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For more information, contact:

The Director,
Parliamentary Budget Office
Parliament of the Republic of Kenya
Protection House, 10th Floor
P.O. Box 41842 – 00100 GPO
NAIROBI, KENYA

Tel: +254-20-284-8810

Email: pbo@parliament.go.ke

The document can be downloaded from www.parliament.go.ke

12th Edition of the Budget Watch (2019/20)

Key Contributors

The 12th edition of the Budget Watch was prepared by a team under the leadership and guidance of the Director, Phyllis Makau; and close supervision from Martin Masinde (Senior Deputy Director and Head of Macroeconomic Analysis and Statistics Department), Robert Nyaga (Deputy Director and Head of Budget Analysis and Expenditure Review Department) and Lucy Makara (Head of Tax Analysis and Inter-fiscal Relations Department).

The key contributors were the following: Millicent Makina, Chacha Machage, Julie Mwithiga, Danson Kachumbo, Edison Odhiambo, Abdirahman Gorod, Robert Ng'etich, Erick Kanyi, Amran Mursal, Joash Kosiba and Thomas Ogwel.

This report is available at the Parliament's website (www.parliament.go.ke)

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Acronyms and Abbreviations

A in A/ AIA	Appropriations in Aid
ADP	Annual Development Plan
BAC	Budget and Appropriations Committee
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CIDP	County Intergrated Development Plan
DFID	Department for International Development
DSA	Debt Sustainability Analysis
EAC	East African Community
EPZA	Export Processing Zones Authority
FY	Financial Year
GCP	Gross County Product
GDP	Gross Domestic Product
ICOR	Incremental Capital Output Ratio
ICT	Information Communication Technology
IEA	Institute of Economic Affairs
IMF	International Monetary Fund
KBA	Kenya Bankers Association
KDSP	Kenya Devolution Support Programme
KNBS	Kenya National Bureau of Statistics
KNOMAD	Global Knowledge Partnership on Migration and Development
KRA	Kenya Revenue Authority
KSH	Kenya Shillings
MDAs	Ministries, Departments and Agencies
MPC	Monetary Policy Committee
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NOFBI	National Optic Fibre Backhaul Initiative
NPLs	Non Performing Loans
OPEC	Organization of Petroleum Exporting Countries
PBO	Parliamentary Budget Office
PBOM	Parliamentary Budget Office Model
RDL	Railway Development Levy
REI	Revenue Enhancement Initiative
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
TTIs	Technical Training Institutes
TVET	Technical and Vocational Education Training
USA/ US	United States of America
USD	United States Dollars
VAT	Value Added Tax

Chapter One:

Budget, Economic Policy and Economic Performance

1.1.Midterm for the Jubilee Government: Will the 2019/2020 Budget be a 'make or break' point for Public Investments?

1. **How the 2019/2020 budget is implemented has the capacity to alter the course and direction of public investments under the current administration; and the impact on economic growth and development.** The 2019/2020 budget is for all intents and purposes a 'midterm' budget for the second term of the Jubilee administration. With only two financial years left to deliver critical government promises, this **IS** a fundamental year for project implementation. The Big Four Agenda – the government's current development plan with at least thirty key priority projects under food security, agriculture, affordable housing and manufacturing sectors as well as universal health coverage– is in the process of being implemented. In total, the 2019/2020 budget comprises 2,050[1] projects some of which are big four related either as the main driver or as an enabler.

2. **It should be noted that not all big four related projects have been expressly identified in the budget and the lack of a Big Four implementing framework/ master plan makes it difficult *though not impossible* to keep track of this development agenda.** Overall, the budget contains at least 156 programmes with an estimated 3,165 Key Performance Indicators which should be monitored to gauge performance. It is indicated that the budgetary allocation for the big four drivers is Ksh. 76.7 billion whereas the allocation for enablers is Ksh. 374.1 billion. As such, the Big Four accounts for approximately 14.6% of the total budget for 2019/2020. How well the development plan performs and the impact it will have on livelihoods will largely depend on how effectively and efficiently each of the projects contained therein is implemented. ***This can be achieved through monitoring the Key Performance Indicators.***

3. **With governance issues currently shaking up the economy, there is increased agitation for enhanced budget transparency and good governance.** The war on corruption has intensified over the past two years with increased focus on how public projects are implemented. In previous budgets, capital spending faced the most challenges in terms of its implementation and is arguably the most susceptible to corrupt processes. Over the past seven years, the government has been investing significant capital outlays in mega projects particularly under infrastructure in a Keynesian attempt to stimulate economic growth. However, poor implementation processes and inherent weaknesses in project appraisal and management have resulted in delayed returns to the economy leading to less than desired economic performance. Currently, it is estimated that there are at least 545 stalled projects for which Ksh. 72.5 billion has so far been expended. Other projects have been determined to be well beyond their completion dates. The slow pace of implementation is attributed to a number of reasons; notably, insufficient allocation of funds to projects, revenue underperformance, non-payment of contractors and even litigation cases in courts. This means that the issue of proper management of projects right from appraisal, cost benefit analysis, eventual funding and inclusion in the Budget Estimates is not properly managed.

4. **The 2019/2020 budget is also encumbered with the formidable task of replicating the good economic performance of 2018.** Economic growth was reported to be 6.3 percent in 2018 with

[1] In previous editions of the Budget Watch, the number of government projects was estimated to more than 3000. The current estimation of 2,050 projects implies that some projects may have been completed, approximately 40%. The other 60% could be projects that have stalled.

agriculture value added expanding to 6.6 percent in 2018 from 1.8 percent in 2017. Furthermore in the same period, 840.6 thousand new jobs were reportedly created; inflation remained within the target range at 4.7 percent and the current account deficit is reported to have improved significantly. It should be noted however, that in the recent past, higher economic growth hasn't necessarily resulted into job creation and improved livelihoods. Of the 840.6 thousand new jobs reportedly created, 83.6 percent are in the informal sector. A 2017 Study by Kwame et al[2] established that out of necessity – the inability of the formal sector to grow fast enough to absorb the influx of job seekers – jobs in Kenya are being created in the informal sector and as a result, labour productivity is quite low and static. Indeed, it is estimated that between 2010 and 2018, employment contributed only 1.2% to economic growth compared to capital which contributed 5.6 percent. During the same period, Total Factor Productivity was estimated to have contributed negatively to economic growth at -1.1 percent[3]; implying either misallocation of investments or failure to innovate for both physical and human capital leading to low productivity gains. Thus though economic growth is recorded, it is not dynamic or transformational enough for incomes to rise for everyone and a majority of Kenyans are trapped in informal, low end low productivity jobs that only contribute approximately 35% of GDP. Little wonder therefore, that many Kenyans have expressed frustration that they did not 'feel' the 6.3 percent economic growth recorded last year. The bigger portion of GDP, if at all achieved, is enjoyed elsewhere. ***Simply put, economic growth has not translated into improved livelihoods for a majority of Kenyans.***

5. **Unless economic growth is accompanied by a structural transformation of the economy, low productivity (and the resultant low income jobs) will continue to persist.** In 2019, the government projects that the economy will achieve a minimum growth of 6.2 percent and thereafter expand to 7.0 percent in the medium term. This growth is to be achieved through continued implementation of policies and programmes under the Medium Term Plan III as operationalized by the big four agenda. The target of the 2019/2020 budget is to *"accelerate economic growth, create opportunities for productive jobs, reduce poverty and income inequality and provide a better future for all Kenyans".* The challenge therefore for those keeping an eye on the budget is to ensure that implementation of public projects in the current as well as the future financial years is robust and dynamic enough to trigger a surge in productivity leading to higher income levels.

6. **The recently released public investment guidelines can streamline implementation of government projects and enhance value for money if strictly adhered to.** In August 2018, the National Treasury released public investment management guidelines, intended to streamline the use of government resources on projects as part of reforms in the public sector's financial management meant to spur economic growth and development. The guidelines outline the process of project identification and planning, feasibility and appraisal, project selection for budgeting, implementation, monitoring, evaluation and reporting as well as project closure, sustainability and impact assessment. It is observed in the provided guidelines that previously, projects have been entered in the budget without verification of their quality and cost effectiveness leading to a bloated portfolio, unpredictable funding, stalled projects and inflated costs. As such, it is expected that the

[2] Kwame et al, 2017, *How Kenya is failing to create decent jobs*, Africa Research Institute and IEA Kenya
[3] PBO 2019, Macroeconomic Diagnostics for Kenya

guidelines will promote efficient project management. However, it is still not clear how these guidelines have been or will be integrated in the budgeting process. Ideally, Project development should be subjected to a formal process. This entails preparing a project profile with information on project objective, main activities, expected results and the cost estimates; carrying out a formal project appraisal to ascertain viability; development of detailed project design to ensure accurate costing; efficient procurement planning and funding mechanisms as well as a robust monitoring framework.[4]

7. **Efficiency gains, not additional funding, is the key to effective implementation of government projects without further accumulation of debt.** The 2019/2020 budget has indicated a commitment to fiscal consolidation through limiting government spending as well as enhancing revenue collection. However, expenditure pressures, particularly due to implementation of key government projects have in the past been viewed as a bottleneck in the government's quest for lower spending. Efficiency gains entail effective utilization of public resources such that the country is able to achieve more with fewer resources. The experience of the 2018/2019 budget whereby the Supplementary II budget reversed the measures of Supplementary I should be avoided.

