



**REPUBLIC OF KENYA**

**THE NATIONAL TREASURY**

**MEDIUM TERM**

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**BUDGET POLICY  
STATEMENT**

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**ECONOMIC TRANSFORMATION FOR A SHARED  
PROSPERITY IN KENYA**

**FEBRUARY 2014**

© Budget Policy Statement (BPS) 2014

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## **Foreword**

This 2014 Budget Policy Statement, the first to be prepared under the Jubilee Government, sets out the Administration's priority programs to be implemented in the Medium Term Expenditure Framework (MTEF) under a devolved system of Government. It is framed against a backdrop of improving global economic prospects, underpinned by gradual strengthening of the advanced economies and continued robust growth in sub-Saharan Africa. These developments together with renewed investor confidence following recent peaceful elections bode well for accelerated economic growth prospects and creation of more jobs in Kenya.

Kenya's economy remains strong and resilient, largely on account of bold economic policies and structural reforms as well as sound economic management implemented over the last decade. Today, Kenya is considered a "frontier" economy with an impressive turnaround in economic performance. Prudent economic policies have helped anchor the conditions for strong and stable growth. There are, however, challenges that continue to hold our economy back from achieving its full potential. Through this Budget Policy, we are addressing these challenges and building on our successes as a basis for our economic and transformation agenda.

The Strategy for economic transformation covers five broad areas: (i) creating conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities; (ii) investing in agricultural transformation and food security to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth; (iii) investment in first class transport and logistics hub and scaling investments in other key infrastructure, including roads, energy and water to reduce cost of doing business and improve competitiveness; (iv) investing in quality and accessible healthcare services and education as well as social safety net to reduce burden on the households and complement and sustain our long term growth and development; and (v) further entrenching devolution for better service delivery and enhanced rural economic development.

This Budget Policy Statement, therefore, sets out priority programs for economic transformation and building a shared prosperity to be implemented in the Medium Term Expenditure Framework for 2014/15–2016/17. The implementation of these programs is expected to accelerate and sustain a broad-based economic growth at about 10 percent and to transform our economy into a frontier middle-income status within a decade.

**MR. HENRY K. ROTICH**  
**CABINET SECRETARY/THE NATIONAL TREASURY**

## **Acknowledgement**

This is the sixth Budget Policy Statement (BPS) to be tabled in Parliament and the second under the Public Finance 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 2014/15 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 2014 BPS continues to be a collaborative 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 2013 on the 2014/15 Budget Review and Outlook Paper (BRPOP), which provided inputs to this 2014 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 Department (EAD) and Mr. Ontweka Onderi, Ag. Director, Budgetary Supplies Department (BSD), for coordinating the execution of this task. Special thanks go to the following members of the task force who met and worked tirelessly to prepare this document under the Chairmanship and guidance of Mr. Justus Nyamunga: Mr. Musa Kathanje, Ms. Naomi Matheri, Mr. John Njera, Mr. Francis Anyona, Mr. Samuel Kiiru, Mr. Richard Gakunya, Mr. Livingstone Bumbe, Mr. Kennedy Nyakundi and Mr. Albert Mwenda. Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the National Treasury for their dedication, sacrifice and commitment to public service.

**DR. KAMAU THUGGE, EBS**  
**PRINCIPAL 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 15<sup>th</sup> 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 for the National and County Governments**

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

- 1) Over the medium term, a minimum of 30 percent of the national and county budgets 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) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
- 4) Over the medium term, the national and County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- 5) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for the National Government and the county assemblies for the County Governments.
- 6) Fiscal risks shall be managed prudently; and
- 7) 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. ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY IN KENYA

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## Overview

1. The 2014 **Budget Policy Statement (2014 BPS)** is the first to be prepared under the Jubilee Government, following a peaceful General Elections in March 2013, which ushered in a devolved governance structure - the National and County Governments under a new Constitution. As such, it sets out the priority programs of the Jubilee Government to be implemented in the Medium Term Expenditure Framework (MTEF) under a devolved system of Government.

2. This Budget Policy Statement is framed against a backdrop of improving global economic prospects. World economic output is now expected to grow at 3.6 percent in 2014, compared with an estimate of 2.9 percent in 2013. Advanced economies are gradually strengthening, having successfully defused two of the biggest short-term threats to global recovery, the threat of a Euro area break-up and a sharp fiscal contraction in the United States—the so called fiscal cliff.

3. In emerging markets and developing economies, growth is slowing down due to new policy challenges, while in sub-Saharan Africa, growth remains robust at about 5 percent, with the economies of East African countries expected to grow at an average of 6 percent in 2014. These developments together with renewed investor confidence following recent peaceful elections bode well for accelerated economic growth prospects and creation of more jobs in Kenya.

4. On the domestic front, growth prospects remain strong despite instability witnessed in the sub region particularly in Central African Republic and Southern Sudan. This resilience is attributed to the implementation of bold economic policies and structural reforms as well as sound economic management over the last decade. As a result, the economy recovered steadily from levels as low as 1.6 percent in 2008 to 4.6 percent in 2012 and is expected to grow by at least 5.0 percent in 2013.

5. Today, Kenya is considered a “frontier” economy with an impressive turnaround in economic performance. Prudent economic policies have helped anchor the conditions for strong and stable growth. Fiscal discipline has improved both the external and domestic debt positions. We have been able to anchor inflation expectations down and maintained strong supervision over the financial sector for stability. The financial sector reforms and innovation have significantly expanded financial inclusion to more than 70 percent of the population.

6. The foundation upon which to build an economic transformation agenda is now in place. However, despite the progress made thus far, contrasting challenges remain. The challenge of high cost of living driven by high food and

energy prices continues to be of concern to the Government. The rising imports particularly for exploration of oil and minerals against stagnating exports, food insecurity, declining agricultural and manufacturing productivity, inadequate and high cost energy, insecurity, weak transport and logistics as well as weak investment climate will continue to constrain the economy from achieving its full potential. The emerging high and unsustainable public sector wage and fiscal related challenges surrounding devolution, if not addressed early enough, will also be a drag on our development effort in the medium term.

7. The need to address these challenges and build on our successes forms the basis of the Jubilee Government's Development Strategy of achieving economic transformation for a shared prosperity. This Strategy covers five broad pillars, namely:

- **Pillar I:** Creating conducive business environment by maintaining macroeconomic stability, deepening structural and governance reforms to reduce the cost of doing business and improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;
- **Pillar II:** Investing in agricultural transformation and food security, including opening up at least one million acres of new land under irrigation in order to expand food supply, reduce food prices so as to bring down the cost of living, support expansion of agro-processing industries and spur export growth and support other sectors such as manufacturing and tourism;
- **Pillar III:** Investment in first class transport and logistics, including investment in standard gauge railway, modernization of our seaport and airport to position Kenya as regional port and aviation hubs, and scaling up investments in other key infrastructure such as road networks, energy and water supplies to reduce cost of doing business and make our products cheaper and competitive in the domestic and international markets. With the recent discoveries of oil, the Government will fast track construction of an oil pipeline to evacuate crude oil;
- **Pillar IV:** Investing in quality and accessible healthcare services and quality education as well as social safety net to reduce burden on the households and complement and sustain our long term growth and development; and
- **Pillar V:** Further entrenching devolution for better service delivery and enhanced rural economic development.

### **Programs for Achieving Economic Transformation for a Shared Prosperity**

8. This Budget Policy Statement, therefore articulates priority economic policies and structural reforms as well as sectoral expenditure programs to be implemented under the Medium Term Expenditure Framework for 2014/15 –

2016/17 in order to achieve the Government's development goal of economic transformation for a shared prosperity as elaborated below:

### **Pillar I: Creating a Conducive Business Environment for Employment**

9. The objective of the reforms under Pillar I is to create conducive business environment by maintaining macroeconomic stability, deepening structural and governance reforms and improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities in Kenya.

#### Macroeconomic Stability for Sustained Growth and Development

10. Achieving macroeconomic stability is necessary to create a conducive environment for private sector investments as a basis for sustained economic growth, and ultimately, expanded economic opportunities and poverty reduction. As such the Government will continue to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

11. The fiscal policy strategy recognizes that available resources are scarce and hence the need to focus only on the Jubilee Government's priority programs that have the highest impact on the stated objectives, but within a framework of sustainable debt and a stable macroeconomic environment. This will be achieved by maintaining a strong revenue effort and containing the growth of total expenditure, while shifting composition of expenditure from recurrent to capital expenditure and eliminating unproductive expenditures. It will also be achieved by containing the growth in the public debt to a sustainable level in order to ensure the private sector is not crowded out.

12. Monetary policy over the MTEF period will aim at maintaining a low rate of inflation of around 5 percent, strengthening the international reserves position to over 4.5 months of import cover and providing space for sustainable increase in credit to the private sector to support productive activities. Monetary policy supported by fiscal policy will also focus on delivering low and stable interest rates and exchange rates in support of growth and employment creation objectives. To complement efforts to sustain macro stability, coordination between the National Treasury and the Central Bank of Kenya will be strengthened in order to better harmonize fiscal and monetary policies.

#### Structural Reforms to Facilitate Business and Employment Growth

13. Maintaining macroeconomic stability is in itself necessary but not sufficient to achieve the desired growth and transform our economy. Improving economy-wide efficiency and increasing total factor productivity (TFP) is needed to attaining high and sustained inclusive growth target of 10 percent. Therefore, the Government will undertake deeper structural reforms with the aim of improving efficiency and effectiveness of public service delivery to facilitate private sector growth.

14. *Governance:* The Government will implement well-targeted governance and anti-corruption reforms covering: (i) corruption prevention; (ii) economic crime investigation and assets recovery; (iii) strengthening prosecutorial capacity; and (iv) improving governance in priority areas, of medical supplies, free primary and tuition in schools, public works, national police service, revenue administration, procurement, immigration and lands. A Kenya Integrity Program (KIP) will be developed in 2014, partly entrenching Code of Conduct and vetting of public officers, starting with those in the above sub-sectors. This will also provide a framework for consultation, monitoring and reporting to enhance accountability in the public service.

15. *PFM Oversight Institution:* Efficiency, effectiveness, transparency and accountability in the use of public resources will be enhanced by strengthening the institutional capacity of public finance management oversight agencies - the National Treasury, Controller of Budget, Auditor General and Public Procurement Oversight Authority. The National Treasury will be re-structured to align it with its core mandate of economic and financial management and equipped with requisite competencies. The capacity of the oversight institutions will be strengthened, by among others, adoption of modern work environment and training and capacity building in order to enhance their capabilities in audit and financial reporting.

16. *Expenditure Management:* As part of economic transformation, the public expenditure reforms will be deepened to improve efficiency and effectiveness in utilization and execution of budget. This will entail rationalizing public expenditures to remove overlaps and waste, rolling out of leasing of assets in all State Departments and public agencies, developing and enforcing cost benchmarks for projects and consumables, entrenching performance benchmark of at least 80 percent of the development budget, and strengthening the program budget. Expenditure tracking and value for money audits will be undertaken regularly to ensure efficiency in use of resources at both levels of Governments.

17. The integrated financial management information system (IFMIS) will be made fully operational as an end-to-end transaction platform. The Procure-to-Pay which integrates master item lists and cost benchmarks will be rolled out in 2014. The integrity and operational capability of the system will be assured, including through regular independent audits, integration with external systems and a state of the art call centre. The Public Finance Management Regulations and a new Procurement law will be submitted to Parliament before August, 2014 in order to entrench prudent public finance management.

18. *Asset Management:* Efficient management of Government assets will be given priority as part of expenditure reforms. The National Treasury will undertake an asset registration exercise and establish an updated Asset Registry for all Government assets. Leasing of assets will be rolled out in all State Departments and state corporations to cover such assets as equipment, plants and machinery, motor vehicles and ICT hardware, among others. All existing fleet of

Government motor vehicles will be fitted with fleet management system to ensure optimal utilization and management.

19. *Tax and Revenue Reforms:* The strategy for strengthening revenue efforts and improve ease of doing business will prioritize measures to simplify tax systems, leverage automation, expand the tax base, rationalize tax incentives and exemptions, expand tax net to capture the informal sector and make operational the two inter-dependent revenue agencies – the Inland Revenue Agency and Customs and Border Control Agency. Reflecting the impact of new law, broad base effect and a more effective VAT administration, the VAT revenue effort will be increased by at least 4 percent as a share of GDP by 2017. To further simplify and modernize tax legislations, a new Excise Management Bill, Extractive Industry Tax regime (Income Tax Amendments), and a Tax Procedure Bill will be developed and submitted to Parliament in 2014. In the course of FY2014/15, a review and modernization of the Income Tax law will commence and completed in the course of 2015.

20. *Financial Sector Reforms:* The objective of financial sector reforms is to create a vibrant, accessible, efficient and a stable globally competitive financial sector that promotes high level of savings to finance Kenya's overall investment needs. Building on the progress made thus far, the establishment of the Nairobi International Financial Centre, enactment of a new Central Bank of Kenya law, re-organization of financial regulators under a Financial Service Council will be given priority in the course of 2014.

21. The continuing high bank interest spreads and lending rates which are a constraint to credit access and business expansion will be addressed. To create a financially literate society, an institutional framework for consumer protection as well as a national strategy for financial education will be developed and enforced. In addition, necessary reforms will be put in place to promote regional financial services integration with the objective to facilitate trade, enable cross-border operations and movement of capital

22. *Public Sector Reforms:* For the public sector to play its facilitative role more effectively, the Government will rationalize and consolidate the civil service to eliminate overlaps and duplications of functions, reduce pressure on wage bill and enhance its performance accountability. Similarly, state corporations, regulatory agencies and research and training institutions will be rationalized and new organizations strengthened into lean, efficient, effective and accountable agencies to provide better service delivery.

23. *Further Business Regulatory Reforms:* The strategy to reduce cost of doing business focuses on indicators of interest to small businesses such as starting business, dealing with construction permits, registering property, accessing credit, paying taxes and trading across counties and across borders. The Government will build on the progress achieved thus far to further simplify and modernize business regulatory regimes, rationalize all regulatory fees and other charges, establish an institutional and legal framework for management of

regulatory charges, including those imposed by county governments, establish a state of the art one-stop-investment-shop and expand one-stop public service centres (Huduma Centres) to reach all corners of the country. The Government will digitalize its payment transaction by April 2014 to hasten service delivery, reduce transaction cost and safeguard revenue.

#### Enhancing Security for Sustained Growth and Employment

24. Security is central to stability and encouraging investments, accelerating growth and in turn creating employment, especially for our youth. Therefore, the Government will build on the on-going Defence and Police reform momentum by enhancing coordination, linking security policy framework and scaling up investments aimed at strengthening security of our borders and throughout the country. The reform and modernization program to be implemented over the medium term entails, among others the following:

- Investment in security infrastructure such as housing, offices, security installations and training facilities. The Government will construct at least 18,000 housing and building units for the National Police Service, partly through Private-Public-Partnership framework. This initiative will be expanded in the medium term to cover the Kenya Defence Forces and the Prisons Department;
- Further investment in mobility and patrol of security operations by leasing at least 1,500 motor vehicles and 3 aircrafts and other security equipment per year. To complement these efforts and ensure optimal impact, a motor vehicle fleet management system and a technology-based border surveillance and control system will be put in place;
- Investment in acquisition and upgrading of contemporary, modern and state-of-the-art security equipment and systems to enhance the capabilities of security forces;
- Develop standards and guidelines for installation of integrated closed-circuit television (CCTV) system in all urban buildings and work with county governments to expand street lighting, rehabilitate alcohol and drug addicts and to strengthen partnership between communities and security agencies for neighbourhood safety;
- Strengthen institutional and legal framework for border security, including investing on personnel training, appropriate security equipment and technology to monitor, control and effectively enforce border security;
- Undertake a comprehensive training program on modern personnel management and policing, recruit at least 300 professionals to help drive critical reforms in the security sector; and
- Invest in a modern and functional command and control system as well as establish and make operational a system-wide forensic laboratory through a private finance initiative (PFI) to enhance crime investigation.

## **Pillar II: Agricultural Transformation and Food Security**

25. Prioritizing investments in agriculture is central to Kenya's economic transformation for a shared prosperity. Investing in agricultural reforms and transformation will spur an inclusive economic growth with knock-on effects on related sectors of agro-processing; storage and transport; wholesale and retail; construction; financial services as well as export diversification and growth. In addition, expanded agricultural output will increase food supply, reduce food related prices and bring down the cost of living, create employment and promote overall rural development and improve the economic welfare of Kenyans.

26. The strategy focuses on identifying local and international markets that can be supplied with Kenya's agricultural products and negotiating forward contracts with buyers on the same, then structuring product specific viable supply chains to meet the secured markets. The viability of the forward contracts, and supervised production that ensures optimal use of inputs will enable smallholder and livestock farmers to be provided with: (i) financial resources and the necessary investment needed to meet the forward contracts, irrespective of their incomes; (ii) all the necessary inputs, machinery, technical know-how and supervision on standards, all being measures necessary to increase agricultural productivity and crop yield, anchored on access to market and adequate financial and technical resources - the central pillars of a functional agriculture value chain, which is necessary to transform agriculture into a business venture.

27. The strategy entails unlocking agricultural productivity among smallholder and livestock farmers as well as commercial farmers by guaranteeing markets and prices and then assisting them to achieve optimal production. This will be achieved by investing in research and extension services, soil management, high yielding seeds, wide application of appropriate technology and mechanization to achieve the highest level of production as well as re-organizing the farmers into viable cluster groups to reach economies of scale, so that they access services such as driers, coolers and storage to eliminate post harvest losses.

28. Similarly, agricultural products will be directed to their ideal agro-ecological zones where yields and return on investments will be highest, the re-organization and commercialization of farming zones will be undertaken and farmers affected provided with alternative and better farming options. The Government will also, in partnership with financial sector actors, structure financial instruments (Agri-Business Fund) to support alternative agricultural initiatives amongst smallholder farmers, expand agri-business ventures and support crop-specific value addition initiatives. Given the challenges of climate change, a program to educate farmers on smart agriculture will be implemented in order to drive and sustain agricultural output and create more employment, especially for the youth.

29. A comprehensive agri-business initiative involving provision of farmers' irrigation kits and fish ponds in all secondary schools will be rolled out, starting

with a half of the secondary schools in fiscal year 2014/15. This project is expected to improve nutrition, provide income generation to schools and develop future agri-business farmers in our society. Similarly, the aquaculture program – the Fish Enterprise Project started in 2009, will be expanded by securing forward markets for farmers, which in turn will widen coverage, enhance farmers support through extension and better farming methods, access to modern storage and handling facilities, and link farmers to finances and other services. This initiative is expected to encourage investments along the value chain thus making fish farming a viable commercial venture.

30. The full potential of livestock and poultry farming as well as that of dairy remains untapped, with huge potential growth for beef, leather products and poultry as well as milk and its by-products that can be a catalyst for economic transformation. The Government will initiate a program for modern commercial livestock, dairy and poultry farming, focusing on securing forward contracts for various livestock and dairy products. In addition, resources will be prioritized for investment in key infrastructure, including training facilities, curriculum development, produce handling, storage, agro-processing and value addition facilities, access roads and energy.

31. The Government, in addition to expanding on-going irrigation projects, has launched a program to irrigate at least one million acres of land in Galana/Kulalu Ranch. The transformation of this project into an economic hub will entail production, harvesting and storage, agro-processing, packaging and distribution and marketing – creating at least 3 million jobs along the agriculture supply chains. Implementation has begun with a pilot phase covering 10,000 acres of land to draw lessons on various crop performances. Beginning fiscal year 2014/15, an irrigation of 100,000 acres of land will be rolled by the Government to benchmark cost of productions and sale price. Thereafter, a framework of effective partnership with the private sector will be developed under a coordinated institutional and legal framework.

32. Effective coordination of this project will be a critical success factor. It involves coordinating planning and development of infrastructure such as irrigation water access, roads, air strips, railway system, energy, public works, housing and commercial buildings, among others. In addition, it entails coordinating with security agencies to ensure provision of adequate security and enforcement of law and order, besides other essential public services required to facilitate attainment of the project's objectives.

#### Supporting Growth of Manufacturing for Employment Creation

33. In tandem with the agriculture based growth strategy, the Government has identified manufacturing as essential towards moving agriculture up the value chain through value addition. It is through value addition in agriculture that Kenya will be able to diversify and grow its export, while at the same time, growing the economy and creating employment. Therefore, the Government will prioritize and facilitate establishment of modern and technology-based industrial



parks along the Mombasa – Western Kenya railway line at Voi, Naivasha and at the shore of Lake Victoria to position Kenya as a manufacturing hub for the region.

34. Similarly, Special Economic Zones and free trade areas will be established at strategic location to attract foreign direct investment and new technology necessary to grow share of manufacturing in the economy. Over the medium term, the Government will facilitate modernization and establishment of textile, leather, agro-processing, beef and fishing industries as key drivers of agricultural transformation, value addition and industrialization.

#### Empowering the Youth and Women for Employment Creation

35. Unemployment, especially among the youth, women and persons with disability remains a major challenge to our development and social stability. Over the medium term, the Government will build on recent youth and women support initiatives to further encourage entrepreneurship and innovation, especially by tapping the creativity and knowledge of the young people. Skills development and access to credit will be given priority to enable this group be the dynamic drivers of growth and employment creation. The Government will facilitate expansion of credit access to youth and women, especially through a roll-out of UWEZO Fund and establishment of innovative instrument for their small and medium enterprises. The requirement for at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability will be entrenched and strict adherence upheld.

36. The Government will also continue its Buy Kenya-Build Kenya policy whose objective is to assist Kenyan enterprises to supply the public sector with goods and services that can be produced competitively in Kenya. The emphasis will be on developing and manufacturing locally quality product lines that can compete with imports, such as furniture, office supplies, construction materials, consumer and electronic products, without any subsidies or protection by the Government. The Buy Kenya policy will be a training ground for Kenyan enterprises to expand local production for local and export market, and encourage formation of viable enterprises, especially by youth and women, under the Biashara initiative. The small and medium enterprise fund, including Uwezo Fund as well as adherence to at least 30 percent of all public procurement reserved for the youth, women and persons with disability.

#### Youth Sports, Culture, Heritage and Talents

37. Kenyan youth have shown immense talents, especially in sports and arts. These talents will be nurtured as catalyst for growth and development. The National Government will match one-to one County Government investments in sport facilities throughout the country. In addition, talent centers or academies will be established in counties and made operational in strategic locations to tap and developed latent talents and innovations by the youth. As a country, our cultural heritage forms the basis on which communities and peoples values,

beliefs, norms, identity, rituals and material culture are passed on from generation to generation. The Government will continue promoting cultural heritage as a form of identity and preservation.

### **Pillar III: Transport, Logistics, Energy and Water for Inclusive Growth**

38. To support sustained agricultural transformation, encourage expansion of commerce, grow export of goods and services and expand economic opportunities for employment, the Government will scale up investment in infrastructure by; establishing a first-class rail and road networks; navigable waterways; modern and efficient ports and harbours; and expand handling and storage capacity in order to reduce cost of doing business, enhance competitiveness and transform Kenya into a logistics hub for Eastern Africa.

#### Transport and Logistics – Railway, Port, Airport and Pipeline Expansion

39. Construction of a modern standard gauge railway line from Mombasa to Nairobi has begun and it is expected to be complete and operational within three years. Similarly, in the course of the MTEF period, alternative sources of financing will be sought and construction of phase II of the standard gauge railway line from Nairobi to Malaba with a branch line to Lake Victoria will commence and be completed within three years. As part of leveraging these investment to grow the economy and create employment, the Government will ensure at least 40 percent local content in the construction and other auxiliary services.

40. The completion of this historic project is expected to reduce transport costs by about 70 percent, facilitate faster and cheaper movement of freight and passengers and enhance competitiveness in our economy and regional landlocked economies. At the same time, a program for upgrade and modernization of urban commuter railway system will be implemented. New strategic railway lines will also be opened up in order to decongest urban traffic, reduce cost of transport and ease urban public transport.

41. Development of alternative transport and logistic corridor, through private-public-partnership, will be scaled up under the LAPPSET covering development of the port and energy supply at Lamu and construction of service and evacuation transport network. On the port of Mombasa, a framework will be developed to encourage private investments and participation in port expansion and port operations, especially in expansion of the container terminals and cargo handling and storage, in order to entrench the port as a preferred hub in Eastern and Central Africa. To complement these initiatives, the Government will upscale its investment in associated infrastructure facilities, including further dredging of the port, construction of the road networks around and out of the port, and integrate the single window system with other related systems in order to facilitate faster, efficient and competitive clearance of cargo at the port of Mombasa.

Kenya stands to benefit immensely by positioning itself as undisputable aviation hub. To achieve this goal, the on-going expansion and modernization of our airports will be scaled up. The construction of terminal 4 and Greenfield terminal at the Jomo Kenyatta International Airport will be completed and made fully operational in order to make Nairobi the most convenient, comfortable, secure and attractive air hub in Africa and world at large. With the on-going exploration for petroleum and gas, regional petroleum and oil potentials and strategic location of the port of Mombasa and Lamu , it is imperative that Kenya starts to invest in oil pipeline in order to position itself as a preferred regional petroleum transporter of choice. The Government will prioritize construction of a modern pipeline in partnership with the private sector.

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

42. Access to adequate, affordable and reliable energy supply is necessary to reduce cost of doing business, spur growth of enterprises and industries, and accelerate the realization of the planned economic transformation agenda. A program to generate at least 5,000 MW comprising of hydro, geothermal, solar, wind and coal by 2016, in partnership with the private sector, has been initiated and is progressing well. To complement these efforts, the Government will also undertake further reforms in the energy sector to ensure efficiency in the transmission and distribution of power, with significant potential of availing additional power to the grid. Further, the Government will install solar and bio-digester systems in all public buildings as well as facilitate development of micro hydro projects and use of bio-mass to produce energy for households and small and medium size enterprises spread throughout the country as part of green energy initiative.

#### Further Expanding Road Network to Facilitate Agricultural Transformation

43. The medium term investment in roads network throughout the country will be aligned to support agricultural transformation by linking farmers with markets and facilitating access to key tourist attractions. The on-going road construction and rehabilitation works will continue but subjected to a comprehensive audit on cost structure and quality of civil works. Alternative methods of road construction will be deployed to reduce time and cost of delivery while enhancing the longevity of the road network. Project cost benchmarks will be developed and entrenched in the Public Finance Regulations and the Integrated Financial Management Information System (IFMIS). An institutional framework will be established under the National Treasury to enforce costs and quality benchmark standards in all funded projects.

#### Making Water Accessible to Households and Farmers

44. Environmental conservation and sustainable access to water is essential for sustained agricultural transformation, higher productivity and growth as well as overall development. Priority will be given to sustainable exploitation, utilization, management and conservation of the environment and protection of

water catchment areas. Over the medium term, a comprehensive program of water harvesting will be rolled out covering every part of the country. This entails construction of mini dams and water pans and rehabilitation of existing dams and water pans to make water accessible for households, irrigation and livestock development. As part of this process, the Government will construct and rehabilitate at least 3,000 water pans of 50,000 cubic metres capacity every year, roll out water harvesting and storage in all public institutions throughout the country, and invest in mid-size dams to store water for household and agricultural use.

#### **Pillar IV: Access to Quality Social Services**

45. The thrust of Jubilee Government's human capital development for economic transformation and shared prosperity is to facilitate Kenyans to realize their full potential and to live in dignity. This will be achieved by ensuring that Kenyans are healthy, educated and acquire basic life skills, and that they are able to participate fully and share more equitably in Kenya's growing prosperity. Moreover, where some sections of our society cannot participate fully due to age, disability or natural disaster, social protection schemes will be expanded to complement their abilities to participate and share in Kenya's development. Therefore, the strategy for human capital development entails getting more value out of current spending, improving equitable access to quality health care and educational services and expanding social protection throughout the country.

##### Building a Healthier Kenya

46. A healthy population is essential for higher productivity and sustained long term development of a nation. We have achieved notable progress, especially in controlling communicable diseases (tuberculosis, HIV/AIDS and malaria) and attaining marked decrease in child mortality, but other health challenges associated with affluence and accidents are emerging – putting pressure on our health care system. The aim of Government policy reforms is to enable all Kenyans access to modern and well-equipped health facilities and well trained and motivated health care workers.

47. The National Government, working with the county governments and other partners, will implement a second generation health care reform strategy involving; recruitment of more health workers, expansion of training facilities, development of systems to support and expand health care services and sanitation at the community level. A program for health care infrastructure upgrade and equipment modernization, especially through leasing, will be implemented. The Government will also finalize the development of a health policy and institutional and legal framework for enforcement of health care standards. In addition an efficient, effective and accountable framework for the management of public resources and medical supplies at the facility levels will be put in place.

## Towards Quality and Relevant Education for all Kenyans

48. The Government has made tremendous progress on educational access – the enrolment has increased significantly since the inception of free primary education in 2003 and introduction of free tuition in secondary schools in 2006. As a result, Kenya has now nearly achieved universal access to education – but there are concerns on the quality of education and high number of pupils dropping out along the educational ladder with no clear alternative access to acquisition of lifelong skills to enable them find jobs. The strategy going forward, therefore, focuses on increasing quality of education and skills, by among others:

- Undertaking an infrastructure upgrade and modernization program for all public schools throughout the country over the medium term;
- Fully implementing the e-learning program in all primary schools in 2014/15;
- Investing in expanding and modernizing technical, vocational and village polytechnics, in partnership with Development partners and private sector to equip the youth with appropriate skills;
- Developing educational delivery standards and strengthening quality control and educational inspectorate services in order to enforce and uphold quality education;
- Rationalizing teacher deployment and strengthening teachers supervision and management to reduce absenteeism, which is estimated at about 45 percent of teaching hour; and

Investing in continuous capacity building program for teachers to improve quality of teachings in schools.

