for our exports such as horticulture and tourism. This together with the strong growth in the sub-region bodes well for accelerated growth prospects in Kenya.

Growth prospects

72. While there is renewed optimism in the global arena, the macroeconomic framework underpinning this 2013 BPS is cautious given the high uncertainties in the global projections witnessed over the recent years. In addition, we face daunting domestic reform challenges, including managing the challenges that come with a devolved system of governance. Nonetheless, with the continued favourable weather conditions and completion of key infrastructure projects in

the roads and energy sub-sectors, the domestic economic prospects remain sanguine, but with downside risks.

73. Real GDP is expected to grow by 5.6 percent in 2013, up from about 4.7 percent in 2012. Over the medium term, growth is expected to pick up to over 6 percent. In terms of fiscal years, the projections translate to 5.9 percent for 2013/14, 6.3 percent for 2014/15 and 6.6 percent for 2015/16 (Table 2.3).

Table 2.3: Macroeconomic indicators underlying the Medium Term Fiscal Framework, 2011/12-2015/16

	2011/12	2012/13	2013/14	2014/15	2015/16
	Prov.	Proj.		*Projection*	
	Annual percentage change				
National account and prices					
Real GDP	4.5	5.1	5.9	6.3	6.6
GDP deflator	11.1	7.4	7.4	7.9	7.7
CPI Index (eop)	10.1	6.3	6.4	6.0	5.5
CPI Index (avg)	16.1	5.9	6.7	6.2	5.8
Terms of trade (-deterioration)	3.0	5.7	1.0	4.3	5.4
	In percentage of GDP				
Investment and saving					
Investment	20.2	21.9	23.9	24.9	25.4
Gross National Saving	8.8	10.9	13.5	15.6	17.7
Central government budget					
Total revenue	23.1	23.7	23.7	23.8	24.0
Total expenditure and net lending	29.2	32.6	30.1	29.5	29.3
Overall balance (commitment basis) excl. grants	-6.2	-8.9	-6.4	-5.6	-5.3
Overall balance (commitment basis) incl. grants	-5.5	-6.8	-4.7	-4.0	-3.7
Nominal public debt, net	45.7	47.4	45.8	44.2	42.2
External sector					
Current external balance, including official transfers	-11.4	-11.0	-10.5	-9.2	-7.7
Gross international reserve coverage in months of imports	3.7	3.7	3.8	3.9	4.1

Source: National Treasury

74. Growth will be bolstered by production in agriculture following expected receipt of adequate rain, initiatives to revamp irrigation schemes, completion of key infrastructure projects (such as roads and energy), further structural reforms especially those targeted toward improving competitiveness of private sector and promoting overall productivity in the economy, and exports that are expected to continue to benefit from the relatively strong growth in the sub region. Finally, domestic demand is expected to be robust following a drop in inflation, and increased investor confidence following the successful general elections.

75. As indicated earlier, the new Administration will continue with strategic interventions to accelerate growth, improve competitiveness and promote exports. Specifically, the following strategies will be implemented:

- ***Continuing investment in infrastructure***: Over the recent past, the Government has provided significant resources in the energy, roads, rail, telecommunications and water sub-sectors to ease bottlenecks and reduce costs of doing business, while improving access to export markets.

Investment in key infrastructure projects will be continued as they are vital for achieving our national development objectives of higher growth, employment creation and poverty reduction. With the new Public Private Partnerships legislation, private-sector participation is expected to increase in these sectors.

- ***Addressing the root causes of weak competitiveness:*** Specific policies will include maintaining the cost of food items and other goods consumed by wage earners at competitive rates through greater productivity; reducing the cost of fuel pump price through measures to reduce the cost of supply and distribution chain of fuel including the refinery system; reducing transport and distribution cost through better transport and digital infrastructure and logistics, especially with completion of upgrading of the road network system; providing more competitive power rates through reducing use of thermal power and other energy sector reforms; enhancing employees skills and knowledge base to increase productivity; and addressing corruption and simplifying business procedures.

- ***Supporting small and medium enterprises (SMEs) and agribusiness***: To address unemployment and promote regional development including reducing rural poverty, reforms and introduction of better delivery mechanism of the existing programmes such as Youth Fund, Women Fund, SMEs Fund, and AGRIBUSINESS Fund will be instituted to enhance credit to small scale enterprises, technology and marketing information.

- ***Supporting manufacturing:*** To accelerate growth, investment and employment, incentives will focus on industries that are labour intensive, with the potential to export, join global supply chains and become competitive logistics hubs.

- ***Maximizing the use of the country's natural resources***: Consideration will be given to wealth creating projects in mining and exploration and exploitation of natural resources. In addition, the government will maximize on the geographical competitive advantage through modernizing the Port of Mombasa and expansion of Jomo Kenyatta International Airport to serve as the regional hub.

- ***Deepening regional integration***: While significant progress in integration has been achieved under the East Africa Community, there is much potential for expanded trade and investment in the COMESA and the rest of Africa. The Government will continue with collaborative infrastructure investment, and removing inefficient customs procedures including complicated rules of origin and other non-tariff barriers, in line with the existing Protocols.

76. Taking into account limited public resources, the Government will deepen its reform agenda aimed at enhancing the role of the private sector as the main driver of Kenya's economy and sustainable development. These calls for faster implementation of the privatization program (disposal of nonstrategic public enterprises); provide for private sector participation in infrastructure development; promote appropriate regulation of private sector activity; and provide for greater private sector access to finance. All this will require sustaining macroeconomic stability, implementation of a robust private sector development strategy, deeper structural reforms, and improvements in enabling legislations.

77. Apart from providing an appropriate environment for businesses to thrive, sustaining growth requires us to continue building transparent, responsive, accountable, efficient and effective national and county governments.

78. Equally important is the need to ensure that the gains from growth are widely distributed through sustainable employment in order to guarantee durable reduction in poverty. Therefore measures to address socio-economic inequities, improve the country's human capital, inculcate national cohesion for durable stability and prosperity, and increase devolution of resources to local levels in line with the Constitution will need to be implemented. In addition, the socio-economic priority programs articulated in the new Administration's growth agenda will be crucial to complement these measures.

79. Appropriate macroeconomic policies should ensure delivery of low inflation around the 5 percent target, while ensuring continued stability in long-term interest rates. This is based on the expectation that international oil prices will continue to remain stable and weather conditions will also remain favourable.

80. Whereas the projected growth is still below the target envisioned in Vision 2030 needed to increase labour absorption and reduce poverty, the Government recognizes that further up scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-added and more efficient production structure to increase export growth. While these reforms are underway it is expected that it will take time before translating to higher growth.

External current account

81. Owing to continued public investments, the external current account deficit is projected to decline only gradually to 7.7 percent of GDP by 2015/16 from the current level of 8-11 percent of GDP. Export receipts are expected to recover with measures to boost exports as import bill stabilizes with stable international oil prices and reduced food imports.

82. The government has built up adequate foreign exchange reserves to cushion itself from external vulnerabilities including high oil prices and drought. As the balance of payments position improves in the medium term with strong capital inflows arising from improvement in investor sentiment and higher receipts from export services, the Government will continue to gradually build foreign exchange reserves up to about 4.5 months of import cover by 2015/16.

Risk to the outlook

83. The risk to the outlook for 2013/14 and medium-term include further weakening in global economic growth and unfavourable weather conditions should there be a dry spell in 2013 and beyond. Also, reversal in the current easing of international oil prices may fuel inflation and weaken growth. Finally, poor transition to a decentralized system of government could weaken investor confidence and slow down growth. However, the Government will remain alert and ready to undertake appropriate measures to safeguard macroeconomic stability and critical development spending.

Summary

84. The current economic conditions call for caution in fiscal dispensation. While the economy remains resilient and the macroeconomic environment has improved significantly, current growth rates are not fast enough to support the employment creation and poverty reduction that the country requires. Therefore, there is need to pursue deeper structural reforms to accelerate growth and translate the gains into more jobs.

85. Looking ahead, the world economy is recovering though the road to recovery in the advanced economies remains bumpy. Kenya's economic growth also remains resilient, and is expected to pick up over the medium term. Sustaining macroeconomic stability will be critical to supporting growth. This should be complemented with deeper structural reforms to strengthen the economy's resilience and raise growth to a higher trajectory while ensuring that the benefits of growth are shared by all Kenyans.

III. FISCAL POLICY AND BUDGET FRAMEWORK

Overview

86. The 2013 Medium-Term Fiscal Framework aims at striking an appropriate balance between support for growth and continued fiscal consolidation, while providing room for implementation of the Constitution and decentralization. It also continues with prudent fiscal policy to reinforce Government's commitment to debt sustainability over the medium to long term. Specifically, the 2013 Budget Policy Statement emphasizes:

- fiscal consolidation that started in 2010/11 budget, while at the same time ensuring that the level of expenditure is adequate to sustain growth through continued public investment in infrastructure; the overall budget deficit is expected to ease to 4.7 percent in 2013/14, and further to 3.7 per cent by 2015/16;

- efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and implementation of the Constitution and devolved system of governance; and

- bringing down the ratio of public debt to GDP to around 42 percent, well below the benchmark of 45 percent, through a moderation and efficiency in spending as well as improved tax performance following reforms in expenditure management and tax legislations. The sustained easing of debt to GDP ratio will provide the Government with room to conduct countercyclical fiscal policy should the economic situation worsen in the future.

Continuing with prudent fiscal policy

87. Fiscal policy will continue to support economic activity while allowing implementation of the new Constitution within a context of sustainable public financing. Over the recent years, the Government has reoriented expenditure towards priority programmes in education, health, agriculture and infrastructure under the medium-term expenditure framework (MTEF). This process will be strengthened with a revamped legislative framework to enable accommodation of critical programmes that will accelerate socio-economic development. The overall fiscal balance (after grants) is projected to decline from 6.8 percent of GDP in 2011/12 to a sustainable level of about 3.7 percent of GDP over the medium term. This will allow public debt to decline gradually from about 44.3

percent of GDP in June 2012 to about 42.2 percent of GDP by 2015/16 (Table 3.1).

Table 3.1: Central Government Fiscal Projections, 2011/12-2015/16

	2011/12	2012/13			2013/14		2014/15		2015/16
	Prov.	*BPS'12*	*Budget*	*BPS'13*	*BPS'12*	*BPS'13*	*BPS'12*	*BPS'13*	*BPS'13*
Revenue and Grants	763.5	984.7	1,011.2	942.2	1,119.5	1,054.8	1,265.6	1,214.3	1,398.8
% of GDP	*23.5%*	*25.5%*	*26.2%*	*25.7%*	*25.5%*	*25.3%*	*25.7%*	*25.4%*	*25.5%*
Revenue	748.2	936.5	939.3	866.8	1,071.2	987.3	1,209.2	1,138.6	1,313.7
% of GDP	*23.1%*	*24.2%*	*24.3%*	*23.7%*	*24.4%*	*23.7%*	*24.6%*	*23.8%*	*24.0%*
Tax Revenue	639.3	780.8	794.5	724.5	895.9	839.5	1,013.3	969.5	1,120.5
Non-Tax Revenue	108.9	155.6	144.9	142.3	175.3	147.9	195.9	169.2	193.2
Grants	15.3	48.3	71.9	75.4	48.4	67.4	56.4	75.7	85.1
Expenditure	947.8	1,148.5	1,263.3	1,194.4	1,286.2	1,252.2	1,437.3	1,407.4	1,603.9
% of GDP	*29.2%*	*29.7%*	*32.7%*	*32.6%*	*29.3%*	*30.1%*	*29.2%*	*29.5%*	*29.3%*
Recurrent	647.1	778.3	816.3	879.6	858.9	867.0	943.8	925.4	1,065.0
Development	300.7	370.2	447.0	314.8	427.3	385.2	493.5	482.0	538.9
Budget Balance (-Deficit, +surplus)	(184.3)	(163.8)	(252.1)	(252.2)	(166.6)	(197.4)	(171.7)	(193.1)	(205.1)
% of GDP	*-5.7%*	*-4.2%*	*-6.5%*	*-6.9%*	*-3.8%*	*-4.7%*	*-3.5%*	*-4.0%*	*-3.7%*
Net External Financing	98.5	60.7	144.1	17.1	52.6	90.8	96.9	100.7	122.7
Disbursements/loans	123.9	88.9	170.3	44.1	138.8	176.0	133.2	131.6	153.9
Repayment due	(25.4)	(28.2)	(26.2)	(26.9)	(86.2)	(85.3)	(36.3)	(31.0)	(31.2)
Domestic borrowing	63.4	106.7	106.7	164.9	114.1	106.7	74.8	92.5	82.5
% of GDP	*2.0%*	*2.8%*	*2.8%*	*4.5%*	*2.6%*	*2.6%*	*1.5%*	*1.9%*	*1.5%*
Public Debt to GDP (net of deposits)	*44.3%*	*47.2%*	*45.7%*	*47.4%*	*47.2%*	*45.8%*	*47.9%*	*44.2%*	*42.2%*
Nominal GDP (Ksh billion)	3,244.5	3,866.5	3,866.5	3,662.6	4,382.5	4,164.6	4,916.4	4,775.3	5,480.5

Source: National Treasury

Observing fiscal responsibility principles

88. The Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose unwarranted debt burden to our future generations.

89. In this regard, the Government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline.

90. Fiscal responsibility has become even more important since the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources. In order for spending to increase on a sustainable basis to meet these basic needs, we should be prepared to match the increased expenditure demands with a corresponding increase in tax revenue yield through efficient collection, widening of tax bases, and reasonable tax rates. It is therefore imperative to reform and modernize the tax regimes to ensure stability of revenue effort, while at the same time continuing to restructure expenditure systems to ensure efficiency and create fiscal space required to fund these basic needs expenditures on sustainable basis.

Fiscal structural reforms

91. Underpinning the fiscal program are measures to raise the revenue to GDP ratio to about 24.0 percent by 2015/16. This will be achieved through measures to simplify the tax code in line with best practices, in order to help improve tax compliance, minimize delays, and raise revenue. The VAT legislation is expected to be passed by Parliament, while the Kenya Revenue Authority (KRA) is expected to institute measures to reform the tax administration to eliminate leakages and to expand revenue base. In addition, the Government will rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

92. On the expenditure side, the Government will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the PFM law of 2012. Expenditure management will be strengthened with implementation of the Integrated Financial Management Information System (IFMIS) across line ministries and departments and subsequently at the county level following decentralization. The National Treasury is also expected to operate a Single Treasury Account (TSA) to ensure efficient and prudent management of government cash resources for effective service delivery. TSA is a unified structure of government bank accounts that enables consolidation and optimum utilization of government cash resources.

Deficit financing policy

93. The medium-term fiscal stance envisages continued borrowing from domestic and external sources with the latter being largely on concessional terms. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the expected increase in private investment with accelerated economic expansion.

94. Non-concessional foreign borrowing will be limited to projects that guarantee revenue streams and support long-term growth. Borrowing from the international capital and loan markets has useful benefits, such as setting benchmarks for borrowing by private and public-sector institutions. It is in this regard that the Government aims to float a sovereign bond in the international capital markets during 2013/14.

2013/14 Budget Framework

95. The 2013/14 budget framework is set against the background of the medium-term macro-fiscal framework set out above, the Government's national strategic objectives as outlined in the Vision 2030 MTP and the broad development policies of the new Administration. Real GDP is expected to expand by 5.9 percent in FY 2013/14 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year. Inflation is expected to be maintained at a single digit level of

about 5 percent reflecting implementation of a prudent monetary policy and easing of both food and oil prices and stabilization of the shilling exchange rate.

Revenue Projections

96. The 2013/14 budget targets revenue collection including AiA of 23.7 percent of GDP. This performance will be underpinned by on-going reforms in tax and customs administration. The KRA is expected to institute measures to expand revenue base and eliminate tax leakages. The modernization of VAT legislation is expected to simplify tax collection and enhance the revenue yield. As such, total revenues including AiA are expected to be KSh 987.3 billion.

Expenditure Forecasts

97. The key policy document guiding the Government's funding allocation decisions continues to be the first updated MTP (2008-2012) of Vision 2030, which provides the updated development priorities by the Government as the Second MTP covering 2013-2017 is prepared. In 2013/14, overall expenditures are projected at 30.1 percent of GDP or KSh 1252.2 billion (excluding debt amortization).

Recurrent Expenditure

98. Recurrent expenditures are expected to decline from the revised figure of 22.4 percent of GDP in 2012/13 to 20.5 percent of GDP in 2013/14, on account of adjustment of one-off items (mainly general elections expenses) and robust growth in nominal GDP. Transfers to parastatals and semi-autonomous government agencies will remain at the 2012/13 nominal value in order to provide fiscal space for priority expenditures. Any wage adjustments for these agencies is expected to be met within the ministerial ceilings.

99. With respect to goods and services, expenditure ceilings for sectors/ministries are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2012/13 and then an adjustment factor is applied to take into account the general increase in prices.

Development and Net Lending

100. Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure (roads, energy and railway), the ceiling for development expenditures including donor funded projects is KSh 385.2 billion (9.2 percent of GDP) in 2013/14, more or less the same amount allocated in 2012/13 revised budget. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment as well as facilitate critical interventions to remove binding constraints to growth.