1.2. Economic Outlook and domestic growth performance

8. **The macro-framework for the 2019/2020 budget comprises an economic growth projection of 6.2 percent in 2019; single digit inflation of 5% (+or-2.5%) low and stable interest rates as well as strengthening external position due to narrowing of the current account deficit.** This favourable economic outlook is premised on stable weather conditions, a strong service sector, stable macroeconomic environment, ongoing infrastructural investments and sustained business confidence. However, this outlook is susceptible to a number of risks which if they materialize, could lead to lower than projected economic growth. It is important therefore to keep an eye on the key components of the country's total economic output and anticipate any uncertainties as well as measures to deal with them, should they occur. These components are consumption (personal and government), Investment (private and government) as well as net exports.

1.2.1. Consumption

9. **Private consumption is a significant driver of economic growth in Kenya but could encounter challenges from inflation as well as low incomes levels that may cause significant slack on the demand side resulting in subdued economic growth.** Private consumption accounts for approximately 78% of total GDP[5] denoting the power of consumer spending in driving economic growth. However, it should be noted that private consumption is typically influenced by the amount of disposal income available to the consumers as well as the work and general income conditions in the country.

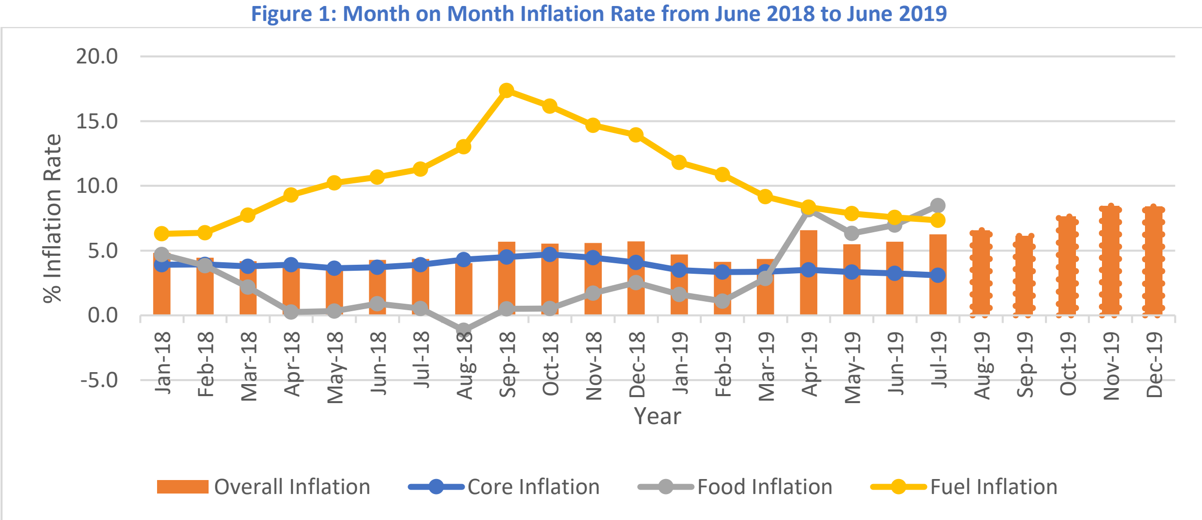
10. **Inflation arguably poses the biggest risk to private consumption and is a key factor to watch out for in the course of the 2019/2020 financial year.** This is because high inflation erodes the purchasing power of consumers resulting in subdued demand. In the month of July, Inflation was

[4] Rajaram et al, *A diagnostic framework for assessing Public Investment Management*, World Bank
[5] PBO 2019, Macroeconomic Diagnostics

estimated at 6.27 percent from 5.7 percent in June 2019.This increase was mainly driven by higher food prices compared to 2018 levels, as well as higher fuel prices (which also contributed to a higher transport index) and higher electricity prices. Going forward, the risks to inflation are likely to emanate from rising food prices on account of food scarcity as well as the current dynamics in the global oil market. Already, anecdotal evidence, albeit conflicting, suggests prevailing maize scarcity which may necessitate importation now or in the near future. According to the KNBS, prices of some foodstuff such as maize, beans, green grams and sifted maize flour had increased as at June 2019, although other foodstuff such as spinach, sukumawiki, tomatoes and other perishables recorded a decline in prices. It remains to be seen, how the food prices will play out in the rest of the year. The outcome will be largely determined by the performance of the October-November-December short rains season as well as the country's level of preparedness for any food related emergency.

11. **According to Reliefweb, Kenya's food security situation worsened this year due to poor performance of the March to May rainfall with an estimated 2 million people experiencing food security crisis as at July 2019 particularly in the pastoral and marginal agricultural areas.** The National Drought Management Authority also estimated the number of severely food insecure people at 2 million in the month of July with a likelihood of the situation worsening in the later months. Under such circumstances, a higher portion of income, particularly for the low income households, will be spent on food only. When private spending is a matter of survival, it limits the scope to which it can drive economic growth to sustainably higher levels. Furthermore, low agriculture value added on account of poor rainfall performance may lead to lower GDP levels given the significance of agriculture to the country's economic growth story.

Figure 1: Month on Month Inflation Rate from June 2018 to June 2019



Source: PBO, 2019

Table 1: Percentage Contribution to Overall Inflation from June 2018 to June 2019

Category	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Food & Nonalcoholic Beverages	6.52	3.80	-8.32	2.79	2.95	10.18	15.02	11.40	8.45	22.46	48.18	44.00	47.68	53.43
Alcoholic Beverages, Tobacco & Narcotics	1.15	1.17	2.40	2.07	2.28	2.44	2.31	2.61	3.25	3.49	2.98	3.48	3.48	3.45
Clothing & Footwear	6.23	6.07	6.22	5.27	5.52	5.06	4.16	4.06	3.88	3.86	2.83	3.04	2.89	2.52
Housing, Water, Electricity, Gas and Other Fuels	52.11	52.49	61.39	49.40	49.24	41.13	40.45	45.32	48.62	32.89	17.31	16.09	14.12	13.10
Furnishings, Household Equipment and Routine Household Maintenance	5.74	5.72	5.73	4.63	4.53	4.42	3.99	4.31	4.02	3.99	2.52	2.92	2.48	2.08
Health	2.65	3.85	3.58	2.86	2.91	2.47	2.32	2.76	3.01	3.10	2.33	2.42	2.22	0.97
Transport	13.00	14.58	16.30	23.18	20.83	22.14	20.38	18.69	17.81	19.16	15.36	18.51	17.99	15.95
Communication	0.65	0.62	0.48	0.36	2.58	2.97	2.92	3.50	3.71	3.79	2.85	3.33	3.25	2.98
Recreation & Culture	0.69	0.65	0.70	0.56	0.59	0.56	0.38	0.40	0.40	0.29	0.25	0.22	0.20	0.21
Education	3.22	3.20	3.22	2.38	2.37	2.44	2.54	0.91	0.84	0.85	0.75	0.89	0.89	0.86
Restaurants & Hotels	4.29	4.24	4.50	3.50	3.04	3.09	2.65	2.94	2.93	2.99	2.37	2.56	2.28	2.20
Miscellaneous Goods & Services	3.74	3.61	3.81	3.01	3.15	3.10	2.89	3.11	3.07	3.12	2.27	2.55	2.53	2.25
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: PBO

12. **The current dynamics in the global oil market also pose a significant risk to inflation due to high fuel costs, high transportation costs as well as high production costs where fuel is part of the production process**. International crude oil prices have risen from $ 59.3 dollars per barrel in December 2018 to $65.32[6] dollars per barrel (KNBS, 2019). This is as a result of decrease in supply from the Organization of Petroleum Exporting Countries (OPEC) as Iranian supply plunged due to US sanctions and lower Saudi as well as Nigerian output. The OPEC countries agreed to lower their supply of oil[7] in December 2018 so as to increase market prices. On the flipside however, oil prices may stabilize if Non- OPEC countries such as USA increase their supply in the world market which they are likely to.

    Should these risks materialize, then inflation is likely to average 7% by end of year (+ or – 2.5). Otherwise it will remain in the range of 5.5 percent for the year 2019.

13. **Consumption driven growth is also likely to be hindered by the size of the country's consumer base as well as the stage of economic development that the country is currently in.** Though labelled a middle income economy, the number of middle income earners is not adequate enough to boost consumption to a level significant enough to drive sustainably higher economic growth. As at 2015, it is reported that less than 275,000 people earned between Ksh. 76,000 and Ksh. 102,000.[8] It should also be noted that consumption in Kenya tends to be import driven possibly due to Kenyans' preference for imported goods over locally produced goods and/or low quality of locally produced goods. An increase in consumption may therefore simply mean more money being channelled out of the country as imports are increased to meet higher consumption demands.

[6]**Murban ADNOC Crude Oil Prices as at June 2019.**

[7]**the 5th OPEC and non-OPEC Ministerial Meeting held in Vienna adjusted the overall production by 1.2 mb/d, effective as of January 2019 for an initial period of six months.**

[8]IEA, How Kenya is failing to create decent jobs

1.2.2. Investment

14. **The contribution of both private and government investment to economic growth has averaged 18% over the last ten years with subdued impact on economic growth – but hope still abounds that the country will be able to effectively adopt efficient production processes and enhance productivity of investments.** Ideally, the country's investments should over time, enhance total factor productivity. This entails improved productivity of capital, labour as well as continued innovation. However, challenges to productive investments emanate from inadequate resources and the resultant low investment levels, poor quality of investments as well as lethargic implementation of key investment policies.

15. **Higher productivity of capital can be achieved through revamping investments in both private and government sectors.** Government investments are carried out in order to boost a country's productivity. Innovations and technological advancements in a country typically occur through capital investments which includes research and development. Government investments tend to lean towards infrastructure which is considered a crucial factor in enabling private businesses and individuals produce their goods and services more efficiently. In the long term, it is expected that the numerous ongoing government projects will lead to increased overall productivity in the country. However, the impact of government investments on economic output is largely determined by the type of investment, at what stage of the business cycle they are implemented, how they are funded and how long they take to complete.