## Scaling up Social Protection

49. As the economy is transformed, we recognize that some sections of our society may suffer welfare shocks, which will require cushioning. As the investment for expanded agricultural production take root and a sustained low price regime is realized, the Government will build on the momentum established in FY 2013/14 when allocations towards social safety nets were increased by 41 percent to KShs.54.4 billion, to scale-up investments toward safety net programs. As part of this strategy, all elderly persons and persons with disability will be covered under cash transfer programs and a graduation scheme developed to enable them exit into life-long ventures. A framework for better targeting and efficient and fast delivery of safety nets will be developed and a system of financial transparency and accountability put in place to entrench confidence and value for money.

## **Pillar V: Further Entrenching Devolution for Better Service Delivery**

50. The devolved system of Government continues to receive shareable revenues as per the law. It is important to ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030, but this can only occur if accountability and fiscal discipline in the use of devolved resources are entrenched and macroeconomic environment remains stable. There is therefore great need to lay a strong economic foundation that will generate the resources for the entire country and jobs for the unemployed youth, women and the disabled.

51. The National Government will deepen its support to county governments as the centres for service delivery and economic expansion, especially in the areas of public financial management, good governance practices and supporting the counties to be fully operational. Close collaboration between the two levels of government in terms of implementing the national development agenda, and critical policy initiatives will be encouraged. This will include moderating the zeal by counties to raise additional revenues and safe guarding a thriving business environment supportive of the private sector.

## **Outline of the 2014 Budget Policy Statement**

### ***Recent Economic Developments and Policy Outlook***

52. The next section (II) outlines the economic context in which the 2014/15 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic scene.

### ***Fiscal Policy and Budget Framework***

53. Section III outlines the fiscal framework that is supportive of growth over the medium-term, while continuing to provide adequate resources to facilitate devolution, the policy priorities of the Jubilee Government while at the same time ensuring that the public debt is sustainable.

### ***Intergovernmental Fiscal Relations and Division of Revenue***

54. Section IV provides a framework of managing the decentralised county governments, the proposed division of revenue between National and County Governments as well as among counties.

### ***Medium-Term Expenditure Framework***

55. Section V presents the resource envelope and spending priorities for the proposed 2014/15 MTEF Budget and the Medium Term. Sector achievements and priorities are also reviewed for the 2014/15 MTEF period.

56. Section VI concludes.

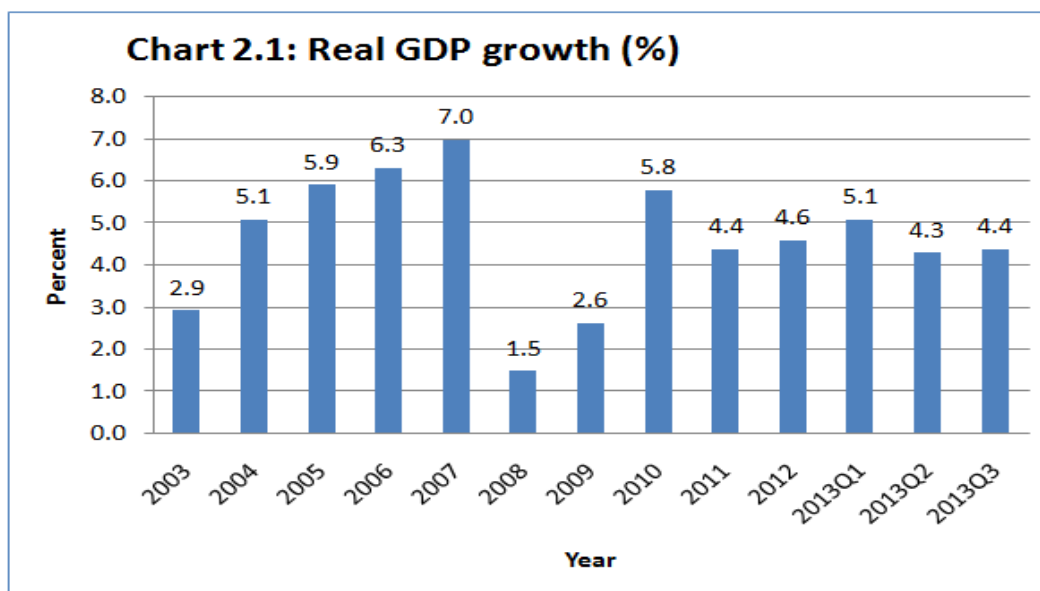
## II RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

### Overview of Recent Economic Performance

57. Economic growth was largely satisfactory in 2012, despite a somewhat stagnating demand for our exports in traditional markets. Favourable rains contributed to good harvests, hydropower generation, and private sector activities benefited from improved macroeconomic environment. Inflation has declined steadily from double digits in 2011 towards 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 Update*

58. The economy grew by 4.6 percent in 2012 compared with 4.4 percent in 2011 (**Chart 2.1**). This growth was broad-based and was driven mainly by expansion in agriculture, transport and communication, wholesale and retail trade, and manufacturing which contributed the most to GDP in 2012.



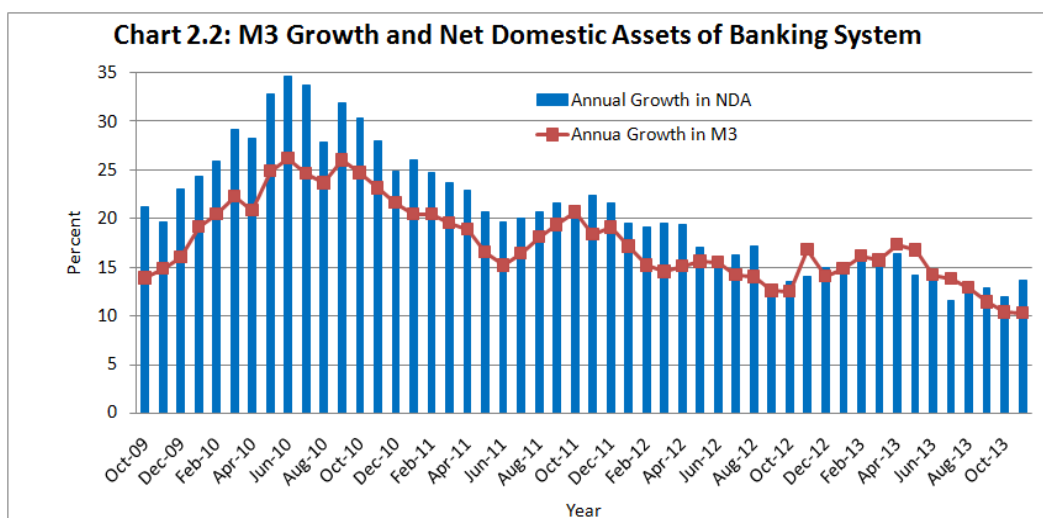
59. In the first three quarters of 2013 the economy expanded by 4.6 percent on average compared with 4.4 percent in the same period in 2012. The broad-based growth was mainly attributed to continued expansion in building and construction, mining and quarrying, wholesale and retail, manufacturing, transport and communication financial intermediation as well as agriculture and forestry.

60. On account of performance during the first three quarters, and the projected growth during the fourth quarter which takes into account the fourth

quarter performance over the last five years, we estimate overall growth for 2013 to average 5.1 percent, up from 4.6 percent in 2012.

### ***Broad Money Supply, M3 within target***

61. Growth in broad money supply (M3) slowed down to 10.3 percent in the year to November 2013 compared with a growth of 16.8 percent in the year to November 2012. This was within the 12.0 percent target for November 2013 (**Chart 2.2**). The slowdown in money supply was due to a decline in growth of the net foreign assets (NFA) by 2.0 percent reflecting a reduction in both the net foreign assets of commercial banks and of the Central Bank of Kenya.

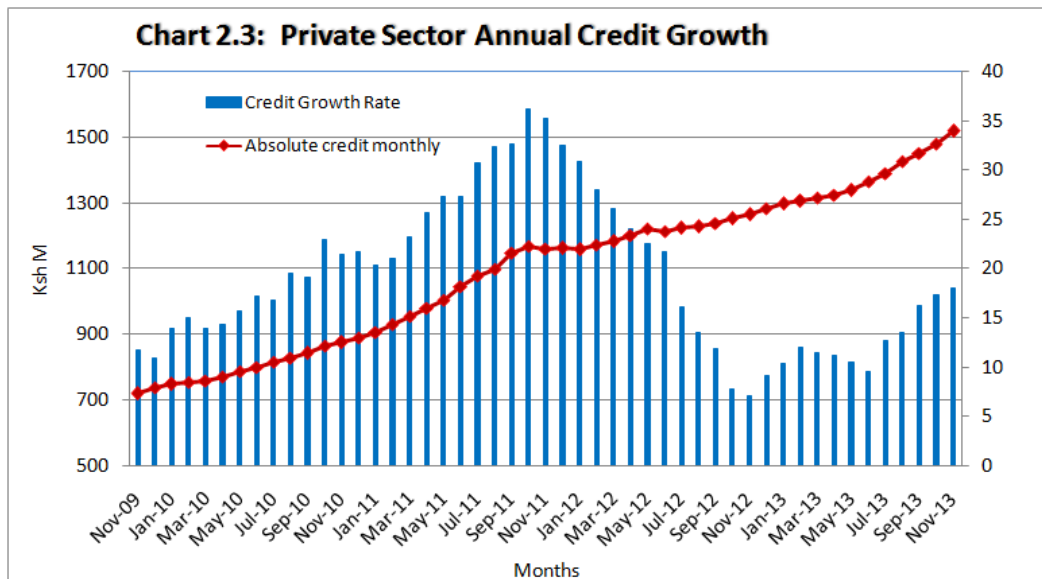


62. Net Domestic Assets (NDA) of the banking system increased by 13.6 percent through end November 2013 compared with an increase of 14.1 percent in the twelve months to November 2012. The growth in NDA was supported by increased domestic credit particularly to the private sector.

### ***Recovery in Growth of the Private Sector***

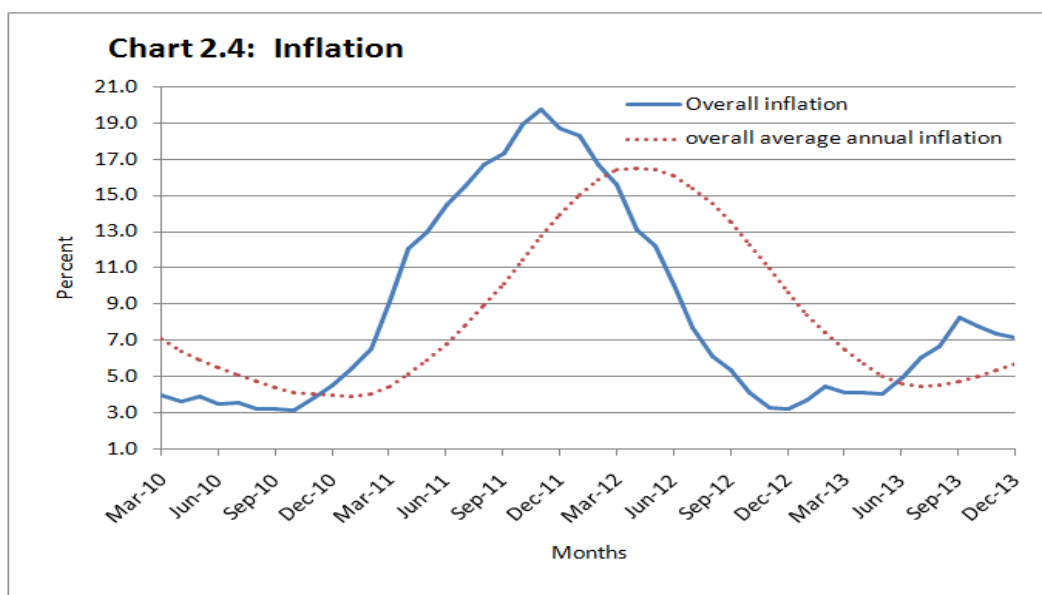
63. The growth of net credit to Government decelerated to 1.1 per cent in the 12 months to November 2013 compared with an increase of 13.3 per cent in the corresponding period in 2012 (**Chart 2.3**). However, commercial banks credit to the private sector increased by 20.0 percent in November 2013 up from 9.1 percent in the same period in 2012.





### *Inflation Update*

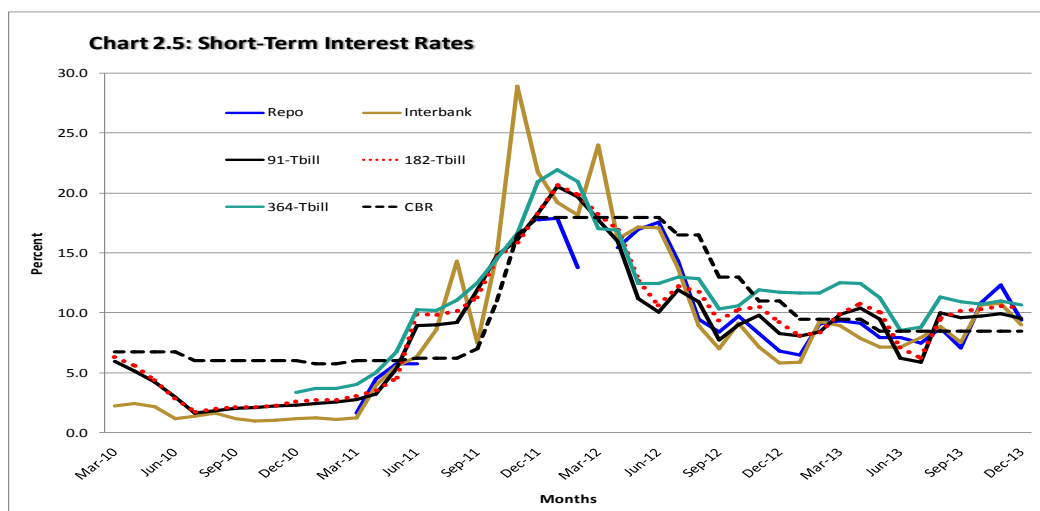
64. Overall month on month inflation declined further to 7.2 percent in December 2013 from the 8.3 percent in September 2013. (**Chart 2.4**). On average, annual inflation declined to 5.7 percent in December 2013 from 9.6 percent in December 2012.



65. Going forward, we expect inflation to slow down to the 5 percent target in the months ahead with appropriate monetary policy, barring any external shocks such as a surge in international oil market prices.

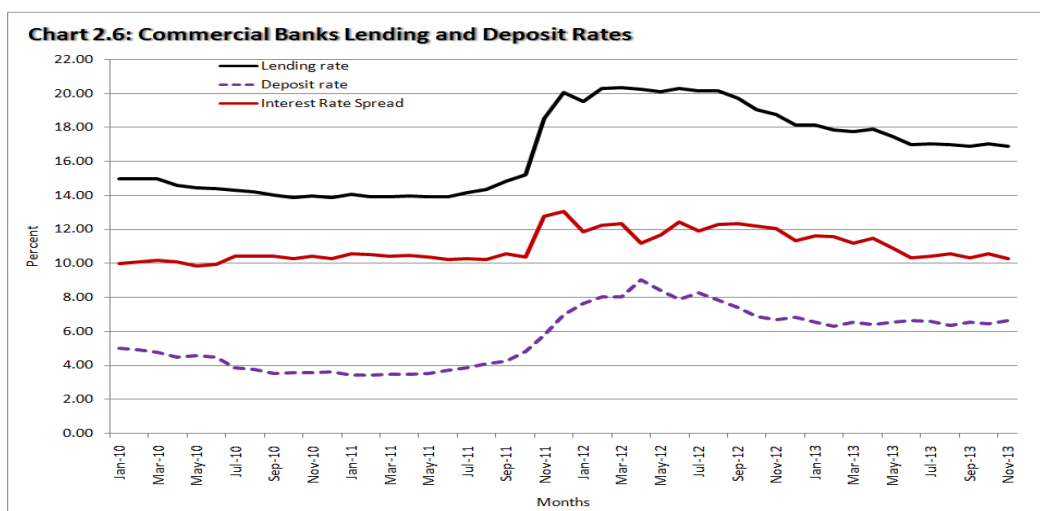
### *Interest Rates have Eased Progressively*

66. The Central Bank Rate (CBR) continued trending downwards since July 2012 as the CBK eased monetary policy (**Chart 2.5**). As a result, the CBR was reduced from 18.0 percent in June 2012 to 8.5 percent in December 2013.



67. The average interbank rate averaged 8.98 percent in December 2013, from 17.1 percent in June 2012, while the repo rate averaged 9.38 percent from 17.6 percent over the same period. The 91-day Treasury bill averaged 9.5 percent in December 2013 from 10.1 percent in June 2012 while the 364-day Treasury bill declined to 10.4 percent from 12.4 percent over the same period.

68. Commercial banks average lending and deposit rates declined to 16.9 percent and 6.6 percent, respectively, in November 2013 compared with 18.1 percent and 6.8 percent in December 2012 (**Chart 2.6**). As a result, the interest rate spread narrowed from 11.3 percent in December 2012 to 10.3 percent in November 2013, reflecting a larger decline in the lending rate.



### ***External Balance of Payments Registers a Surplus***

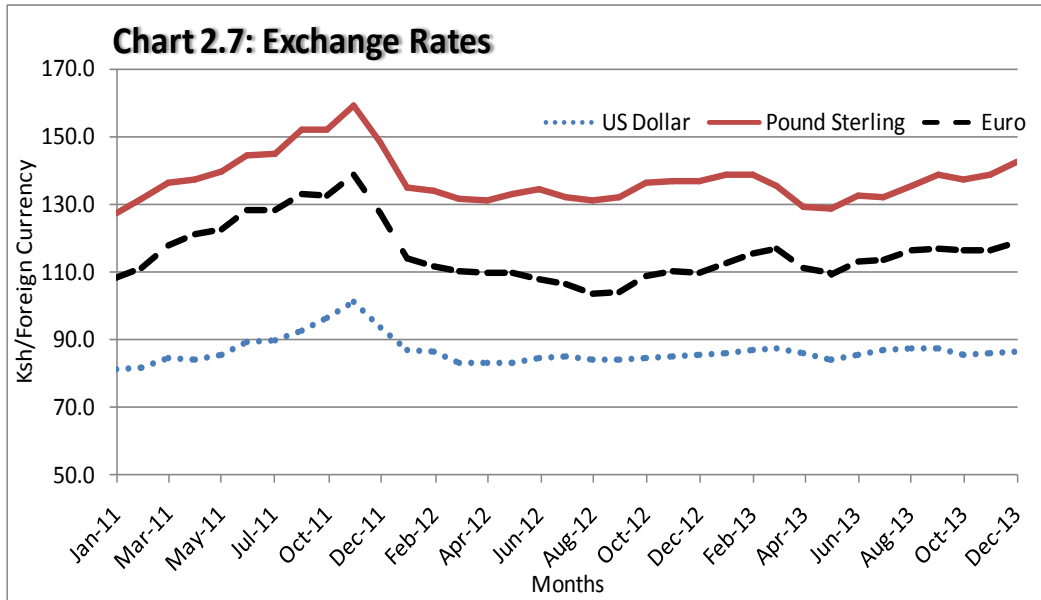
69. Kenya's overall Balance of Payments position registered a lower surplus of US\$ 606 million in the year to October 2013 from the surplus of US\$ 1,269 million in the year to October 2012. The reduced surplus reflected a smaller build up in the surplus of the capital and financial account relative to the high deficit in the current account.

70. The current account deficit narrowed by 12.4 percent, from US\$ 4,331 million (or 10.6 percent of GDP) in the year to October 2012 to US\$ 3,793 million (or 9.3 percent of GDP) in the year to October 2013. This largely reflected an improvement in the services account which more than offset the widening deficit of the merchandise account by US\$ 345 million or 3.3 percent to US\$ 10,690 million in the year to October 2013. Kenya's current account has declined following better classification of foreign direct investment (FDI) and errors and omissions. The 12 month cumulative Current Account (as a percentage of GDP) improved from 10.45% in December 2012 to an estimated 8.5 % in November 2013.

71. Gross foreign exchange holdings of the banking system increased by 8.4 percent from US\$ 7,249 million in October 2012 to US\$ 7,859 million in October 2013. Official reserves held by the Central Bank increased by 14.3 percent to US\$ 6,263 million or 4.39 months of import cover in October 2013 mainly from IMF disbursements under the Extended Credit Facility and build-up of reserves from the foreign exchange market.

### ***The shilling exchange rate stabilised against major international currencies.***

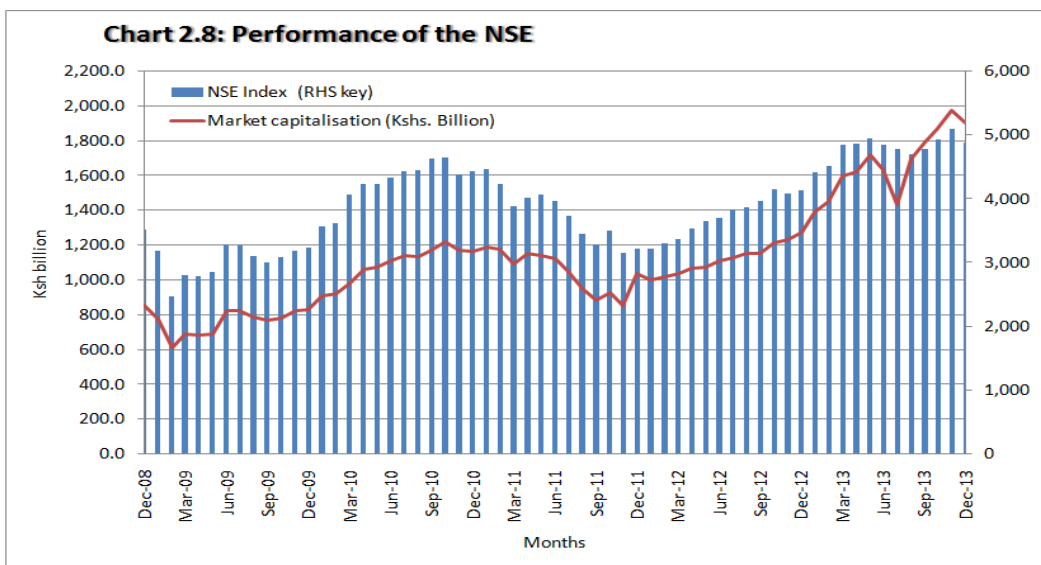
72. The Kenya Shilling exchange rate though stable against the US dollar depreciated slightly against other major world currencies (**Chart 2.7**). The stability to the US dollar followed increased short term capital inflows and remittances, disbursements under the ECF programme and Central Bank activity in the foreign exchange market in the year to December 2013.



73. Against the US dollar, the shilling stabilised at Ksh 86.4 per US dollar in December 2013 from Ksh 86.0 per US dollar in December 2012. Against the Sterling Pound, the exchange rate depreciated to Ksh 142.7 in December 2013 from Ksh 138.8 in December 2012 and Ksh 118.8 to the Euro from Ksh 112.8 in December 2012.

### ***Stock Market Remains Vibrant***

74. Activity in the securities market has been vibrant in the year to December 2013. The NSE 20 share index improved from 4,133 points in December 2012 to 4,885.9 points in December 2013, representing an increase of 18.2 percent (**Chart 2.8**). Market capitalization (that measures shareholders' wealth) improved from Kshs 1,272.4 billion in December 2012 to Kshs 1,900.7 billion in December 2013 representing an increase of 49.4 percent.



## Update on Fiscal Performance and Emerging Challenges

75. The macroeconomic assumptions underlying the 2013/14 budget were detailed in the 2013 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.

76. Parliament approved the 2013/14 budget with expenditures amounting to KSh. 1,439.7 billion, comprising of National Government recurrent expenditure (including interest payments and pensions) of KSh. 780.7 billion, development expenditures and net lending of KSh. 439.1 billion, a contingency fund of KSh 5.0 billion, and KSh3.4 billion for Equalization Fund. These expenditures are expected to be financed by total revenue (including A-I-A) amounting to KSh. 1,028.6 billion, donor grants of KSh. 77.7 billion, net foreign financing of KSh. 226.7 billion, and domestic financing of KSh.106.7 billion (inclusive of KSh.1.4 billion redemption payments from domestic loans).

### *Implementation Progress and Emerging Fiscal Challenges*

77. Implementation of the FY 2013/14 budget begun at the backdrop of a significant revenue shortfall in the FY 2012/13 resulting in expenditure carryovers of about KShs.36 billion. Budget implementation started at a slow pace in the early months of the financial year, as the organizational and service delivery structure of the new administration took shape. Initial transitional issues also delayed the enactment of the County Allocation of Revenue Act slightly affecting timely disbursements to the counties. In addition, when the Act finally took effect in August 26, 2013 majority of the counties did not meet the pre-condition of an approved fully funded budget, further delaying the disbursements.

78. Despite these initial transitional challenges, fiscal outcome for the first half of the financial year has been generally satisfactory and underlying macroeconomic assumptions (growth and inflation) have held up well. Although ordinary revenues (inclusive of the Railway Development Levy) recorded a slight shortfall against the target, it grew by 24.0 percent compared to the same period last financial year. Excluding the levy ordinary revenues grew by 21.1 percent.

79. As at end of December 2013, cumulative revenue receipts amounted to KSh. 460.6 billion, against a target of KSh. 489.2 billion resulting in an underperformance of KSh.28.6 billion (**Table 2.1**). The underperformance was in respect of KSh. 10.4 billion in ordinary revenue (inclusive of Railway Development Levy) and KSh. 18.2 billion in Appropriations-in-Aid (A-I-A). The underperformance in ordinary revenue was mainly reflected in excise and income taxes while the shortfall in A-i-A, partly reflects underreporting by line ministries. For the remainder of the year, we expect the revenue shortfall to be bridged.

80. Expenditure execution has lagged behind in the first six months of the financial year on account of lower absorption of funds from external sources. By December 2013, total expenditure (based on disbursements) amounted to KSh. 574.2 billion against a target of KSh. 685.0 billion. This reflected an overall under-spending of KSh. 110.8 billion, of which KSh 30.6 billion was in respect to lower than projected disbursements to the counties, while KSh. 104.7 billion was in respect of development expenditure and net lending. Development expenditures financed with domestic resources were below target by KSh. 13.7 million, and those financed with foreign resources were below target by KSh. 89.9 billion. Recurrent expenditures were above target by KSh. 26.9 billion.

81. Taking into account the performance of revenue and expenditure in the first half of FY 2013/14, the overall fiscal deficit (including grants) was Ksh. 105.2 billion, compared with a target of Ksh. 160.5 billion. The deficit was financed by net domestic financing amounting to Ksh. 67.4 billion and net external financing of Ksh. 11.3 billion.

**Table 2.1 Cumulative Budget Out-Turn, July – December 2013**

	Dec-12	Dec-13			Jun-14	Annual Growth %	Dec-13		Jun-14
	Actual	Target	Prel.	Deviation	Budget		Target	Prel.	Budget
	KShs billion								
as % of GDP									
<b>TOTAL REVENUE AND GRANTS</b>	387.9	524.6	469.0	(55.6)	1,105.4	20.9	12.6	11.3	26.5
TOTAL REVENUE	381.6	489.2	460.6	(28.6)	1,027.2	20.7	11.7	11.1	24.7
Ordinary revenue (Incl. RDL)	359.1	455.6	445.1	(10.4)	959.9	24.0	10.9	10.7	23.0
Import Duty	28.2	34.3	34.5	0.2	69.0	22.2	0.8	0.8	1.7
Excise Duty	40.5	54.3	48.1	(6.3)	113.1	18.5	1.3	1.2	2.7
Income tax	168.4	216.6	210.7	(5.9)	459.0	25.1	5.2	5.1	11.0
VAT	87.6	106.8	110.7	3.9	221.8	26.4	2.6	2.7	5.3
Other Revenue	34.4	37.1	31.1	(5.9)	83.4	(9.5)	0.9	0.7	2.0
Railway Levy	0.0	6.5	10.1	3.5	13.5	-	0.2	0.2	0.3
Ministerial AIA	22.5	33.7	15.5	(18.2)	67.3	(31.3)	0.8	0.4	1.6
GRANTS	6.3	35.3	8.4	(27.0)	78.2	32.3	0.8	0.2	1.9
<b>TOTAL EXPENDITURE AND NET LENDING</b>	<b>510.5</b>	<b>685.0</b>	<b>574.2</b>	<b>(110.8)</b>	<b>1,439.7</b>	12.5	16.4	13.8	34.6
Recurrent Expenditure	385.4	368.0	394.9	26.9	780.6	2.5	8.8	9.5	18.7
Interest Payments	59.1	63.0	65.1	2.1	121.5	10.2	1.5	1.6	2.9
Pensions & Other CFS	14.4	21.9	15.5	(6.4)	41.7	7.9	0.5	0.4	1.0
Ministerial Recurrent	312.0	283.1	314.3	31.2	617.5	0.7	6.8	7.5	14.8
o/w Wages and Salaries	131.1	135.0	136.5	1.5	269.9	4.1	3.2	3.3	6.5
Development	125.1	217.4	112.8	(104.7)	444.1	(9.8)	5.2	2.7	10.7
Domestically Financed (Gross)	95.6	96.8	83.1	(13.7)	201.0	(13.1)	2.3	2.0	4.8
Foreign Financed	28.2	119.4	29.4	(89.9)	240.6	4.5	2.9	0.7	5.8
Net Lending	1.2	1.2	0.2	(1.0)	2.4	(82.5)	0.0	0.0	0.1
Contingency Fund	0.0	2.5	0.0	(2.5)	5.0	-	0.1	-	0.1
County Transfer	0.0	97.1	66.5	(30.6)	210.0	-	2.3	1.6	5.0
<b>BALANCE INCLUSIVE OF GRANTS</b>	<b>(122.5)</b>	<b>(160.5)</b>	<b>(105.2)</b>	<b>55.2</b>	<b>(334.3)</b>	(14.1)	(3.9)	(2.5)	(8.0)
<b>TOTAL FINANCING</b>	<b>123.6</b>	<b>160.5</b>	<b>78.7</b>	<b>(81.8)</b>	<b>334.3</b>	(36.3)	3.9	1.9	8.0
NET FOREIGN FINANCING	11.0	77.3	11.3	(66.0)	226.2	2.7	1.9	0.3	5.4
NET DOMESTIC FINANCING	112.6	83.1	67.4	(15.7)	108.1	(40.1)	2.0	1.6	2.6
Discrepancy	1.0	0.0	(26.6)	(26.6)	0.0	-	-	(0.6)	-
Nominal GDP	3,662.6	4,164.6							

## 2013/14 Revised Estimates

82. In the course of budget implementation during the first half of the Financial Year, several challenges emerged. They include: domestic borrowing underperformance and expenditure pressures. Furthermore, delays in the

gazettement of functions to be transferred to County Governments, resulted, for the most part in delays in disbursement of funds to the County Governments.