101. About 40 percent of the development budget will be funded through project loans and grants not tied to conditionalities from development partners. This is expected to be about 3.7 percent of GDP in 2013/14 down from 5.8 percent in the original budget and up from 3.3 percent expected in the revised budget of 2012/13. With improvement in procurement planning (following review of the Procurement and Disposal Act), the absorption capacity of project funds is expected to increase resulting in a higher investment level in infrastructure activities.

102. In view of challenges of climate change, a contingency provision of KSh. 5 billion will be provided in the budget for FY 2013/14. We have also set aside KSh 4.0 billion for the implementation of the Constitution/transfer to counties and KSh. 3.4 billion for conditional grants to marginal areas (Equalization fund).

Overall Deficit and Financing

103. The overall budget deficit (including grants) in 2013/14 is projected to be about KSh. 197.4 billion (Equivalent to 4.7 percent of GDP). About 46 percent of this budget deficit will be covered by net external financing amounting to KSh 90.8 billion (2.2 percent of GDP), leaving about KSh 106.7 billion (2.6 percent of GDP) to be financed through domestic borrowing.

104. The Government continues to lengthen the maturity structure of government debt. While we had achieved a ratio of 85:15 in favour of long term bonds, the appetite for short-dated Treasury bills increased more recently due to rising inflationary expectations. Going forward, the Government will gradually unwind short-term debt and replace this with the long term ones in conformity with the policy target ratio of 75:25.

Summary

105. Fiscal policy will support growth within a sustainable path of public spending by allowing the deficit to decline gradually so as to achieve a debt to GDP ratio of less than 45 percent in the medium-term. Therefore, moderation in government spending will help assure debt sustainability and intergenerational equity in line with the Constitution and the fiscal responsibility principles in the new PFM law. Meanwhile, efficiency and economical spending of government resources will be enhanced to create room for critical interventions and pro-poor spending.

IV. INTERGOVERNMETAL FISCAL RELATIONS AND DIVISION OF REVENUE

Introduction

106. The Constitution lays the foundation for a decentralized system of governance by providing for two levels of government, namely national and county governments, which are distinct and inter-dependent and which shall conduct their mutual relations on the basis of consultation and cooperation. In addition, the Constitution provides that government at either level shall perform its functions, and exercise its powers, in a manner that respects the functional and institutional integrity of government at the other level, and respects the constitutional status and institutions of government at the other level.

107. The Constitution has assigned functions and tax collection powers to both levels of government. In addition, the Constitution has provided for mechanisms for equitable sharing of revenue raised nationally, as well as other intergovernmental transfers. The functions are either exclusive to each level of governments, shared or are residually assigned to the national government. The Constitution stipulates that all revenue raised nationally shall be shared equitably among the two levels of governments and among county governments to enable them provide services and perform the functions assigned to them under the Fourth Schedule of the Constitution. In addition to their equitable share, county governments also receive conditional or unconditional grants from the national government.

108. The Constitution also has some important features pertinent to intergovernmental fiscal relations. This is underpinned by a commitment to basic human rights, set out in the Bill of Rights in Chapter 4, and to co-operative governance, spelled out in Chapter 2. The Bill of Rights sets the tone for the emphasis on the delivery of basic services to all Kenyans, which impacts on the budgets of the two levels of government. Specifically, Article 43 of the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights (i.e., better health care services, education, clean and safe water, housing, and social security) to its citizens within available resources. The commitment to co-operative governance is expected to create platform in which the intergovernmental system will develop and respond to emerging needs. In particular, it is expected that the vertical sharing of resources will involve a more interconnected approach that will encourage consensus rather than conflict between the two levels of governments.

The intergovernmental budget process

Legal basis

109. Under the Public Finance Management (PFM) Act, 2012, each level of government should be able to plan, formulate, execute and report on their budgets. Towards this end, the national government will build capacity to ensure that proper financial management is in place in all the counties. This together with sound foundations for intergovernmental relations should ensure a smooth transition and uninterrupted provision of social services.

110. The PFM Act has formalised an intergovernmental budget process. In terms of the Act, the Commission on Revenue Allocation (CRA) recommends a division of revenue six months before the new financial year. This is submitted to the Parliament, county assemblies as well as national and county executives. The Cabinet Secretary responsible for Finance then notifies Intergovernmental Budget and Economic Council (IBEC) and the CRA before proposing a division of revenue for consideration by Cabinet and then Parliament.

111. This intergovernmental budget process is now fully operational following coming on board of the county governments. Thus, the 2013/14 MTEF budget will be prepared in line with this process but with some modifications occasioned by the delays with the just concluded general elections held in March 2013the bring on board the necessary budget processes given the already created institutional arrangements.

Transfer of Functions

112. The Transition Authority (TA) has been created under the Transition to Devolved Government (TDG) Act, 2012, to facilitate the analysis and the phased transfer of the functions provided under the Fourth Schedule. In addition, it will determine the resources required for each of the functions. It is expected that the TA will build on the current expenditure patterns based on the costing of the devolved functions to provide a framework of transfer of functions to county governments.

113. The TDG Act provides for a phased approach of transfers of functions with the national government stands continuing to perform the functions that have been assigned to the counties until such a time, not exceeding three years, when the county governments are able to take over their functions based on objective criteria established in line with Article 262 (15) of the Constitution. The procedure and criteria for the phased transfer of functions, which will be carried out by the Transition Authority are spelled out in Sections 23 and 24 of the Transition to Devolved Government Act, 2012.

114. The TA has gazetted all the functions of the previous local authorities to be performed by the County Governments. It has also gazetted all the county functions under the Fourth Schedule to be performed by county government

starting July 1, 2013. It is expected that this will not result in disruption of service delivery to counties.

115. Nevertheless, the national government will continue to provide the support for creation of the necessary institutional structures and capacity building to enable the county governments to function and deliver on their mandate. These structures include the Office of the Governor and Deputy Governor to provide the administrative functions, County Executive Committees to oversee budget formulation, the County Assemblies to approve budgets, and of-course the county public service, which will implement and report on the budget.

116. The county governments have come into operation at the time when the preparation for the 2013/14 budget is at advanced stage, with the expectation of submitting budget estimates by end of April 2013. As such, there will be teething challenges in the preparation of 2013/14 budget but this will be surmounted through regular consultations with county governments.

Resources available

Equitable shares

117. According to the Constitution revenue raised nationally shall be shared equitably among each level of government to enable it to provide services and perform the functions allocated to them. The equitable division of revenue should take into account the functions assigned to each level of government and other considerations outlined in the Constitution. The CRA makes recommendations concerning the basis for the equitable sharing of revenue between the two levels of government and among the counties.

118. The equitable share of revenue is an unconditional allocation to the county governments. County governments, being a distinct level of government, are fully responsible for these funds and are directly accountable to their respective County Assemblies for how the resources under their control are spent.

Other resources

119. Aside of their equitable share, county governments will have the following resources at their disposal:

- ***Conditional and unconditional grants***: These may be given as additional allocations from the national government's share to which the national government may or may not attach conditions.

- ***Own revenues***: Counties can impose property taxes, entertainment taxes, as well as any other tax and user fees and charges they are authorised to impose by an Act of Parliament. Revenue raised by county government constitutes own-revenues and will not be part of the pool of revenues subject to sharing between the two levels of government.

- ***Borrowing:*** Counties may borrow only if the national government guarantees the loan, and with the approval of the county government's assembly. The PFM law provides for the framework for counties to borrow in a transparent, prudent and equitable manner

Equalization Fund

120. The Constitution provides for an equalization fund, which the national government shall use to provide basic services including water, roads, health facilities and electricity to marginal areas in order to bring these services in the marginal areas to national standards. In line with this provision, the national government has prepared the regulations on the equalization fund, which are expected to be gazetted shortly. One half (0.5) of a percent of revenue collected, calculated on the basis of the most recent audited accounts of revenue received as approved by the National Assembly, will be paid to the equalization fund.

Costing of Functions Assigned to County Governments

121. The Constitution has assigned functions to both levels of government. The functions are either exclusive to each level of governments, shared or are residually assigned to the national government. The Constitution under Article 187 provides that **financing must follow functions**. Therefore, it is important to cost the assigned functions in order to determine the amount of resources to be transferred to county governments. Since the Constitution requires that at least 15 percent of audited revenues should go to county government, this would mean that at the very least KSh. 102.3 billion must be transferred to the counties based on the latest audited revenues of KSh. 682 billion for FY 2011/12.

Cost of devolution by budgetary sector

122. The total cost of funding the devolved functions by sector based on the existing level of services, including allocations for the Constituency Development Fund (CDF), was estimated at KSh. 170.7 billion for 2012/13 (Table 4.1). Adjusting for inflation, the cost of devolved functions is projected to increase to Ksh. 198.6 billion in 2013/14 and to about KSh. 218.4 billion by 2015/16.

Table 4.1: Cost of devolved functions by sector (in Ksh billion)						
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Sector	Act.	Act.	Budget	Ceiling	Projection	
Agriculture and Rural Development	10.5	11.2	9.8	14.9	15.7	16.5
Education	0.4	0.4	1.6	1.0	1.1	1.1
Energy, Infrastructure and ICT	45.7	53.5	64.3	77.2	80.9	84.8
Environmental protection, Water and Sanitation	8.0	8.8	5.8	10.9	11.4	12.0
General Economic, Commercial and Labour Affairs	8.7	6.0	4.9	9.7	10.2	10.7
Governance, Justice Law and Order	0.3	0.3	0.5	0.5	0.6	0.6
Health	21.8	31.4	53.9	47.9	50.2	52.5
Public Administration and International Relations	14.9	17.6	22.3	25.3	26.6	27.8
Social Protection, Culture and Recreation	6.2	10.1	7.7	11.2	11.8	12.4
GRAND TOTAL	**116.6**	**139.3**	**170.7**	**198.6**	**208.4**	**218.4**
Source: National Treasury						

123. The costs were derived as follows:

- Current spending by ministries (both GoK and donor funds) through their headquarters and district codes (Authority to Incur Expenditure);
- Current transfers to local authorities of the Local Authority Transfer Funds (LATF) aggregated by county; and
- Current transfers to constituencies of the Constituency Development Funds (CDF) aggregated by county;

124. In the current financial year 2012/13, additional expenditures (March – June 2013) related to new administrative structures, such as wages for County Executive and County Assembly are estimated at about KSh. 9.8 billion. In addition, a one-off expenditures for setting up the necessary infrastructure (after taking into account the already existing structures) to enable the counties to operate is provided at KSh. 3.4 billion. Therefore, the total cost of devolution for 2012/13 is estimated at KSh. 183.9 billion (that is KSh. 170.7 billion plus KSh.13.2 billion cost of administration and infrastructure). This represents 30.2 percent of the most recent audited revenues approved by Parliament (or Ksh. 608.1 billion), about double the 15 percent constitutional minimum.

Projected shares

125. The resources available to be shared by the national and county governments over the coming three financial years are estimated on the basis of projections of the economy's performance over the medium term. The underlying assumptions are set out in Section II and III of this Statement.

126. For the 2013/14-2015/16 period, the projected revenue shares for the two levels of government are outlined in Table 4.2. Over the 2013/14 MTEF period, the national government average share is 80.3 percent of available revenue, while

that to counties is 19.7 percent. This division may change depending on the extent of the application of the criteria set out in Article 203 of the Constitution with respect to vertical sharing of revenue and the recommendations from the CRA.

127. In terms of most recent approved audited revenues for 2011/12 (Ksh 682 billion), the projected total revenues transfers to counties account for 29.1%. In this case, the equitable share to counties will be 23.1% which is well above the 15 percent minimum stipulated in the Constitution.

128. As for the Equalization Fund, it is projected to rise from KSh. 3.4billion in 2013/14 to KSh. 4.4billion by 2015/16.

Table 4.2: Projected Division of Available Funds, 2013/14 - 2015/16 (Ksh billion; unless indicated)

	2013/14	2014/15	2015/16
		Projection	
1.0 National Government	**721.8**	**854.1**	**1,009.2**
Of which:			
Conditional grants (CDF)	22.4	25.9	29.9
Equalization fund	3.4	3.9	4.4
Conditional Allocations to Counties	40.6	42.7	44.8
of which:			
Shared facilities (level 5 hospitals)	10.1	10.6	11.1
Donor grants/loans and "holding harmless"	30.6	32.1	33.7
2.0 Counties	**198.6**	**208.4**	**218.4**
Equitable share	158.0	165.8	173.6
Conditional Allocations	40.6	42.7	44.8
of which:			
Shared facilities (level 5 hospitals in 11 Counties)	10.1	10.6	11.1
Donor grants/loans and "holding harmless"	30.6	32.1	33.7
2.2 Equalization Fund	3.4	3.9	4.4
3.0 Total Shareable revenue 2/	**920.4**	**1,062.5**	**1,227.6**
Percentage share			
National Government	78.4%	80.4%	82.2%
Counties	21.6%	19.6%	17.8%
Memo items:			
Counties' Own-Revenue (Estimated) 3/	*24.8*	*28.4*	*32.6*
County Allocations as % of Latest Audited Revenues (Ksh 682 billion for FY 2011/12))	*29.1%*	*30.6%*	*32.0%*
Minimum Allocations to Counties as per the Constitution	*15.0%*	*15.0%*	*15.0%*

Source: National Treasury

Notes:

CDF = Constituency Development Fund

1/ Include cost of providing the devolved functions, including estimated administration/infrastructure costs.

2/ As defined in CRA Act (Income taxes, import duty, VAT, excise taxes, and non-tax revenues). This is approximated by ordinary revenues.

3/ Own sources of revenue -- include CILOR, property rates, SBP, vehicle parking, market fees, plot rents, water & sewerage, cess receipts, house rents, and other.

129. Overall, the division of funds between the national and county governments (known as vertical division) is a policy judgement that reflects the relative priority of functions assigned to each level of government. It is a judgement that cannot be captured in a formula. Therefore, the factors listed in Article 203 of the Constitution (national interest, public debt, and other national

obligations, etc.) needs to be considered. In addition, the Government will take into account the economic and social impact of services and the effectiveness with which extra funds can be spent. Of course, as per the Constitution, a minimum of 15 percent of revenues will be observed in transferring resources to county government to fund the assigned functions.

Cost of devolved functions by county

130. Table 4.3 provides estimates of funds to counties based on the cost of delivering assigned functions in financial year 2012/13. These provide a rough indication of the demand for basic services within the counties and can serve as a basis for the initial distribution of revenue among counties.

131. About half of the counties (23 out of the 47) receive resource above the per capita national average. Therefore, going forward the approved formulae is expected to help redistribute resources so that a larger percentage of resources go to those counties that have been left behind, either in terms of development or in terms of county per-capita allocation of revenues. This should be done in a manner that ensures that the principle of “holding harmless” is respected so that no county should suffer deterioration in service delivery because of devolution, as envisaged under the Constitution.

Table 4.3: COSTING OF DEVOLVED FUNCTIONS (Ksh Million)

		2012/13				
	County (in Aphabetical order)	Cost of devolved functions	% share	Estimated population	Per capita share	Per capita Deviation from average*
1	Baringo	2,812	1.6%	591,102	4,756	114
2	Bomet	2,141	1.3%	948,889	2,256	54
3	Bungoma	4,642	2.7%	1,463,031	3,173	76
4	Busia	3,042	1.8%	791,539	3,843	93
5	Elgeyo	2,453	1.4%	393,668	6,232	150
6	Embu	3,343	2.0%	549,236	6,087	147
7	Garissa	3,170	1.9%	662,920	4,781	115
8	Homa Bay	4,485	2.6%	1,025,452	4,374	105
9	Isiolo	1,567	0.9%	152,461	10,278	247
10	Kajiado	2,548	1.5%	731,282	3,484	84
11	Kakamega	5,964	3.5%	1,766,890	3,375	81
12	Kericho	3,193	1.9%	628,479	5,081	122
13	Kiambu	7,093	4.2%	1,727,130	4,107	99
14	Kilifi	3,797	2.2%	1,180,729	3,216	77
15	Kirinyanga	2,617	1.5%	561,836	4,657	112
16	Kisii	4,733	2.8%	1,225,998	3,861	93
17	Kisumu	5,239	3.1%	1,030,894	5,082	122
18	Kitui	3,947	2.3%	1,077,496	3,663	88
19	Kwale	2,399	1.4%	691,510	3,469	84
20	Laikipia	2,162	1.3%	424,767	5,091	123
21	Lamu	1,508	0.9%	108,035	13,961	336
22	Machakos	4,576	2.7%	1,168,865	3,915	94
23	Makueni	3,155	1.8%	941,114	3,352	81
24	Mandera	2,106	1.2%	1,091,378	1,929	46
25	Marsabit	2,052	1.2%	309,793	6,624	159
26	Meru	5,779	3.4%	1,443,069	4,005	96
27	Migori	3,822	2.2%	975,845	3,916	94
28	Mombasa	5,825	3.4%	999,465	5,828	140
29	Muranga	4,727	2.8%	1,002,882	4,713	113
30	Nairobi	16,515	9.7%	3,339,143	4,946	119
31	Nakuru	7,311	4.3%	1,705,896	4,286	103
32	Nandi	2,589	1.5%	801,135	3,232	78
33	Narok	2,232	1.3%	905,357	2,465	59
34	Nyamira	2,039	1.2%	636,525	3,204	77
35	Nyandarua	3,051	1.8%	634,414	4,809	116
36	Nyeri	6,562	3.8%	737,928	8,893	214
37	Samburu	1,471	0.9%	238,274	6,175	149
38	Siaya	3,495	2.0%	896,190	3,900	94
39	Taita Taveta	1,944	1.1%	302,868	6,420	155
40	Tana River	1,917	1.1%	255,434	7,506	181
41	Tharaka Nithi	1,635	1.0%	388,702	4,206	101
42	Tranzoia	2,160	1.3%	871,136	2,480	60
43	Turkana	2,108	1.2%	910,122	2,316	56
44	Uasin Gishu	3,604	2.1%	951,383	3,788	91
45	Vihiga	1,962	1.1%	590,103	3,325	80
46	Wajir	2,882	1.7%	704,288	4,093	99
47	West Pokot	2,292	1.3%	545,489	4,202	101
	Grand Total	**170,667**	**100%**	**41,080,140**	**4,154**	

Source: National Treasury

* Counties with per capita deviation above 100 indicate that they are receiving resources above the national average and vice versa for those below 100.