16. **The bane of Kenya's infrastructure investment is the slow pace of implementation which sometimes renders the projects obsolete. Others include poor choice of projects to undertake, inadequate resource allocation and a weak monitoring and evaluation framework all of which lead to overall poor outcomes.** In the current financial year, there is an estimated 2,050 actively ongoing projects cutting across various sectors. Most of these projects are infrastructure related, with approximately 971 projects domiciled under the Energy, Infrastructure and ICT sector. However, in some instances, these projects do not appear to be efficiently implemented. For instance, in the 2019/2020 budget, it was established that there are 825 projects in the Ministry of Infrastructure which require Ksh. 1.5 trillion to implement. Of these, 316 are new projects with an allocation of Ksh. 5.9 billion. The concern here is that of these projects, a significant number constitute numerous roads across the country with inadequate resources allocated to them. As such, they are doomed to fail before they even begin. Though poor road network is a pressing need that should be urgently addressed, inadequate resource allocation to numerous projects scattered across the country is not an efficient way of achieving this. Perhaps it would have been more ideal to phase out implementation, identifying few roads incrementally every year and providing them with adequate resources instead of trying to cover the entire country at once.

17. **Private investments are primarily hindered by inadequate access to credit.** Recent statistics indicate that the annualized growth in credit to the private sector was estimated at 4.9 percent (as at April 2019); an increase from 2.4 percent in December 2018. However, this is still significantly below the 12 – 15% growth that is considered optimal enough to influence significant economic growth. It is posited that banks are not lending to the private sector due to the high demand for

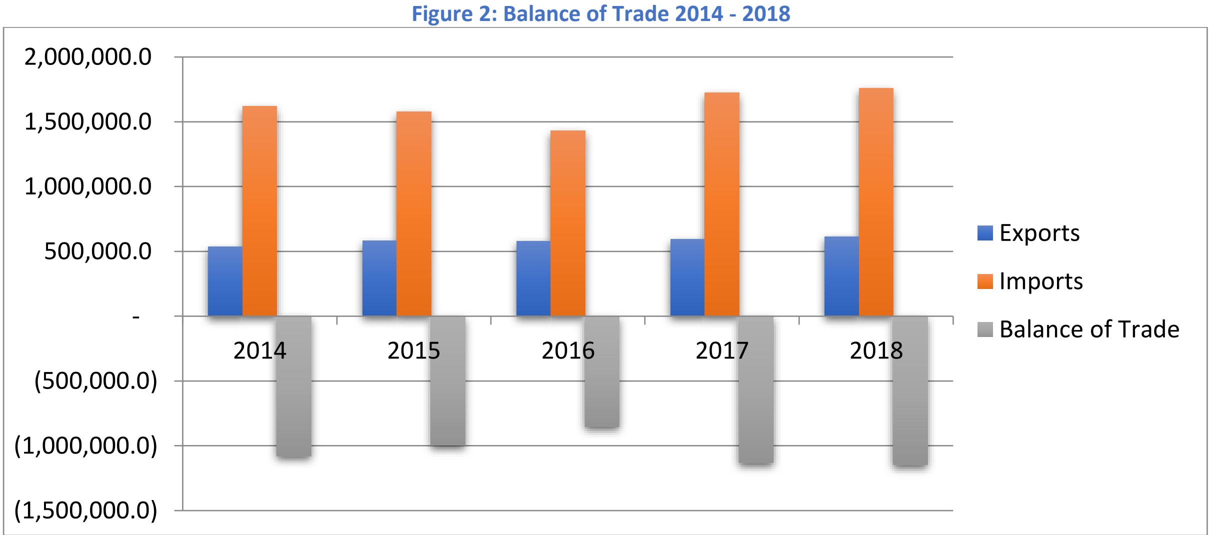
credit by the government which then crowds out the private sector, as well as continued risk averseness to private borrowers. As a result, businesses are unable to invest adequately in their production processes in order to produce quality output. It should be noted however that declining demand may also be a factor hindering the production process. As earlier indicated, given the low income in the hands of citizens and the current prevailing economic conditions, consumption demand simply isn't high enough to warrant increased production of goods and services. As such, the private sector is unable to produce a large amount and in the process, the businesses falter.

18. **Though labelled a middle income economy, the country has been unable to mobilize adequate domestic savings to enable it to build an adequate stock of human capital.** As earlier indicated, private consumption is significantly higher than private investments, denoting a penchant by Kenyans to spend rather than invest. This may be attributed to low income levels such that individuals have to spend most of their incomes to get by and are consequently unable to adequately save and invest. Beyond higher national income, boosting national savings will require attractive interest rates and policies to mobilize domestic savings.

1.2.3. Net Exports

19. **Kenya's balance of trade appears to be worsening over time with much higher imports recorded, relative to exports.** In 2018, the balance of trade worsened by 1.4%; with a recorded deficit of KSh 1,147.3 billion from a deficit of Ksh 1,131.5 billion in 2017. Though there was a general increase in both imports and exports by approximately 2%, The Imports-exports ratio widened slightly from 34.4% to 34.8%. Going forward, imports may increase on account of a higher fuel import bill due to rising global oil prices as well as food importation to address food shortages, particularly with regard to maize.

Figure 2: Balance of Trade 2014 - 2018



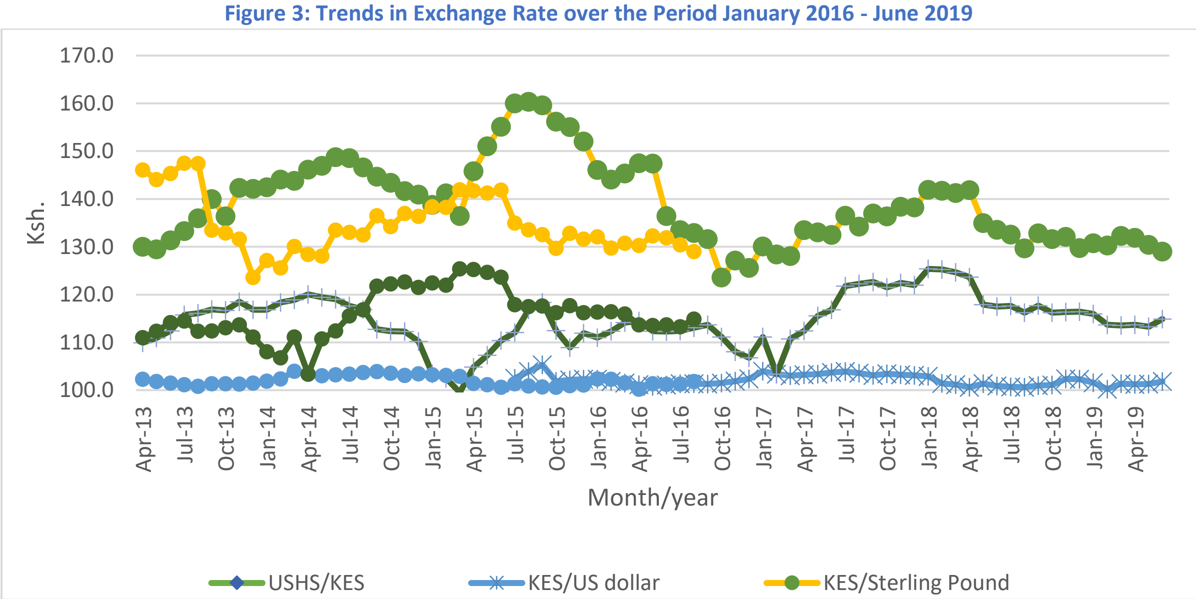
Source; KNBS

20. **Given an apparent decline in trade competitiveness, the outlook of the country's balance of trade remains precarious.** A recent report indicates that Kenya has consistently lost its market share in the East African community (Kenya's largest export market) with the country importing

more than it exported to the EAC for the first time ever. This signals continued decline in industrial competitiveness as many countries within the East African community start to produce goods previously imported from Kenya or have found other import sources. Indeed, it is reported that China has increasingly become one of the largest trading partners for many African countries including the East African Community. This outcome is detrimental to the country's industrialization prospects as it will deny the country an opportunity to improve its quality of manufacturing and also increase jobs in the industrial sector[9].

21. **Going forward, the rising import bill and poor performance of exports is a major bottleneck to the Kenya shilling exchange rate which has been stable for the better part of the year.** As at end of June 2019, the Shilling had reportedly strengthened against the Sterling Pound and Euro but had depreciated against the US dollar. Compared to the same period in the previous year, the Kenya Shilling depreciated by 0.9 percent against the dollar but appreciated by 3.4 percent and 2.2 percent against the Sterling Pound and Euro respectively. The depreciation against the dollar is partly attributed to a spike in dollar demand from importers especially the oil importers due to rising crude oil prices. It should be noted that in addition to declining competitiveness and a shrinking external market, the export market has been performing poorly due to unfavourable tea prices in the global market. The political and economic instability experienced in Iran and South Sudan as well as the US Sanctions on Pakistan, the leading importer of Kenya Tea, has reduced international demand for Kenyan tea. Due to political instability experienced in South Sudan, Kenya has not exported any of its tea to the region despite having exported 136,857 kilograms of tea to South Sudan in the first half of 2018. As at May 2019, 18.37 Million kgs of Kenyan tea were sold through Mombasa Auction compared to 30.83 Million kgs recorded in same period of last year. The average tea auction prices for Kenyan tea for the month were $ 2.39 per Kg which was lower compared to $ 2.61 recorded in May 2018[10].