83. In view of the financing constraints from revenue and emerging expenditure pressures, a supplementary budget for FY 2013/14 reflecting these changes has been submitted to Parliament for approval. The additional spending is in respect of salary awards to teachers, lecturers, health workers, and the police amounting to over KSh 16.0 billion. This, together with additional request for emergency interventions, FY 2012/13 carryovers, and others from the line ministries has put additional funding requests of over KSh. 356.8 billion. In view of the resource constraints and to ensure sustainable borrowing, the requests have been rationalized to KSh. 121.8 billion.

84. The rationalized expenditures in the supplementary budget of Kshs. 121.8 billion results in a financing gap which is closed through budget rationalization including on strategic interventions and, additional borrowing. However, additional borrowing will be kept modest so as not to affect our macroeconomic stability in terms of high interest rates and to remain within sustainable public debt level. Furthermore, to ensure that there is no policy reversal and the government remains committed to the planned interventions, budgetary shortfall for the strategic interventions will be rolled over, prioritized and availed over the medium term. The Government will take additional measures including further adjustments should any necessity arise in the second half of the financial year.

## **Economic Policy and Outlook**

### ***External Environment***

85. The global economic recovery is now slightly improving, although downside risks remain. According to the IMF's world economic outlook for October 2013 (**Table 2.2**), world output is projected to expand by 3.6 percent in 2014 and accelerate to 4.1 percent in the medium term.

**Table 2.2: Annual percentage change in GDP for selected regions/countries, 2011-2018**

REGION/COUNTRY	GDP ACTUAL (APRIL,2013)		GDP PROG (APRIL,2013)			GDP ACTUAL (OCTOBER,2013)		GDP PROG (OCTOBER,2013)		
	2011	2012	2013	2014	2018	2011	2012	2013	2014	2018
World	4.0	3.2	3.3	4.0	4.5	3.9	3.2	2.9	3.6	4.1
Advanced Economies	1.6	1.2	1.2	2.2	2.5	1.7	1.5	1.2	2.0	2.5
USA	1.8	2.2	1.9	3.0	2.9	1.8	2.8	1.6	2.6	3.1
Euro Area	1.4	-0.6	-0.3	1.1	1.6	1.5	-0.6	-0.4	1.0	1.6
Japan	-0.6	2.0	1.6	1.4	1.1	-0.6	2.0	2.0	1.2	1.1
UK	0.9	0.2	0.7	1.5	2.5	1.1	0.2	1.4	1.9	2.3
Canada	2.6	1.8	1.5	2.4	2.2	2.5	1.7	1.6	2.2	2.2
Emerging and Developing Economies	6.4	5.1	5.3	5.7	6.2	6.3	4.9	4.5	5.1	5.5
Developing Asia	8.1	6.6	7.1	7.3	7.7	7.8	6.4	6.3	6.5	6.7
China	9.3	7.8	8.0	8.2	8.5	9.3	7.7	7.6	7.3	7.0
India	7.7	4.0	5.7	6.2	7.0	6.3	3.2	3.8	5.1	6.7
MENA	4.0	4.8	3.1	3.7	4.6	3.9	4.6	2.1	3.8	4.4
Sub-Saharan Africa	5.3	4.8	5.6	6.1	5.5	5.5	4.9	5.0	6.0	5.7
South Africa	3.5	2.5	2.8	3.3	3.1	3.5	2.5	2.0	2.9	3.5
Nigeria	7.4	6.3	7.2	7.0	6.7	7.4	6.6	6.2	7.4	6.6
Kenya***	4.4	4.7	5.8	6.2	6.1	4.4	4.6	5.9	6.2	6.1
Tanzania	6.4	6.9	7.0	7.2	6.6	6.4	6.9	7.0	7.2	6.6
Uganda	6.7	2.6	4.8	6.2	7.0	6.2	2.8	5.6	6.5	7.0
Ethiopia	7.5	7.0	6.5	6.5	6.5	11.4	8.5	7.0	7.5	7.0
Rwanda	8.3	7.7	7.6	7.2	6.5	8.2	8.0	7.5	7.5	6.8

Source IMF World Economic Outlook, April and October 2013

86. Advanced economies are gradually strengthening with policy makers having successfully defused two of the biggest short-term threats to global recovery, the threat of a Euro area break-up and a sharp fiscal contraction in the United States. Growth in the U.S economy has been hobbled by excessive fiscal consolidation as well as political uncertainty. The core economies of Europe show some signs of recovery though progress on improving competitiveness and increasing exports is not yet strong enough to offset depressed internal demand.

87. Growth in emerging market economies for 2013 has been revised downwards to 4.5 percent down from 5.3 percent. This slowdown reflects both cyclical factors and a decrease in potential output growth. As commodity prices stabilize and financial conditions tighten, potential growth is lower, leading in some cases to a sharp cyclical adjustment. Growth in China is slowing, which will affect many other economies, notably commodity exporters among the emerging market and developing economies.

88. Emerging market and developing economies are facing new policy challenges. The appropriate policy mix and the pace of adjustment will differ across economies, in view of the differences in output gaps, inflation pressure, central bank credibility, room for fiscal policy manoeuvring, and the nature of vulnerabilities.

89. In Sub-Saharan Africa, commodity related projects are expected to support higher growth and forecasts include no further disruptions. Growth in sub-Saharan Africa for 2013 has been revised to 5.0 percent down from 5.6 percent forecast earlier. This is as a result of weaker growth prospects in many Countries caused by spill-overs from sluggish external demand, reversal of capital flows and decline in commodity prices.



## Kenya's Growth Prospects

90. As global prospects improves together with the recent peaceful elections, prospects for the Kenyan economy remains bright. Kenya is well integrated with the world economy and the positive developments are likely to impact positively our growth prospects, assuming normal weather patterns while recent successful general elections is expected to boost investors' confidence. Furthermore, continued implementation of robust economic policies and structural reforms as well as sound economic management is expected to yield efficiency and translate to faster growth of our economy and creation of more jobs in Kenya.

91. Real GDP is expected to grow by 5.8 percent in 2014 up from 4.6 percent in 2012 and an estimated 5.1 percent in 2013, while over the medium-term, growth is expected to pick-up gradually and cross the 7 percent mark by 2017, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 5.5 percent in 2013/14, 6.1 percent in 2014/15, 6.6 percent in 2015/16 and 6.9 percent in 2016/17 (**Table 2.3 and Annex Table 1**).

**Table 2.3: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework, FY 2011/12-2016/17**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Act.	Act.	Prov.	Projections		
<b>Annual percentage change</b>						
<b>National Account and Prices</b>						
Real GDP	4.5	4.9	5.5	6.1	6.6	6.9
GDP Deflator	11.1	6.6	6.5	7.2	6.8	6.3
CPI Index (eop)	10.1	6.0	5.8	5.3	5.0	5.0
CPI Index (avg)	16.1	5.9	6.0	5.7	5.0	5.0
Terms of Trade (-deterioration)	-2.2	-1.0	-0.3	4.2	5.6	3.8
<b>In percentage of GDP</b>						
<b>Investment and saving</b>						
Investment	20.2	20.9	22.3	23.8	24.9	25.5
Gross National Saving	8.6	10.4	12.7	14.9	16.9	18.0
<b>Central government budget</b>						
Total revenue	23.1	23.1	24.5	25.2	25.2	25.1
Total expenditure and net lending	29.2	30.5	35.3	33.1	32.3	31.7
Overall balance (commitment basis) excl. grants	-6.2	-7.4	-10.8	-7.9	-7.2	-6.6
Overall balance (commitment basis) incl. grants	-5.5	-6.8	-8.9	-6.3	-5.4	-4.9
Nominal public debt, net	45.7	47.8	51.8	52.0	50.8	49.6
<b>External sector</b>						
Current external balance, including official transfers	-11.6	-10.5	-9.6	-8.9	-8.0	-7.5
Gross international reserve coverage in months of imports	3.7	3.7	4.5	5.0	5.2	5.5

Source: National Treasury

92. This level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with other measures specified in section I, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the on-going initiatives to deepen regional integration.

93. This Budget Policy Statement has identified five pillars that will accelerate economic growth and transformation in the fiscal year ahead and the medium term as elaborated in the previous section (I). The policies referred to above, if implemented beginning with FY 2014/15 will accelerate the pace of economic growth and will enable the country achieve the growth rates envisaged in the Vision 2030. Further, resources from the extractive industry especially mining and oil will enhance economic growth once full scale exploitation of these resources commence. It is expected therefore that economic growth by 2018 will be relatively higher than the current estimates due to the impact from this sector as well as the Standard Gauge Railway.

### **Risks to the Outlook**

94. The risks to the outlook for 2014/15 and the medium-term include continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

95. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the Constitution of Kenya, 2010 and the devolved government may limit continued funding for development expenditure.

96. The continued high capital imports and high investment demand to finance infrastructure investments and mineral explorations within the country will continue to drive the level of current account balance. The external sector developments will be keenly monitored so that the economy is not exposed to vulnerability associated with high unsustainable current account.

97. The government will undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

# III FISCAL POLICY AND BUDGET FRAMEWORK

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## Overview

98. The 2014 Medium-Term Fiscal Framework aims at striking an appropriate balance between fiscal consolidation and supporting the devolved system of government, all these within sustainable public finances. Specifically, the 2014 Budget Policy Statement emphasizes:

- Fiscal consolidation while ensuring that the resources to County and National Governments are adequate to promote growth. The Government is committed to a reduction in the recurrent expenditure to devote more resources to development. Furthermore, the overall budget deficit is expected to ease from 8.9 percent in 2013/14 to 6.3 percent in 2014/15, and further to 4.9 per cent by 2016/17;
- Continued reforms in expenditure management and tax administration. This will improve revenue collection and thus create fiscal space for spending on infrastructure and other priority development programmes. This will also help to bring down the debt-to-GDP ratio to below 50 percent in the medium term and contribute to reducing pressure in the current account, in addition to providing adequate room for future countercyclical fiscal policy in the event of a shock.
- Efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and devolved system of governance.
- Increase the absorption of resources from external sources from the current levels of below 60 percent to over 80 percent. This will give the envisaged impetus to economic growth and further improve the credibility of our budget. This will be done through strengthening the current ongoing reform engagements with development partners, as well as strengthening project planning and management. This is also expected to benefit from the ongoing review of the public procurement law which is intended to eliminate inherent delays embedded in the current procurement process.

## Continuing with Prudent Fiscal Policy

99. Fiscal policy will continue to support economic activity 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 8.9 percent of GDP in 2013/14 to a sustainable level of about 4.9 percent of GDP over the medium term. This will allow public debt to decline gradually from about 52.0 percent of GDP in FY 2014/15 to about 49.6 percent of GDP by 2016/17 (**Table 3.1 and Annex Tables 2 and 3**).

**Table 3.1: Central Government Fiscal Projections, 2012/13-2016/17**

	2012/13	2013/14		2014/15		2015/16		2016/17
	Prov.	BPS'13	BPS'14	BPS'13	BPS'14	BPS'13	BPS'14	BPS'14
Revenue and Grants	868.2	1,063.8	1,098.3	1,214.3	1,244.6	1,398.8	1,421.4	1,610.5
% of GDP	23.7%	25.5%	26.4%	25.4%	26.8%	25.5%	26.9%	26.9%
Revenue	847.2	987.3	1,019.9	1,138.6	1,169.1	1,313.7	1,328.7	1,506.8
% of GDP	23.1%	23.7%	24.5%	23.8%	25.2%	24.0%	25.2%	25.1%
Tax Revenue	701.2	839.5	854.5	969.5	982.9	1,120.5	1,117.9	1,273.3
Non-Tax Revenue	146.1	147.9	165.4	169.2	186.2	193.2	210.8	233.4
Grants	20.9	76.4	78.4	75.7	75.5	85.1	92.7	103.7
Expenditure	1,117.0	1,462.2	1,470.6	1,407.4	1,536.1	1,603.9	1,706.7	1,902.0
% of GDP	30.5%	35.1%	35.3%	29.5%	33.1%	29.3%	32.3%	31.7%
Recurrent	808.3	859.6	826.9	916.5	860.7	1,057.6	924.0	987.9
Development	298.9	385.2	428.7	482.0	442.0	538.9	534.6	635.7
Constitution Reform	9.8	4.0	1.5	5.0	2.0	3.0	3.0	-
County Transfer	-	210.0	210.0	-	228.0	-	239.0	271.4
Equalization Fund	-	3.4	3.5	3.9	3.4	4.5	6.1	6.9
Budget Balance (-Deficit, +surplus)	(248.9)	(398.4)	(372.3)	(193.1)	(291.5)	(205.1)	(285.3)	(291.5)
% of GDP	-6.8%	-9.6%	-8.9%	-4.0%	-6.3%	-3.7%	-5.4%	-4.9%
Net External Financing	62.7	90.8	238.8	100.7	100.7	122.7	117.0	110.5
Domestic borrowing	169.8	106.7	133.5	92.5	190.8	82.5	168.4	181.0
% of GDP	4.6%	2.6%	3.2%	1.9%	4.1%	1.5%	3.2%	3.0%
Public Debt to GDP (net of deposits)	47.8%	49.1%	51.8%	49.0%	52.0%	47.6%	50.8%	49.6%
Nominal GDP (Ksh billion)	3,662.6	4,164.6	4,164.6	4,775.3	4,636.7	5,480.5	5,277.0	5,992.1

Source: National Treasury

## Observing Fiscal Responsibility Principles

100. 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 an unwarranted debt burden on future generations. Also to ensure that development portfolio is not crowded out by both the National and County Governments, we shall ensure adherence to the ratio of development to recurrent of at least 30:70 over the medium term, as set out in the law. Once the PFM regulations are finalized it is expected that the national and

county governments will respect ratios guiding the wage levels in general and expenditure management on items such as office goods and their pricing that should as much as possible reflect actual market prices.

101. Timelines on paying goods should be minimized to enable GoK get competitive prices in the market.

102. The respect and observance of these fiscal rules set out in the PFM law and its regulations is important and necessary to entrench fiscal discipline.

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

104. 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 and widening of tax bases. 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**

105. Underpinning the fiscal program are measures to raise the revenue to GDP ratio to about 25.1 percent by 2016/17. 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 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.

106. On the expenditure side, the Government will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the PFM law. Expenditure management will be strengthened with expansion of Integrated Financial Management Information System (IFMIS) modules which is being used across line ministries, departments and at the county level following decentralization. The National Treasury has begun a phased process to operationalize the Single Treasury Account (TSA) to ensure efficient and prudent management of government cash resources for effective service delivery. At the appropriate time the National Treasury will work with the county governments to also create and operationalize single county treasury accounts.

107. The Government will institute measures to contain the public wage bill and release needed resources for development funding. These would include

payroll cleansing, staff rationalization, identification and trimming off of excess personnel; The Government will also continue to offer support and enhance capacity of the county governments and midwife the devolution process so as to encourage proper and transparent use of resources and encourage quality service delivery to Kenyans.

## **Deficit Financing Policy**

108. The borrowing plans will remain anchored in the medium term debt management strategy which is built on ensuring public debt sustainability. 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.

109. On the external financing front, the Government has also highlighted the need to minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by leaning towards borrowing more on concessional terms. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities. With the increased appetite for funding of heavy capital projects there is need of being cautious on the levels of debt accumulation and hence the need to maintain the net present value of public debt to GDP ratio at 45 percent.

## **2014/15 Budget Framework**

110. The 2014/15 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 II and the broad development policies of the new Administration. Real GDP is expected to expand by 6.1 percent in FY 2014/15 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***

111. The 2014/15 budget targets revenue collection including AiA of 25.2 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 1,169.1 billion.

### ***Expenditure Forecasts***

112. The key policy document guiding the Government's funding allocation decisions is the second MTP (2013-2017) of Vision 2030 and the New Administration strategic interventions. In 2014/15, overall expenditures are projected at 33.1 percent of GDP or KSh 1,536.7 billion (excluding debt amortization).

### ***Recurrent Expenditure***

113. Recurrent expenditures are expected to decline from the projected figure of 19.7 percent of GDP in 2013/14 to 18.4 percent of GDP in 2014/15, on account of robust growth in nominal GDP. Transfers to parastatals and semi-autonomous government agencies will be contained at the 2013/14 nominal value in order to provide fiscal space for priority expenditures. Any wage adjustments for these agencies is expected to be in line with the recent directions of the cabinet and the recommendations of the parastatals reform taskforce. In the civil service the Government will contain expansion of the wage bill as measures are put in place to rationalize and trim the civil service for efficient and productive service delivery.

114. 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 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

### ***Development and Net Lending***

115. 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 projected development expenditures including donor funded projects is Ksh 442.0 billion (9.5 percent of GDP) in 2014/15. 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.

116. About 47 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 4.5 percent of GDP in 2014/15 down from 5.5 percent in the revised budget of 2013/14. With improvement in procurement planning (following the expected 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.

117. In view of challenges of climate change, a contingency provision of KSh. 5.0 billion will be provided in the budget for FY 2014/15.

### ***Overall Deficit and Financing***

118. The overall budget deficit (including grants) in 2014/15 is projected to be about KSh 291.5 billion (equivalent to 6.3 percent of GDP). About 34.5 percent of this budget deficit will be covered by net external financing amounting to KSh 100.7 billion (2.2 percent of GDP), leaving about KSh 190.8 billion (4.1 percent of GDP) to be financed through domestic borrowing.

119. 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**

120. 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 46.2 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 PFM law. Meanwhile, efficiency and economical spending of government resources will be enhanced to create room for critical interventions and pro-poor spending.



# IV INTERGOVERNMENTAL FISCAL RELATIONS AND DIVISION OF REVENUE

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## **Introduction**

121. The 2014 Medium-Term Fiscal Framework is being prepared at a time when significant progress has been made in establishing and operationalizing the county governments in accordance with the provisions of the Constitution. Following the general election held in March 2013, County Executive Committees and County Assemblies have been formally constituted and commenced operations. In addition, county governments have established County Public Service Boards which have embarked on the recruitment of the requisite staff to facilitate effective service delivery by county governments. Key intergovernmental institutions have also commenced operations and have provided a platform for both levels of government to consult and resolve emerging challenges in the rollout of the devolved system of government. These include: the Intergovernmental Relations Summit, the Intergovernmental Budget and Economic Council and the Council of County Governors.

122. With the enactment of the key laws to govern public finance management and intergovernmental relations as well as the establishment of the necessary county and intergovernmental institutions, the intergovernmental budget process is now fully operational. This progress notwithstanding, in 2013/14, the first financial year of the implementation of the devolved system of governance, county governments have experienced challenges in planning and budgeting as well as the execution and reporting on budgets.

123. Foremost, given that the elections were conducted close to the commencement of financial year 2013/14, the county governments did not have much time to plan and budget. Second, the decision to transfer most of the functions assigned to county governments was gazetted in August 2013, after county governments had finalised their budgets. This necessitated the revision of county budgets. Third, there were anomalies in most county budgets approved by end of June 2013 largely because the budgets were prepared in a rush to meet constitutional deadlines as well as limited capacity in the county governments.

124. The challenges have gradually been addressed through a two-pronged strategy. First, through intergovernmental forums which facilitate closer cooperation between the national and county governments, such as, the Intergovernmental Budget and Economic Council (IBEC), an intergovernmental forum for consultation on economic and financial matters. Second, the national government, in accordance with the requirements of section 15 of the Sixth Schedule of the Constitution has also been supporting county governments by building their capacity in the management of public finances.

## Resources Available

### *Equitable Shares*

125. Article 202 of the Constitution requires that revenue raised nationally be shared equitably among the national and county governments. According to Article 203(2) of the Constitution, in dividing the shareable revenue between the two levels of government each financial year, county governments must be allocated an equitable share of revenue that is not less than 15% of most recent audited revenue received as approved by the National Assembly. In this regard, the equitable share of revenue allocated to county governments in 2014/15 is not expected to be less than Ksh. 102.3 billion, based on the latest audited revenues of Ksh. 682 billion for FY 2011/12.

126. The equitable share of revenue is an unconditional allocation to the county governments and therefore county governments are expected to plan, budget, spend and account on the funds allocated independently.

127. The Constitution does not explicitly prescribe the upper limit of the equitable share of revenue to be allocated to either level of government. Nevertheless, the Constitution provides some principles that could inform the decision on how high up the equitable allocation to either level of government can be set.

128. First, the Constitution requires the equitable division of revenue to take into account the functions assigned to each level of government. This calls for accurate costing of the functions assigned to each level of government. In this regard, the costing of the functions assigned to county governments was undertaken through a consultative process during the preparation of the MTEF Budget for 2013/14. This costing forms the baseline for the division of the equitable share of revenue for 2014/15. Second, Article 218(2) of the Constitution requires division of revenue between the two levels of government and across county governments to take into account the criteria set out in Article 203(1) of the Constitution. The criteria include factors such as: national interest, public debt and other national obligations, needs of the disadvantaged groups and areas etc.

### *Additional Resources*

129. In addition to the equitable share of revenue, county governments are also expected to get additional resources from the following sources:

- *Additional conditional and unconditional allocations* from the share of the national government as contemplated under Article 202(2) of the Constitution.
- *Own revenues* from specific county revenue raising measures through imposition of property taxes, entertainment taxes, as well as any other tax

they are authorised to impose by an Act of Parliament as well as user fees and charges authorised by county laws.

- *Borrowing*, provided national government guarantee is obtained as well as the approval of the respective county assembly.
- *Grants and donations* from development partners in accordance with section 138 and 139 of the Public Finance Management Act, 2012.
- *Equalization Fund* established under Article 204 of the Constitution for purposes of providing 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.

## **Transfer of Functions and Budgeting**

### ***Legal Basis***

130. The Constitution has assigned functions to both levels of government while the Transition to Devolved Government Act, 2012 (TDGA) prescribes how the functions are to be transferred from the national government to the county governments during the transition period. Article 187(2) of the Constitution has also entrenched the principle ‘finance should follow functions’ which requires that once a function is transferred, the necessary resources should also be transferred to the government that is assigned that function in order to enable such government to perform the functions transferred.

131. Therefore, save for cases where there is a significant growth in revenue raised nationally, the only way to substantially increase the allocation to either level of government beyond the cost of functions assigned under the Fourth Schedule of the Constitution, is by transferring functions from one level of government to another as contemplated under Article 187(2) of the Constitution.

### ***Link between Revenue Allocation and Functions***

132. As an example, if the national government was to transfer to county governments KeRRA and KURA road projects, which were retained at the national level, using the estimates for FY 2014/15, the total county allocations would increase to Ksh. 227.9 billion or 33 percent of the most recent audited revenue. If primary and secondary education functions, excluding the Teachers Service Commission (TSC) were transferred to county governments, county allocations would increase significantly to 40 percent of the most recent audited revenue. If primary and secondary education functions, together with the TSC were transferred to county governments, the total allocation to counties would increase further to 65 percent of the most recent audited revenue. **Table 4.1** provides the three scenarios highlighted above which illustrate the link between finance and function assignment. Therefore, save for a situation where revenue collection improves dramatically, it may not be possible to significantly increase the vertical allocation to county governments without transferring more functions to county governments as contemplated under Article 187(2) of the Constitution.

Transfer of functions to another level of government, however, can only be done if there is demonstrable capacity to perform that function.

**Table 4.1: Possible Scenarios to illustrate how Higher Allocations to County Governments may be Achieved in Future**

	Scenarios for FY 2014/15	Amount (Ksh.)	Percentage of most recent audited revenue (2011/12)
I	Current Cost of Devolved Functions	228,489,000,000	33%
II	Current Cost of Devolved Functions plus KeRRA and KURA roads	238,989,000,000	35%
III	Current Cost of Devolved Functions plus Primary and Secondary Education excluding TSC	286,447,000,000	42%
IV	Current Cost of Devolved Functions plus Primary and Secondary Education and TSC	452,970,000,000	66%

*Source: National Treasury*

### ***Transfer of Functions and Budgeting***

133. The power to determine the functions and the quantum of resources to be transferred has been assigned to the Transition Authority (TA) under Section 7 of the TDGA. In exercise of that power, the TA gazetted the decision on the immediate transfer of all the functions of the defunct local authorities to be performed by the County Governments in February 2013, in accordance with the provision of section 23(1) of the TDGA. Thereafter, the Transition Authority gazetted the decision to transfer more functions vide legal No. 137, in accordance with the provisions of section 23(3) of the TDGA.

134. According to the TDGA, the TA's decision on the transfer of functions and resources determines the level of government that plans, budgets, executes and reports on the revenues allocated to the two levels of government. Therefore, where functions assigned to county governments have not been transferred to county governments, (e.g. the Rural Electrification function), the national government will be responsible for the planning, budgeting and reporting on the revenue allocated for the function. This allocation, however, remain a county allocation, even though the function has not been transferred to the counties since it will ultimately be transferred during the transition period. Where a function is transferred to counties, then the county government is responsible for the planning, budgeting and reporting for the revenue allocated for such functions.

135. Before county and national governments budgets are prepared, Parliament must approve the division of revenue between the national and county governments and among the county governments. The Cabinet Secretary responsible for finance is required to prepare and submit the Division of Revenue Bill and the County Allocation of Revenue Bill to Parliament for approval to authorise the division of revenue raised nationally between the national and county governments and among county governments. In preparing the Revenue Bills, the Cabinet Secretary is required to take into account the recommendations of the Commission on Revenue Allocation on the Division of Revenue between the national and county governments and across county governments. Upon

approval of the two Bills, each level of government is expected to plan, formulate, execute and report on their budgets independently.

136. The county governments have adequate time to plan and budget for the financial year 2014/15 this time round. County governments will therefore be expected to prepare their 2014/15 MTEF budget in line with the intergovernmental budget process set out in the Public Finance Management Act, 2012.

## **Vertical Division of Revenue**

### *Baseline Cost of Devolved Functions*

137. In estimating the county governments' share of revenue raised nationally to be allocated to counties in the financial year 2014/15, the baseline cost of devolved functions is derived from the Division of Revenue Act, 2013 and comprises of the equitable share of Ksh 190 billion. To this baseline the following adjustments have been made:

- Adjustments to reflect the increase in cost for personnel emoluments for county administration in line with the decision of the Salaries and Remuneration Commission (SRC) communicated vide circular of Ref. No. SRC/TS/CGOVT/3/16 of 27th November 2013.
- Adjustments to include cost of county staff pension and/or service gratuity that is consistent with the current legislation and the decision of the SRC. It is expected that staff of the county governments will shift from a defined benefit pension scheme to a defined contributory pension scheme, where county governments will be expected to contribute to the scheme.
- Adjustment to transfer a portion of the allocation for administration at the headquarters of national government ministries whose functions were transferred to county governments. This is to reflect the reduced role of national government in the administration of the functions transferred to county governments.

18. The total cost for adjustment of salary, pension and gratuity is expected to be KSh. 16.6 billion in 2014/15. As a result, the cost of salaries and administration of the new county structures is expected to increase from Ksh. 13.6 billion in 2013/14 to Ksh. 30.2 billion in 2014/15. The cost of pension for the staff transferred from national government to county governments is estimated at Ksh 4.2 billion in 2014/15. In addition, Ksh. 7.1 billion is to be transferred from the budget of the national government to county governments, being adjustment to reflect the expected reduction in administration costs for national government following the transfer of some functions to county governments in August 2013. **Table 4.2** shows the computation of the vertical allocation of revenue to county governments in 2014/15.