Approved Formula for Allocating Revenue

132. The Parliament approved, in November 2012, a new revenue sharing formula. The formula takes into account population (45%), land area (8%), poverty (20%), a basic equal share (25%), and fiscal responsibility (2%). The respective equitable share of the components in the formula is provided in Table 4.4. Once the vertical division of revenue is established, the formula will then be used to allocate revenue among the 47 counties.

	Table 4.4: COMPONENTS OF THE EQUITABLE SHARES FORMULA						
		Population	Basic Equal Share	Poverty	Land Area	Fiscal Responsibility	Weighted Average
	Weight	45%	25%	20%	8%	2%	100%
1	Baringo	1.44%	2.13%	1.76%	1.71%	2.13%	1.71%
2	Bomet	1.88%	2.13%	1.61%	0.90%	2.13%	1.81%
3	Bungoma	4.22%	2.13%	3.53%	0.90%	2.13%	3.25%
4	Busia	1.26%	2.13%	2.90%	0.90%	2.13%	1.80%
5	Elgeyo	0.96%	2.13%	0.91%	0.90%	2.13%	1.26%
6	Embu	1.34%	2.13%	1.15%	0.90%	2.13%	1.48%
7	Garissa	1.61%	2.13%	1.87%	6.84%	2.13%	2.22%
8	Homa Bay	2.50%	2.13%	2.00%	0.90%	2.13%	2.17%
9	Isiolo	0.37%	2.13%	0.61%	3.92%	2.13%	1.18%
10	Kajiado	1.78%	2.13%	0.26%	3.39%	2.13%	1.70%
11	Kakamega	4.30%	2.13%	4.24%	0.90%	2.13%	3.43%
12	Kericho	1.96%	2.13%	1.02%	0.90%	2.13%	1.73%
13	Kiambu	4.20%	2.13%	1.67%	0.90%	2.13%	2.87%
14	Kilifi	2.87%	2.13%	4.20%	1.95%	2.13%	2.86%
15	Kirinyanga	1.37%	2.13%	0.50%	0.90%	2.13%	1.36%
16	Kisii	2.98%	2.13%	3.71%	0.90%	2.13%	2.73%
17	Kisumu	2.51%	2.13%	2.06%	0.90%	2.13%	2.19%
18	Kitui	2.62%	2.13%	3.32%	4.72%	2.13%	2.80%
19	Kwale	1.68%	2.13%	2.69%	1.28%	2.13%	1.97%
20	Laikipia	1.03%	2.13%	0.85%	1.47%	2.13%	1.33%
21	Lamu	0.26%	2.13%	0.10%	0.97%	2.13%	0.79%
22	Machakos	2.85%	2.13%	3.37%	0.96%	2.13%	2.61%
23	Makueni	2.29%	2.13%	2.97%	1.24%	2.13%	2.30%
24	Mandera	2.66%	2.13%	6.78%	4.02%	2.13%	3.45%
25	Marsabit	0.75%	2.13%	1.82%	9.00%	2.13%	2.00%
26	Meru	3.51%	2.13%	1.29%	1.07%	2.13%	2.50%
27	Migori	2.38%	2.13%	2.66%	0.90%	2.13%	2.25%
28	Mombasa	2.43%	2.13%	1.30%	0.90%	2.13%	2.00%
29	Muranga	2.44%	2.13%	1.58%	0.90%	2.13%	2.06%
30	Nairobi	8.13%	2.13%	3.49%	0.90%	2.13%	5.00%
31	Nakuru	4.15%	2.13%	2.94%	1.16%	2.13%	3.12%
32	Nandi	1.95%	2.13%	1.53%	0.90%	2.13%	1.83%
33	Narok	2.20%	2.13%	1.24%	2.78%	2.13%	2.04%
34	Nyamira	1.55%	2.13%	1.28%	0.90%	2.13%	1.60%
35	Nyandarua	1.54%	2.13%	1.58%	0.90%	2.13%	1.66%
36	Nyeri	1.80%	2.13%	1.29%	0.90%	2.13%	1.71%
37	Samburu	0.58%	2.13%	1.36%	3.25%	2.13%	1.37%
38	Siaya	2.18%	2.13%	1.47%	0.90%	2.13%	1.92%
39	Taita Taveta	0.74%	2.13%	0.78%	2.64%	2.13%	1.27%
40	Tana River	0.62%	2.13%	1.02%	5.95%	2.13%	1.53%
41	Tharaka Nithi	0.95%	2.13%	0.68%	0.90%	2.13%	1.21%
42	Tranzoia	2.12%	2.13%	1.81%	0.90%	2.13%	1.96%
43	Turkana	2.22%	2.13%	8.71%	9.00%	2.13%	4.03%
44	Uasin Gishu	2.32%	2.13%	1.55%	0.90%	2.13%	2.00%
45	Vihiga	1.44%	2.13%	0.99%	0.90%	2.13%	1.49%
46	Wajir	1.71%	2.13%	3.68%	8.78%	2.13%	2.78%
47	West Pokot	1.33%	2.13%	1.87%	1.42%	2.13%	1.66%
	Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

133. It is expected that the current expenditure pattern will differ from the allocation based on the new formula. Table 4.5 shows the impact of the new equitable shares formula on the county allocations. There is varying degree of redistribution among counties. This reflects the fact that the parameters in the formula may not be the only determinants of resource allocation to the sub-national level in 2012/13. For instance, there are counties that may get more resources than suggested by the formula because they host institutions that provide services to more than one county. Provincial hospitals are a good example of such institutions which provide services to several counties and whose functions have now been assigned to county governments. Since the

formula will not pick up such subtleties, it will be important that the allocation based on existing expenditure patterns and the new formula be harmonized in order to avoid adversely affecting services delivery while ensuring equitable distribution of resources.

Table 4.5: IMPACT OF EQUITABLE SHARES FORMULA

		Shares based on costing (FY 2012/13)	New target shares approved by Parliament 1/	Percent change
1	Baringo	1.65%	1.71%	3.77%
2	Bomet	1.25%	1.81%	44.43%
3	Bungoma	2.72%	3.25%	19.62%
4	Busia	1.78%	1.80%	0.77%
5	Elgeyo	1.44%	1.26%	-12.44%
6	Embu	1.96%	1.48%	-24.57%
7	Garissa	1.86%	2.22%	19.64%
8	Homa Bay	2.63%	2.17%	-17.47%
9	Isiolo	0.92%	1.18%	28.19%
10	Kajiado	1.49%	1.70%	13.76%
11	Kakamega	3.49%	3.43%	-1.87%
12	Kericho	1.87%	1.73%	-7.32%
13	Kiambu	4.16%	2.87%	-30.87%
14	Kilifi	2.22%	2.86%	28.77%
15	Kirinyanga	1.53%	1.36%	-11.18%
16	Kisii	2.77%	2.73%	-1.54%
17	Kisumu	3.07%	2.19%	-28.76%
18	Kitui	2.31%	2.80%	20.99%
19	Kwale	1.41%	1.97%	40.39%
20	Laikipia	1.27%	1.33%	4.83%
21	Lamu	0.88%	0.79%	-10.64%
22	Machakos	2.68%	2.61%	-2.82%
23	Makueni	1.85%	2.30%	24.33%
24	Mandera	1.23%	3.45%	179.41%
25	Marsabit	1.20%	2.00%	66.16%
26	Meru	3.39%	2.50%	-26.19%
27	Migori	2.24%	2.25%	0.34%
28	Mombasa	3.41%	2.00%	-41.37%
29	Muranga	2.77%	2.06%	-25.56%
30	Nairobi	9.68%	5.00%	-48.30%
31	Nakuru	4.28%	3.12%	-27.07%
32	Nandi	1.52%	1.83%	20.64%
33	Narok	1.31%	2.04%	55.65%
34	Nyamira	1.19%	1.60%	33.82%
35	Nyandarua	1.79%	1.66%	-7.24%
36	Nyeri	3.85%	1.71%	-55.45%
37	Samburu	0.86%	1.37%	58.59%
38	Siaya	2.05%	1.92%	-6.10%
39	Taita Taveta	1.14%	1.27%	11.79%
40	Tana River	1.12%	1.53%	36.52%
41	Tharaka Nithi	0.96%	1.21%	26.04%
42	Tranzoia	1.27%	1.96%	55.11%
43	Turkana	1.24%	4.03%	226.61%
44	Uasin Gishu	2.11%	2.00%	-5.35%
45	Vihiga	1.15%	1.49%	29.64%
46	Wajir	1.69%	2.78%	64.87%
47	West Pokot	1.34%	1.66%	23.63%
	Total	**100%**	**100%**	

1/ Approved by Parliament in November 2012

Division of Revenue and the County Allocation of Revenue Bill

134. The Cabinet Secretary responsible for Finance is required to table a Division of Revenue (DoR) Bill and County Allocation of Revenue (CAoR) Bill alongside the Budget Policy Statement. The DoR and CAoR Bill will set out the final allocations to the two levels of governments and each of the counties, respectively. The Bills shall be accompanied by a memorandum explaining any assumptions and formulae used in determining the allocations, and how those allocations comply with Constitutional requirements.

135. It is expected that the strengthening of the MTEF process under the PFM Act will improve intergovernmental coordination and the budget process. In particular, national departments and county governments are expected to come together in developing robust sectoral policy, particularly in the areas of health and other social sectors, as well as in personnel expenditure. If this happens, it will further improve the link between policy, planning and budgeting, something which has been weak in government programmes in the past.

Decentralised Funds

136. The Local Authority Transfer Fund (LATF) and the Constituency Development Fund (CDF) constitute a part of decentralized public funds that the government has been spending at the sub-national level. In addition, part of the Road Maintenance Levy Fund (RMLF) comprise of spending at local level. The government is committed to ensuring that the equivalent of the funds earmarked for the LATF, CDF and RMLF are provided for financing programmes and projects at the county level. This is consistent with the principle of financing following functions as these funds largely finance functions that have been assigned to county governments with the exception of education in the case of the CDF.

137. As regards the LATF, since these were funds going to the 175 local authorities that are now under the 47 counties, these funds will simply be folded into the county governments' equitable share and any allocation of resources to the decentralized units within the county will be the responsibility of the County Executive Committee and the County Assembly. In the case of the CDF, the existing management structure, especially the participation of Members of Parliament in the allocation of resources, may be inconsistent with the Constitution where the County Governor and the Deputy County Governor are the Chief Executive and Deputy Chief Executive, respectively (Article 179 (4)).

138. Therefore, the management structure of the CDF will have to be changed to conform to the Constitution. Once there is agreement on the management framework a decision will be required stating whether the equivalent of these funds will be provided to counties as conditional or unconditional grants. If they are to be conditional grants, the conditions will have to be set by the national government and a monitoring framework would need to be put in place to assess compliance with the conditions. On the other hand, if they are unconditional grants, they would be part of the sharable revenues and the County Executive Committee would decide on the usage of those funds in line with county priorities.

Summary

139. The new PFM law provides a robust intergovernmental budget process that, if implemented with emphasis of corporate governance, will present an

opportunity for enhanced financial management at both levels of government. As we usher in a devolved system of government, we need to draw lessons from international experience in managing decentralization. Under the framework of managing the transition to decentralised structure that is in line with the new Constitution, the division of revenue between national and county government is set out with national government accounting for an average of 78.4 percent of equitable share of revenues in the 2013/14, while county governments will account for 21.6 percent.

140. Overall, it is expected that the new formula will evolve while benefiting from data available at county level.

V. MEDIUM TERM EXPENDITURE FRAMEWORK

Resource Envelope

141. The resource envelope available for allocation among the spending agencies is based on the medium term fiscal framework outlined in Section III:

- Domestically mobilized budget resources finance about 90 percent of the budget. Of this, tax revenue (income tax, customs duties, value added taxes, and excise taxes) accounts for over 80 percent of total budget resources. However, due to slower than anticipated growth for 2012/13, adjustment for one-off items in the base and continued challenges in VAT collections, revenues are expected to still stand at 23.7 percent of GDP in 2013/14 as in the revised budget 2012/13;
- Committed external financing in the form of grants and concessional borrowing tied to specific programmes/projects are expected to be about 2.2 percent of GDP in 2013/14; and
- Domestic borrowing at 2.6 percent of GDP is expected to finance about 54 percent of the deficit in 2013/14, and thereafter is expected to decline to finance about 40 percent of the budget deficit in the medium term. This is consistent with the objective of gradually reducing the debt stock as a percentage of GDP.

142. Ordinary revenue is projected to broadly cover funding required for recurrent expenditure, leaving the entire development budget to be financed mainly through external project grants and loans, as well as domestic borrowing. This approach bodes well for long-term sustainability of our public finances.

Spending Priorities

143. The Government is in the process of preparing the Second Medium Term Plan (MTP II) of Vision 2030 covering the period 2013-2017. In the meantime, prioritization of resource allocation will be based on the updated first MTP I priority goals, broad development policies of the new Administration as well as the medium term priorities identified during the countrywide budget consultative meetings held in October – November 2011 and the Public Sector Hearing held at the KICC in November 12-14, 2012.

144. In addition, the Constitution and the PFM law require national and county governments to promote budgetary transparency, accountability and effective

financial management of the economy and the public sector. Therefore, inefficient and wasteful public expenditure will be eliminated at all costs in order to promote public trust in government spending.

145. In finalizing the preparation of the 2013 MTEF budget, the Government will continue to pursue the policy of curtailing less productive expenditures and redirecting resultant savings to capital investment. Spending proposals will in this regard undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure with focus being in the areas indicated in the table below. During scrutiny of 2013/14 budget proposals, more effective use of resources will be sought across spending agencies and any identified savings will be redirected to deserving priority expenditures. In addition, it is expected that savings will arise from the reduction in the number of ministries by the new Administration and in line with the Constitution.

Targeted expenditures for scrutiny to create savings
Recurrent
Telephone, Telex, Facsimile and Mobile Phone Services
Courier and Postal Services
Domestic Travel and Subsistence, and Other Transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing , Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General Equipment
Refurbishment of Buildings
Purchase of Motor Vehicles
Pre-feasibility, Feasibility and Appraisal Studies
Development
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Refurbishment of Buildings
Pre-feasibility, Feasibility and Appraisal Studies

146. Overall, given limited resources, the MTEF budgeting will focus on the following:

- The priority social sectors of education and health will continue to receive adequate resources. It should be noted that both sectors (education and health) are already receiving a significant share of resources in the budget. These sectors, however, will be required to utilize the allocated resources more efficiently to generate fiscal space to accommodate strategic interventions in their sectors including funding HIV/AIDS interventions, healthcare infrastructure, affordable drugs, as well as recruitment and training of staff as identified during the budget consultations. In particular, it is expected that the health sector will strengthen its infrastructure and administrative control, while the education sub-sector will revisit its staffing norms in order to create fiscal space for key interventions which include provision for learning infrastructure, teaching and learning materials, and recruitment of teaching staff.

- The economic sectors including agriculture and livestock will receive increased share of resources to boost agricultural productivity with a view to dealing with the recurrent food security problems in the country.

- With the Government committed to improving infrastructure countrywide, the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation projects countrywide.

- Other priority sectors include security, rule of law, youth and development of arid regions, which have received a significant boost in resources over the past two years. Resources to these sectors will be maintained at adequate level over the medium-term to enable these sectors to implement governance reforms as well as deal with security, youth unemployment and provide opportunities for the vulnerable members of our society in the arid and semi-arid regions.

2012/13 Revised Estimates

147. Expenditure in the first eight months of 2012/13 amounted to KSh 662.7 billion or about 32 percent of the appropriation for the year. In view of the financing constraints from revenue and emerging expenditure pressures, adjustment to the budget, in the context of the Supplementary budget, will be tabled in Parliament shortly.