Figure 3: Trends in Exchange Rate over the Period January 2016 - June 2019



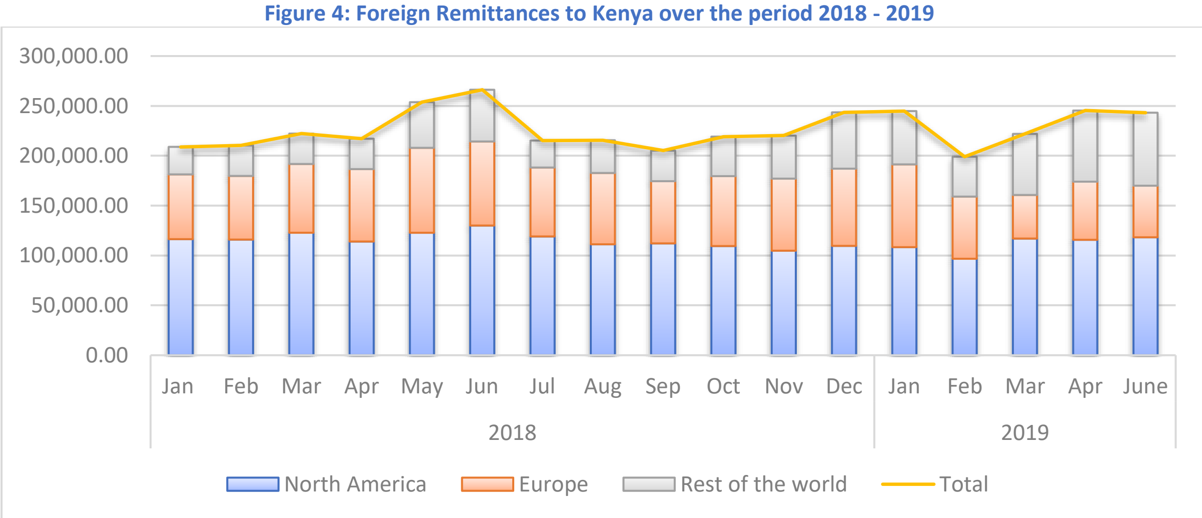
Source: CBK

[9]ATPC Daily Digest, August 2019
[10]**Statistics from the Directorate of Tea**

22. **The risks to the exchange rate are likely to be mitigated by the well performing forex reserves largely on account of foreign remittances.** Remittances in Kenya have risen to become the biggest source of foreign exchange, ahead of tourism, tea, coffee and horticulture exports. This has played a significant role in stabilizing the Shilling. Currently, the forex reserves are estimated at USD 9.1 billion (equivalent to 5.81 months of import cover) as at 27th June 2019 and are likely to sustain the good performance in the coming months. Kenyan remittances grew by 39 percent year-on-year between 2017 and 2018. This year's growth was however much lower than the previous year, when remittances had increased 51.8 percent to $114.6 billion in the first five months of 2018 compared with that of 2017 according to the KNOMAD report. Projections from the report indicate that remittances to the region will keep increasing but at a lower rate. The upward trend observed over the years is explained by strong economic conditions in the high-income economies where many Kenyan migrants earn their income as well as some Kenyans living abroad taking advantage of the tax amnesty granted on foreign income. In 2016, the Tax Procedures Act was amended to provide a tax amnesty on income declared for the year by a person who earned taxable income outside Kenya. However, circumstances may change when the amnesty expires in June 30th 2019.

23. **It should be noted that presently, the country's foreign exchange reserves are the only buffer to currency shocks following the lapsing of the IMF facilities**. As such, focus should be on enhancing other ways of earning foreign exchange in order to protect the country against any risks that may arise in the course of the year. Presently, anecdotal evidence suggests that there are efforts by the National Treasury to have the IMF credit facility restored by implementing certain conditionalities such as increased lending to the private sector, as well as maintaining a low fiscal deficit. It remains to be seen, how these will play out.

Figure 4: Foreign Remittances to Kenya over the period 2018 - 2019



Data Source: Central Bank of Kenya

24. **Keep an Eye On:**
   i. **Exchange rate vulnerabilities:** these entail the rising import bill on account of higher fuel prices as well as likelihood of increased food importation to cater for food shortages. On the other hand, a poorly performing export sector will limit the amount of foreign exchange

earnings. Should this materialize, the increased demand for dollars to import goods without a concomitant increase in dollars earned from exports will exert pressure on the currency leading to depreciation of the currency.

ii. **Supply side shocks:** These are mostly with regard to food supply which has remained low due to erratic weather patterns and is likely to worsen in the coming months. Continued increase in global oil prices is also likely to be a major source of macroeconomic fluctuations. This is because these supply side shocks are likely to have an adverse effect on consumers and producers through increased inflation at the consumer level as well as higher unit cost of production at the producer level.

iii. **Exchequer issues for the Capital/Development budget:** previous implementation of the development budget has been marred by slow release of funds to the projects without a clear explanation of why this is the case. To illustrate, a review of the Exchequer releases as at end of March 2019 indicated that three months to the end of the financial year, only slightly more than half of the development funds (54%) had been released. This trend contributes to slow implementation of projects, breach of contract due to non payment to contractors and increased overall cost of project.

1.3.Monetary Policy Stance

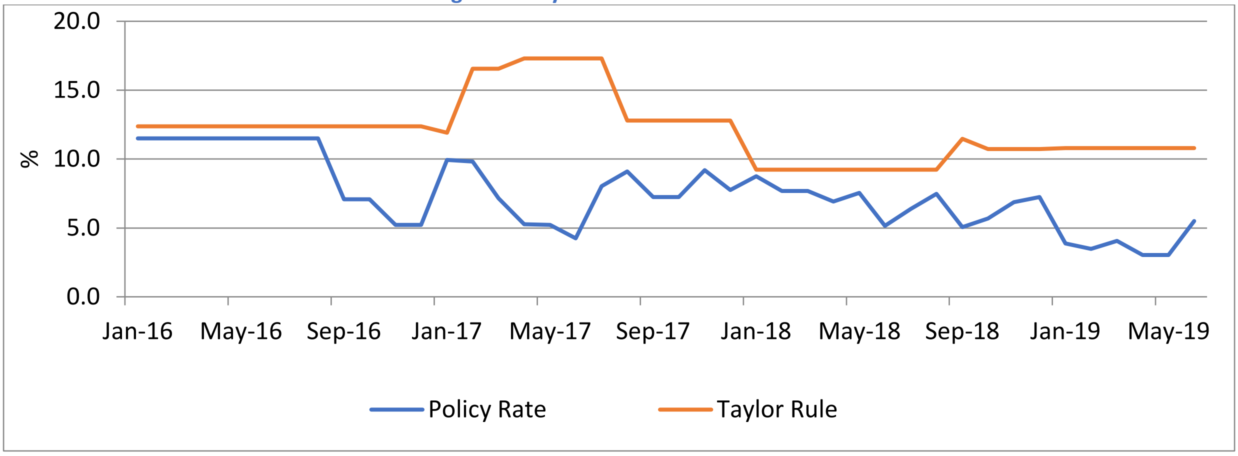
25. **O**ver the last three years, the Central Bank of Kenya has kept the Central Bank Rate (CBR) below the levels implied by Taylor Rule[11] as shown in the figure below. Taylor rule is a monetary policy rule linking the level of policy rate (CBR) to deviations of inflation from its target and output gap. According to the rule, a one percentage increase in inflation should prompt the Central Bank to raise the nominal interest rates by more than one percentage point. Since 2016, deviations of the policy rate to Taylor rule have averaged 4.7[12] percentage points. It is also worth noting that since August 2016, the deviations have continued to widen, then briefly narrowed in January 2018 before widening again. These movements suggest a quick response of policy rate to shocks so as to ensure financial stability.
26. **Operating below Taylor Rule level suggests that the monetary policy currently being applied in Kenya is expansionary**. This is supported by the fact that in the last three years, the Monetary Policy Committee (MPC) has lowered the policy rate from 11.5 percent to 9 percent. The decision to lower the CBR is anchored on the fact that demand pressures on inflation remain moderate as core inflation (nonfood & non fuel) has remained within the government target of 5 percent (±2.5). Over the past years, iinflationary pressures have often come via exogenous supply side shocks (drought or oil prices).

27. **Apart from stabilizing prices, the CBK also regulates the growth of money supply in order to spur economic growth.** In the last three years, it is estimated that real GDP has averaged 5.67

[11]The Taylor rule ($i=r^*+\pi^*+1.5(\pi-\pi^*)+0.5y$), created by John Taylor (1993),it is responsiveness of the nominal interest rate, as set by the central bank, to changes in inflation and output.
[12] Simulations from PBO Marco Diagnostic Model

percent which is slightly below the estimated potential output of 5.87[13]percent. This has resulted in a negative output gap of 0.28 percent[14] thereby necessitating the lowering of interest rates in order to boost credit to the private sector and spur economic growth.