**Table 4.2: Vertical Allocation of Revenue to County Governments in FY 2014/15**

Budget Item	KSh. Millions
<b>Equitable share in 2013/14</b>	<b>190,000</b>
<b>Less:</b>	
<i>Estimated cost of remuneration and administration of the new county structures in FY 2013/14</i>	<i>13,622</i>
<b>Adjusted Baseline</b>	<b>176,378</b>
<b>Add:</b>	
<i>1. Adjusted cost of remuneration and administration for the new county government structures, including adjustment for pension/gratuity and increase in salaries &amp; allowances</i>	<i>30,200</i>
<i>2. Cost of pension for staff transferred from national government</i>	<i>4,248</i>
<i>3. Cost of administration transferred from national government to county governments</i>	<i>7,080</i>
<i>4. Adjustment to cater for annual growth in expenditure</i>	<i>10,583</i>
<b>Total County Allocation from the shareable revenue</b>	<b>228,489</b>
<b>Less:</b>	
<i>Cost of Rural Electrification function that is to be transferred to county governments at a later date</i>	<i>7,314</i>
<b>Equitable share in 2014/15</b>	<b>221,175</b>

*Source: National Treasury*

***Proposed Vertical Division of Revenue for FY 2014/15***

138. In the Financial Year 2014/15, the estimated vertical allocation to national and county governments is as shown in **Table 4.3**.

**Table 4.3: Allocation of Revenue raised Nationally Between the National and County Governments for FY 2014/15**

Type/Level of Allocation	Amount in KES	Percentage (%) of 2011/12 Audited Revenue(i.e. KES. 682.1 billion)
National Government Of which:	853,525,000,000	125.1%
<i>Rural Electrification (REA Funds)</i>	<i>7,314,000,000</i>	1.1%
<i>Equalisation Fund</i>	<i>3,410,705,000</i>	0.5%
County Equitable Share	221,175,000,000	32.4%
<b>Total Shareable Revenue</b>	<b>1,074,700,000,000</b>	

**MEMO ITEMS**

County Equitable Share	221,175,000,000	32.4%
Rural Electrification (REA Funds)	7,314,000,000	1.1%
Conditional Allocations - loans and grants	13,898,673,499	2.0%
<b>Total County Allocations</b>	<b>242,387,673,499</b>	35.5%

*Source: National Treasury*

139. In the financial year 2014/15, the funds allocated to county governments are estimated at about Ksh242.4 billion. This represents 35.5 percent of the most recent audited revenues approved by the National Assembly (or Ksh 682.1 billion), more than double the constitutional minimum of 15 percent. This comprises of:

- **County Equitable Share of Ksh. 221.2 billion.** This is an unconditional allocation to county governments in accordance with the formula for sharing revenue approved by Parliament under Article 217 of the Constitution.
- **Allocation for Rural Electrification of Ksh. 7.3 billion.** It should be noted that whereas this function has been assigned to the county governments the decision to transfer it to county governments in a manner contemplated under the Transition to Devolved Government Act, 2012 is pending. This function is therefore under the national government and therefore planning and budgeting for this fund will be the responsibility of the national government.

- **Conditional allocations from donor loans and grants estimated at Ksh. 13.9 billion.**

140. Of the balance of the shareable revenue left after allocating Ksh228.4 billion to county governments, it is estimated that Ksh 3.4 billion or 0.5 percent of the most recent audited revenue will be allocated to the Equalisation Fund in financial year 2014/15.

*Evaluation of the Vertical Division of Revenue in Relation to Article 203(1) of the Constitution*

141. In estimating the vertical division of revenue between the national and county governments the national government took into account the criteria set out in Article 203(1) of the Constitution. Some of the factors set out under Article 203(1) that were taken into account include: national interest, public debt and other national obligations and others. **Table 4.4** provides an assessment of the extent to which the requirements of Article 203 (1) have been incorporated in estimating the division of revenue between the national and county levels of government.



**Table 4.4: Evaluation of Revenue Allocation in Relation to Article 203 (1) of the Constitution**

	<b>BUDGET ITEM</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
A	<b>Ordinary Revenue (excluding AIA)</b>	<b>849,700</b>	<b>955,600</b>	<b>1,074,700</b>
B	<b>National Interest [Article 203 (1)(a)]</b>	<b>360,587</b>	<b>472,776</b>	<b>478,296</b>
	<i>1. Defence and NIS</i>	<i>91,275</i>	<i>89,444</i>	<i>80,071</i>
	<i>2. Parliament</i>	<i>14,542</i>	<i>20,004</i>	<i>19,243</i>
	<i>3. Judiciary</i>	<i>12,157</i>	<i>15,700</i>	<i>17,687</i>
	<i>4. Presidency</i>	<i>9,243</i>	<i>5,988</i>	<i>4,383</i>
	<i>5. Office of the Attorney General Office &amp; Department of Justice</i>	<i>5,410</i>	<i>2,947</i>	<i>3,014</i>
	<i>6. DPP</i>	<i>1,072</i>	<i>1,475</i>	<i>2,144</i>
	<i>7. Police Services</i>	<i>53,441</i>	<i>67,386</i>	<i>68,481</i>
	<i>8. Teachers Service Commission</i>	<i>140,412</i>	<i>165,739</i>	<i>162,345</i>
	<i>9. Other Constitutional Commissions and IOs</i>	<i>7,749</i>	<i>8,949</i>	<i>8,902</i>
	<i>10. Elections</i>	<i>25,286</i>	<i>4,160</i>	<i>3,816</i>
	<i>11. National Strategic Interventions</i>	<i>-</i>	<i>90,984</i>	<i>108,211</i>
C	<b>Public Debt and Other Obligations (Article 203 [1][b])</b>	<b>361,322</b>	<b>381,535</b>	<b>414,391</b>
	<i>1. Debt Payment</i>	<i>320,322</i>	<i>331,167</i>	<i>353,477</i>
	<i>2. Pensions, constitutional salaries &amp; other</i>	<i>41,000</i>	<i>50,368</i>	<i>60,914</i>
D	<b>Emergencies [Article 203 (1)(k)]</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
E	<b>Equalisation Fund [Article 203 (1) (g) and (h)]</b>	<b>3,000</b>	<b>3,400</b>	<b>3,400</b>
F	<b>County Governments Allocations [Article 203 (1) (f)] less Loans and Grants</b>	<b>168,974</b>	<b>193,419</b>	<b>228,489</b>
H	<b>Balance available to National Government after Article 203 (1)</b>	<b>(49,182)</b>	<b>(100,530)</b>	<b>(54,876)</b>

142. It should be noted from Table 4.4 that after taking into account the criteria set out in Article 203(1) of the Constitution, there is no revenue left to fund other national government needs. Indeed, the national government is left with a shortfall of Ksh. 54.9 billion or 8.0 percent of the most recent audited revenue

received as approved by the National Assembly. This therefore means that the national government will have to borrow to finance other national government needs.

### *Projected Shares*

143. The projected shares of revenue for the two levels of government are outlined in **Table 4.5**. The equitable share is projected to grow faster in 2016/17, at 16 per cent compared to 12 per cent in 2015/16, as the amounts allocated for rural electrification are converted to unconditional allocations to counties.

144. The allocation for the Equalisation Fund is expected to rise from Ksh. 3.4 billion in 2014/15 to Ksh. 4.2 billion in 2016/17.

**Table 4.5: Projected Division of Available Funds, 2014/15 to 2016/17 (Ksh. Billion unless indicated otherwise)**

		2014/15	2015/16	2016/17
<b>1.0</b>	<b>National Government</b>	<b>846.2</b>	<b>969.7</b>	<b>1,108.6</b>
	Equalisation Fund	3.4	3.8	4.2
	Conditional Allocations to counties	7.3	7.8	-
	<i>Of which:</i>			
	Rural Electrification	7.3	7.8	-
<b>2.0</b>	<b>County Governments</b>	<b>228.5</b>	<b>255.5</b>	<b>286.2</b>
	Equitable Share	221.2	247.7	286.2
	Conditional Allocations	7.3	7.8	
	<i>Of which:</i>			
	Rural Electrification	7.3	7.8	
<b>3.0</b>	<b>Total Shareable Revenue</b>	<b>1,074.7</b>	<b>1,229.0</b>	<b>1,399.0</b>
	<b>Percentage Share</b>			
	National Government	78.7%	78.9%	79.2%
	County Governments	21.3%	20.8%	20.5%
	<b>Memo Items</b>			
	Conditional allocation to counties - Loans and Grants	13.9	14.7	15.6
	Counties own revenue	28.4	32.6	37.4
	County Allocations as a % of latest audited revenues (Ksh. 682 billion for FY 2011/12)	33.5%	37.5%	42.0%

*Source: National Treasury*

## Horizontal Division of Revenue among Counties

145. Section 190 of the Public Finance Management Act, 2012 requires the Cabinet Secretary for finance to prepare and submit to Parliament a County Allocation of Revenue Bill, setting out the division of county governments' share of revenue among counties. County governments will also get additional conditional allocations from the loans and grants.

146. **Table 4.6** provides estimates of revenue allocation among counties in the financial year 2014/15. The allocations comprise of the equitable share of Ksh. 221.2 billion, distributed based on the formula for sharing revenue approved by Parliament in accordance with Article 217 of the Constitution.

147. In addition, county governments will also get an additional conditional allocation of Ksh. 7.3 billion to finance rural electrification projects. The allocation is shared among counties in accordance with the revenue sharing formula approved by Parliament. As explained above, this function is yet to be transferred to county governments by the Transition Authority. The allocation will therefore be managed by the national government on behalf of the county governments and therefore will be part of the national government vertical share of revenue.

148. An additional conditional allocation of Ksh. 13.9 billion will be allocated to county governments from the loans and grants received from development partners and the government counterpart funding derived from the national government's share. The conditional allocations from proceeds of loans and grants, however, will not be transferred to county governments in the financial year 2014/15 due to the following reasons:

- Loans and grants earmarked for devolved functions are tied to on-going contracts with suppliers, the alteration of which may have legal and cost implications;
- There exists financing agreements guiding the structures and management framework of all the programmes/projects, the alteration of which would take long and delay implementation of programmes/projects;
- Some of the programmes/projects funded by loans and grants have agreed implementation structures transcending more than one county and therefore it may not be possible to place the responsibility for their management in one county government; and
- The financing agreements also specify the funds flow modalities which may not be consistent with what is contemplated under the intergovernmental arrangement.

149. It is therefore expected that the loans and grants under the existing financing agreement will be managed by the national government but with

involvement of county governments in the Project Steering Committees and Project Implementation Units for each programme/project. In addition, reporting arrangements as well as the conditions attached to the implementation of the programme/project will be clearly spelt out in Project Implementation Frameworks to be agreed with county governments prior to the release of the funds and implementation of the projects.

**Table 4.6: Revenue Allocation for Each County Government for FY 2014/15**

County	Allocation Ratio	FY 2013/14		FY 2014/15			Per capita Allocations (Ksh.)
		Total County Allocations (Ksh.)	Equitable Share	Rural Electrification	Allocations - loans and grants	Total County Allocations	
		Column A	Column B				
1 Baringo	1.71%	3,630,408,716	3,780,757,552	125,025,255	182,876,218	4,088,659,024	7,360
2 Bomet	1.81%	3,715,221,350	4,007,503,143	132,523,468	150,769,518	4,290,796,129	5,925
3 Bungoma	3.25%	6,515,262,210	7,194,783,986	237,923,138	711,417,035	8,144,124,159	4,994
4 Busia	1.80%	3,678,773,577	3,972,308,049	131,359,607	661,134,231	4,764,801,887	9,762
5 Elgeyo/Marakwet	1.26%	3,136,513,405	2,784,490,888	92,079,875	139,362,418	3,015,933,181	8,151
6 Embu	1.48%	3,364,281,093	3,267,666,165	108,057,919	426,494,990	3,802,219,074	7,366
7 Garissa	2.22%	4,696,466,675	4,914,082,809	162,503,003	91,802,418	5,168,388,230	8,295
8 Homa Bay	2.17%	5,726,215,438	4,797,669,847	158,653,362	215,462,418	5,171,785,626	5,366
9 Isiolo	1.18%	2,423,476,882	2,602,395,085	86,058,179	91,802,418	2,780,255,682	19,402
10 Kajiado	1.70%	3,511,792,058	3,756,960,407	124,238,311	214,154,418	4,095,353,136	5,959
11 Kakamega	3.43%	7,356,212,775	7,584,569,170	250,812,881	955,696,758	8,791,078,809	5,294
12 Kericho	1.73%	3,612,812,629	3,835,663,387	126,840,927	120,827,418	4,083,331,732	5,385
13 Kiambu	2.87%	6,264,435,668	6,354,545,405	210,137,426	148,204,518	6,712,887,348	4,135
14 Kilifi	2.86%	5,820,419,123	6,335,537,520	209,508,857	142,602,418	6,687,648,794	6,026
15 Kirinyanga	1.36%	2,829,920,840	3,012,479,221	99,619,184	277,576,292	3,389,674,697	6,419
16 Kisii	2.73%	5,824,258,288	6,039,596,132	199,722,419	155,899,518	6,395,218,070	5,550
17 Kisumu	2.19%	4,866,678,745	4,837,094,912	159,957,103	210,529,518	5,207,581,533	5,375
18 Kitui	2.80%	5,834,395,951	6,187,439,952	204,611,443	299,716,518	6,691,767,912	6,608
19 Kwale	1.97%	4,029,400,667	4,364,077,915	144,314,981	168,482,418	4,676,875,314	7,196
20 Laikipia	1.33%	2,757,834,934	2,936,985,641	97,122,699	155,224,518	3,189,332,858	7,989
21 Lamu	0.79%	1,599,992,106	1,746,997,444	57,771,174	91,802,418	1,896,571,036	18,678
22 Machakos	2.61%	5,473,697,909	5,762,909,487	190,572,714	302,987,289	6,256,469,490	5,695
23 Makueni	2.30%	4,721,151,803	5,082,646,941	168,077,223	309,133,344	5,559,857,508	6,286
24 Mandera	3.45%	6,780,543,337	7,624,989,327	252,149,528	91,802,418	7,968,941,273	7,769
25 Marsabit	2.00%	4,068,447,609	4,418,367,634	146,110,279	91,802,418	4,656,280,331	15,992
26 Meru	2.50%	5,507,866,275	5,528,728,169	182,828,610	1,584,004,384	7,295,561,163	5,379
27 Migori	2.25%	4,760,063,083	4,969,563,098	164,337,672	216,486,618	5,350,387,388	5,834
28 Mombasa	2.00%	4,347,575,931	4,425,546,774	146,347,684	131,729,518	4,703,623,977	5,007
29 Muranga	2.06%	4,321,826,974	4,560,157,771	150,799,114	334,012,785	5,044,969,669	5,352
30 Nairobi	5.00%	9,896,236,826	11,065,462,493	365,921,974	1,605,339,854	13,036,724,321	4,154
31 Nakuru	3.12%	6,961,312,530	6,910,337,606	228,516,827	138,214,518	7,277,068,951	4,539
32 Nandi	1.83%	3,886,848,586	4,048,551,880	133,880,902	120,799,518	4,303,232,300	5,715
33 Narok	2.04%	4,146,381,942	4,502,179,906	148,881,853	205,416,618	4,856,478,377	5,707
34 Nyamira	1.60%	3,317,084,521	3,537,221,499	116,971,801	153,902,418	3,808,095,718	6,365
35 Nyandarua	1.66%	3,435,119,044	3,667,089,692	121,266,391	145,774,518	3,934,130,601	6,598
36 Nyeri	1.71%	4,071,322,926	3,788,116,830	125,268,618	316,867,785	4,230,253,233	6,099
37 Samburu	1.37%	2,805,092,097	3,024,453,738	100,015,167	91,802,418	3,216,271,324	14,362
38 Siaya	1.92%	3,971,592,206	4,253,054,841	140,643,577	653,606,711	5,047,305,129	5,992
39 Taita	1.27%	2,626,482,215	2,817,804,460	93,181,516	91,802,418	3,002,788,394	10,549
40 Tana River	1.53%	3,118,807,124	3,392,508,746	112,186,318	123,797,418	3,628,492,483	15,114
41 Tharaka Nithi	1.21%	2,434,590,071	2,671,360,382	88,338,781	698,823,239	3,458,522,401	9,467
42 Transoia	1.96%	3,923,008,857	4,341,868,964	143,580,557	91,802,418	4,577,251,938	5,590
43 Turkana	4.03%	7,894,398,068	8,921,969,701	295,039,161	91,802,418	9,308,811,280	10,882
44 Uasin Gishu	2.00%	4,066,889,893	4,419,574,966	146,150,204	96,432,418	4,662,157,588	5,214
45 Vihiga	1.49%	3,028,538,740	3,296,164,713	109,000,333	410,456,808	3,815,621,854	6,880
46 Wajir	2.78%	5,647,521,552	6,158,038,375	203,639,167	91,802,418	6,453,479,959	9,749
47 West Pokot	1.66%	3,592,826,769	3,672,727,375	121,452,823	96,432,418	3,890,612,615	7,589
<b>GRAND TOTAL</b>	<b>100.00%</b>	<b>210,000,000,000</b>	<b>221,175,000,000</b>	<b>7,314,000,000</b>	<b>13,898,673,499</b>	<b>242,387,673,499</b>	<b>6,278</b>

## Fiscal Discipline

150. Article 201 (d) of the Constitution requires public money to be used in a prudent and responsible way while Section 107 of the PFM Act, 2012 sets out the fiscal responsibility principles to be enforced by the County Treasuries. Current trends in the county planning and budgeting as well as execution of budgets

suggest that county governments may have difficulty meeting these requirements. A review of some county budgets as well as the county revenue collection trends indicate that county governments may not realise the ambitious targets set for revenue collection for financial year 2013/14. There is therefore a risk that some county governments may end up with huge unfunded budget deficits at the end of the financial year. County governments should therefore be conservative in projecting their revenue collections. In addition, county governments should not include deficits in their budget for financial year 2014/15 without a clear and realistic plan of how the deficit will be funded.

151. County governments have embarked on ambitious staff recruitment exercise. This trend if not checked may result in an unsustainable wage bill. County governments are therefore urged to ensure that staff numbers are commensurate to the functions assigned. County governments must also ensure compliance with the requirement of section 107(2)(b) which requires county governments to spend a minimum of 30 percent of their budgets on development expenditure over the medium term.

### **Capacity Building of County Governments**

152. Evidence shows that some counties are still experiencing challenges in fully implementing the PFM Act 2012. The national government will therefore continue providing the necessary support. In this regard, the national government will roll out training and provide standby teams to respond to requests for support from the county governments. A county public finance management training curriculum has been prepared and preparation of Trainers and Users' Manual for each of the training module identified in the curriculum is underway.

34. In addition, the national government is in the process of setting up a department within the National Treasury to coordinate intergovernmental matters relating to economic and financial management. Resources will also be set aside for building the capacity of county governments in public finance management in the national budget for the financial year 2014/15.

### **Summary**

153. The new PFM law provides a robust intergovernmental budget process that, if implemented, will present an opportunity for improved financial management at both levels of government. The division of revenue between national and county government in 2014/15 is informed by function assignment as set out in the Fourth Schedule of the Constitution. In 2014/15, approximately 21.3 percent of the estimated shareable revenue in financial year 2014/15 is allocated to county governments while national government share is 78.7 percent. In addition, county governments will receive additional conditional allocation from loans and grants received from development partners.

# V MEDIUM TERM EXPENDITURE FRAMEWORK

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## Resource Envelope

154. 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 80 percent of the budget. Of this, tax revenue (income tax, customs duties, value added taxes, and excise taxes) accounts for over 70 percent of total budget resources. Revenues are expected to be 25.3 percent of GDP in 2014/15;
- 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 2014/15; and
- Domestic borrowing at 4.1 percent of GDP is expected to finance about 65 percent of the deficit in 2014/15, 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.

155. Ordinary revenue is projected to broadly cover funding required for recurrent expenditure, County allocation and part of the development, leaving the rest of the 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

156. The MTEF budgeting will adjust non-priority expenditures to cater for the priority sectors. The Second MTP (2013-2017), together with the priorities of the new Administration will largely guide resource allocation, going forward.

157. 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 levels in order to promote public trust in government spending.

158. Overall, the MTEF budgeting will focus on the following:

- The priority social sectors, education and health, will continue to receive adequate resources. With a combined allocation of 30.1% of total discretionary expenditures, both sectors (education and health) are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.
- At a total allocation of 22.5 % of total discretionary expenditures The Energy, Infrastructure and ICT sector receive the second largest share of resources after education sector. This sector is a key driver of the economy and reflects Government's commitment in improving infrastructure countrywide, such as roads, energy and rail. The allocation to the sector will continue to rise over the medium term. This will also help the sector provide reliable and affordable energy.
- Other priority areas including internal security, rule of law, youth and development of arid regions, will continue to receive adequate resources.



## Medium-Term Expenditure Estimates

159. Table 5.1 provides the projected baseline ceilings for the 2014 MTEF, classified by sector.

**Table 5.1: Medium Term Sector Ceilings, 2014/15 - 2016/17 (KSh Million)**

SECTOR		% SHARE OF TOTAL EXPENDITURE													
		ESTIMATES 2013/14	REVISED BASELINE 2013/14	BROP CEILING 2014/15	BPS CEILING 2014/15	PROJECTIONS		% Change 2013/14 - 2014/15	ESTIMATES 2013/14	REVISED BASELINE 2013/14	BROP CEILING 2014/15	BPS CEILING 2014/15	PROJECTIONS		
						2015/16	2016/17						2015/16	2016/17	
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	53,343.4	64,637.8	55,674.9	55,559.1	64,974.5	66,966.1	4.2%	5.0%	5.8%	5.0%	5.0%	5.4%	5.3%	
	Rec. Gross	15,022.2	17,216.5	16,080.7	15,964.9	17,514.1	18,417.3	6.3%	1.4%	1.5%	1.4%	1.4%	1.4%	1.5%	
	Dev. Gross	38,321.2	47,421.3	39,594.2	39,594.2	47,460.4	48,548.8	3.3%	3.6%	4.3%	3.5%	3.6%	4.0%	3.9%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,531.9	213,158.1	241,908.1	250,047.6	280,085.5	312,439.2	15.5%	20.5%	19.1%	21.7%	22.5%	23.4%	24.8%	
	Rec. Gross	27,333.6	36,700.4	41,606.7	41,439.9	44,212.1	46,422.8	50.5%	2.6%	3.3%	3.7%	3.7%	3.7%	3.7%	
	Dev. Gross	188,998.4	176,457.7	200,301.4	208,607.7	235,873.4	266,016.5	10.4%	17.9%	15.8%	17.9%	18.8%	19.7%	21.1%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	12,930.2	12,338.2	14,243.4	13,815.0	14,610.8	14,868.7	6.8%	1.2%	1.1%	1.3%	1.2%	1.2%	1.2%	
	Rec. Gross	7,941.4	7,885.1	8,810.2	8,381.7	8,895.2	9,016.4	5.5%	0.8%	0.7%	0.8%	0.8%	0.7%	0.7%	
	Dev. Gross	4,988.7	4,453.1	5,433.2	5,433.2	5,715.6	5,852.3	8.9%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
HEALTH	SUB-TOTAL	36,218.1	46,754.6	37,900.6	37,923.2	40,522.6	43,430.0	4.7%	3.4%	4.2%	3.4%	3.4%	3.4%	3.4%	
	Rec. Gross	20,324.7	22,622.3	23,432.0	23,454.5	25,946.1	28,743.4	15.4%	1.9%	2.0%	2.1%	2.1%	2.2%	2.3%	
	Dev. Gross	15,893.4	24,132.2	14,468.6	14,468.6	14,576.5	14,686.6	-9.0%	1.5%	2.2%	1.3%	1.3%	1.2%	1.2%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
EDUCATION	SUB-TOTAL	276,242.5	298,158.3	303,150.7	295,971.9	316,799.0	327,787.4	7.1%	26.1%	26.8%	27.1%	26.6%	26.5%	26.0%	
	Rec. Gross	245,827.7	266,928.0	268,538.6	261,359.8	281,447.7	291,990.6	6.3%	23.3%	24.0%	24.0%	23.5%	23.5%	23.2%	
	Dev. Gross	30,414.7	31,230.3	34,612.2	34,612.2	35,351.3	35,796.7	13.8%	2.9%	2.8%	3.1%	3.1%	3.0%	2.8%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	126,151.8	126,671.1	135,065.8	133,205.5	140,967.3	149,203.9	5.6%	11.9%	11.4%	12.1%	12.0%	11.8%	11.8%	
	Rec. Gross	111,263.6	117,075.2	120,750.7	118,890.4	126,341.4	134,308.4	6.9%	10.5%	10.5%	10.8%	10.7%	10.6%	10.7%	
	Dev. Gross	14,888.2	9,595.9	14,315.1	14,315.1	14,625.9	14,895.5	-3.8%	1.4%	0.9%	1.3%	1.3%	1.2%	1.2%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	173,454.5	183,495.2	172,643.6	168,030.2	177,641.9	182,789.7	-3.1%	16.4%	16.5%	15.5%	15.1%	14.8%	14.5%	
	Rec. Gross	73,855.4	80,409.9	81,490.1	76,876.8	83,342.0	85,853.3	4.1%	7.0%	7.2%	7.3%	6.9%	7.0%	6.8%	
	Dev. Gross	99,599.1	103,085.3	91,153.5	91,153.5	94,299.8	96,936.3	-8.5%	9.4%	9.3%	8.2%	8.2%	7.9%	7.7%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
NATIONAL SECURITY	SUB-TOTAL	84,723.2	89,029.0	80,300.0	80,070.9	81,102.1	81,912.9	-5.5%	8.0%	8.0%	7.2%	7.2%	6.8%	6.5%	
	Rec. Gross	84,723.2	89,029.0	80,300.0	80,070.9	81,102.1	81,912.9	-5.5%	8.0%	8.0%	7.2%	7.2%	6.8%	6.5%	
	Dev. Gross	-	-	-	-	-	-	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%	
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	20,542.8	20,209.4	21,001.5	21,265.1	21,792.9	22,596.9	3.5%	1.9%	1.8%	1.9%	1.9%	1.8%	1.8%	
	Rec. Gross	10,893.2	11,189.2	10,972.5	11,236.1	11,054.0	11,137.5	3.1%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	
	Dev. Gross	9,649.7	9,020.3	10,028.9	10,028.9	10,738.9	11,459.4	3.9%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	57,133.5	59,483.1	55,278.9	54,990.8	57,795.2	58,979.1	-3.8%	5.4%	5.3%	4.9%	5.0%	4.8%	4.7%	
	Rec. Gross	13,200.2	14,215.4	14,936.6	14,648.5	14,888.0	15,769.0	11.0%	1.2%	1.3%	1.3%	1.3%	1.2%	1.3%	
	Dev. Gross	43,933.4	45,267.7	40,342.3	40,342.3	42,907.2	43,210.2	-8.2%	4.2%	4.1%	3.6%	3.6%	3.6%	3.4%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
TOTAL	TOTAL	1,057,271.9	1,113,934.8	1,117,167.5	1,110,879.3	1,196,291.8	1,260,973.9	5.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
	Rec. Gross	610,585.3	663,271.0	666,918.0	652,323.5	694,742.8	723,571.5	6.8%	57.8%	59.5%	59.7%	58.7%	58.1%	57.4%	
	Dev. Gross	446,686.7	450,663.9	450,249.5	458,555.8	501,549.0	537,402.4	2.7%	42.2%	40.5%	40.3%	41.3%	41.9%	42.6%	
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

## Baseline Ceilings

160. The baseline estimates reflects the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures takes first charge and excludes payment of statutory obligations such as interest payments, salaries for Constitutional offices and pension that are financed by the National Government included in the consolidated fund services.

These expenditures are projected to account for about 18.0 percent of the expected ordinary revenue receipts.

161. Compensation of employees covering those staff in the line ministries providing services for national government and on behalf of the devolved functions accounts for about 27 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 33.0 percent of the projected ordinary revenue, of which Defense and NSIS account for 7.0 percent.

162. Overall, recurrent expenditure on non-discretionary, compensation of employees, and operations and maintenance account for 99.0 percent of projected ordinary revenue. The balance of 1.0 percent from total ordinary revenue is the resources available to fund planned development projects/programmes for the National Government (excluding the Railway Development Programme which is financed through the Railway Development Levy) and loan redemptions.

163. As already indicated, it is only 1.0 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.

164. 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 and priorities of the new Administration. The implementation of the Constitution is also a key national objective, thus more resources will be set aside for this purpose over the medium term.

165. 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:

<b>Priority Areas of Consideration for Additional Resources</b>	
1.	Intervention identified during the stakeholders consultation for 2014 MTEF budget.
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.
4.	Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

### **Details of Sector Priorities**

166. The medium term expenditure framework for 2014/15 – 2016/17 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030 and strategic policy initiatives of the Jubilee 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, Rural & Urban Development Sector (ARUD)***

167. This Sector comprises of three sub-sectors, namely; Agriculture, Livestock and Fisheries; Land, Housing and Urban Development and the National Land Commission. The Research and Development institutions in the sector are Kenya Agricultural Research Institute (KARI), Tea Research Foundation of Kenya (TRFK), Coffee Research Foundation (CRF), Kenya Sugar Research Foundation (KESREF) and Kenya Marine and Fisheries Research Institute (KMFRI).

168. The Sector goal in line with the Vision 2030 is “to attain food security, sustainable land management, and development of affordable housing and urban

infrastructure”. The Constitution, under Article 43 on the Bills of Rights, has provided for accessibility of adequate food of acceptable quality and accessible and adequate housing. In terms of its contribution to GDP, ARUD sector directly contributes 24.5 percent of the GDP valued at KShs 741 billion. The sector also contributes approximately 27 percent to GDP through linkages with manufacturing, distribution and other service related sectors. It further accounts for about 65 percent of Kenya’s total exports, 18 percent and 60 percent of the formal and total employment respectively. ARUD sector has been identified as one of the six sectors aimed at delivering the 10 percent economic growth rate under the Vision 2030.