148. In order to finance emerging additional expenditures in the face of financing constraints, austerity measures will be instituted. The austerity measures take into account performance of expenditure so far in the FY 2012/13 and absorption capacity in the remainder of the financial year. The remaining financing gap will be closed using the existing contingencies, provision for implementation of the Constitution, deferring expenditures of some projects that are unlikely to start this financial year, reallocation of budgeted provisions, and across the board expenditure cuts. Additional borrowing will be kept to the minimum to cover any residual gap.

Medium-Term Expenditure Estimates

149. Table 5.0 below provides the projected baseline ceilings for the 2013MTEF, classified by sector.

Table 5.0: Medium-Term Sector Ceilings, 2013/14-2015/16															
		Total Expenditure(Kshs. Million)							% Share of Total Expenditure						
		2011/12		2012/13	Projection				2011/12		2012/13	projection			
		Printed	Revised	Budget	2013/14	2014/15	2015/16	MTEF TOTAL	Printed	Revised	Budget	2013/14	2014/15	2015/16	
EXPENDITURE BY SECTOR															
AGRICULTURE AND RURAL DEVELOPMENT	Gross	47,849	52,955	51,433	47,511	57,522	57,619	**162,652**	5.0%	6.2%	4.4%	4.0%	4.7%	4.6%	
ENERGY, INFRASTRUCTURE & GENERAL	Gross	226,595	219,002	280,831	288,554	287,688	293,924	**870,166**	23.8%	25.6%	24.0%	24.0%	23.7%	23.6%	
ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	Gross	20,949	20,949	20,631	22,782	23,475	23,073	**69,330**	2.2%	2.5%	1.8%	1.9%	1.9%	1.9%	
HEALTH	Gross	64,314	72,788	91,704	98,940	100,641	102,076	**301,657**	6.8%	8.5%	7.8%	8.2%	8.3%	8.2%	
EDUCATION	Gross	202,382	214,051	257,726	275,659	288,710	296,461	**860,830**	21.3%	25.0%	22.0%	22.9%	23.8%	23.8%	
GOVERNANCE, JUSTICE, LAW & ORDER	Gross	110,646		146,238	121,379	145,646	150,011	**417,036**	11.6%	0.0%	12.5%	10.1%	12.0%	12.0%	
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	124,075	110,462	140,609	139,260	129,159	135,639	**404,058**	13.0%	12.9%	12.0%	11.6%	10.6%	10.9%	
NATIONAL SECURITY	Gross	65,163	78,560	89,725	74,425	77,405	82,109	**233,939**	6.8%	9.2%	7.7%	6.2%	6.4%	6.6%	
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	35,625	38,091	38,844	63,277	42,953	42,953	**149,183**	3.7%	4.5%	3.3%	5.3%	3.5%	3.4%	
ENVIRONMENTAL PROTECTION, WATER AND HOUSING	Gross	54,453	47,707	53,214	69,640	60,396	62,152	**192,188**	5.7%	5.6%	4.5%	5.8%	5.0%	5.0%	
TOTAL		**952,052**	**854,564**	**1,170,955**	**1,201,427**	**1,213,595**	**1,246,017**	**3,661,039**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Baseline ceilings

150. The baseline estimates reflects current spending priorities in social programmes (health and education) and infrastructure as well as Vision 2030 projects receiving large shares. Water supply, police services, judiciary and Parliament also receive large shares.

151. In the recurrent expenditure category, non-discretionary expenditures takes first charge and includes payment of statutory obligations such as interest payments, salaries for Constitutional offices and pension that are financed by the National Government. These expenditures are projected to account for about 17.9 percent of the expected ordinary revenue receipts.

152. Compensation of employees covering those staff in the line ministries providing services for both national government and on behalf of the devolved functions accounts for about 35 percent of the ordinary revenue. It is expected that some of the staff whose functions have been devolved would follow these functions when the counties are on board. Expenditure on operations and maintenance accounts for 40.4 percent of the projected ordinary revenue, of which Defense and NSIS account for 8.5 percent.

153. Overall, recurrent expenditure on non-discretionary, compensation of employees, and operations and maintenance account for 93.3 percent of projected ordinary revenue. The balance of 6.7 percent from total ordinary revenue is the resources available to fund planned development projects/programmes and loan redemptions. For 2013/14, external loan repayment (including one-off bullet repayment of the syndicated loan) account for 9 percent. Usually, external loan repayment has been accounting for about 2.5 to 3 percent of ordinary revenue, thus leaving about 3-5 percent of ordinary revenue available to fund development expenditure. Going forward, the Government is in the process of preparing to issue a sovereign bond to repay the syndicated loan that was acquired in May-June 2012.

154. As already indicated, it is only 3-5 percent of the ordinary revenue that will be available to finance part of the planned development expenditure in an ordinary year. The rest of the development expenditure is funded through borrowing from the domestic and foreign sources, as well as grants tied to projects.

155. Development expenditures are shared out on the basis of the Vision 2030 and MTP priorities as well as other strategic interventions to deal with unemployment and remove constraints to faster growth as outlined by the manifesto of the new Administration. The following guidelines are used:

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

- *Counterpart funds*: priority is also given to adequate allocations for donor counterpart funds. This is the portion the Government must fund in support of the projects financed by development partners. Usually it accounts for between a quarter to a third of the cost of the project.

- *Strategic policy interventions*: priority is also given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation. The implementation of the new Constitution is now a key national objective, thus more resources will be set aside for this purpose over the medium term.

Finalization of spending plans

156. As indicated earlier, the finalization of the preparation of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As detailed budgets are scrutinized and the resource envelope firmed up, it is likely that additional resources may become available. Government will utilize these resources to accommodate key national strategic priorities with sound business plans. Specifically, the following will receive priority:

	Priority Areas of Consideration for Additional Resources
1.	Intervention identified during the county stakeholders consultation for 2012 MTEF budget. A summary of issues identified by Sector Working Groups during the consultations are provided in Annex 9.
2.	Implementation of the new Constitution covering proposals not accommodated within the baseline ceilings issued to Ministries.
3.	Strategic intervention in the area of education, health, infrastructure (especially rural/feeder roads), tourism, security and agriculture (especially irrigation programmes and other food security enhancing programmes), as well as policy interventions covering the entire nation to enhance regional integration and social equity. A list of additional requests that are potential sources of fiscal risks on expenditure is provided in Annex 10.
4.	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation (Annex 9 and 10).

Details of Sector Priorities

157. The medium term spending estimates for 2013/14 – 2015/16 ensures continuity in resource allocation based on prioritized programmes aligned to the Vision 2030 MTP and policy initiatives of the new Administration to accelerate growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the Sector Working Groups (SWG).

Agriculture and Rural Development

158. The Agricultural and Rural Development (ARD) sector is critical to Kenya's economic growth, employment creation and poverty reduction. The sector contributes up to 26 percent of our real GDP and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. The challenges facing the sector include unfavourable climatic changes, poor planning and inadequate warning systems, low production and productivity, poor marketing and marketing infrastructure, low value addition and competitiveness, inadequate physical infrastructure, unfavourable legal and policy frameworks, and low access to financial services as well as affordable credit

159. Over the 2013 MTEF, the sector aims to address the above challenges by raising agricultural productivity, exploiting irrigation potential, increasing commercialization of agriculture, improving the legal and policy framework for agriculture, improving governance of agricultural institutions, and land development and promotion of sustainable management of fisheries, forestry and wildlife resources.

160. The 2013 MTEF estimates for the sector are estimated to be KSh.162 billion. For FY 2013/14, KSh 47.5 billion has been set aside for the sector. This is projected to increase to KSh. 57.5 billion and KSh. 57.6 billion, respectively, for FY 2014/15 and FY 2015/16.

161. The Constitution has assigned a number of functions in the sector to the Counties. These include crop and animal husbandry, livestock sale yards, abattoirs, plant and animal disease control, fisheries and cooperative societies. The national departments will need to be reorganized and rationalized to ensure efficient delivery of services in a decentralized system.

Energy, Infrastructure & ICT Sector

162. Energy, Infrastructure and Information Communications Technology (EI&ICT) Sector continues to be an enabler for sustained development of our economy. Key achievements in the last three FY (2009/10-2011/12) include improved infrastructure and management in the local authorities in particular construction of markets; new roads and bridges; periodic road maintenance; upgrading of airport facilities at JKIA and Kisumu; dredging of the port of Mombasa; Syokimau commuter rail service and discovery of oil at the Turkana County.

163. However, the sector faces a number of challenges that limits its optimal operations, including: general underutilization of development expenditure, delayed uptake of donor funds, lack of adequate local construction capacity; inadequate power supply capacity; over-reliance on hydrogenation; low investment in power generation by private sector; inadequate capacity for research in ICT and film industry; and inefficiency and congestion at the Port of Mombasa.

164. Over the medium-term, the sector's priorities include: improved infrastructure and management in counties, cities, and urban centres, accelerating on-going infrastructure development, improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction; attain efficient and economic road transport, expanding generation capacity and access to electricity, developing modern national ICT infrastructure, and development, expansion of the ports and rail facilities.

165. Total MTEF estimate for the sector is KSh 870.1 billion of which KSh. 288.5 billion has been set aside for the FY 2013/14. This represents a 7.3% increase from KSh. 268.7 billion allocated in the FY 2012/13. KSh. 287.6 billion

and KSh. 293.9 billion have been allocated to the FY 2014/15 and FY 2015/16, respectively.

166. Functions such as county roads maintenance, street lighting, traffic and parking, public road transport and ferries and harbours, and housing have been devolved to the county level of government.

General Economic, Commercial and Labour Affairs

167. The Sector plays a significant role towards achievement of the Vision 2030 and Millennium Development Goals (MDGs) through enhancement of economic growth. Despite impressive performance over the recent past, the sector still faces a number of challenges ranging from inadequate legal, regulatory and institutional challenges, limited access to credit by businesses, high cost of production, stiff competition from access to international markets, low awareness of benefits of regional integration, influx of sub-standard, counterfeits and contra-band goods, and low technology, innovation, research and development.

168. Over the medium-term, the sector plans to create an enabling business environment for trade and investment; deepen regional integration, promote best labour practices, manpower planning, development and utilization, tourism development and marketing, undertake policy, legal and institutional reforms for the development of the sector; support entrepreneurship and industrial development; and promote exports and sustainable tourism. Total MTEF estimate for the sector is KSh 69.3 billion. For the FY 2013/14, KSh. 22.7 billion has been set aside, representing a 5.9 percent increase from KSh.21.5 billion allocated in the FY 2012/13. This is projected to be maintained at somewhat the same level of between KSh. 23-23.5 billion through FY 2015/16.

169. Assigned functions to the counties include markets, fair trading licenses, and local tourism.

Health

170. The sector's goal is to provide equitable and affordable health care to the Kenyan citizens. The key achievements for the sector include reduction of under-5 year old mortality from 115 per 1,000 live births in 2003 to 74 per 1,000 live births in 2008/9 and infant mortality from 77 per 1000 live births to 52 per 1000 live births over the same horizon. The sector has also seen increased immunization coverage for under -1 year old from 71% in 2008 to 77% in 2011.

171. However, the sector faces numerous challenges, which include inadequate infrastructure for service delivery, shortage of qualified health personnel, and on time delivery of medicines and medical supplies. More recently, the salary award demands and improved work environment agitation has been enunciated. Maternal mortality ratio has deteriorated from 414 in 2003 to 488 deaths per 100,000 live births in 2008-09 and births attended by skilled health personnel declined from 51 percent in 2007 to 43 percent in 2010/11, despite considerable funding flowing to the programmes.

172. In the medium term, the Government will seek to address these challenges through continued investment in training of health professionals, medical services, health, and sanitation infrastructure and improvement in the working conditions of medical practitioners. The 2013 MTEF estimate for the sector is KSh. 301.6 billion, of which KSh 98.9 billion has been set aside for FY 2013/14, representing a 13.8 percent increase from FY 2012/13 funding level of KSh. 87.0 billion. This is projected to increase to KSh 102.1 billion by 2015/16.

173. Counties are expected to play a significant role in improvement of access and better health care for Kenyans. As such, functions assigned to the counties under this sector include county health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public, and refuse removal, refuse dumps and solid waste disposal.

Education

174. The sector's goal is to increase access to education, raise the quality and relevance of education, reduce inequality, and exploit knowledge and skills in science, technology and innovation to achieve global competitiveness of our labour force. Key achievements by the sector include free primary education which has improved admission into primary level education from 5.9 million in 2003 to 8.8 million children in 2010 and 9.86 million in 2011. Pupil completion rate remained above 75 per cent, with transition from primary to secondary increasing from 66.9 per cent in 2009 to 73.3 per cent in 2011. Other achievements include: improved gender parity at primary school level; increased number of secondary schools from 6,405 in 2007 to 7,297 in 2011 with free tuition for secondary schools, increased accredited TIVET centres from 288 in 2007/08 to 411 in 2011/12, and increased enrolment into the public universities from 16,134 students in 2008/09 to 32,648 students in 2011/12.

175. The sector's challenges include inadequate infrastructure and staffing, slow pace to ICT integration, and dealing with accelerated admissions to university, among others. In the medium term, the Government will seek to address these challenges by enhancing education and training opportunities and building capacity in industrial training. The 2013 MTEF estimate for the sector is KSh 860.8 billion of which KSh 275.7 billion has been allocated for FY 2013/14, representing a 16.8 percent increase from FY 2012/13 funding level of KSh.236.0 billion. This is projected to increase to KSh 288.7 billion in the FY 2014/15 and KSh. 296.5 billion in the FY 2015/16.

176. Assigned functions to the counties under this sector are limited, mainly to cater for pre-primary education, village polytechnics, home craft centres and children facilities.

Governance, Justice, Law and Order Sector (GJLOS)

177. The Sector plays an important role in providing a stable environment for the political, social and economic activities to thrive. The focus for the sector

over the medium term will be implementation of the Constitution, including full operationalization of a number of institutions established within the Sector and restructuring of some. Some of the newly established institutions are the National Police Service Commission (NPSC), the Constitution Implementation Commission (CIC), and the Office of the Director of Public Prosecutions (ODPP), Judicial Service Commission and the Independent Electoral and Boundaries Commission. The Kenya Anti-Corruption Commission became the Ethics and Anti- Corruption Commission (EACC) and is being reconstituted.

178. Over the last three years, the sector has achieved significant milestones in execution of its programs, including a successful referendum, the promulgation of the Kenya Constitution 2010, enactment of various laws as per the Constitution, creation of major institutions required in the smooth implementation of the Constitution, creation of awareness on Constitution, promotion of human rights, gender equality and on-going public sector reforms in the Judiciary and the police among others. Funding over the 2013 MTEF period will facilitate the full implementation of the Constitution; improve access to judicial and legal services for all Kenyans; enhance the security of identification, registration and travel documents; prevent and combat the occurrence of corruption and economic crimes including tracing, recovering and restituting corruptly acquired assets and ensure public safety and security; and promotion of national values and ethics; and registration and funding of political parties.

179. For FY 2013/14, KSh 121.4 billion has been set aside, representing a 8.5 percent decrease from FY 2012/13 funding level of KSh.132.6 following adjustments for the once-off items. This is projected to increase to KSh.150.0 billion for the FY 2015/16. Total funding level for the MTEF period is KSh. 417.0 billion.

180. Counties will play a significant role in ensuring and coordinating the participation of communities and locations in governance at the grassroots level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level. The estimated cost that goes to the counties for this devolved function is very small. However, it may increase depending on the scope of restructured functions of the provincial administration in line with the Constitution.

Judiciary

181. This sector proposal includes the MTEF expenditure limits for the Judiciary. The estimates of expenditure for the Judiciary will be submitted directly to the National Assembly in line with the Constitution. The challenges facing the Judiciary include case backlog, case delay and inaccessibility to justice in many parts of the country. This is attributed to lack of adequate facilities in most of the existing 120 court stations in the country; inadequate numbers of judicial officers and other support staff; and slow adaptation and institutionalization of ICT technology and other facilities, slow pace of reform by other justice sector bodies.

182. During this MTEF period, the Judiciary will prioritize the implementation of the Constitution and continue to implement strategies that will lead to reduced case backlog, improved access to justice and modernize the court system. KSh. 15.1 billion has been set aside for FY 2013/14. This has been adjusted to reflect the expenditure limits approved in the 2012 Budget Policy Statement and the 2012/13 Budget, as well as the recently approved Budget Review and Outlook Paper (BROP).

Public Administration and International Relations

183. The sector plays a key role in enhancing public service delivery, organization and coordination of Government business through planning, mobilization of financial and human resources in the public sector. In addition, the sector links all other sectors with the rest of the world on matters of international treaties, agreements, cooperation and resource mobilization. The Office of the Controller of Budget, Kenya National Audit Office, Salaries and Remuneration Commission and Commission on Revenue Allocation are some of the Constitutional offices and independent Commissions established by the Constitution in the sector.

184. Funding over the 2013 MTEF period will enable the sector to oversee the implementation of the Constitution; provide leadership and policy direction in the governance of the country; coordinate and supervise government affairs; promote sound public financial and economic management for socioeconomic development; articulate and implement Kenya's foreign policy for national development; promote macroeconomic stability, mainstream MDGs into the nation's policy, planning and budgetary process, implementation, monitoring and evaluation; promote efficient and effective human resource management and development for improved public service delivery; and promote public service integrity.