Figure 5: Taylor Rule vs. CBK Rate



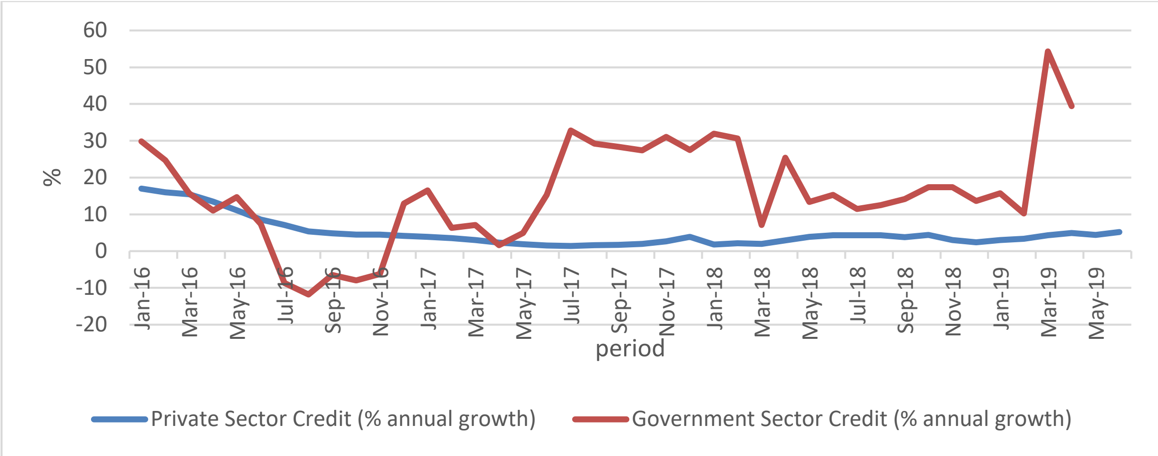
28. Though there has been a slight pickup in private sector credit, expansionary monetary policy has failed to adequately stimulate robust lending to the private sector. Growth in credit to the private sector remains subdued, with annual credit growth averaging 3.3 percent since the interest rate controls were adopted in September 2016. Although credit growth improved slightly to 5.2 percent in June 2019, much stronger growth will be necessary to sustain high economic growth. According to the IMF, 10 percent rise in private sector growth adds 1.5 percent to GDP output[15].

29. The ratio of gross non-performing loans (NPLs) to gross loans stood at 12.7 percent in June, 2019 compared to 12.4 percent in December, 2019 partly due to non-performing loans in manufacturing as well as trade sectors[16].A rise in NPLs indicates that businesses are facing cash flow problems and therefore unable to meet their business obligations including repayment of debts.

[13] Simulations from PBO Macro Diagnostic Model
[14] Simulations from PBO Macro Diagnostic Model

[15]**IMF Working Paper (WP/19/119), 2019**
[16]**CBK Annual Report, 2018**

Figure 6: Annual Percentage Growth of Private Sector vs. Government Sector



Source: CBK

Table 2: Private Sector Credit to various sectors of the Economy

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Credit to private sector	**4.3**	**4.3**	**4.3**	**3.8**	**4.4**	**4.4**	**2.4**	**3.0**	**3.4**	**4.3**	**4.9**	**4.4**	**5.2**
Agriculture	-4.7	-6.5	-4.3	-6	-5.6	-5.7	-2	-0.2	-2.6	0.2	2.5	2.7	3.9
Manufacturing	12.2	11.5	13.2	11.9	14.8	14.9	6.5	6.5	7.7	7.2	7.9	6.5	11.4
Trade	8.5	6.5	6.9	3.2	4	3.9	2.9	6.6	6.4	8.7	8.4	7.6	5.5
Building & Construction	13.3	13.5	14.7	11.1	7.1	7.2	1.8	1.4	2.6	-7	-6.5	-4.1	-6.3
Transport & Communication	-12.7	-10.7	-11	-9.1	-7.7	-8	-9.4	-6.5	-0.7	5.7	6.4	6.2	5.8
Finance & Insurance	3.8	8.5	3.5	6.6	9.1	9.1	17.5	15.4	13.1	10.2	13.3	6.7	4.7
Real Estate	3.8	4.3	0.9	1.7	1.2	1.2	-0.5	-2.6	-2.9	-0.1	-0.7	-0.5	1
Mining and Quarrying	-9.1	0.2	-9.1	-15.5	-11.6	-12	-10.7	-14.5	-13.4	-11.4	-12.5	-7.9	-4.3
Private Households	2.9	2.9	2.7	5.1	5.1	5.1	6.8	5.6	6.6	8	7.9	7.8	7.6
Consumer Durables	7.8	9.1	11.5	7.8	7.6	7.3	11	15.4	16.1	13.9	16.4	18	21.3
Business Services	6.7	3.3	6.5	4.3	12.1	12.4	8	0	0.3	-0.4	1.1	-1.2	-3.2
Other Activities	-7.9	-5.8	-4.6	2.7	-12.4	-14.7	-34.8	-27.2	-33.1	-31.7	-29.6	-32	-21

Source: CBK, 2019

30. **It is worth noting that the realization of the Big Four Agenda is in 2 years and key sectors such as Agriculture and Manufacturing sector continue to underperform.** The success of the Agenda has been pegged on private sector involvement yet funding continues to be a challenge. Currently, most commercial banks favour large-scale farmers than small scale farmers. Food security in the country can be achieved if small farmers are given more credit so as to buy modernized farm equipment as well as fertilizers. Furthermore, the country is prone to drought conditions, enhanced credit may lead to farmers investing more in irrigation. The slight pick-up noted in credit flow to the agriculture sector could have been occasioned by farmers taking up loans in preparation for the long rains that failed. As such, it is likely that credit to agriculture may contract in the coming months.

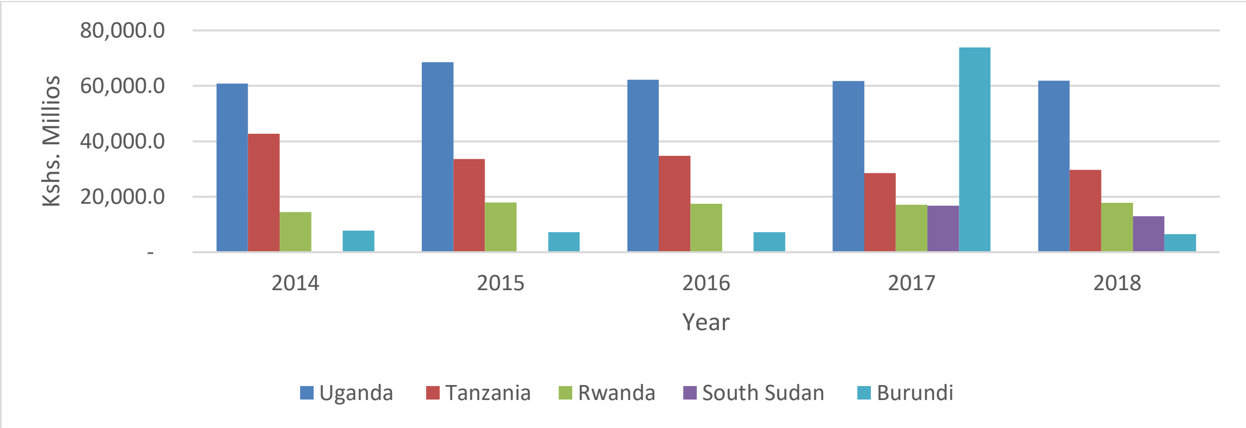
31. **The manufacturing sector's contribution to GDP has averaged at 10 percent in the last seven years.** However it has been on a declining trend, contributing 7.7 percent to GDP in 2018[17].Manufacturing growth has been muted; the sector only grew by 4.2 percent in 2018. Kenya's manufacturing exports destined to the East Africa Community have contracted, due to

[17]**KNBS, 2019**

competitiveness challenges for Kenya's manufacturing sector. From table ** above, there seems to be increased credit flow to the manufacturing sector though this may have been occasioned by government settling its pending bills as well as bumper harvest of the previous year.

32. **There is a noted decrease in uptake of credit in Building & Construction, Real Estate and Mining sectors.** This may be occasioned by low uptake of mortgage by citizens as banks shy away from lending long term due to interest capping. In addition, low uptake of loans could as a result of housing glut therefore decrease in new housing developments. According to Kenya Bankers Association (KBA), there has been a reduction in the number of building approvals signaling surplus. Between January to June 2018 there were 2,252 approvals compared to 2,238 approvals for the period July to November 2018[18].The decrease in credit in the mining sector could be occasioned by a weak global economy leading to decrease in demand.

Figure 7: Value of Kenya's Exports within East Africa Destination (EAC) 2014 - 2018



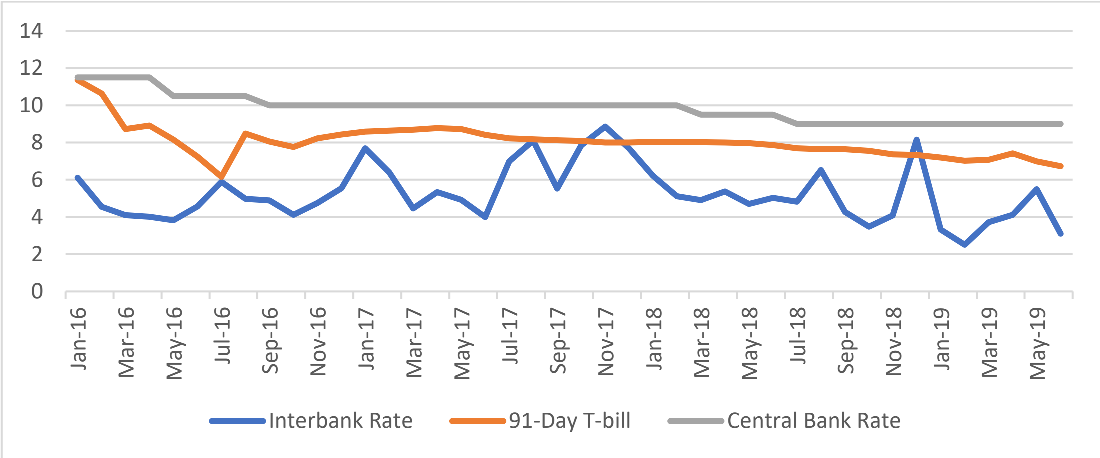
KNBS, 2019

33. **Commercial Banks have lost their risk-taking appetite and have resorted to lending more to the government.** Despite there is increased liquidity in the economy as the interbank rate has averaged at 5.4 percent the signaling effect of the CBR as an indicator on monetary policy stance has weakened. As shown below, the gap between it and interbank rate and 91 T-Bill yields has widened. Both the interbank rate and 91- day T-Bill yields have averaged 430 basis points and 150 basis points respectively below the CBR.