169. The key 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.

170. Over the 2014 MTEF, the sector aims to address the above challenges by raising agricultural productivity through value addition and adoption of new technologies; exploiting irrigation potential; increased commercialization of the sector activities; exploiting the potential of Exclusive Economic Zone (EEZ); creating an enabling policy and legal framework, improving efficiency and effectiveness of sector institutions; effective administration and management of land resource; enhancing Infrastructure connectivity and accessibility through rehabilitating and upgrading strategic urban roads; development of decent and affordable housing, and sustainable management of resources in the sector.

171. During the 2014/15-2016/17 MTEF period, priority will be given to the following: fertilizer cost reduction and expansion of area under irrigation including promotion of greenhouse farming, enactment of the Consolidated Agricultural Reform Bill, establishment of Livestock Disease Free Zone (DFZ), increased access of sector products to local, regional and international markets, agro processing, value addition and product diversification of farm, livestock and fisheries products, fisheries development and management through expansion of fisheries in exclusive economic zones (EEZ), land reforms and issuance of Title Deeds, establishment of National Land Information Management System (NLIMS), establishment of national spatial data infrastructure, development of affordable and quality houses for lower income Kenyans, installation of physical and social infrastructure in slums and informal settlements in urban areas and development of social and physical urban infrastructural facilities.

172. To undertake these programmes, the 2014/15 – 2016/17 MTEF estimates for the sector are estimated to be KSh.187.6 billion. For the FY 2014/15, KSh 55.6 billion has been set aside for the sector. This is projected to increase to KSh. 65.0 billion and KSh. 67.0 billion, respectively, for the FY 2015/16 and FY 2016/17.

### ***Energy, Infrastructure & ICT Sector (EII)***

173. The Energy, Infrastructure and Information Communications Technology Sector consists of the subsectors of Energy and Petroleum; Transport and Infrastructure; and Information and Communications Technology. The Sector aspires to be a world-class provider of cost-effective public utility infrastructure facilities and services' in the areas of energy, transport and ICT that meet international standards. Key achievements during the 2010/11-2012/13 MTEF period include improved infrastructure and in particular construction of new roads and bridges across the entire country; periodic road maintenance; upgrading of airport facilities; dredging of the port of Mombasa; Syokimau commuter rail service and discovery of oil in the Turkana County.

174. The strategies and measures to be pursued in the medium term include; supporting the development of infrastructure initiatives around flagship projects, strengthening the institutional framework for infrastructure development, raising the efficiency and quality of infrastructure as well as increasing the pace of infrastructure projects so that they are completed as envisaged, protecting the environment as a national asset and conserving it for the benefit of the future generations and the wider international community. Other measures include encouraging Private Sector participation in the provision of infrastructure services through the Public-Private-Partnerships (PPPs) framework.

175. Funding over the 2014/15 MTEF period will facilitate the implementation and fast tracking of programmes under the Information and Communication Services; Road Transport; National Electrification; ICT Infrastructure Development; Rail Transport; Marine Transport; Renewable Energy Resources; Petroleum Exploration and Distribution; Airport Transport; ICT and Mass Media Skills Development; and Government Clearing Services.

176. Total MTEF estimates for the sector is KSh. 842.5 billion of which KSh. 250.0 billion has been set aside for the FY 2014/15. This represents a 15.0% increase from KSh. 216.5 billion allocated in the FY 2013/14. KSh. 280.1 billion and KSh. 312.4 billion have been allocated to the FY 2015/16 and FY 2016/17, respectively. 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 and Commercial Affairs (GECA)***

177. The General Economic and Commercial Affairs (GECA) Sector comprises two Sub Sectors namely: East African Affairs, Commerce and Tourism; and Industrialization and Enterprise Development. The Sector plays a significant role towards achievement of the Vision 2030 and Millennium Development Goals (MDGs) through trade, tourism and investments to enhance economic growth. Exports from Economic Processing Zones (EPZ) under the sector stand at Kshs.41.41 billion while direct local employment in the EPZ stands at 32,516 people. Tourism earnings from the sector amount to Kshs.96.02

billion. The sector contributes significantly to the overall national development agenda accounting for about 33 percent of the overall GDP. It is a major source of government revenue in form of taxes, duties, license fees, entry fees, among others.

178. During the 2010/11-2012/13 MTEF period, the sector achievements include the following: growth of exports from Ksh.409.8 billion in 2010 to Ksh. 517.9 billion in 2012 representing a 26.4% increase; expansion of intra EAC trade with Kenya recording a surplus balance of USD\$ 1,005.1 million, USD\$ 1,021.8 million and USD\$ 241.5 million respectively, in the years 2009, 2010 and 2011. Expansion of Kenya's exports to the EAC region from Kshs.101.3 billion in 2010 to Kshs.134.95 billion in 2012; employment under industry grew by 5 percent with formal employment increasing from 261,300 in 2007 to 275,800 in 2011 while informal employment grew by 17 per cent from 1.57 million in 2007 to 1.83 million in 2011. Value of exports from EPZ increased by 5.98% to Kshs 41.41 million in 2012 from Kshs 39.1 million in 2011; direct local employment in the EPZ also increased from 32,043 persons in 2011 to 32,516 persons in 2012.

179. The sector also exceeded its target of reviving dormant cooperatives (180 against a target of 100) and registration of new cooperatives (798 registered against a target of 400) for the FY 2012/2013. Appropriate model by-laws were developed leading to the registration of two Diaspora SACCOs in U.K and U.S.A in a bid to facilitate structured remittances from the Diaspora. Tourism earnings increased from Ksh.73.7 billion in 2010 to Kshs.96 billion in 2012; and visitor arrivals grew from 1.6 million in 2010 to 1.7 million in 2012.

180. 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.

181. Over the medium term, the sector will implement programmes aimed at promoting regional integration and cooperation; growth and development of commerce; tourism promotion and development; savings and investment mobilization; employment creation; and industrial and entrepreneurship development.

182. The key outcomes expected from the sector are: increased contribution of industry to GDP; increased contribution of cooperatives to the economy; deepened and widened EAC integration; increased contribution of domestic trade and tourism to GDP; increase in export earnings; and effective and efficient service delivery. The total MTEF estimate for the sector is KSh 43.3 billion. For the FY 2014/15, KSh. 13.8 billion has been set aside. This is projected to increase to KSh. 14.6 billion and KSh. 14.9 billion in 2015/16 and 2016/17 respectively.

## ***Health Sector***

183. The Health Sector comprises of the Ministry of Health and eight SAGAs namely, Kenyatta National Hospital, Moi Teaching & Referral Hospital, Kenya Medical Research Institute, Kenya Medical Supplies Agency, Kenya Medical Training College, National Health Insurance Fund, National Aids Control Council and HIV & AIDS Tribunal. The Medium Term Expenditure Framework (MTEF) for the period 2014/15 - 2016/17 for the Sector is guided by the Second Medium Term Plan of Vision 2030, the Kenya Health Policy 2012-2030, the health Sector Strategic Plan and the Constitution of Kenya.

184. The sector mandate is to promote and participate in the provision of integrated and high quality curative, preventive and rehabilitative services that is equitable, responsive, accessible and accountable to Kenyans. 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.

185. 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. 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.

186. In the medium term, the sector 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 resources required under the Health Sector are captured under four programmes and guided by the sector policy commitments and the core mandates of the sub-sectors.

187. The resources being requested will be used to implement projects aimed at achieving accessibility, affordability of health services, and reduction of health inequalities and optimal utilization of health services. These resources will, therefore, target to improve access, quality and equity in the provision of health services. The 2014/15 – 2016/17 MTEF estimates for the sector is KSh. 121.8 billion, of which KSh 37.9 billion has been set aside for the FY 2014/15, representing a 4.7% increase from the FY 2013/14. This is projected to increase to KSh 40.5 billion and KSh. 43.4 billion in 2015/16 and 2016/17 respectively.

188. Under the Constitution, a two tier health service delivery system has been introduced whereby the Ministry of Health at the national level deals with Health policy, National Referral Hospitals, Capacity Building and Technical Assistance to counties. On the other hand, the County Health Services will focus on County Health Facilities and Pharmacies, Ambulance Services; Promotion of Primary

Health Care; licensing and control of selling of food in public places; veterinary services, cemeteries, funeral parlours and crematorium; referral removal; refuse dumps and solid waste. This scenario will need concerted efforts in restructuring human resource management, infrastructure development and maintenance, health financing, donor funding and partnerships, among others. Consequently relevant health sector laws, legislations, policies and regulation will be formulated to guide the devolution of health services and programme implementation.

### ***Education***

189. The Sector comprises of the Ministry of Education Science and Technology (MOEST), the Teachers Service Commission (TSC) and their affiliated Institutions. The sector mandate is to provide, promote and coordinate quality education and training; integration of Science, Technology and Innovation in sustainable socio- economic development processes. The sector's overall goal is to increase access to education and training; improve quality and relevance of education, reduce inequality as well as exploit knowledge and skills in science, technology and innovation for global competitiveness.

190. 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.

191. 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 2014/15 – 2016/17 MTEF estimates for the sector is KSh 940.6 billion of which KSh 296.0 billion has been allocated for FY 2014/15, an increase from FY 2013/14 funding level of KSh. 276.2 billion and a revised baseline of Ksh 298.2 billion. This is projected to increase to KSh 316.8 billion in the FY 2015/16 and KSh. 327.8 billion in the FY 2016/17.

192. 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)***

193. The Governance, Justice, Law and Order Sector (GJLOS) consists of fourteen Ministries/Departments/agencies (MDAs), namely; Interior and Coordination of National Government; Office of the Attorney General and Department of Justice; The Judiciary (including Judicial Service Commission); Ethics and Anti-Corruption Commission (EACC); Office of the Director of Public Prosecutions (ODPP); Commission for the Implementation of the Constitution (CIC); Office of the Registrar of Political Parties (RPP); Witness Protection Agency (WPA); Kenya National Commission on Human Rights (KNCHR); Independent Electoral and Boundaries Commission (IEBC); National Police Service Commission (NPSC); National Gender and Equality Commission (NGEC) and Independent Policing Oversight Authority (IPOA).

194. Specifically; the role of the sector includes provision of security, prosecution services, management of elections and electoral boundaries, ensuring good governance and accountability in public resources, registration and regulation of political parties, facilitate and oversee constitution implementation, protecting and promoting Human Rights, rehabilitation, reintegration and resettlement of custodial and non-custodial offenders, providing migration services, maintaining law and order, judicial & legal services and promotion of cohesion, transparency and integrity.

195. During the MTEF review period (2010/11 – 2012/13), the sector accomplished notable achievements in the implementation of key flagship programmes including constitutional implementation, provision of security, making of laws and ensuring good governance, upholding the rule of law and dispensation of justice. Funding over the 2014/15 MTEF period will facilitate the implementation of the critical and priority areas including operationalization of the Kenya Citizens and Foreign Nationals Management Service (KCFNMS), retooling and modernization of the policing services, implementation of the Constitution, prosecution services, modernization, automation and decentralization of key sub-sector's programs to all Counties, registration, regulation and funding of political parties, operationalization of witness protection programmes, entrenchment of democracy and promotion and mainstreaming of human rights, gender equality and non-discrimination.

196. The total funding level for the MTEF period is KSh. 423.4 billion. For the FY 2014/15, KSh. 133.2 billion has been set aside, representing 5.6 % increase from FY 2013/14 funding level after adjustments for the once-off items. This is projected to increase to KSh141.0 billion and 149.2 billion for the FY2015/16 and FY 2016/17 respectively.

### ***Judiciary***

197. The Judiciary's key objective is to dispense justice to all irrespective of status, provide justice expeditiously, promote alternative dispute mechanisms, administer justice without undue regard to procedural technicalities and promote the purpose and principles of the Constitution. The GJLOS 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.

198. 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.

199. During the 2014/15 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. 17.7 billion has been set aside for the FY 2014/15, Ksh 18.2 billion and Ksh 19.0 billion for FY 2015/16 and FY 2016/17 respectively. This has been adjusted to reflect the expenditure limits approved in the 2013 Budget Review and Outlook Paper (BROP).

#### ***Public Administration and International Relations***

200. 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.

201. Funding over the 2014 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.

202. The total MTEF estimates for the sector is Ksh. 528.4 billion. For the FY 2014/15, KSh.168.0 billion has been set aside to fund the programmes of this sector. This is projected to increase to Ksh. 177.6 billion and Ksh. 182.8 billion in the FY 2015/16 and FY 2016/17 respectively.

### ***Parliament***

203. 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 consists of the National Assembly and the Senate. This is expected to increase the resource requirement to cater for the increased membership of Parliament and additional physical facilities/ infrastructure.

204. For the FY 2014/15, KSh. 19.2 billion has been set aside, Ksh 19.9 billion and Ksh 20.5 billion in FY 2015/16 and FY 2016/17 respectively.

### ***Social Protection, Culture and Recreation***

205. The Social Protection, Culture and Recreation Sector comprise of two Sub-Sectors namely; the Labour, Social Security and Services; and the Sports, Culture and the Arts. The sector is mandated to address issues on promotion of harmonious industrial relations, safety and health at workplaces, employment promotion, industrial training, productivity management, national human resource planning and development, social security and children welfare and social development. The sector is also mandated to address issues relating to promotion and exploitation of Kenya's diverse culture for peaceful co-existence, enhancing Kenya's reading culture through expansion of library network for increased information access, development and promotion of sports for a vibrant sporting industry, promotion and preservation of Kenya's heritage for national pride and harmony; promotion of cultural and sports tourism; and development, regulation and promotion of the film industry as well as development, research and preservation of music in the country.

206. The sector achievements in the 2010/11-2012/13 MTEF period include: Community mobilization, social development and welfare; Vocational rehabilitation and training; Social infrastructure development; Children's institution and community support services; Transfers to the elderly; Research, preservation and promotion of national culture and heritage; Public library services, records and archives management.

207. Funding for the 2014/15-2016/17 MTEF period will continue to focus on the delivery of the sector priorities and in particular those aimed at creating an efficient, motivated and healthy human resource base while promoting decent work, fundamental rights at work, adequate income from work, representation and social security. In addition, the sector will continue to improve livelihood of vulnerable groups specifically the orphans and vulnerable children, the elderly, and persons with disability through National Safety Net Programme that will integrate the various cash transfers.

208. Total funding level for the MTEF period is KSh. 65.7 billion. For FY 2014/15, KSh 21.3 billion has been set aside, representing 3.5% increase from FY 2013/14 funding level after adjustments for the once-off items. This is

projected to increase to KSh.21.8 billion and KShs. 22.6 for the FY 2014/15 and FY 2016/17 respectively.

### ***Environmental Protection, Water, and Natural Resources***

209. The sector is composed of two sub-sectors, namely; Environment, Water and Natural Resources and Mining. The sector also has twenty five Semi Autonomous Government Agencies (SAGAs) and four other institutions. The mandate of the Sector includes; Environmental policy management, forest resources management, regional development authorities, water resources management and sewerage services policy. It also includes conservation and protection of national wildlife and marine parks; meteorological services; mineral exploration and mining policy and management. The mining sub-sector is also mandated with management of health conditions and health and safety in mines, resources surveys and remote sensing, and policy on extractive industry.

210. The sector plays a key role in ensuring that every Kenyan has 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; 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.

211. The 2014/15 MTEF estimates of KSh 171.8 billion has been allocated to the sector. For the FY 2014/15, KSh. 55.0 billion has been set aside. KSh. 57.8 billion and KSh. 59.0 billion in the FY2015/16 and 2016/17 respectively.

### ***National Security***

212. The 2014/15 – 2016/17 MTEF estimates for the sector amounts to KSh 243.1 billion of which KSh.80.1 billion has been set aside for the FY 2014/15, rising to KSh. 81.1 billion in the FY 2015/16 and KSh. 81.9 billion in FY2016/17.

## VI CONCLUSION

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213. The 2014 MTEF is marked by moderate growth in overall expenditure, taking into account the weaker global economic outlook and the need to stimulate economic growth. Expansion of infrastructure investment, while maintaining reasonable growth on social development continues to be a priority. Allocations to counties reflect an equitable sharing of national resources for the betterment of all Kenyan.

214. The set of policies outlined in this BPS reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. These strategic objectives are provided in the second Medium Term Plan as well as the Jubilee Administration priorities.

## ANNEX 1: STATEMENT OF SPECIFIC FISCAL RISK

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### 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

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 and exchange rate. **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, 2013/14 (Ksh billion per year)**

	Revenue	Expenditure	Budget Balance
One percentage point increase in real GDP (%)	5.6	8.1	-2.5
One percentage point increase in inflation rate (%)	5.1	6.7	-1.6
10% depreciation in exchange rate (Ksh/US\$)	2.5	-5.5	7.9
One percentage point increase in US\$ value of goods imports (%)	0.1	0.1	0.0

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

4. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been accurate with minimal deviations as shown in **Table A.1.2**. Over the period 2011/12-2013/14, the average deviation between the assumed and provisional actual real GDP growth rates was only 0.8 percentage point. With respect to inflation assumption, the large deviation in FY 2011/12 reflect the inherent volatility of international oil prices, the adverse impact of drought which increased food prices and the sharp depreciation of the shilling exchange rate against major international currencies.

#### Annex A1.2: Deviations in Macroeconomic Assumptions/Fiscal Aggregates Projections and Actual

(In percentage points; unless specified)	2011/12			2012/13			2013/14			2011/12-2013/14
	Proj.	Act.	Dev.	Proj.	Act.	Dev.	Proj.	Prov.	Dev.	Average Deviation
<b>I. Key Macroeconomic Assumptions</b>										
Real GDP	5.5%	4.5%	-1.0%	5.5%	4.9%	-1.0%	5.9%	5.5%	-0.4%	-0.8%
Inflation rate (avg)	5.1%	16.1%	11.0%	9.8%	5.9%	-3.9%	6.7%	6.0%	-0.6%	2.2%
Domestic borrowing (average rate)	9.9%	9.6%	-0.3%	6.4%	6.4%	0.0%	9.7%	9.7%	0.0%	-0.1%
Exchange rate (Ksh/USD), avg	81.1	88.8	7.7	85.3	85.3	0.0	87.1	87.1	0.0	2.6
Export growth	11.8%	7.7%	-4.1%		0.6%	0.6%		4.3%	4.3%	0.3%
Import growth	14.2%	15.1%	0.9%		5.5%	5.5%		5.1%	5.1%	3.9%
<b>II. Fiscal Aggregates (in Ksh billion)</b>										
Total Revenue	823.2	763.5	-59.7	942.2	868.2	-74.0	1063.8	1076.0	12.3	-40.5
Tax and non-tax	774.4	748.2	-26.2	866.8	847.2	-19.6	987.3	999.6	12.3	-11.2
Ordinary, incl. LATF	703.0	703.6	0.6	797.2	797.5	0.4	920.4	931.4	11.0	4.0
AiA	71.4	44.6	-26.8	69.6	49.7	-19.9	67.0	68.2	1.3	-15.2
Grants	48.8	15.3	-33.5	75.4	20.9	-54.4	76.4	76.4	0.0	-29.3
Total Expenditure	975.7	947.8	-27.9	1178.6	1107.3	-71.3	1239.8	1275.2	35.4	-21.3
Recurrent	644.6	647.1	2.5	863.8	808.3	-55.5	854.6	809.8	-44.8	-32.6
Development	331.1	300.7	-30.4	314.8	298.9	-15.9	385.2	465.4	80.2	11.3
Domestic	206.5	211.8	5.3	218.8	201.8	-16.9	249.7	205.8	-43.8	-18.5
External	121.9	86.0	-35.9	93.5	94.7	1.2	133.1	257.2	124.1	29.8
Net Lending	2.7	2.8	0.1	2.6	2.4	-0.2	2.4	2.4	0.0	0.0
Balance	-152.5	-184.3	-31.8	-236.4	-239.1	-2.7	-176.0	-199.2	-23.2	-19.2
Financing <sup>1/</sup>	152.6	167.3	14.7	186.3	232.5	46.2	197.5	379.7	182.3	81.1
Net Foreign	47.4	98.5	51.1	17.1	62.7	45.6	90.8	246.7	156.0	84.2
Net Domestic	105.2	68.8	-36.4	169.2	169.8	0.6	106.7	133.0	26.3	-3.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memo items:</b>										
Nominal GDP (Ksh billion)	2767.2	3,244.5	477.3	3,626.9	3,662.6	35.6	4,075.2	4,075.2	0.0	171.0

Source: National Treasury

5. The actual performance of fiscal aggregates vis-à-vis target was generally mixed. The ordinary revenues in 2012/13 was below target mainly in income tax and AiA. 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.

6. Execution of development expenditure was generally below target due to lower absorption by the line ministries. The average deviation of execution is large a reflection of low absorption of foreign financed expenditure. Absorption of donor grants averaged 70 percent while that of project loans was around 50 percent.

7. 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.

8. Overall, the actual fiscal deficit turned out lower than budgeted over the period in 2012/13. 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.

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

### **Public Debt Sustainability**

10. 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.

11. The PFM Act 2012 provides for a new institutional and legal framework for managing public debt in a devolved system of Government. The Act provides for a Debt Management Office that will be responsible for formulating debt strategy and ensure prudent management of debt. Under the current arrangement, the Debt Management Department of the National Treasury oversees this function and has contracted the Central Bank of Kenya as agent for the domestic debt.



12. The April 2013 debt sustainability analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress.

13. The Present Value of public (PV) debt-to-GDP increases from 39.4 percent in 2012 to 40.3 percent in 2013 but will gradually declines to 38.1 percent of GDP by 2015. In the long term, the PV of public debt-to-GDP is expected to decline to about 36.2 percent by 2023. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue remains well below the threshold of 250 percent throughout the period of analysis. The debt service-to-revenue ratio consistently remains below the 30 percent threshold. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

### **Debt Sustainability Risks**

14. The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing policy. Recourse to significant uptake of domestic debt financing could further increase the domestic interest rates, and put pressure on the debt sustainability position. In addition, non-concessional external financing carries an inherent foreign exchange risk, worsens the PV of debt and therefore increases the risk of debt distress.

15. With the increased appetite for funding of heavy capital projects there is need of being cautious on the levels of debt accumulation and hence the need to maintain the net present value of public debt to GDP ratio at 45 percent.

### **Deficit Financing Policy**

16. Our borrowing plans will remain anchored in our medium term debt management strategy which is built on ensuring public debt sustainability. On the external financing front, the Government has also highlighted the need to minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by leaning towards borrowing more on concessional terms. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities.

### **Contingent Liabilities**

17. 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.

18. 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.

19. 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**

20. 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**

21. The banking sector remains adequately capitalized. The ratio of non-performing loan (NPL) to total loans, which measures credit risk declined from 5.3 percent in October 2013 to 5.1 percent in November 2013. Stress tests conducted by CBK taking into account the prevailing high interest rates regime indicate that the banking sector remains solvent and resilient.

22. 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.

23. 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.

24. 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 Securities Exchange will be introduced shortly.
- The Government has set up Financial Reporting Center (FRC) as provided for under the Proceeds of Crime and Anti-Money Laundering Act of 2009. 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**

25. 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.

26. 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.

27. 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, 2012/13-2016/17**

	2012/13	2013/14			2014/15			2015/16			2016/17		
	Prov	BPS'13	BROP'13	BPS'14	BPS'13	BROP'13	BPS'14	BPS'13	BROP'13	BPS'14	BPS'13	BROP'13	BPS'14
<i>Annual percentage change, unless otherwise indicated</i>													
<b>National Account and Prices</b>													
Real GDP	4.9	5.9	5.9	5.5	6.3	6.3	6.1	6.6	6.6	6.6	6.9	6.9	6.9
GDP deflator	6.6	7.4	7.4	6.5	7.9	7.9	7.2	7.7	7.7	6.8	6.6	6.6	6.3
CPI Index (eop)	6.0	6.4	6.4	5.8	6.0	6.0	5.3	5.5	5.5	5.0	5.1	5.1	5.0
CPI Index (avg)	5.9	6.7	6.7	6.0	6.2	6.2	5.7	5.8	5.8	5.0	5.3	5.3	5.0
Terms of trade (-deterioration)	-1.0	1.0	1.0	-0.3	4.3	4.3	4.2	5.4	5.4	5.6	3.7	3.7	3.8
Exchange Rate (Ksh/US\$, average)	...	...	...	...	...	...	...	...	...	...	...	...	...
<b>Money and Credit (end of period)</b>													
Net domestic assets	14.8	11.2	11.2	6.1	11.1	11.1	6.7	10.3	10.3	9.6	8.3	8.3	7.9
Net domestic credit to the Government	27.4	13.0	13.0	15.8	10.0	10.0	9.3	8.7	8.7	8.4	8.3	8.3	8.0
Credit to the rest of the economy	11.8	14.7	14.7	9.2	15.0	15.0	11.2	15.0	15.0	15.0	14.8	14.8	15.1
Broad Money, M3 (percent change)	14.2	14.3	14.3	12.9	14.7	14.7	13.8	14.8	14.8	13.8	13.9	13.9	13.6
Reserve money (percent change)	11.7	14.3	14.3	16.0	14.7	14.7	13.8	14.8	14.8	13.8	13.9	13.9	13.6
<i>In percentage of GDP, unless otherwise indicated</i>													
<b>Investment and Saving</b>													
Investment	20.9	23.9	23.9	22.3	24.9	24.9	23.8	25.4	25.4	24.9	26.4	26.4	25.5
Central Government	8.6	11.1	11.1	11.4	9.2	9.2	9.5	9.0	9.0	10.1	8.8	8.8	10.6
Other	12.3	12.8	12.8	11.0	15.6	15.6	14.3	16.4	16.4	14.8	17.5	17.5	15.0
Gross National Saving	10.4	13.5	13.5	12.7	15.6	15.6	14.9	17.7	17.7	16.9	19.7	19.7	18.0
Central Government	0.2	5.8	5.8	5.4	6.8	6.8	7.1	7.1	7.1	8.0	7.4	7.4	8.6
Other	10.2	7.7	7.7	7.3	8.9	8.9	7.8	10.6	10.6	8.9	12.3	12.3	9.4
<b>Central Government Budget</b>													
Total revenue	23.1	24.9	24.9	24.5	23.8	25.0	25.2	24.0	25.1	25.2	24.0	25.1	25.1
Total expenditure and net lending	30.5	35.4	35.4	35.3	29.5	32.3	33.1	29.3	31.9	32.3	28.9	31.3	31.7
Overall balance (commitment basis) excl. grants	-7.4	-10.5	-10.5	-10.8	-5.6	-7.3	-7.9	-5.3	-6.8	-7.2	-4.9	-6.2	-6.6
Overall balance (commitment basis) incl. grants	-6.8	-8.7	-8.7	-8.9	-4.0	-5.8	-6.3	-3.7	-5.2	-5.4	-3.4	-4.7	-4.9
Primary budget balance	-3.0	-1.8	-1.8	-5.5	-1.6	-2.7	-3.3	-1.6	-2.3	-2.5	-1.2	-1.9	-2.0
Net domestic borrowing	4.6	2.6	2.6	3.2	1.9	3.7	4.1	1.5	3.0	3.2	1.4	2.5	3.0
Total external support (grant & loans)	2.8	6.4	6.4	6.2	4.9	4.3	4.5	4.9	4.4	4.6	4.9	4.3	4.5
<b>External Sector</b>													
Exports value, goods and services	25.6	27.1	27.1	24.9	27.8	27.8	25.0	28.7	28.7	25.3	29.5	29.5	25.5
Imports value, goods and services	42.0	43.1	43.1	40.2	42.0	42.0	39.0	41.0	41.0	38.0	40.4	40.4	37.5
Current external balance, including official transfers	-10.5	-10.5	-10.5	-9.6	-9.2	-9.2	-8.9	-7.7	-7.7	-8.0	-6.6	-6.6	-7.5
Current external balance, excluding official transfers	-10.5	-10.4	-10.4	-9.6	-9.2	-9.2	-8.8	-7.7	-7.7	-8.0	-6.6	-6.6	-7.5
Gross international reserve coverage in months of next year imports (end of period)	3.5	3.5	3.5	4.1	3.5	3.5	4.5	3.7	3.7	4.7	3.9	3.9	4.9
Gross international reserve coverage in months of this year's imports (end of period)	3.7	3.8	3.8	4.5	3.9	3.9	5.0	4.1	4.1	5.2	4.4	4.4	5.5
<b>Public debt</b>													
Nominal central government debt (eop), gross	52.2	53.0	53.0	55.8	50.6	50.6	53.3	47.8	47.8	50.4	45.4	45.4	47.8
Nominal central government debt (eop), net of deposits	47.8	49.1	49.1	51.8	49.0	49.0	52.0	47.6	47.6	50.8	46.2	46.2	49.6
Domestic (gross)	29.0	27.8	27.8	29.1			27.5	24.4	24.4	25.8	22.9	22.9	24.3
Domestic (net)	24.5	23.9	23.9	25.1	24.6	24.6	26.2	24.2	24.2	26.2	23.7	23.7	26.1
External	23.3	25.2	25.2	26.7	24.4	24.4	25.8	23.3	23.3	24.6	22.5	22.5	23.5
<b>Memorandum Items:</b>													
Nominal GDP (in Ksh Billions)	3,627	4,165	4,165	4,075	4,775	4,775	4,637	5,480	5,480	5,277	6,241	6,241	5,992
Nominal GDP (in US\$ Millions)	42,522	47,379	47,379	46,801	53,227	53,227	52,421	60,078	60,078	59,092	67,604	67,604	66,461
Source: National Treasury													
Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper													