185. For FY 2013/14, KSh.139.3 billion has been set aside to fund its programmes. This is projected to reduce to KSh. 129.2 billion by FY 2014/15 and then increase to KSh. 135.6 billion for the FY 2015/16. The total MTEF estimate for the sector is KSh.404.1 billion.

186. Assigned functions to the counties include office of the governor, county assemblies, and county planning and development including statistics.

Parliament

187. This sector proposal includes the MTEF expenditure limits for the Parliament that is expected to be submitted directly to the National Assembly in line with the Constitution. Parliament plays a crucial role in strengthening the democratic space and good governance in the country. Under the Constitution, Parliament will consist of the National Assembly and the Senate. This is expected to increase the resource requirement to cater for the increased membership of Parliament from the current 224 to at least 418 and for additional physical facilities and infrastructure.

188. For FY 2013/14, KSh. 16.7 billion has been set aside. The funding level for FY 2013/14 assumes the adjustments made in the 2012/13 Budget Policy Statement and 2012/13 Budget, and the anticipated review of terms of service for the Members of Parliament.

Social Protection, Culture and Recreation

189. The Social Protection, Culture and Recreation Sector is mandated to address social and economic issues affecting the vulnerable groups, co-ordinate disaster management, promote Kenya's natural and cultural heritage, empower the youth and address the unique challenges facing Arid and Semi-Arid Lands (ASALs).

190. The sector achievements in the MTEF period of 2009/10-2012/13 include: Community mobilization, social development and welfare; Vocational rehabilitation and training; Social infrastructure development and gender mainstreaming; Children's institution and community support services; Campaign against HIV and AIDS; Transfers to the elderly; Disaster management; Relief distribution and resettlement of IDPs; Research, preservation and promotion of national culture and heritage; Public library services, records and archives management; Coordination and regulation of NGO sector; Training of youth on entrepreneurial and paramilitary skills; Rehabilitation of polytechnics; Construction of youth empowerment centres and refurbishment of sports facilities; Food security and natural resources management; and ASAL infrastructural and human capital development.

191. Funding over the 2013 MTEF period will continue to enhance delivery of the sector priorities. For FY 2013/14, KSh 63.3 billion has been set aside to support the sector' activities, representing a 62.9 percent increase from FY 2012/13 funding level of KSh.38.8 billion. The huge allocation is to the youth development and empowerment programmes which the new Administration is prioritizing for poverty eradication and job creation for the youth. This is projected to decrease to KSh 42.9billion in 2015/16, bringing the total MTEF estimate to KSh 149.2 billion.

192. Assigned functions to the counties include sports and cultural activities and facilities, among others. The sector will benefit from additional funding from the equalization fund as some of the activities covered under the sector falls under the marginalized categories.

Environmental Protection, Water, and Housing

193. The sector plays a key role in ensuring that every Kenyan has access to decent and affordable housing with access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities; scaling up water storage to improve water security; scaling up irrigation to reduce dependence of rain fed agriculture; protection, conservation and management of catchment areas; mitigation and adaptation measures on climate change; enforcement of sector laws and

regulations; restoration of Nairobi Rivers; modernization of meteorological services; mineral exploration and mining cadastre system; enhancing housing development through various initiatives; up-scaling slum upgrading and redevelopment; and lowering the cost of building material to increase access to housing. Going forward, the Government will introduce policies to involve the private sector in the financing of water services.

194. The 2013 MTEF estimate of KSh 192.2 billion has been allocated for the sector. For FY 2013/14, KSh. 69.6 billion has been set aside, reducing to KSh. 62.2 billion by FY 2015/16.

195. Under this sector, assigned functions to the counties include soil and water conservation, forestry, storm water management, and water and sanitation services, air pollution, noise pollution, other public nuisance and outdoor advertising.

National security

196. The national security sector comprises of defence and national intelligence services. The 2013 MTEF estimate of KSh 233.9 billion has been allocated for the sector, of which KSh.74.4 billion has been set aside for FY 2013/14, rising to KSh. 82.1 billion in the FY 2015/16.

VI. CONCLUSION

197. The 2013 MTEF is marked by moderate growth in overall expenditure, taking into account the weaker economic outlook and the need to maintain fiscal discipline during the implementation of the new Constitution. Expanding infrastructure investment, while maintaining reasonable growth on social development priorities remain a priority. Allocations to counties reflect a transition arrangement in line with the spirit of the constitution while ensuring provision of basic services to all Kenyans.

198. Overall, the set of policies outlined in this BPS are consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. The Sector priorities benefited from the public consultations conducted in all the 47 counties (in October-November 2011) as well as the recent Public Sector Hearings at the KICC in November 2012 and comments from CRA and other stakeholders. The policies, sector ceilings and programmes annexed herewith will be the basis for the preparation of the 2013/14 MTEF budget.

ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISK

I. OVERVIEW

1. The Kenyan economy is highly susceptible to various domestic and exogenous shocks, such as droughts, volatility in commodity prices, as well as insecurity and terrorism threats. More recently, the slowdown in global growth and external security threats have posed challenges to attainment of projected expansion in our economy. To this end, maintaining fiscal stability is critical for safeguarding against these adverse shocks and ensuring that growth is sustained despite challenging circumstances.

2. As part of requirement under the Public Finance Management Act, 2012 for prudent management of risk, this Annexure presents the **Statement of Specific Fiscal Risks (SSFR)**. It outlines Kenya's exposure to fiscal risks that are associated with assumptions used for fiscal projections, public debt dynamics, operations of state corporations, contingent liabilities, vulnerabilities of the financial sector, as well as risks posed by drought.

3. Overall, the Statement highlights the following:

- Macroeconomic assumptions have been broadly accurate, although economic growth, VAT collection mechanism, and under-spending by line ministries remains a key concern;

- Kenya's debt sustainability analysis indicates that our public debt is projected to remain sustainable;

- Contingent liabilities from key State Corporations present minimal fiscal risks.

- The financial sector remains sound and is adequately capitalized.

- Steps are being taken to ensure food security with on-going irrigation programmes and robust early warning systems, but significant investment is required to meaningfully reduce the country's vulnerability to drought.

II. SPECIFIC FINANCIAL RISKS

Changes in Underlying Macroeconomic Assumptions

4. Macroeconomic assumptions play a key role in the formulation of the budget. Changes in these macroeconomic variables create risks to both revenue and expenditure projections in this BPS and the budget estimates and expenditure being submitted to Parliament for approval. In particular, the projected budget

balance is sensitive to expected expansion in output (GDP), inflation, exchange rate, and interest rates.Table A1.1 presents the magnitude of first round impacts of various macroeconomic variables on fiscal aggregates.

Table A1.1 Fiscal Sensitivity to Key Macroeconomic Variables, 2012/13 (Ksh billion per year)

	Revenue	Expenditure	Budget balance
One percentage point increase in real GDP (%)	8.6	0.0	8.6
One percentage point increase in inflation rate (%)	7.7	11.9	-4.2
One percentage point increase in Treasury Bill rate (%)	4.0	8.2	-4.2
10% depreciation in exchange rate (Ksh/US$)	5.8	1.1	4.7
One percentage point increase in US$ value of goods imports (%)	0.6	0.0	0.6

Source: Estimates from Ministry of Finance

Assessment of Past Forecast Accuracy of underlying assumptions and Budgetary Aggregate

5. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations (see Table A.1.2). Over the period 2009/10-2011/12, the average deviation between the assumed and provisional actual real GDP growth rates was only 0.1 percentage point. With respect to inflation assumption, the large deviation in 2009/10 and the FY 2011/12 reflect the methodological revision of the CPI series by the Kenya National Bureau of Statistics (KNBS) from arithmetic mean to geometric mean and the inherent volatility of international oil prices, respectively. Also, inflation was volatile in 2011/12 due to the adverse impact of drought which increased food prices. The sharp depreciation of the shilling exchange rate against major international currencies also increased deviation between the previous BPS and 2012 BPS. Meanwhile, the average deviation on export and import growth was minimal.

Annex A1.2: Deviations between Macroeconomic Assumptions/Fiscal Aggregates projections and Actual *(In percentage points; unless specified)*										
	2009/10			2010/11			2011/12			2009/10-2011/12
	Proj.	Act.	*Dev.*	Proj.	Act.	*Dev.*	Proj.	Prov.	Dev.	Average Deviation
I. Key Macroeconomic Assumptions										
Real GDP	3.1%	4.1%	*1.0%*	5.1%	5.0%	*-0.1%*	5.5%	4.5%	*-1.0%*	0.0%
Inflation rate (avg)	13.4%	5.5%	*-7.9%*	5.0%	6.9%	*1.9%*	5.1%	16.1%	*11.0%*	1.7%
Domestic borrowing (average rate)							9.9%	9.6%	*-0.3%*	-0.3%
Exchange rate (Ksh/USD), avg	77.9	76.7	*-1.2*	81.1	82.5	*1.4*	81.1	86.7	*5.6*	1.9
Export growth	3.4%	1.8%	*-1.6%*	11.8%	12.6%	*0.8%*	11.8%	8.7%	*-3.1%*	-1.3%
Import growth	7.0%	3.8%	*-3.2%*	14.2%	20.7%	*6.5%*	14.2%	16.2%	*2.0%*	1.8%
II. Fiscal Aggregates (in Ksh billion)										
Total Revenue	604.8	568.8	*-36.0*	730.0	686.3	*-43.7*	823.2	763.5	*-59.7*	-46.5
Tax and non-tax	569.5	548.1	*-21.4*	689.6	667.5	*-22.1*	774.4	748.2	*-26.2*	-23.2
Ordinary, incl. LATF	533.8	517.9	*-15.9*	623.0	621.3	*-1.7*	703.0	703.6	*0.6*	-5.7
AiA	35.7	30.2	*-5.5*	66.6	46.2	*-20.4*	71.4	44.6	*-26.8*	-17.6
Grants	35.3	20.7	*-14.6*	40.4	18.8	*-21.6*	48.8	15.3	*-33.5*	-23.2
Total Expenditure	772.4	719.1	*-53.3*	916.9	804.1	*-112.8*	975.7	947.8	*-27.9*	-64.7
Recurrent	511.1	504.4	*-6.7*	593.3	584.7	*-8.6*	644.6	647.1	*2.5*	-4.3
Development	261.3	214.7	*-46.6*	323.6	219.4	*-104.2*	331.1	300.7	*-30.4*	-60.4
Domestic	155.1	151.9	*-3.2*	178.1	150.1	*-28.0*	206.5	211.8	*5.3*	-8.6
External	103.8	60.5	*-43.3*	143.1	67.0	*-76.1*	121.9	86.0	*-35.9*	-51.7
Net Lending	2.4	2.3	*-0.1*	2.4	2.3	*-0.1*	2.7	2.8	*0.1*	0.0
Balance	-167.6	-150.3	*17.3*	-186.9	-117.8	*69.1*	-152.5	-184.3	*-31.8*	18.2
Financing [1/]	168.2	156.4	*-11.8*	188.0	110.5	*-77.5*	152.6	161.9	*9.3*	-26.7
Net Foreign	50.2	22.9	*-27.3*	82.7	28.4	*-54.3*	47.4	98.5	*51.1*	-10.2
Net Domestic	109.5	133.5	*24.0*	105.3	82.1	*-23.2*	105.2	63.4	*-41.8*	-13.7
Other	8.5	0.0	*-8.5*	0.0	0.0	*0.0*	0.0	0.0	*0.0*	-2.8
Memo items:										
Nominal GDP (Ksh billion)	2546.6	2,458.3	*-88.3*	2767.2	2,773.1	*5.9*	2767.2	3,244.5	*477.3*	131.6

Source: Ministry of Finance

1/ Excludes adjustment to cash

6. The actual performance of fiscal aggregates vis-à-vis target was generally mixed. The projection for ordinary revenues was broadly accurate with average deviation over 2009/10-2011/12 estimated at KSh 1.7 billion. The large deviation in 2011/12 between 2011 BPS and 2012 BPS reflected the change in VAT withholding mechanism which was not anticipated at the time of preparation of the current financial year budget. On AiA performance, the deviation was mainly attributed to under-reporting by line ministries. It is expected that these deviations will narrow when audited accounts are used as opposed to actual returns. Also, the policy of converting A-i-A into ordinary revenue collected by KRA will help improve collection and reporting of this item.

7. Execution of recurrent expenditure was generally satisfactory for 2009/10-2010/11 with minimal deviation between projected and actual. However, the large deviation in 2011/12 between previous year's BPS and this 2012 BPS reflect the unexpected expenditure associated with drought intervention measures, salary awards, and security intervention in Somalia. On development expenditure, the average deviation is large, mainly reflecting low absorption of foreign financed expenditure. Absorption of donor grants averaged 70 percent while that of project loans was around 50 percent.

8. The slower-than-programmed spending on development budget poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing, the government has been pressing line ministries to increase absorption to at least 80-90 percent as part of performance contracting. Also, key infrastructure ministries and departments have been asked to submit monthly

implementation reports. Donors have also been asked to speed up the issuance of "No Objection" to improve absorptive capacity of implementing agencies. Other measures include asking ministries to improve procurement planning and implementation capacity in managing procurement process.

9. Overall, the actual fiscal deficit turned out lower than budgeted over the period 2009/10-2010/12. While this may indicate a somewhat strong fiscal position, it happened against a backdrop of lower execution of the budget which does not bode well for growth and poverty reduction.

10. Going forward, there are risks associated with expenditure proposals that cannot be accommodated within the baseline ceilings. Specific additional expenditure requests are summarized in Annex 10. These expenditures are disclosed because they could have a material effect on the fiscal outlook given the limited budgetary resources. Some high priority expenditure proposals from these lists could be taken on board during finalization of detailed ministerial spending plans if savings are identified.

Vulnerability of Public Debt to Shocks

11. The Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce the risk of macroeconomic instability. Significant effort has been made to improve the institutional arrangement for debt management as well as capacity to assess risks.

12. The Debt Management Department (DMD) of the National Treasury is responsible for formulating debt strategy and ensures prudent debt management. The new Public Financial Management law provides for a new institutional and legal framework (Public Debt Management Office) of managing public debt in a devolved system of government.

13. The latest (November 2011) debt sustainability analysis (DSA) for Kenya indicates that Kenya faces a low risk of external debt distress. This reflects the limited reliance on external borrowing and an expected improvement in macroeconomic performance. All external public debt indicators remain below the relevant country-specific debt burden thresholds. For instance, external debt as a percentage of GDP broadly remains stable at 17-19 percent range through to 2016 (see Table below).

Summary: External Debt Sustainability Assessment (in percent of GDP)	2011	2012	2013	2014	2015	2016
NPV of PPG External Debt						
In percent of GDP (threshold=40)						
Baseline	17.5	19.0	18.9	18.7	18.4	17.6
Combined shocks	17.5	21.8	26.2	25.6	24.9	23.8
In percent of exports (threshold=150)						
Baseline	57.0	65.3	68.9	73.4	76.4	78.2
Combined shocks	57.0	69.0	80.8	85.2	87.7	89.3
PPG External Debt Service						
In percent of exports (threshold=20)						
Baseline	3.8	4.2	4.2	4.7	4.8	4.9
Combined shocks	3.8	4.1	4.2	4.9	5.0	5.2

14. Under a combination of shocks—lower GDP growth, weaker exports, a lower GDP deflator, and a fall in FDI—the DSA reflects that public debt is generally resilient. Even though debt indicators worsen (NPV of public external debt rises from 18 percent to 26 percent), they do not result in a breach of the thresholds during the projection period, 2011-2016.

15. Overall, the Government will continue to build on the recent medium-term debt strategy to help maintain a prudent borrowing strategy. Strategies to guard against shocks will include a build-up in international reserves as envisaged in the current Government's economic programme supported by the IMF under the Extended Credit Facility arrangement.

Contingent liabilities

16. While liabilities of state-owned enterprises constitute a potential source of fiscal risk, they are currently not a major cause of concern. A study that was conducted four years ago of 25 state corporations that the Government perceived to account for the majority of the contingent liabilities revealed that out of KSh 57.6 billion total liabilities, about half or KSh 28.2 billion constituted potential contingent liabilities. Of the contingent liabilities, about 80 percent were accounted for by two corporations—TARDA (KSh.13 billion) and NSSF (KSh.9.8 billion). Contingent liabilities relating to TARDA arose from under-insurance of the power generation assets whose financial benefits were enjoyed by KenGen, given that the assets had not been fully vested. NSSF's contingent liabilities relate to court cases and possible penalties for non-compliance with tax regulations.

17. Given that the causes of contingent liabilities are fairly generic, the broad policy recommendations emerging from the study of 25 state corporations are relevant to other state corporations. Thus, the Government will continue to: (i)

closely monitor and evaluate state corporations based on performance contracting as well as strengthen their governance; (ii) continue with conversion of state corporations' pension schemes from defined benefit to defined contribution schemes to limit Government exposure to unfunded liabilities; (iii) review the mandates of some state corporations and conclusively vest assets and liabilities; (iv) and speed up the privatization programme. On the civil service pension system, the Government is undertaking reforms (under the new Pension law) so as to contain escalation of pension liability, estimated at Ksh 500 billion in 2008.