34. The excess liquidity has resulted in 91-day treasury bills yield falling to its current rate of 6.73 percent as at the end of June, 2019 suggesting that the excess liquidity is being channeled towards government and tightening credit conditions towards private sector. This could be as a result of the interest capping law that is prohibiting credit flow to private sector. Going forward, a further cut to the CBR rate may exacerbate the credit constraints to private sector more importantly, the Small and Medium Enterprises (SMEs) which the banks perceive as high-risk borrowers.

[18]**Kenya Bankers Housing Price Index, August 2019**

Figure 8: Policy Rate, Interbank Rate and 91 T-Bill Yields from 2009 - 2019



Source: CBK, 2019

35. Keep an Eye On:

i. **Kenya's Exports:** Kenya is slowly losing its export market especially in East Africa. There is necessity for Kenya to look for new markets as well diversify its export products. An increase exports shall subsequently lead to increase in credit to private sector.

ii. **Private Sector Credit growth to Sectors of Economy:** Key sectors such as Agriculture and Manufacturing are experiencing the slow credit growth cycle. Boosting of credit to these sectors can be achieved through government settling pending bills on time and incentivizing commercial banks (through introduction of tax rebates) to provide low interest loans targeting manufacturers and SMEs.

iii. **Government Sector Credit Growth:** Credit growth to government sector negatively affects private sector growth. The government needs to cartel the appetite of government borrowing through living within the parameters of the approved Medium-Term Debt Management Strategy (MTDS) that has detailed both domestic and external borrowing. Past experience has shown significant deviations.

1.4. Deficit Financing, Public Debt and Consolidated Fund Services

1.4.1. Budget Deficit

36. **The budget/fiscal balance is the difference between total government revenue (including proceeds from sale of assets) and the total government expenditure which can be in terms of fiscal surplus (when the balance is positive) or fiscal deficit (when the balance is negative).** The impact of fiscal deficit will vary depending on the root cause of the deficit e.g. can be as a result of fiscal stimulus designed to spur economic growth or revenue underperformance.

This has been similar for Kenya where the budget deficit has sustained for a key number of issues e.g. consistent revenue underperformance, large infrastructural investment, in year expenditure increases (as a result of both discretionary and non-discretionary expenditure), large expenditures related to debt servicing etc. Since a budget deficit has to be financed through borrowing, the consequence of sustaining a budget deficit is the sustained growth of debt stock.

37. **For FY 2019/20, the Fiscal deficit to GDP ratio is estimated to reach 6.4% against the budget policy statement target of 5.1% with the** intended medium to long term target being the EAC convergence criteria target of 3%. These targets, guide the fiscal consolidation path derived with the overall objective of reaching a fiscal and sustainable surplus. However, recurring deviations, due to prevailing weaknesses in the fiscal sustainability framework, fiscal indiscipline and low fiscal commitment, shift the overall fiscal balance target for each medium term or require greater fiscal consolidation measures for other medium term years.

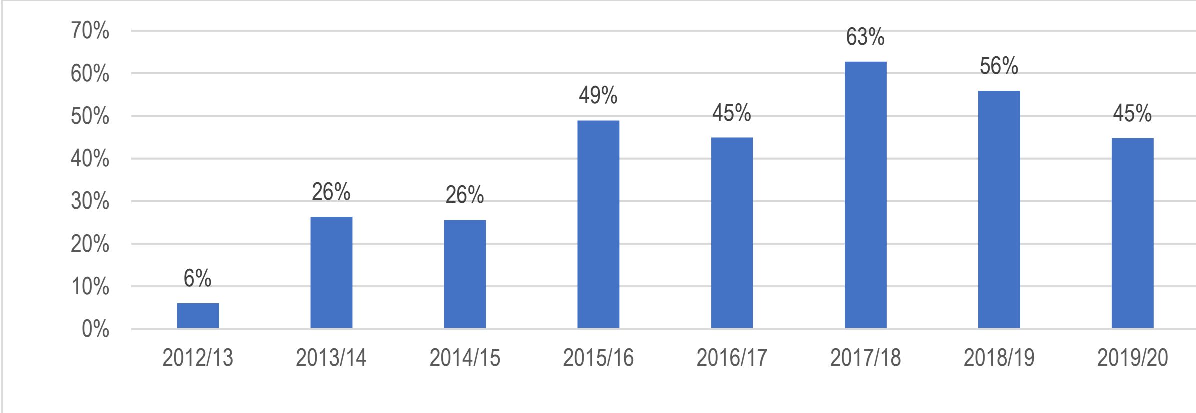
Table 3: Shifting Fiscal Deficit Targets, FY 2013/14 to 2019/20

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
BPS 2013	-4.3%	-3.7%	-3.6%				
BPS 2014	-8.9%	-6.3%	-5.4%	-4.9%			
BPS 2015	-5.9%	-8.0%	-7.4%	-5.4%	-4%		
BPS 2016		-8.6%	-8.0%	-6.8%	-5%	-4%	
BPS 2017		-8.4%	-7.5%	-6.9%	-6%	-5%	-4.0%
BPS 2018			-7.4%	-9.1%	-7%	-6%	-4.3%
BPS 2019				-8.8%	-7%	-6%	-5.1%

Source: Annual Budget Policy Statements (BPS)

38. **Unfortunately fiscal indiscipline is propagated by the ease of access to financial market and lack of in year fiscal consolidation targets**. A further cause of uncertainty to the fiscal consolidation path tends to, unfortunately, arise from the ease of access to commercial debt financing that leads to a "bullish" approach towards the external financial markets. This has seen the role of commercial debt in deficit financing evolve substantially since 2012/13 when it accounted for only 6% of deficit. Ease of access to commercial debt seems to create a financing "comfort zone", that lengthen the consolidation period and divert fiscal policy from the overall objective of reaching and sustaining a fiscal surplus.

Figure 9: Evolution of commercial debt as a share of budget deficit FY 2012/13 - 2019/20



Source: Annual Budget Policy Statements.

39. **In order to take into account risk and costs implication of debt financing, the FY 2019/20 budget deficit borrowing framework will follow a ratio of 38% to 62% for external and domestic borrowing, respectively.** This is a shift from the FY 2018/19 framework of 57% for external borrowing and 43% for domestic borrowing. This reflects a decreased uptake of external loans by 19 percent in favour of domestic debt. Domestic debt borrowing will compose of 30% in Treasury bills (being issued for cash flow management) and 70% in treasury bonds (main source of net domestic financing). External debt on the other hand, will follow a ratio of 26%, 8%, and 4% for Concessional Finance, Semi Concessional Finance and Commercial Finance, respectively.

40. **This framework, takes advantage of the subsidised risk impact emanating from domestic borrowing on the debt stock portfolio to finance FY 201920 budget deficit.** Risk emanating from domestic debt remains subsidised due to; a) low domestic interest rate profile i.e. interest rates have fallen below the government risk thresholds[19]and interest rate shocks in the domestic debt market are curtailed by the interest capping law, b) declining debt refinancing pressure usually associated with high domestic debt repayments, due to increased uptake of medium term to long term treasury bonds that has improved the Average Time to Maturity (ATtM) of domestic debt[20], c) low risk of characteristics government securities compared to other investment platforms including lending. This therefore creates a conducive domestic market for borrowing that competes external market.

41. **Risks to the borrowing framework will persist throughout FY 2019 /20 causing challenges to risk management and sovereign debt management and raise the cost of borrowing.** For example, despite improvement in ATtM, up to 43% of domestic debt is set to mature in less than 1 year[21]while external debt will carry comparatively higher interest rate volatility, exchange rate risk, and decreasing concessional borrowing window even before taking into consideration revenue underperformance and expenditure increases. If these, alongside fiscal risks, lead to a deviation to

[19]7%-8% p.a, 8%-9% p.a, and 9%-10% p.a for the 91day, 182 days and 364 days T-bill
[20]The Average time to maturity (ATtM) for Kenya's domestic debt portfolio improved from 4.4 years in December 2017 to 4.7 years in December 2018.
[21]2019 Medium Term Debt Management Strategy

the financing outturn, could have transitory fiscal risk beyond 2019/20, increase cost of borrowing and create debt management challenges in the medium term.