**Annex Table 2: Government Operations 2012/13 - 2016/17 (in billions of Kenya Shillings)**

	2012/13	2013/14		2014/15			2015/16			2016/17		
	Prov.	Budget	Rev Budget	BPS13	BROP13	BPS14	BPS13	BROP13	BPS14	BPS13	BROP13	BPS14
<b>TOTAL REVENUE</b>	<b>847.2</b>	<b>1,028.6</b>	<b>1,019.9</b>	<b>1,138.6</b>	<b>1,192.9</b>	<b>1,169.1</b>	<b>1,313.7</b>	<b>1,375.0</b>	<b>1,328.7</b>	<b>1,495.0</b>	<b>1,564.3</b>	<b>1,506.8</b>
Ordinary Revenue (excl. LAF)	779.4	947.8	931.4	1,062.5	1,095.9	1,070.4	1,227.6	1,265.4	1,217.5	1,368.3	1,445.7	1,386.4
Income tax	373.4	459.0	455.9	522.2	527.8	536.7	600.7	607.2	610.8	691.9	699.3	700.5
Import duty (net)	57.6	69.0	69.5	77.9	80.0	77.4	90.7	93.1	89.5	102.3	105.1	101.1
Excise duty	85.5	113.1	100.1	122.7	129.0	112.2	140.6	147.7	127.5	158.4	166.4	143.1
Value Added Tax	184.6	221.8	229.0	246.7	259.5	256.7	288.5	303.2	290.1	328.2	344.9	328.7
Investment income	15.3	17.7	15.7	20.4	20.4	17.9	23.4	23.4	20.3	26.7	26.7	23.1
Other	63.0	67.1	61.2	72.7	77.1	69.7	83.6	88.7	79.3	95.4	101.2	90.0
Railway Development Levy	0.0	13.5	20.2	0.0	20.5	22.5	0.0	23.1	25.3	0.0	26.0	28.5
Ministerial and Departmental fees (Aia)	49.7	67.3	68.2	76.1	76.5	76.1	86.1	86.5	85.9	92.2	92.6	91.8
<b>EXPENDITURE AND NET LENDING</b>	<b>1,117.0</b>	<b>1,439.7</b>	<b>1,470.6</b>	<b>1,407.4</b>	<b>1,543.7</b>	<b>1,536.1</b>	<b>1,603.9</b>	<b>1,745.6</b>	<b>1,706.7</b>	<b>1,801.5</b>	<b>1,952.6</b>	<b>1,902.0</b>
Recurrent expenditure	808.3	780.7	821.9	909.0	875.5	855.7	1,050.1	990.2	919.0	1,191.2	1,109.5	982.9
Interest payments	121.2	120.5	121.1	118.6	146.3	139.5	115.6	158.9	154.8	135.7	177.2	173.8
Domestic interest	110.2	109.4	110.1	107.8	120.3	118.3	103.7	132.3	132.3	116.6	145.6	145.6
Foreign interest	11.1	11.1	11.0	10.7	26.0	21.2	11.9	26.6	22.4	19.1	31.6	28.2
Wages and benefits(civil service)	274.4	263.0	284.8	325.0	297.6	295.7	355.3	325.4	320.9	399.6	355.0	349.2
Contribution to civil service pension fund	0.0	6.9	0.0	17.4	16.1	15.9	19.1	17.6	17.2	21.4	19.2	18.7
Civil service Reform	0.0	0.0	0.0	0.0	3.0	3.0	0.0	3.0	3.0	0.0	3.0	3.0
Pensions etc	27.0	41.7	35.4	45.2	45.9	45.9	49.7	50.5	50.5	54.7	55.5	55.5
Other	294.4	263.8	291.3	324.8	285.8	275.8	427.6	349.1	288.5	491.4	408.1	293.0
Defense and NSIS	91.2	84.7	89.4	78.1	80.8	80.1	82.8	85.7	84.2	88.4	91.5	89.8
Development and Net lending	298.9	439.1	428.7	482.0	443.9	442.0	538.9	498.0	534.6	597.6	554.0	635.7
Domestically financed	201.8	196.1	197.4	272.7	234.6	232.8	297.7	256.8	291.6	324.6	280.9	361.5
Foreign financed	94.7	240.6	228.9	206.8	206.8	206.7	238.6	238.6	240.4	270.3	270.3	271.5
Net lending	2.4	2.4	2.4	2.5	2.5	2.5	2.7	2.6	2.6	2.8	2.8	2.7
Contingencies	0.0	5.0	5.0	7.5	5.0	5.0	7.5	5.0	5.0	7.5	5.0	5.0
Constitution Reform	9.8	1.5	1.5	5.0	2.0	2.0	3.0	3.0	3.0	0.0	0.0	0.0
County Allocation	0.0	210.0	210.0	0.0	211.8	228.0	0.0	243.1	239.0	0.0	276.9	271.4
O/w External Component		16.6	16.6	0.0	16.7	13.9	0.0	0.0	15.6	0.0	0.0	17.4
Conditional grants to marginal areas ("Equalization Fund")	0.0	3.5	3.5	3.9	5.5	3.4	4.5	6.3	6.1	5.2	7.2	6.9
<b>Balance (commitment basis excl. grants)</b>	<b>-269.8</b>	<b>-411.1</b>	<b>-450.7</b>	<b>-268.8</b>	<b>-350.8</b>	<b>-367.0</b>	<b>-290.2</b>	<b>-370.6</b>	<b>-378.0</b>	<b>-306.5</b>	<b>-388.3</b>	<b>-395.2</b>
Adjustment to cash basis	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	15.1	67.4	69.4	75.7	75.7	75.5	85.1	85.1	92.7	95.5	95.5	103.7
Programme grants	5.8	10.3	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Balance (cash basis including grants)</b>	<b>-249.1</b>	<b>-333.4</b>	<b>-372.3</b>	<b>-193.1</b>	<b>-275.1</b>	<b>-291.5</b>	<b>-205.1</b>	<b>-285.5</b>	<b>-285.3</b>	<b>-210.9</b>	<b>-292.8</b>	<b>-291.5</b>
Statistical discrepancy	-16.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>FINANCING</b>	<b>232.5</b>	<b>333.4</b>	<b>372.3</b>	<b>193.1</b>	<b>275.3</b>	<b>291.5</b>	<b>205.1</b>	<b>285.6</b>	<b>285.3</b>	<b>210.9</b>	<b>275.9</b>	<b>291.5</b>
Net foreign financing <sup>1</sup>	62.7	226.7	238.8	100.7	100.7	100.7	122.7	122.7	117.0	124.5	118.4	110.5
Net domestic borrowing	169.8	106.7	133.5	92.5	174.6	190.8	82.5	162.9	168.4	86.5	157.5	181.0
Financing gap	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	-16.8	0.0
<b>Memo items</b>												
External Debt	962.3	1,050.0	1,225.5	1,041.6	1,165.9	1,195.7	1,159.5	1,279.3	1,296.4	1,289.7	1,404.7	1,410.0
Domestic Debt (gross)	1,097.0	1,130.5	1,157.3	1,222.9	1,249.7	1,274.7	1,305.4	1,338.4	1,364.0	1,391.8	1,430.9	1,456.7
Domestic Debt (net)	945.1	978.6	995.8	1,071.0	1,170.5	1,213.4	1,153.5	1,333.3	1,381.7	1,239.9	1,480.8	1,562.7
Primary budget balance	-111.2	-198.9	-228.2	-74.6	-128.8	-152.0	-89.5	-126.6	-130.6	-75.3	-115.6	-117.7
Nominal GDP	3,662.6	4,164.6	4,164.6	4,775.3	4,775.3	4,636.7	5,480.5	5,480.5	5,277.0	6,241.0	6,241.0	5,992.1

<sup>1</sup> Projected disbursements do not include the loan for the Standard Gauge Railway

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper

**Annex Table 3: Government Operations, 2012/13 - 2016/17 (in percent of GDP)**

	2012/13	2013/14		2014/15			2015/16			2016/17		
	Prov.	Budget	Rev Budget	BPS13	BROP13	BPS14	BPS13	BROP13	BPS14	BPS13	BROP13	BPS14
<b>TOTAL REVENUE</b>	<b>23.1%</b>	<b>24.7%</b>	<b>24.5%</b>	<b>23.8%</b>	<b>25.0%</b>	<b>25.2%</b>	<b>24.0%</b>	<b>25.1%</b>	<b>25.2%</b>	<b>24.0%</b>	<b>25.1%</b>	<b>25.1%</b>
Ordinary Revenue (excl. LATF)	21.3%	22.8%	22.4%	22.3%	22.9%	23.1%	22.4%	23.1%	23.1%	21.9%	23.2%	23.1%
Income tax	10.2%	11.0%	10.9%	10.9%	11.1%	11.6%	11.0%	11.1%	11.6%	11.1%	11.2%	11.7%
Import duty (net)	1.6%	1.7%	1.7%	1.6%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.7%	1.7%
Excise duty	2.3%	2.7%	2.4%	2.6%	2.7%	2.4%	2.6%	2.7%	2.4%	2.5%	2.7%	2.4%
Value Added Tax	5.0%	5.3%	5.5%	5.2%	5.4%	5.5%	5.3%	5.5%	5.5%	5.3%	5.5%	5.5%
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%
Other	1.7%	1.6%	1.5%	1.5%	1.6%	1.5%	1.5%	1.6%	1.5%	1.5%	1.6%	1.5%
Railway Development Levy	0.0%	0.3%	0.5%	0.0%	0.4%	0.5%	0.0%	0.4%	0.5%	0.0%	0.4%	0.5%
Ministerial and Departmental fees (Aia)	1.4%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%
<b>EXPENDITURE AND NET LENDING</b>	<b>30.5%</b>	<b>34.6%</b>	<b>35.3%</b>	<b>29.5%</b>	<b>32.3%</b>	<b>33.1%</b>	<b>29.3%</b>	<b>31.9%</b>	<b>32.3%</b>	<b>28.9%</b>	<b>31.3%</b>	<b>31.7%</b>
Recurrent expenditure	22.1%	18.7%	19.7%	19.0%	18.3%	18.5%	19.2%	18.1%	17.4%	19.1%	17.8%	16.4%
Interest payments	3.3%	2.9%	2.9%	2.5%	3.1%	3.0%	2.1%	2.9%	2.9%	2.2%	2.8%	2.9%
Domestic interest	3.0%	2.6%	2.6%	2.3%	2.5%	2.6%	1.9%	2.4%	2.5%	1.9%	2.3%	2.4%
Foreign interest	0.3%	0.3%	0.3%	0.2%	0.5%	0.5%	0.2%	0.5%	0.4%	0.3%	0.5%	0.5%
Wages and benefits (civil service)	7.5%	6.3%	6.8%	6.8%	6.2%	6.4%	6.5%	5.9%	6.1%	6.4%	5.7%	5.8%
Contribution to civil service pension fund	0.0%	0.2%	0.0%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Civil service Reform	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%
Pensions etc	0.7%	1.0%	0.8%	0.9%	1.0%	1.0%	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%
Other	8.0%	6.3%	7.0%	6.8%	6.0%	5.9%	7.8%	6.4%	5.5%	7.9%	6.5%	4.9%
Defense and NSIS	2.5%	2.0%	2.1%	1.6%	1.7%	1.7%	1.5%	1.6%	1.6%	1.4%	1.5%	1.5%
Development and Net lending	8.2%	10.5%	10.3%	10.1%	9.3%	9.5%	9.8%	9.1%	10.1%	9.6%	8.9%	10.6%
Domestically financed	5.5%	4.7%	4.7%	5.7%	4.9%	5.0%	5.4%	4.7%	5.5%	5.2%	4.5%	6.0%
Foreign financed	2.6%	5.8%	5.5%	4.3%	4.3%	4.5%	4.4%	4.4%	4.6%	4.3%	4.3%	4.5%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.0%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Constitution Reform	0.3%	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
County Allocation			5.0%	0.0%	4.4%	4.9%	0.0%	4.4%	4.5%	0.0%	4.4%	4.5%
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%
<b>Balance (commitment basis excl. grants)</b>	<b>-7.4%</b>	<b>-9.9%</b>	<b>-10.8%</b>	<b>-5.6%</b>	<b>-7.3%</b>	<b>-7.9%</b>	<b>-5.3%</b>	<b>-6.8%</b>	<b>-7.2%</b>	<b>-4.9%</b>	<b>-6.2%</b>	<b>-6.6%</b>
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%
Project grants	0.4%	1.6%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%	1.8%	1.5%	1.5%	1.7%
Programme grants*	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Balance (cash basis including grants)</b>	<b>-6.8%</b>	<b>-8.0%</b>	<b>-8.9%</b>	<b>-4.0%</b>	<b>-5.8%</b>	<b>-6.3%</b>	<b>-3.7%</b>	<b>-5.2%</b>	<b>-5.4%</b>	<b>-3.4%</b>	<b>-4.7%</b>	<b>-4.9%</b>
Statistical discrepancy	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>FINANCING</b>	<b>6.3%</b>	<b>8.0%</b>	<b>8.9%</b>	<b>4.0%</b>	<b>5.8%</b>	<b>6.3%</b>	<b>3.7%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>3.4%</b>	<b>4.4%</b>	<b>4.9%</b>
Net foreign financing	1.7%	5.4%	5.7%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.0%	1.9%	1.8%
Net domestic borrowing	4.6%	2.6%	3.2%	1.9%	3.7%	4.1%	1.5%	3.0%	3.2%	1.4%	2.5%	3.0%
Financing gap**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%	0.0%
<b>Memo items</b>												
Total public debt (net)	45.9%	43.9%	53.3%	44.2%	48.9%	52.0%	42.2%	47.7%	50.8%	40.5%	46.2%	49.6%
External Debt			29.4%	21.8%	24.4%	25.8%	21.2%	23.3%	24.6%	20.7%	22.5%	23.5%
Domestic Debt (gross)	30.0%	27.1%	27.8%	25.6%	26.2%	27.5%	23.8%	24.4%	25.8%	22.3%	22.9%	24.3%
Domestic Debt (net)	25.8%	23.5%	23.9%	22.4%	24.5%	26.2%	21.0%	24.3%	26.2%	19.9%	23.7%	26.1%
Primary budget balance	-3.0%	-4.8%	-5.5%	-1.6%	-2.7%	-3.3%	-1.6%	-2.3%	-2.5%	-1.2%	-1.9%	-2.0%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper

**Annex Table 4: Medium Term Sector Ceilings, 2014/15 - 2016/17 (KSh. Million)**

SECTOR		% SHARE OF TOTAL EXPENDITURE												
		ESTIMATES 2013/14	REVISED BASELINE 2013/14	BROP CEILING 2014/15	BPS CEILING 2014/15	PROJECTIONS		% Change 2013/14 - 2014/15	ESTIMATES 2013/14	REVISED BASELINE 2013/14	BROP CEILING 2014/15	BPS CEILING 2014/15	PROJECTIONS	
						2015/16	2016/17						2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	53,343.4	64,637.8	55,674.9	55,559.1	64,974.5	66,966.1	4.2%	5.0%	5.8%	5.0%	5.0%	5.4%	5.3%
	Rec. Gross	15,022.2	17,216.5	16,080.7	15,964.9	17,514.1	18,417.3	6.3%	1.4%	1.5%	1.4%	1.4%	1.5%	1.5%
	Dev. Gross	38,321.2	47,421.3	39,594.2	39,594.2	47,460.4	48,548.8	3.3%	3.6%	4.3%	3.5%	3.6%	4.0%	3.9%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,531.9	213,158.1	241,908.1	250,047.6	280,085.5	312,439.2	15.5%	20.5%	19.1%	21.7%	22.5%	23.4%	24.8%
	Rec. Gross	27,533.6	36,700.4	41,606.7	41,439.9	44,212.1	46,422.8	50.5%	2.6%	3.3%	3.7%	3.7%	3.7%	3.7%
	Dev. Gross	188,998.4	176,457.7	200,301.4	208,607.7	235,873.4	266,016.5	10.4%	17.9%	15.8%	17.9%	18.8%	19.7%	21.1%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	12,930.2	12,338.2	14,243.4	13,815.0	14,610.8	14,868.7	6.8%	1.2%	1.1%	1.3%	1.2%	1.2%	1.2%
	Rec. Gross	7,941.4	7,885.1	8,810.2	8,381.7	8,895.2	9,016.4	5.5%	0.8%	0.7%	0.8%	0.8%	0.7%	0.7%
	Dev. Gross	4,988.7	4,453.1	5,433.2	5,433.2	5,715.6	5,852.3	8.9%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
HEALTH	SUB-TOTAL	36,218.1	46,754.6	37,900.6	37,923.2	40,522.6	43,430.0	4.7%	3.4%	4.2%	3.4%	3.4%	3.4%	3.4%
	Rec. Gross	20,324.7	22,622.3	23,432.0	23,454.5	25,946.1	28,743.4	15.4%	1.9%	2.0%	2.1%	2.1%	2.2%	2.3%
	Dev. Gross	15,893.4	24,132.2	14,468.6	14,468.6	14,576.5	14,686.6	-9.0%	1.5%	2.2%	1.3%	1.3%	1.2%	1.2%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EDUCATION	SUB-TOTAL	276,242.5	298,158.3	303,150.7	295,971.9	316,799.0	327,787.4	7.1%	26.1%	26.8%	27.1%	26.6%	26.5%	26.0%
	Rec. Gross	245,827.7	266,928.0	268,538.6	261,359.8	281,447.7	291,990.6	6.3%	23.3%	24.0%	24.0%	23.5%	23.5%	23.2%
	Dev. Gross	30,414.7	31,230.3	34,612.2	34,612.2	35,351.3	35,796.7	13.8%	2.9%	2.8%	3.1%	3.1%	3.0%	2.8%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	126,151.8	126,671.1	135,065.8	133,205.5	140,967.3	149,203.9	5.6%	11.9%	11.4%	12.1%	12.0%	11.8%	11.8%
	Rec. Gross	111,263.6	117,075.2	120,750.7	118,890.4	126,341.4	134,308.4	6.9%	10.5%	10.5%	10.8%	10.7%	10.6%	10.7%
	Dev. Gross	14,888.2	9,595.9	14,315.1	14,315.1	14,625.9	14,895.5	-3.8%	1.4%	0.9%	1.3%	1.3%	1.2%	1.2%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	173,454.5	183,495.2	172,643.6	168,030.2	177,641.9	182,789.7	-3.1%	16.4%	16.5%	15.5%	15.1%	14.8%	14.5%
	Rec. Gross	73,855.4	80,409.9	81,490.1	76,876.8	83,342.0	85,853.3	4.1%	7.0%	7.2%	7.3%	6.9%	7.0%	6.8%
	Dev. Gross	99,599.1	103,085.3	91,153.5	91,153.5	94,299.8	96,936.3	-8.5%	9.4%	9.3%	8.2%	8.2%	7.9%	7.7%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NATIONAL SECURITY	SUB-TOTAL	84,723.2	89,029.0	80,300.0	80,070.9	81,102.1	81,912.9	-5.5%	8.0%	8.0%	7.2%	7.2%	6.8%	6.5%
	Rec. Gross	84,723.2	89,029.0	80,300.0	80,070.9	81,102.1	81,912.9	-5.5%	8.0%	8.0%	7.2%	7.2%	6.8%	6.5%
	Dev. Gross	-	-	-	-	-	-	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%
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	20,542.8	20,209.4	21,001.5	21,265.1	21,792.9	22,596.9	3.5%	1.9%	1.8%	1.9%	1.9%	1.8%	1.8%
	Rec. Gross	10,893.2	11,189.2	10,972.5	11,236.1	11,054.0	11,137.5	3.1%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%
	Dev. Gross	9,649.7	9,020.3	10,028.9	10,028.9	10,738.9	11,459.4	3.9%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	57,133.5	59,483.1	55,278.9	54,990.8	57,795.2	58,979.1	-3.8%	5.4%	5.3%	4.9%	5.0%	4.8%	4.7%
	Rec. Gross	13,200.2	14,215.4	14,936.6	14,648.5	14,888.0	15,769.0	11.0%	1.2%	1.3%	1.3%	1.3%	1.2%	1.3%
	Dev. Gross	43,933.4	45,267.7	40,342.3	40,342.3	42,907.2	43,210.2	-8.2%	4.2%	4.1%	3.6%	3.6%	3.6%	3.4%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	TOTAL	1,057,271.9	1,113,934.8	1,117,167.5	1,110,879.3	1,196,291.8	1,260,973.9	5.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	610,585.3	663,271.0	666,918.0	662,333.5	694,742.8	723,571.5	6.8%	57.8%	59.5%	59.7%	58.7%	58.1%	57.4%
	Dev. Gross	446,686.7	450,663.9	450,249.5	458,555.8	501,549.0	537,402.4	2.7%	42.2%	40.5%	40.3%	41.3%	41.9%	42.6%
									0.0%	0.0%	0.0%	0.0%	0.0%	0.0%



**Annex Table 5: Recurrent Sector Ceilings, 2014/15 - 2016/17 (KSh. Million)**

SECTOR		ESTIMATE	REVISED BASELINE	BROP CEILING	BPS CEILING	PROJECTIONS	
						2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	Gross	15,022.2	17,216.5	16,080.7	15,964.9	17,514.1	18,417.3
	A-I-A	1,109.2	1,109.2	1,164.6	1,164.6	1,222.9	1,284.0
	Net	13,913.1	16,107.3	14,916.0	14,800.3	16,291.2	17,133.3
	Salaries	4,152.0	4,499.7	4,276.5	4,634.7	4,404.8	4,537.0
	Grants & Other Transfers	6,163.1	6,181.6	6,655.5	6,181.6	6,902.3	7,103.4
	Other Recurrent	4,707.2	6,535.2	5,148.6	5,148.6	6,207.0	6,776.9
ENERGY, INFRASTRUCTURE AND ICT	Gross	27,533.6	36,700.4	41,606.7	41,439.9	44,212.1	46,422.8
	A-I-A	20,755.5	29,856.0	34,327.2	34,327.2	36,043.4	37,845.3
	Net	6,778.1	6,844.4	7,279.5	7,112.7	8,168.8	8,577.4
	Salaries	2,449.0	2,287.0	2,522.5	2,355.7	2,598.1	2,676.1
	Grants & Other Transfers	23,545.9	32,902.6	36,921.1	36,921.1	38,623.8	40,411.7
	Other Recurrent	1,538.7	1,510.8	2,163.1	2,163.1	2,990.2	3,335.0
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Gross	7,941.4	7,885.1	8,810.2	8,381.7	8,895.2	9,016.4
	A-I-A	486.2	486.2	510.5	510.5	536.0	562.8
	Net	7,455.2	7,398.9	8,299.7	7,871.2	8,359.2	8,453.6
	Salaries	1,414.9	1,279.4	1,457.4	1,317.8	1,501.1	1,546.1
	Grants & Other Transfers	4,467.7	4,678.8	4,767.7	4,678.8	4,767.7	4,767.7
	Other Recurrent	2,058.8	1,926.8	2,585.1	2,385.1	2,626.4	2,702.6
HEALTH	Gross	20,324.7	22,622.3	23,432.0	23,454.5	25,946.1	28,743.4
	A-I-A	3,861.9	3,861.9	3,861.9	3,861.9	3,861.9	3,861.9
	Net	16,462.9	18,760.5	19,570.1	19,592.6	22,084.2	24,881.5
	Salaries	1,755.5	1,777.4	1,808.1	1,830.7	1,862.4	1,918.3
	Grants & Other Transfers	16,849.6	18,865.5	19,101.1	19,101.1	19,674.1	22,064.3
	Other Recurrent	1,019.7	1,279.4	1,622.8	1,622.8	3,309.6	3,460.8
	Strategic Interventions	700.0	700.0	900.0	900.0	1,100.0	1,300.0
EDUCATION	Gross	245,827.7	266,928.0	263,538.6	261,359.8	281,447.7	291,990.6
	A-I-A	19,935.2	20,935.8	20,322.4	20,935.8	20,761.1	27,056.6
	Net	225,892.5	245,992.2	243,216.1	240,424.0	260,686.6	264,934.0
	Salaries	151,590.5	168,556.2	166,645.0	161,252.9	171,644.4	176,793.7
	Grants & Other Transfers	64,688.7	67,353.6	68,088.7	69,088.7	72,191.4	74,357.1
	Other Recurrent	29,548.5	28,018.2	25,804.8	31,018.2	34,612.0	37,839.8
	Strategic Interventions	-	3,000.0	3,000.0	-	3,000.0	3,000.0
GOVERNANCE, JUSTICE, LAW AND ORDER	Gross	111,263.6	117,075.2	120,750.7	118,890.4	126,341.4	134,308.4
	A-I-A	505.6	507.7	529.8	529.8	555.3	582.0
	Net	110,758.0	116,567.5	120,220.9	118,360.6	125,786.2	133,726.4
	Salaries	71,006.2	74,942.3	78,113.0	77,190.6	82,321.5	86,791.1
	Grants & Other Transfers	3,484.9	3,869.5	4,082.4	3,869.5	4,272.2	4,358.3
	Other Recurrent	26,772.5	28,263.3	27,830.3	27,830.3	28,286.8	30,950.0
	Strategic Interventions	10,000.0	10,000.0	10,725.0	10,000.0	11,461.0	12,209.0
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	Gross	73,855.4	80,409.9	81,490.1	76,876.8	83,342.0	85,853.3
	A-I-A	1,431.3	1,496.3	1,461.3	1,496.3	1,492.2	1,524.1
	Net	72,424.1	78,913.7	80,028.8	75,380.5	81,849.8	84,329.2
	Salaries	26,054.7	26,917.3	33,201.8	27,724.8	34,006.9	34,836.1
	Grants & Other Transfers	21,455.6	22,318.7	21,455.1	22,318.7	21,455.1	21,455.1
	Other Recurrent	23,369.0	28,197.9	23,857.2	23,857.2	24,904.1	26,586.2
	Strategic Interventions	2,976.0	2,976.0	2,976.0	2,976.0	2,976.0	2,976.0
NATIONAL SECURITY	Gross	84,723.2	89,029.0	80,300.0	80,070.9	81,102.1	81,912.9
	A-I-A	-	17.0	-	17.0	17.0	17.0
	Net	84,723.2	89,012.0	80,300.0	80,053.9	81,085.1	81,895.9
	Salaries	663.0	731.8	682.9	753.8	703.4	724.5
	Grants & Other Transfers	81,937.0	86,166.0	77,193.9	77,093.9	77,965.9	78,745.5
	Other Recurrent	123.2	131.2	323.2	223.2	332.9	342.9
	Strategic Interventions	2,000.0	2,000.0	2,100.0	2,000.0	2,100.0	2,100.0
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	10,893.2	11,189.2	10,972.5	11,236.1	11,054.0	11,137.5
	A-I-A	124.3	136.3	124.3	136.3	124.3	124.3
	Net	10,768.8	11,052.8	10,848.2	11,099.8	10,929.6	11,013.1
	Salaries	1,567.4	1,565.8	1,614.4	1,612.8	1,662.9	1,712.7
	Grants & Other Transfers	4,962.0	4,157.3	4,962.0	4,157.3	4,962.0	4,962.0
	Other Recurrent	1,616.7	2,719.1	1,649.1	2,719.1	1,682.0	1,715.7
	Strategic Interventions	2,747.0	2,747.0	2,747.0	2,747.0	2,747.0	2,747.0
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	Gross	13,200.2	14,215.4	14,936.6	14,648.5	14,888.0	15,769.0
	A-I-A	4,959.7	4,989.7	5,108.0	5,108.0	5,260.9	5,418.3
	Net	8,240.5	9,225.8	9,828.6	9,540.5	9,627.1	10,350.7
	Salaries	2,366.5	2,247.0	2,437.5	2,314.4	2,510.6	2,585.9
	Grants & Other Transfers	9,661.5	10,696.5	10,661.5	10,696.5	10,661.5	10,661.5
	Other Recurrent	1,172.2	1,271.9	1,837.6	1,637.6	1,715.9	2,521.5
TOTAL	Gross	610,585.3	663,271.0	661,918.0	652,323.5	694,742.8	723,571.5
	A-I-A	53,168.8	63,396.0	67,410.1	68,087.5	69,874.9	78,276.4
	Net	557,416.5	599,875.0	594,507.9	584,236.0	624,867.9	645,295.0
	Salaries	263,019.7	284,804.0	292,759.1	280,988.1	303,216.0	314,121.5
	Grants & Other Transfers	237,216.1	257,190.2	253,889.1	254,107.2	261,475.9	268,886.6
	Other Recurrent	91,926.5	99,853.8	92,821.8	98,605.2	106,666.9	116,231.4
	Strategic Interventions	18,423.0	21,423.0	22,448.0	18,623.0	23,384.0	24,332.0