18. Overall, following reforms in sectors such as telecommunication, transportation, and energy, the fiscal risks have reduced. Privatization and the off-loading of some operations to private entities through various forms such as concession arrangement have, to a large extent, transferred various risks of state corporations in these sectors to the private sector. However, there are some risks relating to shareholder's role/obligation in the operations of the corporation with Government still remaining as strategic partners in some of key institutions.

Public Private Partnership

19. The Government is aware that the PPP arrangements may expose the country to a variety of complex fiscal risks, including right-of-way, political/regulatory risk and change in law, currency convertibility, events of termination, material adverse effect, among others. To ensure prudent management of contingent liabilities, an appropriate legal and regulatory framework to guide the PPP agenda is currently awaiting Parliamentary approval. In addition, the Government will continue introducing administrative arrangements and processes that will help guide the selection and implementation of projects. Scrutiny of PPP projects will be done carefully to preserve fiscal discipline and safeguard the interest of tax payers. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities will be integrated into the debt management process.

Financial Sector Stability

20. According to the Central Bank of Kenya (CBK), the banking sector remains adequately capitalized. The non-performing loan (NPL) ratio of the banking system is about 4.5 percent, down from 6.3 percent in December 2010. Stress tests conducted by CBK taking into account the prevailing high interest rates regime indicate that the banking sector remains sound.

21. Commercial banks partially owned by the Government pose minimal risk after the KSh 20 billion restructuring of the National Bank of Kenya in 2008. The other large banks are broadly on sound footing and have limited risks. Privatization of Consolidated Bank and Development Bank of Kenya is ongoing under the privatization programme that is managed by the Privatization Commission.

22. To strengthen the banking sector, the Government will step up the efforts to strengthen the financial infrastructure to adapt to the new challenges associated with the modernization of the banking system, including cross-border operations and mobile banking.

23. Overall, fiscal risks in other sub-sectors of the financial system are minimal:

- The Government is not currently guaranteeing loans to the Development Finance Institution (DFIs) until these institutions are restructured and a robust legal framework for their supervision is in place. A DFI Bill is currently being developed to facilitate reforms in this sub-sector.

- Restructuring of the National Social Security Fund (NSSF) is on-going and it is largely in compliance with the Retirement Benefit Authority (RBA) rules with continuing compliance shortfalls being addressed. RBA rules have helped ensure stability in the pension sector as a whole.

- Insurance and capital markets industry is reforming with strengthened regulations from the regulators—Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA)—to safeguard stability and increase efficiency. Risks in the insurance industry are those related to coverage of the Public Service Vehicle (PSV) sector. To further strengthen capital markets, legislation to allow the demutualization of the Nairobi Stock Exchange will be introduced shortly.

- The Government has launched the Anti-Money Laundering Advisory Board, which will shortly appoint a director to manage the Financial Reporting Center (FRC) as provided for under the Proceeds of Crime and Anti-Money Laundering Act of 2009. The FRC became operational in April 2012 with an Interim Director overseeing its' operations pending the appointment of a substantive director. In addition, the Government has enacted the Prevention of Terrorism law to further strengthen the fight against illicit and terrorism financing in the financial system.

Drought Mitigation and Management

24. Kenya is a drought-prone country due to its location in the Horn of Africa and recent climate changes. Financing of drought intervention measures have consumed significant budgetary resources, far much more than the KSh1 billion set aside for drought relief and another KSh5 billion for civil contingency fund.

25. Due to the risks posted by drought, the Government has invested in various water and irrigation programmes and initiatives to reduce the country's vulnerability to repeated droughts, including strengthening the capacity to

respond to the disaster. Some of these initiatives include early warning systems managed by the Kenya Food Security Steering Group (KFSSG), and upgrading the infrastructure used for providing timely weather forecasting. More recently, the Government has established the National Drought Management Authority (NDMA) to spearhead effective coordination of drought management initiatives. NDMA is in the process of preparing an investment plan on Ending Drought Emergencies (EDE), which has drawn support from development partners.

26. Looking ahead, significant investments will be required to reduce the country's vulnerability to repeated droughts. This includes stepped up support of improving domestic agricultural productivity in a sustainable manner, in line with the Government's action to ensure food security by investing in irrigation and agribusiness activities.

Annex Table 1: Main Macroeconomic Indicators, 2010/11-2015/16

	2010/11	2011/12		2012/13			2013/14			2014/15			2015/16	
	Prov.	*BPS'12*	*Prov*	*BPS'12*	*BROP'12*	*BPS'13*	*BPS'12*	*BROP'12*	*BPS'13*	*BPS'12*	*BROP'12*	*BPS'13*	*BROP'12*	*BPS'13*
	Annual percentage change, unless otherwise indicated													
National account and prices														
Real GDP	5.1	4.8	4.5	5.5	5.4	5.1	5.9	5.8	5.9	6.3	6.1	6.3	6.4	6.6
GDP deflator	8.2	13.4	11.1	11.3	9.2	7.4	7.1	6.8	7.4	5.6	6.6	7.9	6.8	7.7
CPI Index (eop)	14.6	11.0	10.1	8.0	6.0	6.3	5.6	5.5	6.4	5.0	5.0	6.0	5.0	5.5
CPI Index (avg)	6.8	16.0	16.1	9.8	5.9	5.9	6.3	6.0	6.7	5.0	5.0	6.2	5.0	5.8
Terms of trade (-deterioration)	-6.1	-2.0	3.0	0.5	-1.2	5.7	1.8	0.9	1.0	1.2	4.5	4.3	5.6	5.4
Exchange Rate (Ksh/US$, average)	82.5	86.9	86.7	...	...	...	...	...	...	...	...	...	...	...
Money and credit (end of period)														
Net domestic assets	19.6	8.2	15.0	18.2	15.4	15.3	15.2	13.1	11.2	13.4	13.0	11.1	14.5	10.3
Net domestic credit to the Government	0.0	5.6	5.3	16.5	16.4	25.4	15.1	11.6	13.1	8.6	10.8	10.0	9.4	8.1
Credit to the rest of the economy	31.8	18.9	18.0	19.7	16.9	14.8	16.9	16.5	14.7	17.7	16.7	15.0	17.0	15.1
Broad Money, M3 (percent change)	15.2	17.2	15.5	17.3	16.2	14.0	16.3	15.9	14.3	15.1	16.1	14.7	16.4	14.8
Reserve money (percent change)	4.8	17.2	17.6	17.3	15.9	13.8	16.3	15.9	14.3	15.1	16.1	14.7	16.4	14.8
	In percentage of GDP, unless otherwise indicated													
Investment and saving														
Investment	20.1	22.6	20.2	23.6	20.6	21.9	24.4	22.4	23.9	25.2	23.6	24.9	25.0	25.4
Central Government	7.8	9.5	9.2	9.8	9.6	8.5	9.6	9.3	9.2	9.8	9.2	10.0	9.4	9.8
Other	12.4	13.1	11.0	13.8	11.0	13.4	14.8	13.0	14.8	15.3	14.4	14.8	15.6	15.6
Gross National Saving	10.4	11.5	8.8	14.9	11.9	10.9	17.1	14.1	13.5	19.1	16.5	15.6	19.0	17.7
Central Government	2.4	3.3	3.1	3.9	2.1	0.3	5.2	4.7	3.1	5.8	4.9	4.9	5.2	5.0
Other	8.0	8.2	5.7	11.0	9.8	10.7	11.9	9.5	10.3	13.3	11.5	10.7	13.8	12.7
Central government budget														
Total revenue	23.8	24.0	23.1	24.7	24.1	23.7	24.9	24.3	23.7	25.1	24.4	23.8	24.4	24.0
Total expenditure and net lending	29.3	30.3	29.2	30.7	32.0	32.6	29.8	29.5	30.1	29.7	29.2	29.5	29.1	29.3
Overall balance (commitment basis) excl. grants	-5.4	-6.3	-6.2	-6.0	-8.0	-8.9	-4.9	-5.3	-6.4	-4.6	-4.8	-5.6	-4.7	-5.3
Overall balance (commitment basis) incl. grants	-4.8	-4.8	-5.5	-4.5	-6.0	-6.8	-3.8	-4.1	-4.7	-3.5	-3.7	-4.0	-3.5	-3.7
Primary budget balance	-2.1	-2.2	-2.2	-1.8	-3.3	-3.6	-1.4	-1.7	-1.8	-1.3	-1.5	-1.6	-1.4	-1.6
Net domestic borrowing	3.0	1.9	2.0	2.8	2.8	4.5	2.6	2.1	2.6	1.5	1.9	1.9	1.6	1.5
Total external support (grant & loans)	2.4	3.6	2.7	3.9	4.2	3.1	3.3	3.7	3.2	3.3	3.7	4.3	4.0	4.4
External sector														
Exports value, goods and services	27.8	27.0	28.0	24.9	25.2	27.0	24.7	24.9	27.1	24.5	24.9	27.8	25.4	28.7
Imports value, goods and services	44.0	43.2	45.8	37.8	40.8	43.9	35.9	39.4	43.1	34.1	37.8	42.0	36.4	41.0
Current external balance, including official transfers	-9.8	-11.1	-11.4	-8.7	-8.6	-11.0	-7.3	-8.3	-10.5	-6.1	-7.2	-9.2	-5.9	-7.7
Current external balance, excluding official transfers	-9.7	-11.1	-11.3	-8.6	-8.6	-11.0	-7.3	-8.2	-10.4	-6.1	-7.1	-9.2	-5.9	-7.7
Gross international reserve coverage in months of next year imports (end of period)	2.9	3.6	3.4	3.7	3.6	3.4	3.9	3.8	3.5	4.0	4.0	3.5	4.0	3.7
Gross international reserve coverage in months of this year's imports (end of period)	3.3	3.6	3.7	3.7	3.9	3.7	3.9	4.1	3.8	4.0	4.3	3.9	4.4	4.1
Public debt														
Nominal central government debt (eop), gross	53.1	50.0	50.3	47.8	49.9	51.6	45.2	47.4	49.4	44.4	45.9	47.4	44.1	45.0
Nominal central government debt (eop), net of deposits	48.3	45.9	45.7	44.3	45.9	47.4	42.1	43.9	45.8	41.7	42.8	44.2	41.3	42.2
Domestic (gross)	27.3	25.1	26.5	24.1	25.6	28.0	23.9	24.7	27.1	22.8	23.7	25.6	22.5	23.8
Domestic (net)	22.5	21.0	21.8	20.7	21.6	23.8	20.8	21.1	23.5	20.1	20.6	22.4	19.7	21.0
External	25.8	24.9	23.9	23.7	24.3	23.6	21.3	22.7	22.3	21.6	22.2	21.8	21.6	21.2
Memorandum items:														
Nominal GDP (in Ksh billions)	2,801	3,295	3,244	3,866	3,775	3,663	4,383	4,266	4,165	4,916	4,826	4,775	5,479	5,480
Nominal GDP (in US$ millions)	33,969	37,917	37,441	44,735	43,783	42,728	49,642	48,542	47,379	55,159	54,402	53,227	61,175	60,078

Source: National Treasury

BPS = Budget Policy Statement

BROP = Budget Review & Outlook Paper

Annex Table 2: Central Government Operations 2010/11 - 2015/16 (in billions of Kenya Shillings)

	2010/11	2011/12	2012/13			2013/14					2014/15			2015/16	
	Prov.	*Prov.*	*Budget*	*BPS'13*	*BPS'13 (R)*	*BPS'12*	*BROP'12*	*BPS'13*	*Budget*	*BPS'13 (R)*	*BPS'12*	*BROP'12*	*BPS'13*	*BROP'12*	*BPS'13*
TOTAL REVENUE	**667.5**	**748.2**	***955.0***	***940.2***	**866.8**	***1,071.2***	***1,034.9***	***1,036.7***	***987.3***	**987.3**	***1,209.2***	***1,175.5***	**1,138.6**	**1,336.0**	**1,313.7**
Ordinary Revenue (excl. LATF)	609.2	690.7	*854.5*	*849.7*	777.0	*977.2*	*940.5*	*945.5*	*920.4*	920.4	*1,107.8*	*1,068.8*	1,062.5	1,217.1	1,227.6
Income tax	258.7	312.5	*383.5*	*383.5*	376.0	*422.3*	*423.1*	*431.6*	*454.2*	454.2	*474.9*	*479.9*	522.2	545.6	600.7
Import duty (net)	46.1	51.7	*67.4*	*67.4*	57.7	*72.3*	*67.5*	*74.6*	*67.2*	67.2	*81.1*	*76.1*	77.9	86.0	90.7
Excise duty	80.6	78.9	*91.9*	*91.9*	85.0	*110.5*	*103.3*	*99.1*	*107.5*	107.5	*124.6*	*115.3*	122.7	130.9	140.6
Value Added Tax	171.9	183.4	*231.5*	*226.7*	185.6	*268.4*	*265.1*	*249.4*	*210.6*	210.6	*307.7*	*305.0*	246.7	349.5	288.5
Investment income	11.1	14.1	*14.5*	*14.5*	15.4	*18.1*	*16.3*	*16.4*	*17.7*	17.7	*20.3*	*18.5*	20.4	21.1	23.4
Other	41.0	50.2	*65.7*	*65.7*	57.3	*85.5*	*65.2*	*74.3*	*63.2*	63.2	*99.2*	*73.9*	72.7	84.1	83.6
LATF	12.1	12.9	*20.2*	*20.2*	20.2	*22.2*	*22.3*	*22.7*	*0.0*	0.0	*25.0*	*25.3*	0.0	27.3	0.0
Ministerial and Departmental fees (AiA)	46.2	44.6	*64.7*	*64.7*	69.6	*71.7*	*72.1*	*68.4*	*67.0*	67.0	*76.4*	*81.4*	76.1	91.6	86.1
Refunds from AMISON	...	0.0	15.7	0.0	0.0	...	...	...	...	...	...	...	...	...	...
EXPENDITURE AND NET LENDING	**819.6**	**947.8**	**1,263.3**	**1,205.7**	**1,194.4**	***1,286.2***	***1,259.3***	***1,269.9***	***1,374.1***	**1,252.2**	***1,437.3***	***1,409.0***	**1,407.4**	**1,595.8**	**1,603.9**
Recurrent expenditure	592.4	642.2	805.3	846.5	861.7	*842.5*	*842.5*	*864.4*	*854.6*	854.6	*928.8*	*947.6*	909.0	1,066.6	1,050.1
Interest payments	76.2	91.2	105.8	105.8	119.8	*106.8*	*105.1*	*107.7*	*120.5*	120.5	*105.6*	*105.2*	118.6	115.4	115.6
Domestic interest	69.2	82.3	*94.5*	*94.5*	108.1	*93.0*	*93.8*	*96.7*	*109.4*	109.4	*90.8*	*91.4*	107.8	99.3	103.7
Foreign interest	7.0	8.9	*11.3*	*11.3*	11.6	*13.8*	*11.4*	*11.0*	*11.1*	11.1	*14.7*	*13.8*	10.7	16.1	11.9
Wages and benefits(civil service)	198.5	224.6	*265.1*	*293.0*	292.2	*295.7*	*314.6*	*328.8*	*296.9*	296.9	*329.9*	*350.4*	325.0	391.3	355.3
Contribution to civil service pension fund	0.0	0.0	*0.0*	*0.0*	0.0	*17.1*	*18.2*	*19.0*	*6.9*	6.9	*19.1*	*20.2*	17.4	22.6	19.1
Civil service Reform	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
Pensions etc	25.7	26.1	*41.0*	*41.0*	31.3	*42.9*	*42.9*	*42.9*	*41.1*	41.1	*47.2*	*47.2*	45.2	51.9	49.7
Other	231.9	221.7	*309.9*	*315.5*	328.7	*314.5*	*289.3*	*285.6*	*314.8*	314.8	*354.0*	*349.4*	324.8	406.6	427.6
Defense and NSIS	60.0	78.7	*83.5*	*91.2*	89.7	*65.6*	*72.5*	*80.4*	*74.4*	74.4	*73.2*	*75.1*	78.1	78.8	82.8
Development and Net lending	219.4	300.7	447.0	341.3	314.8	*427.3*	*400.6*	*389.2*	*507.2*	385.2	*493.5*	*446.6*	482.0	515.4	538.9
Domestically financed	150.1	211.8	*218.6*	*212.5*	218.8	*281.8*	*242.0*	*230.6*	*249.7*	249.7	*325.9*	*265.9*	272.7	293.2	297.7
Foreign financed	67.0	86.0	226.0	126.3	93.5	*142.5*	*156.0*	*156.0*	*255.0*	133.1	*164.6*	*178.0*	206.8	219.3	238.6
Net lending	2.3	2.8	*2.5*	2.5	2.6	*2.9*	*2.6*	*2.6*	*2.4*	2.4	*3.1*	*2.7*	2.5	2.8	2.7
Drought Expenditures	3.2	4.9	*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
Contingencies	0.0	0.0	*5.0*	*5.0*	5.0	*5.0*	*5.0*	*5.0*	*5.0*	5.0	*5.0*	*5.0*	7.5	5.0	7.5
Constitution Reform/Transfer to Counties	4.6	0.0	*3.0*	*10.0*	9.8	*7.0*	*7.0*	*7.0*	*4.0*	4.0	*5.0*	*5.0*	5.0	3.0	3.0
Conditional grants to marginal areas ("Equalization Fund")	...	0.0	*3.0*	*3.0*	3.0	*4.3*	*4.2*	*4.4*	*3.4*	3.4	*5.0*	*4.8*	3.9	5.8	4.5
Balance *(commitment basis excl. grants)*	**-152.1**	**-199.6**	**-308.3**	**-265.6**	**-327.6**	***-215.0***	***-224.4***	***-233.3***	***-386.8***	**-264.9**	***-228.1***	***-233.5***	**-268.8**	**-259.7**	**-290.2**
Adjustment to cash basis	-0.4	0.0	*1.3*	*1.3*	1.3	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
Project grants	18.8	15.3	*56.2*	*56.2*	56.5	*48.4*	*48.4*	*48.4*	*67.4*	67.4	*56.4*	*56.3*	75.7	65.9	85.1
Programmme grants*	0.0	0.0	*0.0*	*19.9*	18.9	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
Balance *(cash basis including grants)*	**-133.7**	**-184.3**	**-250.8**	**-188.2**	**-250.9**	***-166.6***	***-176.0***	***-184.9***	***-319.4***	**-197.4**	***-171.7***	***-177.2***	**-193.1**	**-193.8**	**-205.1**
Statistical discrepancy	-22.1	-22.4	*0.0*	*0.0*	0.0	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
FINANCING	**111.6**	**161.9**	**250.8**	**188.2**	**182.1**	***166.6***	***176.0***	***184.9***	***319.4***	**197.5**	***171.7***	***177.2***	**193.1**	**193.8**	**205.1**
Net foreign financing	28.1	98.5	144.1	51.0	17.1	*52.6*	*88.0*	*88.0*	*212.7*	90.8	*96.9*	*85.8*	100.7	106.0	122.7
Project loans	48.2	70.7	*169.8*	*70.1*	37.0	*94.1*	*107.6*	*107.6*	*187.6*	65.7	*108.2*	*121.7*	131.1	153.4	153.5
IDA counterpart refinancing	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
Programme loans	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
Commercial Financing	0.0	51.3	0.0	6.6	6.6	*44.1*	65.9	65.9	*109.9*	109.9	*24.6*	*0.0*	0.0	0.0	0.0
Repayments due	-20.5	-25.4	-26.2	-26.2	-26.9	*-86.2*	*-86.0*	*-86.0*	*-85.3*	-85.3	*-36.3*	*-36.3*	-31.0	-47.9	-31.2
Change in arears	-0.1	1.4	0.0	0.0	0.0	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
Rescheduling/Debt swap	0.5	0.5	0.5	0.5	0.5	*0.5*	*0.5*	*0.5*	*0.5*	0.5	*0.5*	*0.5*	0.5	0.5	0.5
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	*0.0*	*0.0*	*0.0*	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
Net domestic borrowing	83.4	63.4	106.7	137.2	164.9	*114.1*	*88.0*	*96.9*	*106.7*	106.7	*74.8*	*91.3*	92.5	87.9	82.5
Financing gap**	0.0	0.0	0.0	0.0	-68.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items															
External Debt	722.9	774.6		*900.8*	864.6	*922.4*	*969.8*	*953.0*	*1,050.0*	926.8	*1,051.7*	*1,072.3*	1,041.6	1,181.8	1,159.5
Domestic Debt (gross)	764.2	858.8		*996.0*	1,023.8	*1,047.1*	*1,053.6*	*1,092.9*	*1,130.5*	1,130.5	*1,122.0*	*1,144.9*	1,222.9	1,232.8	1,305.4
Domestic Debt (net)	630.5	706.9		*844.1*	871.9	*913.3*	*901.7*	*941.0*	*978.6*	978.6	*988.2*	*993.0*	1,071.0	1,080.9	1,153.5
Primary budget balance	-57.5	-70.7	-144.9	-82.3	-131.1	*-59.8*	*-70.9*	*-77.2*	*-198.9*	-77.0	*-66.2*	*-71.9*	-74.6	-78.5	-89.5
Nominal GDP	2,801.3	3,244.5	*3,866.5*	*3,775.4*	3,662.6	*4,382.5*	*4,265.5*	*4,268.5*	*4,164.6*	4,164.6	*4,916.4*	*4,826.4*	4,775.3	5,479.4	5,480.5