42. Keep an eye on:

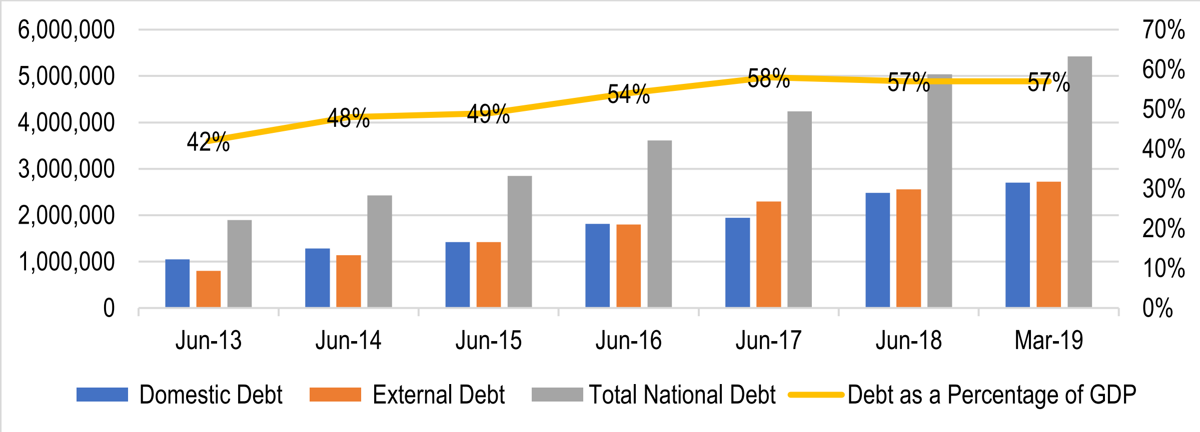
- **Fiscal risks factors:** The in-year movements of fiscal factors i.e. revenue performance, in year expenditure revisions, that could exacerbate the fiscal deficit for FY 2019/20, beyond the range of Kshs. (713.9) billion and Kshs. (728.6) billion as this will indicate faster debt accumulation and a deviation further from the fiscal deficit target of 3% of GDP.
- **Rollover and liquidity risk;** given that debt servicing is a first charge to the consolidated fund, 43% of domestic debt is set to mature in less than 1 year could put pressure on domestic revenue that could possibly lead to debt roll over at higher interest rates
- **Exchange rate risk:** The increased exposure to exchange rate risk as a result of movement of the exchange rate towards the Dollar as it accounts for over 70% of the of the debt stock currency composition is of utmost importance as it not only affects the stock of debt but also the extent of external debt servicing.
- **Fiscal deficit target:** With the probability that the fiscal deficit could rise as high as 6.4% of GDP as opposed to 5.1% target for FY 2019/20, could imply that large future adjustments will be required in order to bring the EAC fiscal deficit target down to 3% of GDP or reach a fiscal surplus in the medium term
- **Adherence to fiscal consolidation measures:** The application if in year restraint in the use of debt to finance revenue shortfall. Budget rationalisation should take precedence over borrowing.
- **Use of debt financing:** all debt financed projects should be implemented efficiently, maintain high absorption rates, accrue zero pending bills and maintain with high turn around/strict gestation periods

1.4.2. Public Debt Stock & Debt Sustainability Ratios

a. Public Debt Stock

43. In order to finance major infrastructural and other priority projects, sustained borrowing needs for the country have more than quadrupled over the past 7 years and as a result, the stock of debt has had an annualized growth rate of 16% for since June 2013 to reach Kshs. 5.4 trillion as at the end of March, 2019. As such the nominal debt to GDP ratio has also jumped by 11 percentage points and is projected to account for 57percent of GDP by June 2019. With the continued demand for new debt issuance each annual year, the national debt burden is expected to increase to Kshs. 6.2 trillion by end of June 2020. Furthermore, with the inability of adhere to the fiscal consolidation path, the trend of debt accumulation is likely to continue rising and the ratio of debt to GDP is likely to be contained by GDP growth rather than debt fiscal policy designed to contain the expenditures.

Figure 10: Public Debt Stock, June 2013 - Mar 2019



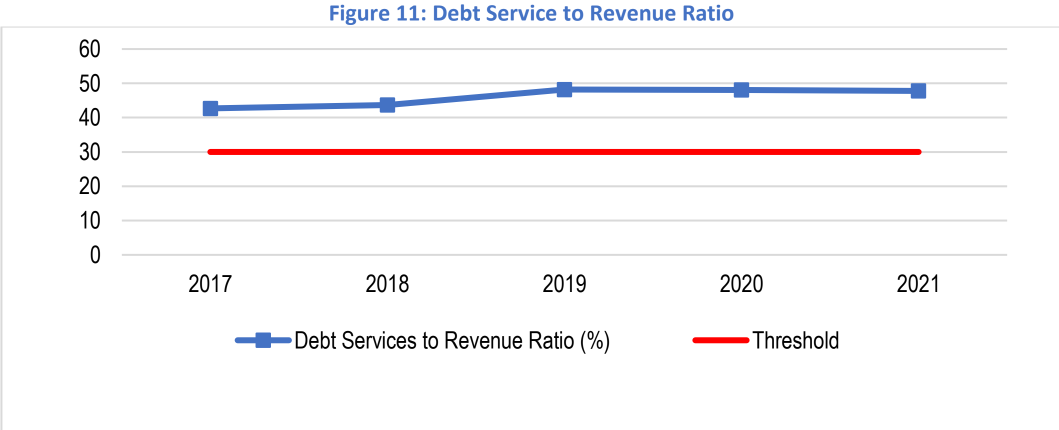
Source: Quarterly Economic and Budgetary Reviews, Annual Budget Policy Statement

b. Public Debt Sustainability Ratios

44. At present Public Sector DSA, indicates that the level of debt in Kenya is still considered sustainable at Present Value of Debt to GDP ratio of 59.9%, against an IMF threshold of 74%. However, Kenyan Public Finance Management threshold, derived from the East Africa Community debt threshold, is set at 50% of Net Present Value of Debt to GDP Ratio. However, without a credible independent publisher, it is difficult to determine the Kenya's debt sustainability based on this ratio and could indicate underlying inconsistencies within the EAC Convergence Criteria.

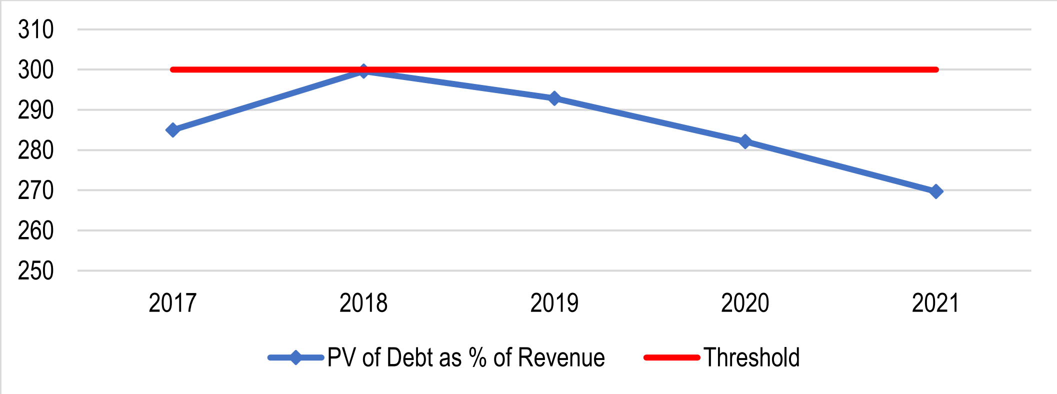
45. Nevertheless, it is important that other factors that indicate debt sustainability be taken into consideration. These include stable or declining debt ratios and that the level of debt stock requires no form of debt restructuring. Indications are that the debt ratio position will improve over the medium to the long-term. However these are on the premise of GDP growth rather than improvement in the actual debt position. Of concern therefore, is the effect of debt servicing on revenue, which among other factors was the basis for downgrading Kenya's debt distress level from low to moderate.

Figure 11: Debt Service to Revenue Ratio



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

Figure 12: PV of Debt as % of Revenue



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

46. As illustrated by the indicative ratios, Debt Services to Revenue Ratio is expected to remain above its thresholds beyond 2021 indicating persistent pressure of debt servicing costs on revenue over the medium term to long term. It is important to note that these expenses are mandatory and non-responsive to revenue shortfall thus any subsequent shocks (arising from exchange rate movements for example) are likely to result in year fiscal strain, necessitating dependence on domestic short-term debt borrowing, worsening the debt distress level. This among other factors, could jeopardise the Kenya's B2 Stable, credit rating.

47. Keep an eye on:

- **Conditions required for to maintain national debt sustainability i.e.** solvency and liquidity factors, changes in the currency composition of the debt stock, effects of exchange rate movements and other shocks that might destabilise the sustainability ratios, and the steps taken to lower the debt distress levels in FY 2019/20.
- **Credit rating:** designed to gauge the credit risk of countries and control the related factors i.e. market, credit, political risk factors etc. These are used by investors to determine the level of risk associated with investing in a particular country and are therefore key in determining the cost to government securities.
- **Public investment efficiency;** studies have indicated that public investment could have significant medium term reduction in debt to GDP ratio in countries with high public investment efficiency and that they tend to increase the debt to GDP ratio in countries with low public investment efficiency.

1.4.3. Consolidated Fund Services

a. Public Debt Servicing Costs

48. Public debt servicing costs will decline by 20% to Kshs. 696.6 billion, as a result of reduction of expenses to be incurred on domestic and external debt redemptions by 44% and 48%, respectively. The decline is as a result of the use of commercial debt to reorganise the commercial debt portfolio with the hope of increasing the resilience from debt refinancing shocks. As such, Eurobonds and Syndicated Loans with long-term maturities have been used complete repayment of other Eurobonds or Syndicated Loans with short-term maturities.

49. This therefore implies a relaxed fiscal space for FY 2019/20, albeit briefly, as there were no expenditure savings instituted in FY 2019/20 and thus the CFS expenses are set to resume their initial trend within the medium term. These expenses are of concern to fiscal planning given that they are mandatory and have an immediate impact on the revenues available for other budgetary activities, determine the fiscal flexibility of the national budget, as well as sustainability of the overall national debt stock.