**Annex Table 6: Development Sector Ceilings 2014/15 - 2016/17 (KSh. Million)**

SECTOR/MINISTRY/DEPARTMENT/AGENCY		ESTIMATE S 2013/14	REVISED BASELINE 2013/14	BROP CEILING 2014/15	BPS CEILING 2014/15	PROJECTIONS	
						2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	Gross	38,321.2	47,421.3	39,594.2	39,594.2	47,460.4	48,548.8
	GOK	11,804.2	12,614.6	12,225.9	12,225.9	12,344.0	12,464.4
	Loans	12,838.6	19,358.1	10,912.8	10,912.8	10,912.8	10,912.8
	Grants	2,692.4	4,462.6	2,323.6	2,323.6	2,323.6	2,323.6
	<i>Strategic Interventions</i>	<i>10,986.0</i>	<i>10,986.0</i>	<i>14,131.9</i>	<i>14,131.9</i>	<i>21,880.0</i>	<i>22,848.0</i>
ENERGY, INFRASTRUCTURE AND ICT	Gross	188,998.4	176,457.7	200,301.4	208,607.7	235,873.4	266,016.5
	GOK	27,917.6	50,572.6	29,359.7	43,889.7	56,205.7	61,538.1
	Loans	124,485.5	105,296.8	105,812.7	109,464.4	105,812.7	105,812.7
	Grants	9,078.8	16,131.8	7,716.9	12,241.5	7,716.9	7,716.9
	Local A-I-A	4,456.5	4,456.5	25,140.1	25,140.1	25,140.1	25,140.1
<i>Strategic Interventions</i>	<i>23,060.0</i>	<i>-</i>	<i>32,272.0</i>	<i>17,872.0</i>	<i>40,998.0</i>	<i>65,808.6</i>	
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Gross	4,988.7	4,453.1	5,433.2	5,433.2	5,715.6	5,852.3
	GOK	4,725.4	4,213.7	5,170.0	5,170.0	5,452.3	5,589.0
	Loans	-	-	-	-	-	-
Grants	263.3	239.4	263.3	263.3	263.3	263.3	
HEALTH	Gross	15,893.4	24,132.2	14,468.6	14,468.6	14,576.5	14,686.6
	GOK	1,595.3	2,065.3	1,355.3	1,355.3	1,211.2	1,056.6
	Loans	2,266.5	5,497.9	1,926.5	1,926.5	1,926.5	1,926.5
	Grants	7,231.6	11,769.0	6,146.8	6,146.8	6,146.8	6,146.8
<i>Strategic Interventions</i>	<i>4,800.0</i>	<i>4,800.0</i>	<i>5,040.0</i>	<i>5,040.0</i>	<i>5,292.0</i>	<i>5,556.6</i>	
EDUCATION	Gross	30,414.7	31,230.3	34,612.2	34,612.2	35,351.3	35,796.7
	GOK	7,982.7	9,169.8	10,322.7	10,322.7	10,688.8	11,073.3
	Loans	5,369.6	4,919.1	4,564.1	4,564.1	4,564.1	4,564.1
	Grants	2,347.5	2,426.4	1,995.3	1,995.3	1,995.3	1,995.3
<i>Strategic Interventions</i>	<i>14,715.0</i>	<i>14,715.0</i>	<i>17,730.0</i>	<i>17,730.0</i>	<i>18,103.0</i>	<i>18,164.0</i>	
GOVERNANCE, JUSTICE, LAW AND ORDER	Gross	14,888.2	9,595.9	14,315.1	14,315.1	14,625.9	14,895.5
	GOK	9,519.8	8,336.2	9,719.9	9,719.9	10,076.3	10,384.9
	Loans	4,381.5	2,324.3	3,724.3	3,724.3	3,724.3	3,724.3
	Grants	986.9	870.4	870.9	870.9	825.2	786.4
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	Gross	99,599.1	103,085.3	91,153.5	91,153.5	94,299.8	96,936.3
	GOK	24,006.9	19,981.4	22,682.8	22,682.8	23,500.8	22,915.8
	Loans	8,547.6	12,330.7	7,265.4	7,265.4	6,988.9	6,753.9
	Grants	28,894.1	27,222.6	24,570.5	24,570.5	22,786.2	21,269.6
	Local A-I-A	56.4	56.4	56.4	56.4	56.4	56.4
	<i>Strategic Interventions</i>	<i>14,400.0</i>	<i>14,400.0</i>	<i>9,303.0</i>	<i>9,303.0</i>	<i>9,473.0</i>	<i>9,961.0</i>
<i>CDF</i>	<i>23,694.1</i>	<i>29,094.1</i>	<i>27,275.3</i>	<i>27,275.3</i>	<i>31,494.4</i>	<i>35,979.6</i>	
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	9,649.7	9,020.3	10,028.9	10,028.9	10,738.9	11,459.4
	GOK	2,052.0	2,310.2	2,231.3	2,231.3	2,731.3	3,231.3
	Loans	1,516.7	1,516.7	1,516.7	1,516.7	1,516.7	1,516.7
	Grants	2,080.9	1,533.4	2,080.9	2,080.9	2,080.9	2,080.9
<i>Strategic Interventions</i>	<i>4,000.0</i>	<i>3,660.0</i>	<i>4,200.0</i>	<i>4,200.0</i>	<i>4,410.0</i>	<i>4,630.5</i>	
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	Gross	43,933.4	45,267.7	40,342.3	40,342.3	42,907.2	43,210.2
	GOK	15,413.0	14,832.5	15,721.7	15,721.7	17,536.6	17,339.6
	Loans	21,353.6	24,811.0	18,150.6	18,150.6	18,150.6	18,150.6
	Grants	6,311.7	4,769.2	5,365.0	5,365.0	5,365.0	5,365.0
	Local A-I-A	255.0	255.0	255.0	255.0	255.0	255.0
	<i>Strategic Interventions</i>	<i>600.0</i>	<i>600.0</i>	<i>850.0</i>	<i>850.0</i>	<i>1,600.0</i>	<i>2,100.0</i>
TOTAL	Gross	446,686.7	450,663.9	450,249.5	458,555.8	501,549.0	537,402.4
	GOK	105,016.9	124,096.3	108,789.3	123,319.3	139,747.0	145,593.1
	Loans	180,759.6	176,054.7	153,873.2	157,524.9	153,596.7	153,361.7
	Grants	59,887.1	69,424.7	51,333.4	55,857.9	49,503.4	47,947.9
	Local A-I-A	4,768.0	4,768.0	25,451.6	25,451.6	25,451.6	25,451.6
	<i>Strategic Interventions</i>	<i>72,561.0</i>	<i>49,161.0</i>	<i>83,526.9</i>	<i>69,126.9</i>	<i>101,756.0</i>	<i>129,068.7</i>
	<i>CDF</i>	<i>23,694.1</i>	<i>29,094.1</i>	<i>27,275.3</i>	<i>27,275.3</i>	<i>31,494.4</i>	<i>35,979.6</i>

**Annex Table 7: Summary of Strategic Interventions, 2014/15 - 2016/17 (KSh. Million)**

SECTOR		ESTIMATES	CEILING	PROJECTIONS	
		2013/14	FY2014/15	2015/16	2016/17
<b>AGRICULTURE, RURAL &amp; URBAN DEVELOPMENT</b>	<b>Total</b>	<b>10,986.0</b>	<b>14,131.9</b>	<b>21,880.0</b>	<b>22,848.0</b>
	Rec.	-	-	-	-
	Dev.	10,986.0	14,131.9	21,880.0	22,848.0
<b>ENERGY, INFRASTRUCTURE AND ICT</b>	<b>Total</b>	<b>23,060.0</b>	<b>38,332.8</b>	<b>64,057.8</b>	<b>91,840.7</b>
	Rec.	-	-	-	-
	Dev*.	23,060.0	38,332.8	64,057.8	91,840.7
<b>GENERAL ECONOMIC AND COMMERCIAL AFFAIRS</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	Rec.	-	-	-	-
	Dev.	-	-	-	-
<b>HEALTH</b>	<b>Total</b>	<b>5,500.0</b>	<b>5,940.0</b>	<b>6,392.0</b>	<b>6,856.6</b>
	Rec.	700.0	900.0	1,100.0	1,300.0
	Dev.	4,800.0	5,040.0	5,292.0	5,556.6
<b>EDUCATION</b>	<b>Total</b>	<b>14,715.0</b>	<b>17,730.0</b>	<b>21,103.0</b>	<b>21,164.0</b>
	Rec.	-	-	3,000.0	3,000.0
	Dev.	14,715.0	17,730.0	18,103.0	18,164.0
<b>GOVERNANCE, JUSTICE, LAW AND ORDER</b>	<b>Total</b>	<b>10,000.0</b>	<b>10,000.0</b>	<b>11,461.0</b>	<b>12,209.0</b>
	Rec.	10,000.0	10,000.0	11,461.0	12,209.0
	Dev.	-	-	-	-
<b>PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS</b>	<b>Total</b>	<b>17,376.0</b>	<b>12,279.0</b>	<b>12,449.0</b>	<b>12,937.0</b>
	Rec.	2,976.0	2,976.0	2,976.0	2,976.0
	Dev.	14,400.0	9,303.0	9,473.0	9,961.0
<b>NATIONAL SECURITY</b>	<b>Total</b>	<b>2,000.0</b>	<b>2,000.0</b>	<b>2,100.0</b>	<b>2,100.0</b>
	Rec.	2,000.0	2,000.0	2,100.0	2,100.0
	Dev.	-	-	-	-
<b>SOCIAL PROTECTION, CULTURE AND RECREATION</b>	<b>Total</b>	<b>6,747.0</b>	<b>6,947.0</b>	<b>7,157.0</b>	<b>7,377.5</b>
	Rec.	2,747.0	2,747.0	2,747.0	2,747.0
	Dev.	4,000.0	4,200.0	4,410.0	4,630.5
<b>ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES</b>	<b>Total</b>	<b>600.0</b>	<b>850.0</b>	<b>1,600.0</b>	<b>2,100.0</b>
	Rec.	-	-	-	-
	Dev.	600.0	850.0	1,600.0	2,100.0
<b>GRAND TOTAL</b>	<b>TOTAL</b>	<b>90,984.0</b>	<b>108,210.6</b>	<b>148,199.8</b>	<b>179,432.8</b>
	<b>Rec.</b>	<b>18,423.0</b>	<b>18,623.0</b>	<b>23,384.0</b>	<b>24,332.0</b>
	<b>Dev.</b>	<b>72,561.0</b>	<b>89,587.6</b>	<b>124,815.8</b>	<b>155,100.8</b>

\* Includes Railway Development which is clustered under Local A-I-A

**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million)**

DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
<b>AGRICULTURE, RURAL AND URBAN DEVELOPMENT</b>	<b>14,226</b>	<b>37,359</b>	<b>51,585</b>	<b>17,546</b>	<b>47,421</b>	<b>64,967</b>	<b>15,965</b>	<b>39,594</b>	<b>55,559</b>	<b>17,494</b>	<b>47,575</b>	<b>62,266</b>	<b>18,386</b>	<b>48,666</b>	<b>63,686</b>
<b>111. Ministry of Land, Housing and Urban Development</b>	<b>4,180</b>	<b>8,152</b>	<b>12,331</b>	<b>4,336</b>	<b>18,606</b>	<b>22,942</b>	<b>4,073</b>	<b>11,963</b>	<b>16,036</b>	<b>4,406</b>	<b>14,330</b>	<b>18,736</b>	<b>4,631</b>	<b>14,662</b>	<b>19,293</b>
010800 Land Policy and Planning	1,305	1,406	2,711	1,520	1,579	3,099	1,126	1,898	3,024	1,324	2,275	3,599	1,388	2,329	3,717
021000 Government Buildings Services	230	2,232	2,462	225	5,512	5,737	234	3,514	3,748	275	4,013	4,288	289	4,106	4,395
021100 Coastline Infrastructure and Pedestrian Access	16	68	84	16	5,024	5,040	16	2,048	2,064	19	2,456	2,475	20	2,512	2,532
021200 Procurement, warehousing and supply	53	-	53	52	1,834	1,886	54	68	122	63	82	145	66	84	150
021300 Construction Standards and Research	78	34	112	77	106	183	80	31	111	94	37	131	99	38	137
021400 General Administration services	787	-	787	737	24	761	794	794	933			933	982		982
101000 Housing Development and Human Settlement	1,567	4,404	5,971	1,566	4,520	6,086	1,621	4,398	6,019	1,525	5,459	6,984	1,604	5,585	7,189
101100 Administration and Support Services	144	7	151	143	6	150	148	6	154	173	8	181	183	8	191
<b>116. Ministry of Agriculture, Livestock and Fisheries</b>	<b>9,840</b>	<b>29,208</b>	<b>39,048</b>	<b>12,604</b>	<b>28,815</b>	<b>41,419</b>	<b>11,539</b>	<b>27,491</b>	<b>39,030</b>	<b>12,674</b>	<b>33,077</b>	<b>42,947</b>	<b>13,319</b>	<b>33,832</b>	<b>44,221</b>
010100 Policy, Strategy and Management of Agriculture	1,686	244	1,930	1,627	628	2,255	1,721	288	2,009	2,100	288	2,282	2,200	294	2,393
010200 Crop Development and Management	3,122	9,165	12,287	3,158	9,670	12,828	3,556	5,755	9,311	3,780	6,250	11,930	3,850	6,500	12,310
010300 Agribusiness and Information Management	252	171	423	236	2,651	2,887	240	172	412	285	206	491	328	210	511
010400 Livestock Resources Management and Development	2,634	2,382	5,016	2,493	2,698	5,191	1,709	2,598	4,307	1,830	2,745	4,410	1,871	2,766	4,563
010500 Administrative Support Services	167	-	167	171		171	302		302	349		198	390		209
011200 Fisheries Development	1,165	2,697	3,862	960	2,344	3,304	405	857	1,262	530	2,429	3,401	600	2,484	3,507
Research, Science, Technology and Innovation	-	-	-	116		116	2,946	1,870	4,816	3,100	1,900	138	3,200	1,950	145
Drainage Infrastructure	814	14,549	15,364	3,844	10,825	14,669	660	15,951	16,611	700	19,259	20,097	880	19,628	20,583
<b>National Land Commission</b>	<b>206</b>	<b>-</b>	<b>206</b>	<b>606</b>	<b>-</b>	<b>606</b>	<b>353</b>	<b>140</b>	<b>493</b>	<b>414</b>	<b>168</b>	<b>582</b>	<b>436</b>	<b>172</b>	<b>172</b>
Land Policy and Planning	206	-	206	606	-	606	353	140	493	414	168	582	436	172	172
<b>ENERGY, INFRASTRUCTURE &amp; ICT</b>	<b>27,440</b>	<b>185,863</b>	<b>213,303</b>	<b>36,766</b>	<b>176,958</b>	<b>213,724</b>	<b>41,440</b>	<b>208,608</b>	<b>250,048</b>	<b>44,212</b>	<b>245,986</b>	<b>354,117</b>	<b>46,423</b>	<b>232,864</b>	<b>295,949</b>
<b>109. Ministry of Transport and Infrastructure</b>	<b>22,800</b>	<b>102,428</b>	<b>125,228</b>	<b>32,077</b>	<b>92,923</b>	<b>125,000</b>	<b>36,814</b>	<b>117,745</b>	<b>154,558</b>	<b>32,516</b>	<b>144,282</b>	<b>176,798</b>	<b>33,305</b>	<b>141,047</b>	<b>174,352</b>
General Administration Services	2,154	1,490	3,644	1,235	20	1,255	3,773	1,690	5,463	4,568	1,732	6,300	5,055	1,745	6,800
Road transport	17,731	58,510	76,241	26,958	74,118	101,076	30,126	60,381	90,506	23,285	65,863	89,148	23,685	65,863	89,548
Rail transport		24,933	24,933	3,884	17,733	21,617		45,299	45,299		50,715	50,715		50,715	50,715
Marine transport	153	14,703	14,856		1,052	1,052	153	7,465	7,618	682	15,927	16,609	702	13,000	13,702
Air transport	2,537	2,767	5,304				2,537	2,885	5,422	3,627	9,745	13,372	3,663	9,540	13,203
Government clearing services	225	25	250				225	25	250	354	300	654	200	184	384
<b>112. Ministry of Information, Communication and Technology</b>	<b>2,227</b>	<b>7,346</b>	<b>9,573</b>	<b>2,335</b>	<b>8,765</b>	<b>11,100</b>	<b>2,173</b>	<b>10,187</b>	<b>12,360</b>	<b>5,081</b>	<b>13,413</b>	<b>21,494</b>	<b>5,883</b>	<b>10,874</b>	<b>24,779</b>
020600 Information and Communication Services	1,969	206	2,174	1,736	69	1,805	1,201	-	1,201	2,500	328	2,828	2,700	402	3,102
020800 ICT Infrastructure Development	65	6,817	6,882	63	2,080	2,143	-	10,187	10,187	344	13,003	16,347	600	10,322	18,944
021400 General Administration services	193	38	231	203	6,445	6,648	596	-	596	1,360	83	1,443	1,400	150	1,550
020700 Human Resource Development	-	286	286	333	170	503	377	-	377	877	-	877	1,183	-	1,183
<b>115. Ministry of Energy and Petroleum</b>	<b>2,413</b>	<b>76,089</b>	<b>78,502</b>	<b>2,355</b>	<b>75,270</b>	<b>77,624</b>	<b>2,453</b>	<b>80,676</b>	<b>83,129</b>	<b>6,615</b>	<b>88,291</b>	<b>155,825</b>	<b>7,235</b>	<b>80,943</b>	<b>96,818</b>
021500 National Electrification	1,961	74,437	76,398	1,930	73,688	75,618	2,001	79,024	81,025	6,183	86,320	153,422	6,732	78,930	94,302
021600 Renewable Energy Resources	137	355	493	127	332	459	137	355	492	145	935	1,080	182	1,013	1,195
021700 Petroleum Exploration and Distribution	20	1,066	1,086	19	1,019	1,038	20	1,066	1,086	73	867	940	43	914	957
021800 Centralized Support Services	295	231	526	279	231	510	295	231	526	214	169	383	278	86	364
<b>GENERAL ECONOMIC AND COMMERCIAL AFFAIRS</b>	<b>8,636</b>	<b>4,528</b>	<b>13,164</b>	<b>7,885</b>	<b>4,453</b>	<b>12,338</b>	<b>8,382</b>	<b>5,433</b>	<b>13,815</b>	<b>8,895</b>	<b>5,716</b>	<b>14,611</b>	<b>9,016</b>	<b>5,852</b>	<b>14,869</b>
<b>117. Ministry of Industrialization and Enterprise</b>	<b>3,937</b>	<b>3,219</b>	<b>7,156</b>	<b>3,180</b>	<b>3,553</b>	<b>6,733</b>	<b>3,409</b>	<b>4,088</b>	<b>7,497</b>	<b>3,426</b>	<b>4,290</b>	<b>7,716</b>	<b>3,446</b>	<b>4,426</b>	<b>7,873</b>
010500 General Administration, Planning & Support Services	121	-	121	119	480	599	567	90	657	584	92	676	591	93	684
010600 Cooperative Development & Management	1,983	254	2,237	1,190	84	1,274	329	93	422	337	95	432	344	97	441
030800 Industrial development and Investment	1,834	2,904	4,737	1,871	2,812	4,683	2,279	2,975	5,254	2,270	3,150	5,420	2,272	3,264	5,537
011300 Cooperative Administration and Support Services	-	62	62		30	30	-	-	-	-	-	-	-	-	-
030700 Standards & Business Incubation					148	148	234	930	1,164	235	953	1,188	239	972	1,211

**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million) (cont'd)**

	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
		CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
	<b>118. Ministry of East African Affairs, Commerce and Tourism</b>	<b>4,699</b>	<b>1,309</b>	<b>6,008</b>	<b>4,705</b>	<b>900</b>	<b>5,605</b>	<b>4,973</b>	<b>1,345</b>	<b>6,318</b>	<b>5,469</b>	<b>1,426</b>	<b>6,895</b>	<b>5,570</b>	<b>1,426</b>	<b>6,996</b>
	030500 Commerce & Tourism Development	2,061	657	2,718	1,494	378	1,872	793	994	1,787	839	1,061	1,900	871	1,061	1,932
	030600 Co-ordination of East African Affairs & Regional Cooperation	1,279	96	1,375	1,455	75	1,531	1,712	96	1,808	1,731	96	1,827	1,727	96	1,823
	030700 Tourism Promotion & Marketing	1,351	556	1,907	1,498	447	1,945	1,791	243	2,034	1,773	243	2,016	1,805	243	2,048
	071500 General Administration, Planning & Support Services	8	-	8	257	-	257	677	12	689	1,127	26	1,153	1,167	26	1,193
	<b>HEALTH</b>	<b>19,811</b>	<b>14,936</b>	<b>34,748</b>	<b>22,622</b>	<b>24,132</b>	<b>46,755</b>	<b>23,455</b>	<b>14,469</b>	<b>37,924</b>	<b>25,946</b>	<b>14,576</b>	<b>40,522</b>	<b>28,743</b>	<b>14,686</b>	<b>43,429</b>
	<b>108. Ministry of Health</b>	<b>19,811</b>	<b>14,936</b>	<b>34,748</b>	<b>22,622</b>	<b>24,132</b>	<b>46,755</b>	<b>23,455</b>	<b>14,469</b>	<b>37,924</b>	<b>25,946</b>	<b>14,576</b>	<b>40,522</b>	<b>28,743</b>	<b>14,686</b>	<b>43,429</b>
	040100 Curative Health Care	16,872	3,213	20,084	19,227	3,701	22,928	14,830	7,897	22,727	16,872	7,984	24,856	18,351	8,094	26,445
	040200 Preventive and Promotive Health Care	2,940	11,724	14,663	3,113	18,497	21,610	1,563	6,161	7,724	1,823	6,162	7,985	2,219	6,162	8,381
	040300 Research & Development	-	-	-	283	1,934	2,216	5,007	360	5,367	5,125	380	5,505	5,487	380	5,867
	040400 General Administration, Planning & Support Services	-	-	-	-	-	-	2,055	51	2,106	2,126	50	2,176	2,686	50	2,736
	<b>EDUCATION</b>	<b>242,202</b>	<b>33,457</b>	<b>275,659</b>	<b>266,928</b>	<b>31,230</b>	<b>298,158</b>	<b>264,360</b>	<b>34,612</b>	<b>298,972</b>	<b>281,448</b>	<b>35,351</b>	<b>316,799</b>	<b>291,991</b>	<b>35,797</b>	<b>327,788</b>
	<b>106. Ministry of Education, Science and Technology</b>	<b>99,098</b>	<b>33,457</b>	<b>132,555</b>	<b>101,189</b>	<b>31,230</b>	<b>132,419</b>	<b>102,165</b>	<b>34,462</b>	<b>136,627</b>	<b>110,783</b>	<b>35,001</b>	<b>145,784</b>	<b>114,267</b>	<b>35,447</b>	<b>149,714</b>
	050100 General Administration, Planning & Support Services	5,395	1,734	7,129	5,243	1,915	7,158	4,678	2,230	6,908	5,730	2,230	7,960	6,255	2,118	8,373
	050200 Basic Education	14,381	19,698	34,080	12,372	17,013	29,385	13,570	19,766	33,336	16,214	20,023	36,237	16,263	20,084	36,347
	050300 Quality Assurance & Standards	3,939	586	4,525	4,939	819	5,758	5,322	493	5,815	6,869	453	7,322	6,770	518	7,288
	050400 Secondary & Tertiary Education	22,535	704	23,239	22,505	648	23,153	23,860	762	24,622	25,592	820	26,412	26,258	892	27,150
	050500 University Education	51,976	10,579	62,555	54,335	9,771	64,107	53,664	10,921	64,585	55,198	11,321	66,519	57,308	11,666	68,974
	050600 Research, Science, Technology and Innovation	871	156	1,027	754	140	894	762	290	1,052	845	154	999	1,051	169	1,220
	050700 Youth Training	-	-	-	1,042	923	1,965	309	-	309	335	-	335	362	-	362
	<b>209. Teachers Service Commission</b>	<b>143,104</b>	<b>-</b>	<b>143,104</b>	<b>165,739</b>	<b>-</b>	<b>165,739</b>	<b>162,195</b>	<b>150</b>	<b>162,345</b>	<b>170,665</b>	<b>350</b>	<b>171,015</b>	<b>177,724</b>	<b>350</b>	<b>178,074</b>
	050800 Teachers Services	143,104	-	143,104	165,739	-	165,739	162,195	150	162,345	170,665	350	171,015	177,724	350	178,074
	<b>GOVERNANCE, JUSTICE, LAW &amp; ORDER</b>	<b>120,840</b>	<b>17,636</b>	<b>138,476</b>	<b>116,804</b>	<b>11,731</b>	<b>128,535</b>	<b>118,890</b>	<b>14,315</b>	<b>133,206</b>	<b>126,341</b>	<b>14,626</b>	<b>140,967</b>	<b>134,308</b>	<b>14,895</b>	<b>149,204</b>
	<b>102. Ministry of Interior and Coordination of National Government</b>	<b>98,874</b>	<b>10,344</b>	<b>109,217</b>	<b>94,327</b>	<b>6,642</b>	<b>100,968</b>	<b>30,386</b>	<b>4,645</b>	<b>35,031</b>	<b>31,864</b>	<b>4,766</b>	<b>36,630</b>	<b>34,820</b>	<b>4,868</b>	<b>39,688</b>
	060100 Policing Services	62,191	1,589	63,780	64,825	1,935	66,759	-	-	-	-	-	-	-	-	-
	060200 Administration and Field Services	2,446	1,165	3,610	8,938	570	9,509	10,027	1,249.15	11,276	11,986	1,281.29	13,267	13,817	1,309.24	15,126
	060400 Government Printing Services	7,282	194	7,477	1,250	173	1,423	633	187	820	692	192	884	732	196	928
	060600 Correctional Services	13,089	251	13,341	15,079	962	16,041	15,230	1,585	16,815	14,295	1,626	15,921	15,099	1,662	16,761
	061700 Population Registration Services	2,437	1,047	3,484	2,713	1,022	3,735	3,589	1,560	5,149	3,966	1,601	5,567	4,192	1,634	5,826
	061800 Immigration Services	1,065	591	1,656	1,003	505	1,508	-	-	-	-	-	0	-	-	0
	Peace Building National Cohesion and National Values	270	-	270	240	-	240	335	-	335	299	-	299	318	-	318
	061900 Policy Formulation and Coordination for Immigration and Population Service	253	18	271	228	67	295	572	64	636	626	66	692	662	67	729
	070200 Human Resource Management and Development	5,448	398	5,846	-	200	200	-	-	-	-	-	-	-	-	-
	071400 Public Sector Advisory Services	514	1,523	2,037	-	67	67	-	-	-	-	-	-	-	-	-
	090400 Disaster Management	3,877	3,568	7,445	50	1,140	1,190	-	-	-	-	-	-	-	-	-
	<b>120. Office of the Attorney General and Department of Justice</b>	<b>2,459</b>	<b>652</b>	<b>3,110</b>	<b>2,200</b>	<b>747</b>	<b>2,946</b>	<b>2,434</b>	<b>580</b>	<b>3,014</b>	<b>2,302</b>	<b>766</b>	<b>3,068</b>	<b>2,419</b>	<b>801</b>	<b>3,220</b>
	060800 Legal, ethics, Integrity, National cohesion and constitutional reforms	760	35	795	495	90	586	604	30	634	393.2	31.5	425	413	33.1	446
	060900 Policy, Planning and Management services	254	358	613	21	458	479	270	283	270	283	-	283	301	-	301
	061100 Legal Education Programme	241	50	291	299	48	347	164	57	221	172	197	369	182	205	387
	061200 Legal Services to Government and Public	1,204	208	1,411	1,385	150	1,535	1,397	493	1,890	1,454	538	1,992	1,523	563	2,086