Source: The National Treasury

* 2012/13 relates to refunds from AMISOM

** For 2012/13, financing gap will be closed in the revised budget with austerity measures

Notes: 74.9620226

BPS = Budget Policy Statement

BPS'13 (R) = Revised BPS in April 2013

BROP = Budget Review & Outlook Paper

Annex Table 3: Central Government Financial Operations, 2010/11 - 2015/16 (in percent of GDP)

	2010/11	2011/12	2012/13			2013/14					2014/15			2015/16	
	Prov.	*Prov.*	*Budget*	*BPS'13*	*Revised*	*BPS'12*	*BROP'12*	*BPS'12*		*BPS'13*	*BPS'12*	*BROP'12*	*BPS'13*	*BROP'12*	*BPS'13*
TOTAL REVENUE	**23.8%**	**23.1%**	**24.7%**	**24.9%**	**23.7%**	**24.4%**	**24.3%**	**24.3%**	**23.7%**	**23.7%**	**24.6%**	**24.4%**	**23.8%**	**24.4%**	**24.0%**
Ordinary Revenue (excl. LATF)	21.7%	21.3%	22.1%	22.5%	21.2%	22.3%	22.0%	22.2%	22.1%	22.1%	22.5%	22.1%	22.3%	22.2%	22.4%
Income tax	9.2%	9.6%	9.9%	10.2%	10.3%	9.6%	9.9%	10.1%	10.9%	10.9%	9.7%	9.9%	10.9%	10.0%	11.0%
Import duty (net)	1.6%	1.6%	1.7%	1.8%	1.6%	1.6%	1.6%	1.7%	1.6%	1.6%	1.7%	1.6%	1.6%	1.6%	1.7%
Excise duty	2.9%	2.4%	2.4%	2.4%	2.3%	2.5%	2.4%	2.3%	2.6%	2.6%	2.5%	2.4%	2.6%	2.4%	2.6%
Value Added Tax	6.1%	5.7%	6.0%	6.0%	5.1%	6.1%	6.2%	5.8%	5.1%	5.1%	6.3%	6.3%	5.2%	6.4%	5.3%
Investment income	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other	1.5%	1.5%	1.7%	1.7%	1.6%	2.0%	1.5%	1.7%	1.5%	1.5%	2.0%	1.5%	1.5%	1.5%	1.5%
LATF	0.4%	0.4%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.0%	0.0%	0.5%	0.5%	0.0%	0.5%	0.0%
Ministerial and Departmental fees (AiA)	1.7%	1.4%	1.7%	1.7%	1.9%	1.6%	1.7%	1.6%	1.6%	1.6%	1.6%	1.7%	1.6%	1.7%	1.6%
Refunds from AMISON		0.0%	0.4%	0.0%	0.0%	...	...	...	...	...	...	...	...	...	...
Additional revenue measures/Surplus from SAGAs		0.0%	0.0%	0.1%	0.0%	...	...	...	...	...	...	...	...	...	...
EXPENDITURE AND NET LENDING	**29.3%**	**29.2%**	**32.7%**	**31.9%**	**32.6%**	**29.3%**	**29.5%**	**29.8%**	**33.0%**	**30.1%**	**29.2%**	**29.2%**	**29.5%**	**29.1%**	**29.3%**
Recurrent expenditure	21.1%	19.8%	20.8%	22.4%	23.5%	19.2%	19.8%	20.2%	20.5%	20.5%	18.9%	19.6%	19.0%	19.5%	19.2%
Interest payments	2.7%	2.8%	2.7%	2.8%	3.3%	2.4%	2.5%	2.5%	2.9%	2.9%	2.1%	2.2%	2.5%	2.1%	2.1%
Domestic interest	2.5%	2.5%	2.4%	2.5%	3.0%	2.1%	2.2%	2.3%	2.6%	2.6%	1.8%	1.9%	2.3%	1.8%	1.9%
Foreign interest	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.2%
Wages and benefits (civil service)	7.1%	6.9%	6.9%	7.8%	8.0%	6.7%	7.4%	7.7%	7.1%	7.1%	6.7%	7.3%	6.8%	7.1%	6.5%
Contribution to civil service pension fund	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	0.2%	0.2%	0.4%	0.4%	0.4%	0.4%	0.3%
Civil service Reform	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%
Pensions etc	0.9%	0.8%	1.1%	1.1%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
Other	8.3%	6.8%	8.0%	8.4%	9.0%	7.2%	6.8%	6.7%	7.6%	7.6%	7.2%	7.2%	6.8%	7.4%	7.8%
Defense and NSIS	2.1%	2.4%	2.2%	2.4%	2.4%	1.5%	1.7%	1.9%	1.8%	1.8%	1.5%	1.6%	1.6%	1.4%	1.5%
Development and Net lending	7.8%	9.3%	11.6%	9.0%	8.6%	9.7%	9.4%	9.1%	12.2%	9.2%	10.0%	9.3%	10.1%	9.4%	9.8%
Domestically financed	5.4%	6.5%	5.7%	5.6%	6.0%	6.4%	5.7%	5.4%	6.0%	6.0%	6.6%	5.5%	5.7%	5.4%	5.4%
Foreign financed	2.4%	2.7%	5.8%	3.3%	2.6%	3.3%	3.7%	3.7%	6.1%	3.2%	3.3%	3.7%	4.3%	4.0%	4.4%
Net lending	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%	0.0%
Drought Expenditures	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%
Constitution Reform	0.2%	0.0%	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Conditional grants to marginal areas ("Equalization Fund")		0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Balance *(commitment basis excl. grants)*	**-5.4%**	**-6.2%**	**-8.0%**	**-7.0%**	**-8.9%**	**-4.9%**	**-5.3%**	**-5.5%**	**-9.3%**	**-6.4%**	**-4.6%**	**-4.8%**	**-5.6%**	**-4.7%**	**-5.3%**
Adjustment to cash basis	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%
Project grants	0.7%	0.5%	1.5%	1.5%	1.5%	1.1%	1.1%	1.1%	1.6%	1.6%	1.1%	1.2%	1.6%	1.2%	1.6%
Programmme grants*	0.0%	0.0%	0.0%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance *(cash basis including grants)*	**-4.8%**	**-5.7%**	**-6.5%**	**-5.0%**	**-6.8%**	**-3.8%**	**-4.1%**	**-4.3%**	**-7.7%**	**-4.7%**	**-3.5%**	**-3.7%**	**-4.0%**	**-3.5%**	**-3.7%**
Statistical discrepancy	-0.8%	-0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	**4.0%**	**5.0%**	**6.5%**	**5.0%**	**5.0%**	**3.8%**	**4.1%**	**4.3%**	**7.7%**	**4.7%**	**3.5%**	**3.7%**	**4.0%**	**3.5%**	**3.7%**
Net foreign financing	1.0%	3.0%	3.7%	1.4%	0.5%	1.2%	2.1%	2.1%	5.1%	2.2%	2.0%	1.8%	2.1%	1.9%	2.2%
Project loans	1.7%	2.2%	4.4%	1.9%	1.0%	2.1%	2.5%	2.5%	4.5%	1.6%	2.2%	2.5%	2.7%	2.8%	2.8%
IDA counterpart refinancing	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%
Programme loans	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%
Commercial Fin./Sovereign bond	0.0%	1.6%	0.0%	0.2%	0.2%	1.0%	1.5%	1.5%	2.6%	2.6%	0.5%	0.0%	0.0%	0.0%	0.0%
Repayments due	-0.7%	-0.8%	-0.7%	-0.7%	-0.7%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-0.7%	-0.8%	-0.6%	-0.9%	-0.6%
Change in arears	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%
Rescheduling/Debt swap	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%
Privatization proceeds	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Refinancing - Telkom	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 borrowing	3.0%	2.0%	2.8%	3.6%	4.5%	2.6%	2.1%	2.3%	2.6%	2.6%	1.5%	1.9%	1.9%	1.6%	1.5%
Financing gap**	0.0%	0.0%	0.0%	0.0%	-1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Memo items</u>															
Total public debt (net)	48.3%	45.7%	43.6%	43.9%	45.8%	38.3%	43.9%	45.8%	43.9%	45.8%	44.2%	42.8%	44.2%	41.3%	42.2%
Domestic Debt (gross)	27.3%	26.5%	0.0%	26.4%	28.0%	23.9%	24.7%	25.6%	27.1%	27.1%	22.8%	23.7%	25.6%	22.5%	23.8%
Domestic Debt (net)	22.5%	21.8%	0.0%	22.4%	23.8%	20.8%	21.1%	22.0%	23.5%	23.5%	20.1%	20.6%	22.4%	19.7%	21.0%
Primary budget balance	-2.1%	-2.2%	-3.7%	-2.2%	-3.6%	-1.4%	-1.7%	-1.8%	-4.8%	-1.8%	-1.3%	-1.5%	-1.6%	-1.4%	-1.6%
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%

Source: The National Treasury

* 2012/13 relates to refunds from AMISOM

** For 2012/13, financing gap will be closed in the revised budget with austerity measures

BPS = Budget Policy Statement

BPS'13 (R) = Revised BPS in April 2013

BROP = Budget Review & Outlook Paper

Annex Table 4: Total expenditure Ceilings for the MTEF Period 2013/14-2015/16									
	NAME OF THE SECTOR		2011/12		2012/13	2013/14	2014/15	2015/16
			Printed	Revised	Printed	Ceiling		
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	47,849	52,955	51,433	47,511	57,522	57,619
S02	ENERGY, INFRASTRUCTURE & ICT	Gross	226,595	219,002	280,831	288,554	287,688	293,924
S03	GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	Gross	20,949	19,469	20,631	22,782	23,475	23,073
S04	HEALTH	Gross	64,314	72,788	91,704	98,940	100,641	102,076
S05	EDUCATION	Gross	202,382	214,051	257,726	275,659	288,710	296,461
S06	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	110,646	106,133	146,238	121,379	145,646	150,011
S07	PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	124,075	110,462	140,609	139,260	129,159	135,639
S08	NATIONAL SECURITY	Gross	65,163	78,560	89,725	74,425	77,405	82,109
S09	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	35,625	38,091	38,844	63,277	42,953	42,953
S10	ENVIRONMENTAL PROTECTION, WATER AND HOUSING	Gross	54,453	47,707	53,214	69,640	60,396	62,152
	TOTAL		**952,052**	**959,216**	**1,170,955**	**1,201,427**	**1,213,595**	**1,246,017**

ANNEX TABLE 5:Recurrent Sector Ceilings for the MTEF Period 2013/14 - 2015/16 (KShs. Million)