**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million) (cont'd)**

DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
<b>118. Ministry of East African Affairs, Commerce and Tourism</b>	<b>4,699</b>	<b>1,309</b>	<b>6,008</b>	<b>4,705</b>	<b>900</b>	<b>5,605</b>	<b>4,973</b>	<b>1,345</b>	<b>6,318</b>	<b>5,469</b>	<b>1,426</b>	<b>6,895</b>	<b>5,570</b>	<b>1,426</b>	<b>6,996</b>
030500 Commerce & Tourism Development	2,061	657	2,718	1,494	378	1,872	793	994	1,787	839	1,061	1,900	871	1,061	1,932
030600 Co-ordination of East African Affairs & Regional Cooperation	1,279	96	1,375	1,455	75	1,531	1,712	96	1,808	1,731	96	1,827	1,727	96	1,823
030700 Tourism Promotion & Marketing	1,351	556	1,907	1,498	447	1,945	1,791	243	2,034	1,773	243	2,016	1,805	243	2,048
071500 General Administration, Planning & Support Services	8	-	8	257	-	257	677	12	689	1,127	26	1,153	1,167	26	1,193
<b>HEALTH</b>	<b>19,811</b>	<b>14,936</b>	<b>34,748</b>	<b>22,622</b>	<b>24,132</b>	<b>46,755</b>	<b>23,455</b>	<b>14,469</b>	<b>37,924</b>	<b>25,946</b>	<b>14,576</b>	<b>40,522</b>	<b>28,743</b>	<b>14,686</b>	<b>43,429</b>
<b>108. Ministry of Health</b>	<b>19,811</b>	<b>14,936</b>	<b>34,748</b>	<b>22,622</b>	<b>24,132</b>	<b>46,755</b>	<b>23,455</b>	<b>14,469</b>	<b>37,924</b>	<b>25,946</b>	<b>14,576</b>	<b>40,522</b>	<b>28,743</b>	<b>14,686</b>	<b>43,429</b>
040100 Curative Health Care	16,872	3,213	20,084	19,227	3,701	22,928	14,830	7,897	22,727	16,872	7,984	24,856	18,351	8,094	26,445
040200 Preventive and Promotive Health Care	2,940	11,724	14,663	3,113	18,497	21,610	1,563	6,161	7,724	1,823	6,162	7,985	2,219	6,162	8,381
040300 Research & Development	-	-	-	283	1,934	2,216	5,007	360	5,367	5,125	380	5,505	5,487	380	5,867
040400 General Administration, Planning & Support Services	-	-	-	-	-	-	2,055	51	2,106	2,126	50	2,176	2,686	50	2,736
<b>EDUCATION</b>	<b>242,202</b>	<b>33,457</b>	<b>275,659</b>	<b>266,928</b>	<b>31,230</b>	<b>298,158</b>	<b>261,359</b>	<b>34,612</b>	<b>295,971</b>	<b>281,448</b>	<b>35,351</b>	<b>316,799</b>	<b>291,991</b>	<b>35,797</b>	<b>327,788</b>
<b>106. Ministry of Education, Science and Technology</b>	<b>99,098</b>	<b>33,457</b>	<b>132,555</b>	<b>101,189</b>	<b>31,230</b>	<b>132,419</b>	<b>100,107</b>	<b>34,462</b>	<b>134,569</b>	<b>110,783</b>	<b>35,001</b>	<b>145,784</b>	<b>114,267</b>	<b>35,447</b>	<b>149,714</b>
050100 General Administration, Planning & Support Services	5,395	1,734	7,129	5,243	1,915	7,158	4,678	2,230	6,908	5,730	2,230	7,960	6,255	2,118	8,373
050200 Basic Education	14,381	19,698	34,080	12,372	17,013	29,385	12,570	19,766	32,336	16,214	20,023	36,237	16,263	20,084	36,347
050300 Quality Assurance & Standards	3,939	586	4,525	4,939	819	5,758	5,322	493	5,815	6,869	453	7,322	6,770	518	7,288
050400 Secondary & Tertiary Education	22,535	704	23,239	22,505	648	23,153	22,802	762	23,564	25,592	820	26,412	26,258	892	27,150
050500 University Education	51,976	10,579	62,555	54,335	9,771	64,107	53,664	10,921	64,585	55,198	11,321	66,519	57,308	11,666	68,974
050600 Research, Science, Technology and Innovation	871	156	1,027	754	140	894	762	290	1,052	845	154	999	1,051	169	1,220
050700 Youth Training	-	-	-	1,042	923	1,965	309	-	309	335	-	335	362	-	362
<b>209. Teachers Service Commission</b>	<b>143,104</b>	<b>-</b>	<b>143,104</b>	<b>165,739</b>	<b>-</b>	<b>165,739</b>	<b>161,253</b>	<b>150</b>	<b>161,403</b>	<b>170,665</b>	<b>350</b>	<b>171,015</b>	<b>177,724</b>	<b>350</b>	<b>178,074</b>
050800 Teachers Services	143,104	-	143,104	165,739	-	165,739	161,253	150	161,403	170,665	350	171,015	177,724	350	178,074
<b>GOVERNANCE, JUSTICE, LAW &amp; ORDER</b>	<b>120,840</b>	<b>17,636</b>	<b>138,476</b>	<b>116,804</b>	<b>11,731</b>	<b>128,535</b>	<b>118,890</b>	<b>14,315</b>	<b>133,206</b>	<b>126,341</b>	<b>14,626</b>	<b>140,967</b>	<b>134,308</b>	<b>14,895</b>	<b>149,204</b>
<b>102. Ministry of Interior and Coordination of National Government</b>	<b>98,874</b>	<b>10,344</b>	<b>109,217</b>	<b>94,327</b>	<b>6,642</b>	<b>100,968</b>	<b>30,386</b>	<b>4,645</b>	<b>35,031</b>	<b>31,864</b>	<b>4,766</b>	<b>36,630</b>	<b>34,820</b>	<b>4,868</b>	<b>39,688</b>
060100 Policing Services	62,191	1,589	63,780	64,825	1,935	66,759	-	-	-	-	-	-	-	-	-
060200 Administration and Field Services	2,446	1,165	3,610	8,938	570	9,509	10,027	1,249.15	11,276	11,986	1,281.29	13,267	13,817	1,309.24	15,126
060400 Government Printing Services	7,282	194	7,477	1,250	173	1,423	633	187	820	692	192	884	732	196	928
060600 Correctional Services	13,089	251	13,341	15,079	962	16,041	15,230	1,585	16,815	14,295	1,626	15,921	15,099	1,662	16,761
061700 Population Registration Services	2,437	1,047	3,484	2,713	1,022	3,735	3,589	1,560	5,149	3,966	1,601	5,567	4,192	1,634	5,826
061800 Immigration Services	1,065	591	1,656	1,003	505	1,508	-	-	-	-	-	0	-	-	0
Peace Building National Cohesion and National Values	270	-	270	240	-	240	335	-	335	299	-	299	318	-	318
061900 Policy Formulation and Coordination for Immigration and Population Service	253	18	271	228	67	295	572	64	636	626	66	692	662	67	729
070200 Human Resource Management and Development	5,448	398	5,846	-	200	200	-	-	-	-	-	-	-	-	-
071400 Public Sector Advisory Services	514	1,523	2,037	-	67	67	-	-	-	-	-	-	-	-	-
090400 Disaster Management	3,877	3,568	7,445	50	1,140	1,190	-	-	-	-	-	-	-	-	-
<b>120. Office of the Attorney General and Department of Justice</b>	<b>2,459</b>	<b>652</b>	<b>3,110</b>	<b>2,200</b>	<b>747</b>	<b>2,946</b>	<b>2,434</b>	<b>580</b>	<b>3,014</b>	<b>2,302</b>	<b>766</b>	<b>3,068</b>	<b>2,419</b>	<b>801</b>	<b>3,220</b>
060800 Legal, ethics, Integrity, National cohesion and constitutional reforms	760	35	795	495	90	586	604	30	634	393.2	31.5	425	413	33.1	446
060900 Policy, Planning and Management services	254	358	613	21	458	479	270	283	270	283	301	283	301	283	301
061100 Legal Education Programme	241	50	291	299	48	347	164	57	221	172	197	369	182	205	387
061200 Legal Services to Government and Public	1,204	208	1,411	1,385	150	1,535	1,397	493	1,890	1,454	538	1,992	1,523	563	2,086

**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million) (cont'd)**

DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
<b>121. Judiciary</b>	<b>11,877</b>	<b>5,950</b>	<b>17,827</b>	<b>11,215</b>	<b>4,048</b>	<b>15,264</b>	<b>12,167</b>	<b>4,961</b>	<b>17,128</b>	<b>12,785</b>	<b>4,863</b>	<b>17,648</b>	<b>13,525</b>	<b>4,903</b>	<b>18,428</b>
Dispensation of Justice	11,877	5,950	17,827	11,215	4,048	15,264	12,167	4,961	17,128	12,785	4,863	17,648	13,525	4,903	18,428
<b>122. Ethics and Anti- Corruption Commission</b>	<b>1,294</b>	<b>60</b>	<b>1,354</b>	<b>1,245</b>	-	<b>1,245</b>	<b>1,396</b>	<b>97</b>	<b>1,493</b>	<b>2,000</b>	<b>101</b>	<b>2,101</b>	<b>2,100</b>	<b>104</b>	<b>2,204</b>
061600 Anti-Corruption Programme	1,294	60	1,354	1,245	-	1,245	1,396	97	1,493	2,000	101	2,101	2,100	104	2,204
<b>124. Directorate of Public Prosecutions</b>	<b>1,112</b>	<b>148</b>	<b>1,260</b>	<b>1,388</b>	<b>87</b>	<b>1,475</b>	<b>1,864</b>	<b>280</b>	<b>2,144</b>	<b>1,959</b>	<b>290</b>	<b>2,249</b>	<b>2,072</b>	<b>299</b>	<b>2,372</b>
062100 Public Prosecutions Services	1,112	148	1,260	1,388	87	1,475	1,864	280	2,144	1,959	290	2,249	2,072	299	2,372
<b>125. Commission for the Implementation of the Constitution</b>	<b>399</b>	-	<b>399</b>	<b>423</b>	-	<b>423</b>	<b>378</b>	-	<b>378</b>	<b>397</b>	-	<b>397</b>	-	-	-
062200 Implementation of the Constitution	399	-	399	423	-	423	378	-	378	397	-	397	-	-	-
<b>126. Registrar of Political Parties</b>	<b>345</b>	-	<b>345</b>	<b>325</b>	-	<b>325</b>	<b>538</b>	-	<b>538</b>	<b>564</b>	-	<b>564</b>	<b>601</b>	-	<b>601</b>
061500 Registration, Regulation and Funding of Political Parties	345	-	345	325	-	325	538	-	538	564	-	564	601	-	601
<b>127. Witness Protection Agency</b>	<b>197</b>	-	<b>197</b>	<b>169</b>	-	<b>169</b>	<b>262</b>	-	<b>262</b>	<b>275</b>	-	<b>275</b>	<b>291</b>	-	<b>291</b>
062700 Witness Protection	197	-	197	169	-	169	262	-	262	275	-	275	291	-	291
<b>128. National Police Service</b>	-	-	-	-	-	-	<b>64,501</b>	<b>3,179</b>	<b>67,680</b>	<b>68,979</b>	<b>3,260</b>	<b>72,239</b>	<b>72,960</b>	<b>3,332</b>	<b>76,292</b>
0060100 Policing Services	-	-	-	-	-	-	64,501	3,179	67,680	68,979	3,260	72,239	72,960	3,332	76,292
<b>201. Kenya National Commission for Human Rights</b>	<b>253</b>	-	<b>253</b>	<b>264</b>	-	<b>264</b>	<b>283</b>	-	<b>283</b>	<b>298</b>	-	<b>298</b>	<b>315</b>	-	<b>315</b>
061000 Human Rights Programme	253	-	253	264	-	264	283	-	283	298	-	298	315	-	315
<b>203. Independent Electoral and Boundaries Commission</b>	<b>3,313</b>	<b>482</b>	<b>3,795</b>	<b>3,953</b>	<b>207</b>	<b>4,160</b>	<b>3,295</b>	<b>521</b>	<b>3,816</b>	<b>3,464</b>	<b>508</b>	<b>3,972</b>	<b>3,663</b>	<b>496</b>	<b>4,159</b>
061400 Management of Electoral Process in Kenya	3,313	482	3,795	3,953	207	4,160	3,295	521	3,816	3,464	508	3,972	3,663	496	4,159
<b>205. Judicial Service Commission</b>	<b>473</b>	-	<b>473</b>	<b>436</b>	-	<b>436</b>	<b>559</b>	-	<b>559</b>	<b>586</b>	-	<b>586</b>	<b>621</b>	-	<b>621</b>
Administration and human resources management and development in the Judiciary	473	-	473	436	-	436	559	-	559	586	-	586	621	-	621
<b>210. National Police Service Commission</b>	<b>245</b>	-	<b>245</b>	<b>413</b>	-	<b>413</b>	<b>301</b>	<b>52</b>	<b>353</b>	<b>316</b>	<b>71</b>	<b>387</b>	<b>335</b>	<b>92</b>	<b>427</b>
060200 Administration and Field Services	245	-	245	413	-	413	-	-	-	-	-	-	-	-	-
Human resources management and development in police service	-	-	-	-	-	-	301	52	353	316	71	387	335	92	427
<b>214. National Gender and Equality Commission</b>	<b>211</b>	-	<b>211</b>	<b>234</b>	-	<b>234</b>	<b>303</b>	-	<b>303</b>	<b>318</b>	-	<b>318</b>	<b>337</b>	-	<b>337</b>
062600 Promotion of Gender and Equality	211	-	211	234	-	234	303.02	-	303	318.13	-	318.13	336.89	-	336.89
<b>215. Independent Police Oversight Authority</b>	<b>154</b>	-	<b>154</b>	<b>213</b>	-	<b>213</b>	<b>224</b>	-	<b>224</b>	<b>235</b>	-	<b>249</b>	-	-	<b>249</b>
060100 Policing Services	154	-	154	213	-	213	223.8	-	224	234.63	-	234.63	248.87	-	248.87
<b>PUBLIC ADMINISTRATION &amp; INTERNATIONAL RELATIONS</b>	<b>73,887</b>	<b>99,673</b>	<b>173,560</b>	<b>82,017</b>	<b>103,085</b>	<b>185,102</b>	<b>76,877</b>	<b>91,153</b>	<b>168,030</b>	<b>83,342</b>	<b>94,299</b>	<b>177,641</b>	<b>85,853</b>	<b>96,937</b>	<b>182,790</b>
<b>101. The Presidency</b>	<b>3,146</b>	<b>1,237</b>	<b>4,383</b>	<b>4,447</b>	<b>1,541</b>	<b>5,987</b>	<b>3,173</b>	<b>1,210</b>	<b>4,382</b>	<b>3,295</b>	<b>1,247</b>	<b>4,541</b>	<b>3,478</b>	<b>1,213</b>	<b>4,691</b>
070100 Management of State Affairs	819	240	1,060	1,988	639	2,626	1,394	820	2,214	1,410	886	2,296	1,487	840	2,327
071300 Cabinet Services	556	460	1,016	606	692	1,298	477	130	607	516	130	646	575	130	705
071800 Coordination and Supervisory Services	1,719	290	2,009	128	210	338	1,251	260	1,510	1,318	231	1,549	1,364	243	1,608
071400 Public Sector Advisory Services	51	247	298	1,724	-	1,724	51	-	51	51	-	51	51	-	51
<b>103. Ministry of Devolution and Planning</b>	<b>16,320</b>	<b>61,509</b>	<b>77,829</b>	<b>16,566</b>	<b>58,635</b>	<b>75,201</b>	<b>18,285</b>	<b>56,164</b>	<b>74,449</b>	<b>23,359</b>	<b>59,532</b>	<b>82,890</b>	<b>23,970</b>	<b>63,479</b>	<b>87,449</b>
Economic Development Planning & Co-ordination Services	349	26,036	26,386	414	33,349	33,762	387	29,123	29,510	399	33,566	33,965	417	37,412	37,829
Coordination of policy formulation, implementation of Vision 2030	938	752	1,691	635	623	1,259	953	694	1,646	968	722	1,690	990	702	1,692
National Statistical Information Services	749	196	945	749	170	919	749	194	943	749	194	943	749	194	943
General Administration and Support Services for Planning	219	7	226	546	15	561	382	6	388	407	7	413	424	6	430
Monitoring and Evaluation Services	279	220	499	47	362	410	315	187	502	387	203	590	429	192	621
Human Resource Management and Development	5,433	493	5,926	5,620	364	5,984	7,187	326	7,512	11,619	353	11,972	11,559	333	11,893
Performance Management	207	-	207	206	2	208	406	-	406	435	-	435	510	-	510
Devolution Support Services	1,741	7,046	8,786	1,540	22	1,562	1,903	26	1,929	1,879	28	1,907	1,960	27	1,987
Gender and Development	12	180	192	12	148	160	25	178	203	21	179	200	26	179	204
Special Development Initiatives for Northern Kenya and other Arid Lands	528	4,727	5,255	525	4,113	4,638	409	4,383	4,791	433	4,444	4,877	477	4,400	4,877
Youth Development and Empowerment Services	4,950	21,539	26,489	4,832	16,599	21,431	4,601	20,687	25,288	5,072	19,476	24,547	5,422	19,675	25,097
Co-Ordination Of Humanitarian Response	915	312	1,227	1,439	2,869	4,308	971	360	1,331	990	360	1,350	1,007	360	1,367

**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million) (cont'd)**

	DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
		CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
	<b>105. Ministry of Foreign Affairs</b>	<b>9,641</b>	<b>269</b>	<b>9,910</b>	<b>11,027</b>	<b>342</b>	<b>11,369</b>	<b>10,161</b>	<b>650</b>	<b>10,811</b>	<b>10,487</b>	<b>673</b>	<b>11,160</b>	<b>10,923</b>	<b>657</b>	<b>11,580</b>
	Foreign Relation and Diplomacy	1,032	269	1,301	364		364	1,243	650	1,893	1,283	673	1,956	1,339	657	1,996
	Foreign Policy and Management	8,245	-	8,245	8,906	342	9,248	8,637	-	8,637	8,923	-	8,923	9,303	-	9,303
	International Trade and Investment Promotion	364	-	364	1,757		1,757	281	-	281	281	-	281	281	-	281
	<b>107. The National Treasury</b>	<b>23,979</b>	<b>33,433</b>	<b>57,412</b>	<b>27,482</b>	<b>39,376</b>	<b>66,858</b>	<b>24,049</b>	<b>29,945</b>	<b>53,994</b>	<b>24,300</b>	<b>29,548</b>	<b>53,847</b>	<b>24,668</b>	<b>28,369</b>	<b>53,037</b>
	070900 Administration, Planning and Support Services	18,328	1,795	20,123	19,376	3,920	23,296	17,840	1,703	19,543	18,001	1,707	19,708	18,211	1,707	19,917
	071000 Public Financial Management	4,180	25,664	29,844	4,714	30,066	34,780	4,980	23,536	28,516	4,995	23,318	28,313	5,111	22,425	27,537
	071100 Economic and financial policy formulation and management.	869	4,840	5,709	3,006	4,823	7,829	840	3,677	4,518	905	3,516	4,421	944	3,271	4,214
	071200 Fair Trade practices and creation of an enabling business environment	602	1,134	1,736	386	568	954	388	1,028	1,416	399	1,006	1,406	402	967	1,369
	<b>Parliamentary Service Commission</b>	<b>16,569</b>	<b>2,435</b>	<b>19,004</b>	<b>17,569</b>	<b>2,435</b>	<b>20,004</b>	<b>16,808</b>	<b>2,435</b>	<b>19,243</b>	<b>17,339</b>	<b>2,523</b>	<b>19,862</b>	<b>18,034</b>	<b>2,460</b>	<b>20,494</b>
	National Legislation And Oversight	16,569	2,435	19,004	17,569	2,435	20,004	16,808	2,435	19,243	17,339	2,523	19,862	18,034	2,460	20,494
	<b>206. Commission on Revenue Allocation</b>	<b>321</b>	<b>-</b>	<b>321</b>	<b>270</b>	<b>-</b>	<b>270</b>	<b>319</b>	<b>-</b>	<b>319</b>	<b>331</b>	<b>-</b>	<b>331</b>	<b>348</b>	<b>-</b>	<b>348</b>
	Legal & Public Affairs	131	-	131	112	-	112	31	-	31	31	0	31	33	0	33
	Research & Policy Development	41	-	41	34	-	34	44	-	44	46	-	46	49	-	49
	General Administration And Planning	150	-	150	124	-	124	209	-	209	218	-	218	228	-	228
	County Coordination Services	-	-	-	-	-	-	35	-	35	36	-	36	38	-	38
	<b>207. Public Service Commission</b>	<b>718</b>	<b>290</b>	<b>1,008</b>	<b>678</b>	<b>232</b>	<b>910</b>	<b>750</b>	<b>300</b>	<b>1,050</b>	<b>777</b>	<b>311</b>	<b>1,088</b>	<b>813</b>	<b>303</b>	<b>1,116</b>
	071500 Administration of Human Resources in Public Service	718	290	1,008	678	232	910	750	300	1,050	777	311	1,088	813	303	1,116
	<b>208. Salaries and Remuneration Commission</b>	<b>347</b>	<b>-</b>	<b>347</b>	<b>692</b>	<b>-</b>	<b>692</b>	<b>373</b>	<b>-</b>	<b>373</b>	<b>386</b>	<b>-</b>	<b>386</b>	<b>405</b>	<b>-</b>	<b>405</b>
	072300 Salaries and remuneration management in the public service	347	-	347	692	-	692	373	-	373	386	-	386	405	-	405
	<b>211. Auditor General</b>	<b>2,181</b>	<b>500</b>	<b>2,681</b>	<b>2,561</b>	<b>525</b>	<b>3,086</b>	<b>2,231</b>	<b>450</b>	<b>2,681</b>	<b>2,313</b>	<b>466</b>	<b>2,779</b>	<b>2,425</b>	<b>455</b>	<b>2,879</b>
	071600 Audit Services	2,181	500	2,681	2,561	525	3,086	2,231	450	2,681	2,313	466	2,779	2,425	455	2,879
	<b>212. Controller of Budget</b>	<b>392</b>	<b>-</b>	<b>392</b>	<b>428</b>	<b>-</b>	<b>428</b>	<b>430</b>	<b>-</b>	<b>430</b>	<b>445</b>	<b>-</b>	<b>445</b>	<b>466</b>	<b>-</b>	<b>466</b>
	071900 Control and management of public finances	392	-	392	428	-	428	430	-	430	445	-	445	466	-	466
	<b>213. Commission on Administrative Justice</b>	<b>274</b>	<b>-</b>	<b>274</b>	<b>297</b>	<b>-</b>	<b>297</b>	<b>299</b>	<b>-</b>	<b>299</b>	<b>310</b>	<b>-</b>	<b>310</b>	<b>325</b>	<b>-</b>	<b>325</b>
	072600 Ombudsman Services	274	-	274	297	-	297	299	-	299	310	-	310	325	-	325
	<b>NATIONAL SECURITY</b>	<b>84,723</b>	<b>-</b>	<b>84,723</b>	<b>89,444</b>	<b>-</b>	<b>89,444</b>	<b>80,071</b>	<b>-</b>	<b>80,071</b>	<b>81,102</b>	<b>-</b>	<b>81,102</b>	<b>81,913</b>	<b>-</b>	<b>81,913</b>
	<b>104. Ministry of Defence</b>	<b>70,743</b>	<b>-</b>	<b>70,743</b>	<b>74,577</b>	<b>-</b>	<b>74,577</b>	<b>64,631</b>	<b>-</b>	<b>64,631</b>	<b>64,660</b>	<b>-</b>	<b>64,660</b>	<b>65,752</b>	<b>-</b>	<b>65,752</b>
	080100 Maintenance and Safeguarding of National Security	70,743	-	70,743	74,577	-	74,577	64,631	-	64,631	64,660	-	64,660	65,752	-	65,752
	<b>123. National Security Intelligence</b>	<b>13,980</b>	<b>-</b>	<b>13,980</b>	<b>14,867</b>	<b>-</b>	<b>14,867</b>	<b>15,440</b>	<b>-</b>	<b>15,440</b>	<b>16,442</b>	<b>-</b>	<b>16,442</b>	<b>16,161</b>	<b>-</b>	<b>16,161</b>
	080100 Maintenance and Safeguarding of National Security	13,980	-	13,980	14,867	-	14,867	15,440	-	15,440	16,442	-	16,442	16,161	-	16,161
	<b>SOCIAL PROTECTION, CULTURE AND RECREATION</b>	<b>12,785</b>	<b>10,500</b>	<b>23,285</b>	<b>11,189</b>	<b>8,823</b>	<b>20,012</b>	<b>11,236</b>	<b>10,029</b>	<b>21,265</b>	<b>11,054</b>	<b>10,665</b>	<b>21,718</b>	<b>11,137</b>	<b>11,310</b>	<b>22,448</b>
	<b>113. Ministry of Sports, Culture and Arts</b>	<b>4,731</b>	<b>1,803</b>	<b>6,534</b>	<b>3,275</b>	<b>749</b>	<b>4,024</b>	<b>2,473</b>	<b>965</b>	<b>3,438</b>	<b>2,499</b>	<b>1,143</b>	<b>3,642</b>	<b>2,527</b>	<b>1,318</b>	<b>3,845</b>
	060700 Betting Control and Lottery Services	304	21	326												
	090100 Policy and General administrative services	177	4	181	994	126	1,120	197	4	201	200	4	204	203	4	207
	Research, Preservation and Promotion of National Heritage	760	154	914				762	164	926	768	171	939	770	177	947
	National Cultural Services	172	45	217	1,411	573	1,984	175	60	235	179	62	241	185	65	250
	Promotion of Library services	581	349	930				581	399	980	590	554	1,144	600	706	1,306
	Development, Regulation and marketing field services	106	189	295	285	50	335	170	141	311	172	146	318	174	152	326
	090500 National Heritage and Culture	1,524	663	2,188												
	090600 Youth Development and Empowerment Services	-	12	12												
	090700 Management and development of Sport and Sport facilities	1,106	366	1,472	585		585	589	197	786	590	205	795	595	214	809
	<b>114. Ministry of Labour Social Security and Services</b>	<b>8,054</b>	<b>8,696</b>	<b>16,750</b>	<b>7,914</b>	<b>8,074</b>	<b>15,988</b>	<b>8,763</b>	<b>9,064</b>	<b>17,827</b>	<b>8,555</b>	<b>9,522</b>	<b>18,077</b>	<b>8,610</b>	<b>9,993</b>	<b>18,603</b>
	030200 Promotion of Best Labour Practices	487	122	609	477	115	592	472	185	656	488	258	746	505	108	613
	030300 Manpower Planning, Development and Utilization.	641	540	1,181	457	478	935	687.95	651	1,339	697.17	681	1,378	706.67	703	1,409
	030400 Policy, Planning and Administration	407	4	412	786	4	790	887	4	891	900	5	906	914	6	920
	031000 Productivity Improvement, Measurement and Promotion	59	8	66	57	9	66									
	Social Development	4,408	863	5,271	4,046	863	4,908	4,410	863	5,273	4,412	909	5,321	4,414	955	5,369
	090300 Children Services	2,052	7,159	9,211	2,092	6,605	8,697	2,307	7,361	9,668	2,057	7,669	9,726	2,071	8,221	10,292



**Annex Table 8: Summary of Expenditure by Programmes, 2014/15 - 2016/17 (KShs. Million) (cont'd)**

DETAILS OF THE SECTOR AND PROGRAMMES	DRAFT 2013/14			REVISED 2013/14			CEILING 2014/15			PROJECTED 2015/16			PROJECTED 2016/17		
	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL	CURRENT	CAPITAL	TOTAL
<b>ENVIRONMENTAL PROTECTION, WATER AND NATURAL RESOURCES</b>	<b>13,200</b>	<b>43,933</b>	<b>57,133</b>	<b>14,215</b>	<b>45,009</b>	<b>59,224</b>	<b>14,649</b>	<b>40,342</b>	<b>54,991</b>	<b>14,888</b>	<b>42,907</b>	<b>57,795</b>	<b>15,769</b>	<b>43,210</b>	<b>58,979</b>
<b>110. Ministry of Environment, Water and Natural Resources</b>	<b>12,631</b>	<b>43,356</b>	<b>55,987</b>	<b>13,488</b>	<b>44,232</b>	<b>57,720</b>	<b>13,759</b>	<b>39,042</b>	<b>52,801</b>	<b>14,001</b>	<b>41,339</b>	<b>55,340</b>	<b>14,829</b>	<b>41,658</b>	<b>56,487</b>
Environment Policy Development and Coordination	674	130	804	330	21	350	504.5	137	641.539885	793	142	935	833	150	983
Environment Management and Protection	1,087	2,408	3,495	1,061	2,931	3,993	1,322	2,260	3,582	1,173	2,550	3,723	1,240	2,569	3,809
Meteorological Services	1,037	766	1,803	1,041	763	1,804	1,077	766	1,843	1,070	812	1,882	1,134	818	1,952
Forestry and Wildlife Policy Regulation, and Coordination	4,484	1,648	6,132	5,453	1,825	7,278	4,560	1,936	6,496	4,846	1,731	6,577	5,192	1,686	6,878
Wildlife Conservation and Management	836	3,145	3,981	1,133	2,461	3,594	901	2,887	3,788	940	3,013	3,953	958	3,072	4,030
Water Policy and Management	483	145	628	529	451	981	601	155	756	599	164	763	636	166	802
Water Supply Services	2,032	24,519	26,551	2,018	26,737	28,755	2,272	20,445	22,717	2,264	21,649	23,913	2,396	21,815	24,211
Water Resource Management and Storage	1,079	5,836	6,915	1,214	5,318	6,532	1,249	7,027	8,276	1,245	7,565	8,810	1,318	7,620	8,938
Land Reclamation Services	154	1,320	1,474		191	191	162	162	324	178	27	205	188	33	221
Integrated Regional Development	765	3,439	4,204	709	3,533	4,241	1,110	3,267	4,377	893	3,686	4,579	934	3,729	4,663
<b>119. Ministry of Mining</b>	<b>569</b>	<b>577</b>	<b>1,146</b>	<b>727</b>	<b>777</b>	<b>1,504</b>	<b>890</b>	<b>1,300</b>	<b>2,190</b>	<b>887</b>	<b>1,568</b>	<b>2,455</b>	<b>940</b>	<b>1,552</b>	<b>2,492</b>
100800 Mineral Resources Management	210	-	210	531	583	1,113	408	350	758	368	415	783	389	405	794
100900 Resources Surveys and Remote Sensing	171	164	335				-	186	486	672	229	521	750	233	762
100700 Mining Policy & Development Coordination	188	413	601	196	194	391	296	464	760	290	632	922	318	618	936
<b>TOTAL EXPENDITURE BY PROGRAMMES</b>	<b>617,749</b>	<b>447,885</b>	<b>1,065,635</b>	<b>665,417</b>	<b>452,843</b>	<b>1,118,260</b>	<b>652,323</b>	<b>458,555</b>	<b>1,110,878</b>	<b>694,722</b>	<b>511,701</b>	<b>1,267,537</b>	<b>723,541</b>	<b>504,217</b>	<b>1,241,054</b>