	NAME OF SECTOR		2010/11 Estimates		Printed	Revised	Printed	Draft	Projected Estimates	
			Printed	Approved	2011/12	2011/12	2012/13	2013/14	2014/15	2015/16
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	20,626	21,686	22,747	22,861	24,664	25,400	29,191	28,946
		A-I-A	1,508	1,763	1,616	1,751	2,526			
		Net	19,118	19,922	21,728	21,110	22,137			
	Of Which:	Salaries	8,164	8,822	9,037	10,065	10,410			
		Grants & Transfers	8,660	9,001	9,885	9,131	10,465			
		Others	3,802	3,863	3,825	3,665	3,789			
S02	ENERGY, INFRASTRUCTURE & ICT	Gross	49,031	47,105	56,111	55,601	62,928	63,527	67,199	67,496
		A-I-A	39,492	36,580	42,742	45,262	50,123			
		Net	9,538	10,525	13,369	10,339	12,805			
	Of Which:	Salaries	3,144	3,220	3,339	3,505	3,611			
		Grants & Transfers	40,140	38,725	48,638	48,055	54,359			
		Others	5,747	5,159	4,134	4,041	4,958			
S03	GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS (GECLA)	Gross	7,496	8,021	8,816	9,029	10,117	8,958	11,063	11,199
		A-I-A	348	437	422	542	542			
		Net	7,148	7,584	8,394	8,487	9,576			
	Of Which:	Salaries	1,568	1,613	1,663	1,828	1,902			
		Grants & Transfers	3,734	3,805	4,123	4,137	4,992			
		Others	2,194	2,603	3,030	3,064	3,224			
S04	HEALTH	Gross	35,224	37,208	38,599	43,865	54,584	64,268	66,464	67,650
		A-I-A	3,883	3,883	3,882	3,882	3,882			
		Net	31,341	33,325	34,717	39,983	50,702			
	Of Which:	Salaries	17,463	19,247	19,924	23,743	32,055			
		Grants & Transfers	12,482	12,583	12,596	13,934	15,657			
		Others	5,279	5,379	6,079	6,188	6,872			
S05	EDUCATION	Gross	172,909	175,014	184,762	190,902	209,258	242,202	258,173	265,359
		A-I-A	18,288	18,539	18,699	18,530	19,110			
		Net	154,621	156,475	166,063	172,372	190,148			
	Of Which:	Salaries	99,911	102,101	108,924	115,173	122,829			
		Grants & Transfers	50,614	49,887	51,454	51,345	57,412			
		Others	22,384	23,026	24,384	24,383	29,016			
S06	ORDER	Gross	69,153	81,720	97,772	95,417	116,532	112,029	126,524	130,389
		A-I-A	4,550	4,872	331	228	873			
		Net	64,604	76,847	97,441	95,189	115,659			
	Of Which:	Salaries	43,142	50,582	59,787	55,397	68,007			
		Grants & Transfers	4,240	4,847	4,230	3,992	4,868			
		Others	21,771	26,291	33,755	36,028	43,657			
S07	PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	Gross	54,549	50,200	49,856	51,273	63,896	66,410	74,127	75,204
		A-I-A	888	930	967	1,220	1,215			
		Net	53,661	49,269	48,889	50,053	62,681			
	Of Which:	Salaries	13,601	11,691	16,130	13,199	16,435			
		Grants & Transfers	19,078	20,646	19,756	20,407	23,843			
		Others	21,270	17,246	17,191	17,667	22,762			
S08	NATIONAL SECURITY	Gross	56,686	50,394	65,163	78,560	83,704	74,425	77,405	82,109
		A-I-A	423	432	-	-	-			
		Net	56,263	49,962	65,163	78,560	83,704			
	Of Which:	Salaries	575	601	606	634	644			
		Grants & Transfers	54,782	48,664	64,421	77,781	82,833			
		Others	1,328	1,128	135	145	227			
S09	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	14,156	16,209	19,906	21,002	19,271	22,307	23,739	23,902
		A-I-A	103	185	105	114	127			
		Net	14,054	16,024	19,801	20,888	19,144			
	Of Which:	Salaries	2,619	2,753	2,854	3,263	3,459			
		Grants & Transfers	4,425	6,049	9,988	9,793	7,656			
		Others	7,113	7,407	7,065	7,951	8,157			
S10	ENVIRONMENTAL PROTECTION, WATER AND HOUSING (EPW&H)	Gross	9,045	9,998	10,110	10,671	11,348	11,604	12,863	12,899
		A-I-A	2,477	3,054	2,612	2,923	2,961			
		Net	6,568	6,944	7,498	7,747	8,387			
	Of Which:	Salaries	2,787	2,973	3,119	3,366	3,402			
		Grants & Transfers	3,396	4,168	3,988	4,523	4,902			
		Others	2,861	2,857	3,003	2,781	2,918			
	TOTAL RECURRENT	Gross	488,875	497,555	553,842	579,181	656,302	691,130	746,748	765,153
		A-I-A	**71,960**	**70,675**	**71,376**	**74,452**	**81,359**	-	-	-
		Net	**416,916**	**426,877**	**483,063**	**504,728**	**574,943**	-	-	-
	Of Which:	**Salaries**	**192,974**	**203,603**	**225,383**	**230,173**	**262,754**	-	-	-
		Grants & Transfers	**201,551**	**198,375**	**229,079**	**243,098**	**266,987**	-	-	-
		Others	**93,749**	**94,959**	**102,601**	**105,913**	**125,580**	-	-	-

ANNEX TABLE 6:Development Sector Ceilings for the MTEF Period 2013/14 - 2015/16 (KShs. Million)

	NAME OF SECTOR		2010/11		Printed	Revised	Printed	Draft	Projected Estimates	
			Printed	Approved	2011/12	2011/12	2012/13	2013/14	2014/15	2015/16
S01	**AGRICULTURE AND RURAL DEVELOPMENT**	**Gross**	**22,259**	**25,655**	**25,102**	**30,094**	**26,434**	**22,111**	**28,331**	**28,673**
		GOK	11,762	14,912	14,156	15,619	16,095		16,651	16,820
		Loans	5,296	5,223	6,705	6,352	5,469		5,211	5,291
		Grants	5,201	5,520	4,241	6,973	4,870		6,468	6,562
S02	**ENERGY, INFRASTRUCTURE &ICT**	**Gross**	**140,062**	**121,545**	**170,484**	**163,401**	**205,778**	**225,026**	**220,489**	**226,428**
		GOK	68,568	66,249	74,176	71,601			90,219	96,493
		Loans	60,516	42,154	86,397	80,768	114,288		114,751	114,239
		Grants	3,831	5,718	4,973	5,353	9,561		9,607	9,607
		Local A-I-A	7,147	7,424	4,938	5,679	4,513		5,912	6,089
S03	**GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS (GECLA)**	**Gross**	**13,848**	**13,781**	**12,133**	**10,440**	**11,386**	**13,824**	**12,412**	**11,874**
		GOK	9,390	9,086	7,981	7,044	8,896		9,922	10,134
		Loans	2,948	3,035	3,207	2,422	1,595		1,595	1,595
		Grants	1,255	1,405	690	720	640		640	640
		Local A-I-A	255	255	255	255	255		255	255
S04	**HEALTH**	**Gross**	**19,931**	**20,169**	**25,715**	**28,923**	**32,385**	**34,672**	**34,176**	**34,426**
		GOK	6,879	8,832	7,372	7,384	10,810		12,601	12,851
		Loans	4,375	3,886	6,020	8,131	7,050		7,050	7,050
		Grants	8,677	7,450	12,323	13,407	14,524		14,524	14,524
S05	**EDUCATION**	**Gross**	**17,315**	**18,095**	**17,620**	**23,149**	**26,716**	**33,457**	**30,537**	**31,102**
		GOK	12,299	12,154	9,520	9,229	14,355		18,177	18,741
		Loans	2,268	2,703	6,047	10,892	8,987		8,987	8,987
		Grants	2,748	3,238	2,052	3,028	3,374		3,374	3,374
S06	**GOVERNANCE, JUSTICE, LAW & ORDER**	**Gross**	**9,453**	**8,300**	**12,874**	**10,716**	**16,083**	**9,894**	**19,122**	**19,622**
		GOK	8,617	7,407	11,640	9,392	14,913		17,904	18,403
		Loans	31	31		60	60		60	60
		Grants	805	862	1,234	1,264	1,110		1,159	1,159
S07	**PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS**	**Gross**	41,148	38,976	74,219	59,189	72,224	74,190	55,032	60,435
		GOK	28,336	25,506	56,983	42,030	54,542		40,926	46,087
		Loans	3,552	3,414	7,855	8,397	4,690		5,140	5,202
		Grants	9,261	10,056	9,357	8,739	12,960		8,934	9,114
S09	**SOCIAL PROTECTION, CULTURE AND RECREATION**	**Gross**	**17,494**	**17,961**	**15,718**	**17,089**	**18,522**	**40,970**	**18,603**	**19,052**
		GOK	6,843	7,684	7,555	7,357	8,142		8,378	8,783
		Loans	6,586	6,444	5,827	6,390	6,372		6,195	6,240
		Grants	4,065	3,834	2,336	3,342	4,008		4,031	4,028
S10	**ENVIRONMENTAL PROTECTION, WATER AND HOUSING (EPW&H)**	**Gross**	**39,456**	**37,419**	**44,344**	**37,036**	**43,697**	**58,036**	**48,144**	**49,253**
		GOK	17,658	15,783	19,389	17,935	17,290		21,736	22,846
		Loans	17,151	15,992	20,353	13,545	21,279		21,279	21,279
		Grants	4,648	5,644	4,602	5,556	5,129		5,129	5,129
	TOTAL DEVELOPMENT	**Gross**	**320,966**	**301,901**	**398,209**	**380,037**	**453,225**	**512,180**	**466,846**	**480,865**
		GOK	170,352	167,613	208,772	187,591	145,043	-	236,514	251,158
		Loans	102,723	82,882	142,411	136,957	169,790	-	170,268	169,943
		Grants	40,491	43,727	41,808	48,382	56,176	-	53,866	54,137
		Local A-I-A	7,402	7,679	5,193	5,934	4,768	-	6,167	6,344

Summary of Expenditure by Programmes, 2013/2014 - 2015/2016 (KShs. Million)

Programme	Approved Estimates	Estimates	Projected Estimates	
	2012/13	2013/14	2014/2015	2015/16
AGRICULTURE AND RURAL DEVELOPMENT	**51,433**	**47,511**	**57,522**	**57,619**
010100 Policy, Strategy and Management of Agriculture	3,643	2,617	4,738	4,801
010200 Crop Development and Management	16,292	15,950	15,908	15,444
010300 Agribusiness and Information Management	837	423	1,568	1,552
010400 Livestock Resources Management and Development	8,797	7,689	9,168	9,334
010500 Administrative Support Services	310	290	347	364
010600 Cooperative Development & Management	1,069	1,260	2,943	2,974
010800 Land Policy and Planning	4,910	4,328	5,071	5,266
010900 Forestry and Wildlife Policy regulation and co-ordination	457	387	632	636
011000 Forestry Development, research and Management	8,194	6,454	6,781	7,154
011100 Wildlife Conservation and Management	2,454	3,984	5,083	4,487
011200 Fisheries Development	4,337	4,098	5,161	5,476
011300 Cooperative Administration and Suport Services	133	31	122	131
ENERGY, INFRASTRUCTURE & ICT	**280,831**	**288,554**	**287,688**	**293,924**
020100 Devolution Support Services	31,673	33,935	32,638	36,827
020200 Road Development, Maintenance and Management	124,764	102,142	101,025	104,076
020300 Transport Management and Safety	4,336	4,571	5,092	5,143
020400 Transport Infrastructure Development	14,187	41,899	40,772	42,482
020600 Information and Communication Services	2,193	2,174	2,538	2,601
020700 Human Resource Development	135	286	360	316
020800 ICT Infrastructure Development	5,252	6,882	7,690	8,001
020900 Metropolitan Infrastructure and Services	3,380	3,511	4,705	6,268
021000 Government Buildings Services	4,089	2,834	3,259	6,531
021100 Coastline Infrastructure and Pedestrian Access	1,110	1,193	1,293	1,527
021200 Procurement, warehousing and supply	67	53	65	66
021300 Construction Standards and Research	103	112	111	113
021400 General Admnistration services	3,342	3,250	3,821	3,895
021500 National Electrification	83,029	83,607	82,111	73,898
021600 Renewable Energy Resources	601	493	558	528
021700 Petroleum Exploration and Distribution	1,763	1,086	919	877
021800 Centralized Support Services	807	526	731	775
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**20,631**	**22,782**	**23,475**	**23,073**
030100 Integrated Regional Development	6,317	6,383	6,720	6,205
030200 Promotion of Best Labour Practices	711	609	903	916
030300 Manpower Planning, Development andUtilization.	1,462	1,298	1,544	1,616
030400 Policy, Planning and Administration	394	412	476	492
030500 Trade Development and Investment	2,921	2,761	3,290	3,373
030600 Co-ordination of East African Community Affairs in Kenya	1,332	2,168	1,741	1,601
030700 Tourism Development and Marketing	2,218	2,981	2,869	2,990
030800 Industrial development and Investment	5,203	6,104	5,798	5,747
031000 Productivity Improvement, Measurement and Promotion	73	66	134	133

Summary of Expenditure by Programmes, 2013/2014 - 2015/2016 (KShs. Million)

HEALTH	**91,704**	**98,940**	**100,641**	**102,076**
040100 Curative Health	49,208	52,144	53,705	54,628
040200 Preventive and Promotive Health Care Services	42,496	46,796	46,936	47,448
EDUCATION	**257,726**	**275,659**	**288,710**	**296,461**
050100 General Administration & Planning Services	10,774	7,129	9,959	10,587
050200 Basic Education	14,210	34,080	35,959	36,089
050300 Quality Assurance & Standards	5,001	4,525	5,880	5,876
050400 Secondary & Tertiary Education	25,752	23,239	24,712	24,542
050500 University/Tertiary Education	63,290	62,555	66,428	71,363
050600 Research, Science, Technology and Innovation	1,157	1,027	1,463	1,239
050700 Administrative Support Services	1	0	0	0
050800 Teachers Services	137,541	143,104	144,309	146,765
GOVERNANCE, JUSTICE, LAW & ORDER	**146,238**	**121,923**	**145,646**	**150,011**
060100 Policing Services	58,364	64,010	73,419	75,701
060200 Administration and Field Services	6,030	3,940	5,868	6,517
060400 Government Printing Services	9,180	7,477	8,626	8,789
060500 Policy, Management and Support Services to the Office of the	1,162	374	484	489
060600 Correctional Services	15,548	14,166	17,121	17,455
060700 Betting Control and Lottery Services	219	326	341	346
060800 Legal, ethics, Integrity ,National cohesion and constitutional r	1,370	795	1,096	1,094
060900 Policy, Planning and Management services	1,651	782	659	656
061000 Human Rights Programme	251	253	354	365
061100 Legal Education Programme	352	291	449	464
061200 Legal Services to Government and Public	2,016	1,411	1,897	1,980
061300 Dispensation of Justice	14,544	15,128	14,584	14,584
061400 Management of Electoral Process in Kenya	24,266	3,795	4,401	4,476
061500 Registration, Regulation and Funding of Political Parties	389	345	500	550
061600 Anti-Corruption Programme	1,556	1,354	2,084	2,340
061700 Population Registration Services	4,647	3,482	7,333	7,025
061800 Immigration Services	2,215	1,656	2,296	2,378
061900 Policy Formulation and Coordination for Immigration and Po	368	271	437	479
062100 Public Prosecutions Services	1,262	1,260	2,514	3,087
062200 Implementation of the Constitution	459	399	573	576
062600 Promotion of Gender and Equality	192	211	350	360
062700 Witness Protection	197	197	260	300

PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	**140,609**	**140,601**	**129,159**	**135,639**
070100 Management of State Affairs	1,985	1,060	1,815	1,866
070200 Human Resource Management and Development	6,105	5,846	6,292	6,347
070300 Foreign Relations and Diplomacy	2,563	1,496	2,632	2,729
070400 Rural Planning and Community Development	4,458	24,989	7,408	7,589
070500 Coordination of Policy Formulation and Implementation of V	1,316	1,453	1,507	1,344
070600 Data collection and national statistical information services	1,545	994	1,216	1,295
070700 General Administration and Support Services for Planning	22,473	615	800	821
070800 Monitoring and Evaluation Services	283	326	199	208
070900 Administration, Planning and Support Services	17,870	25,929	25,909	26,287
071000 Public Financial Management	40,542	35,338	36,974	42,584
071100 Economic and financial policy formulation and management.	6,197	6,156	6,625	6,726
071200 Fair Trade practices and creation of an enabling business envi	752	1,639	1,562	1,562
071300 Cabinet Services	1,617	1,016	1,025	1,146
071400 Public Sector Advisory Services	1,838	2,037	753	796
071500 Administration of Human Resources in Public Service	666	778	1,305	1,128
071600 Audit Services	2,006	2,392	4,629	4,561
071700 Legislation and Oversight	15,440	16,709	15,369	15,369
071800 Coordination and Supervisory Services	2,609	2,009	2,033	2,044
071900 Control and management of public finances	471	423	618	637
072200 County coordination services	29	0	0	0
072300 Salaries and remuneration management in the public service	781	375	511	510
072400 Foreign Policy and Management	8,804	8,722	9,616	9,729
072600 Ombudsman Services	259	299	361	361
NATIONAL SECURITY	**89,725**	**74,425**	**77,405**	**82,109**
080100 Maintenaining and Safeguarding of National Security	89,725	74,425	77,405	82,109
SOCIAL PROTECTION, CULTURE AND RECREATION	**38,844**	**63,277**	**42,953**	**42,953**
090100 Policy and General administrative services	2,451	1,600	1,850	1,880
090200 Gender and Social Development	3,203	5,951	6,035	6,043
090300 Children Services	5,389	9,623	8,066	8,087
090400 Disaster Management	12,594	9,916	8,334	6,141
090500 National Heritage and Culture	1,910	2,188	2,597	2,793
090600 Youth Development and Empowerment Services	8,556	27,210	9,417	12,687
090700 Management and development of Sport and Sport facilities	1,443	1,472	1,987	1,741
090800 Special Development Initiatives For Northern Kenya And Oth	3,298	5,317	4,667	3,581
ENVIRONMENTAL PROTECTION, WATER AND HOUSING	**53,214**	**69,640**	**60,396**	**62,152**
100100 Water Policy and Management	685	1,012	1,128	1,134
100200 Water Supply Services	27,164	30,819	23,280	22,417
100300 Sewerage Services	226	241	260	271
100400 Water Resources Management and Storage	8,081	7,675	8,001	8,246
100500 Irrigation and Drainage Infrustructure	4,719	16,135	13,607	15,993
100600 Environmental Policy Development and Coordination	436	313	460	492
100700 Environment Management and Protection	4,726	3,899	4,679	4,392
100800 Mineral Resources Management	620	575	637	683
100900 Meteorological Services and Climate Change	1,713	1,846	2,064	2,122
101000 Housing Development and Human Settlement	4,616	6,974	6,099	6,242
101100 Administration and Suport Services	228	151	181	160
TOTAL EXPENDITURE BY PROGRAMMES	**1,170,955**	**1,203,312**	**1,213,595**	**1,246,017**