Table 4: Public Debt Servicing Expenditures (Kshs. Millions)

	2018/19	**2019/20**	**2020/21**	**2021/22**
Interest Payments - Internal Debt	285,607	290,540	313,565	312,753
Interest Payments - External Debt	114,374	150,941	162,434	170,248
Sub-Total	399,981	441,481	475,999	483,002
Redemption Expenses - Internal Debt	220,352	123,691	140,191	156,171
Redemption Expenses - External Debt	250,283	131,382	180,619	222,287
Sub-Total	470,635	255,073	320,810	378,458
Total Interest Rate & Redemption	**870,616**	**696,554**	**796,809**	**861,459**

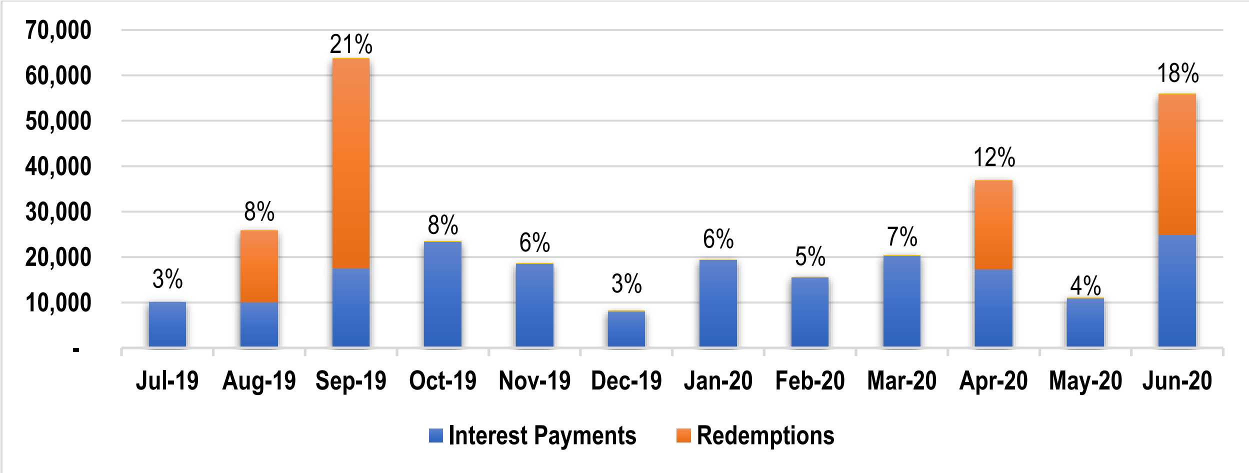
Source: FY 2019/20 Budget Estimates

50. The impact of interest rate costs will persist into the medium term as these expenses are set to increase by 10% on account of 32% increase in external debt interest rate requirements. The highest interest payments will be due to; a) Exim Bank of China (Kshs. 37.8 billion), b) TDB Syndicated loan (Kshs. 17.1 billion), c) Int. Sovereign Bond - 2018 (Kshs. 16.6 billion) and d) 2019/20 New loans (Kshs. 40.4 billion, up from Kshs. 18 billion in 2018/19).

51. This is indicative of the changing characteristics of Kenya's debt portfolio, primarily, the declining concessionality qualities of external debt, as a result of the increasing use of Commercial debt, that on average carry annual yield rate of between 5% - 7%, compared to that of concessional debt that carry interest rates lower than 2% interest rate. Therefore, the overall long-term cost to benefit consequence of using commercial debt should be weighed carefully, as while it provides relief on repayment of maturing debt, this policy increases the overall interest rate cost of the debt portfolio and could eventually lead to higher refinancing pressures down the line (due to the frequency of large debt servicing requirements i.e. 5,7 and 10 years, unlike the bilateral or multilateral debt that are amortized throughout the life of the loan).

52. While large external debt repayments are likely to be met through use of commercial borrowing, a review of monthly domestic debt refinancing needs indicate that large debt servicing will be required in the months of August - 2019, September – 2019, April 2020, and June 2020. September 2019 and June 2020 as the country will be required to meet up to 21% and 18% of total domestic debt servicing domestic debt expenses, respectively.

Figure 13: Monthly Domestic Debt Servicing Requirements

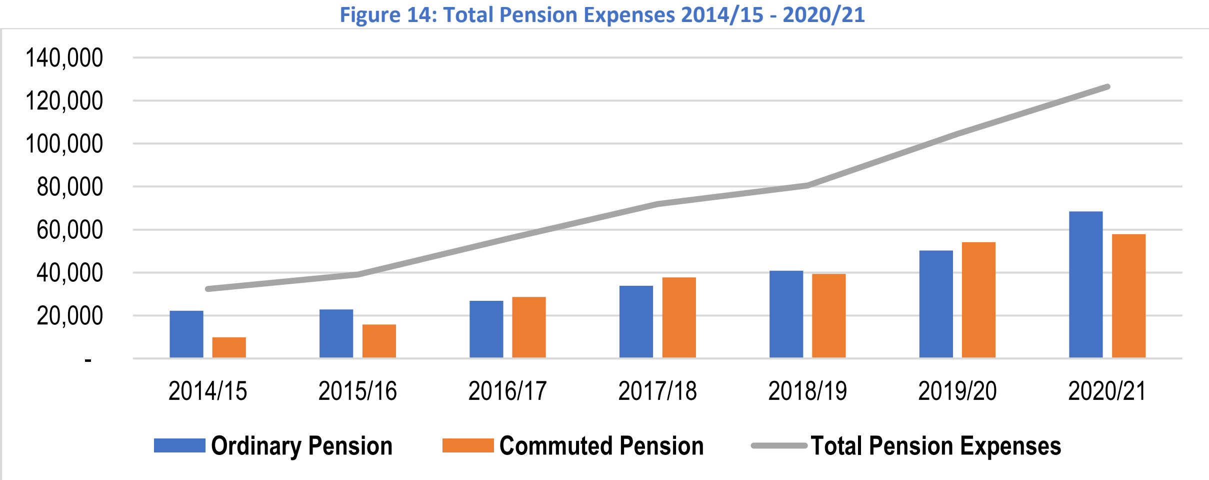


Source: Budget Estimates FY 2019/20

b. *Other mandatory expenses (Pensions Expenses)*

53. The pension expenses have increased at an annualised growth rate of 16% since 2014/15 spurred by increases in dominated by Ordinary and Commuted Pensions (gratuities) and will amount to Kshs. 104.5 billion, in FY 2019/20. This implies that these expenses increased by 20% in FY 2019/20 and mark a 100% increase point from Kshs. 57.2 billion in FY 2015/16 spurred by Pensions and gratuities to civil servants and their dependents, accounting to 70% of total pension expenses. The growth rate might fall in the medium term due to the amendment to the Retirement Benefits Regulations 2019 that bars the access of 50% of pensions of retirement benefits before retirement.

Figure 14: Total Pension Expenses 2014/15 - 2020/21



Source: Annual Budget Estimates

54. An audit review in FY 2018/19 resulted in the reduction of the commuted pension by Kshs. (5.8) billion that pensions owed to non-existent beneficiaries. This is an indicator of the inefficiencies in the public pension scheme that continues to be highly susceptible to system collapse, inefficiencies, poor documentation and requires a total overhaul. Inefficiencies results in constraints to access pension savings, facilitates poverty and increases the cost of welfare in Kenya.

55. Keep an eye on:

- **Exchange rate and interest rate shocks:** Risks arising from unplanned increases in external debt servicing expenses as a result of exchange rate shocks and interest rate shocks due to increased integration with international Capital markets.
- **Risks to domestic debt servicing expenses**. While the risk from domestic interest rate movements remain curtailed by law, debt refinancing will be unmeasured in the months of August - 2019, September – 2019, April 2020, and June 2020.
- **Large external debt interest payments;** owed to a) Exim Bank of China (Kshs. 37.8 billion), b) TDB Syndicated loan (Kshs. 17.1 billion), c) Int. Sovereign Bond - 2018 (Kshs. 16.6 billion) and d) 2019/20 New loans (Kshs. 40.4 billion, up from Kshs. 18 billion in 2018/19).
- **Restructuring of Kenya's public sector pension scheme:** Steps undertaken to address inefficiencies in the management of the public sector pension fund/ scheme that are driven towards safeguarding these funds and increasing access of retirement savings. These should include continuous audits, active investigation of corruption cases and complaints, or even a total institutional overhaul etc.

1.5. Financing of the Budget: Revenue Performance and Revenue Raising Proposals

56. The national government estimates to collect revenues totaling Ksh. 2,115.90 billion (19.7% of GDP) in the FY 2019/2020. It is expected that the revenue collection target will be achieved through strengthening tax administration which includes sealing tax collection loopholes and safeguarding the tax base through the Revenue Enhancement Initiative (REI) programme being implemented by the KRA. **There is need to monitor the implementation of the REI programmes as contained in the KRA's 7th Corporate Plan 2018/2019-2020/2021.**

1.5.1. Oversight of Tax Revenue Performance

(a) Tax Revenue Performance Trends

57. Domestic revenue mobilization through taxation plays a critical role in financing the budget. The extent to which the projected tax revenues will be realized largely depends on effectiveness and efficacy of the various fiscal policies and administrative measures that shall be instituted in the fiscal year. There has been below target performance of various tax revenue heads in the last five fiscal years as shown in table 4.

Table 4: Tax Revenue Performance Trends from the FYs 2014/15 - 2018/9 and the FY 2019/20 Target Vs. PBO Projections (Ksh. billions)

FY/Tax Heads	2014/15		2015/16		2016/17		2017/18		2018/2019		*2019/2020*	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	*PBO Projections*

Total Tax Revenue Including A-in-A)	**1,181**	**1,106**	**1,358**	**1,241**	**1,486**	**1,449**	**1,673**	**1,523**	**1,843**	**1,580**	**2,155**	***1,830***
Total Tax Revenue (Minus A-in-A)	**1,087**	**1,031**	**1,255**	**1,145**	**1,390**	**1,307**	**1,479**	**1,353**	**1,585**	**1,477**	**1,894**	***1,708***
Import Duty	78	74	82	80	97	90	103	94	109	105	136	*119*
Excise Duty	120	116	142	140	172	166	179	168	203	196	243	*229*
Value Added Tax	267	260	310	289	346	339	378	357	425	410	496	*472*
Income Tax	542	509	623	565	671	625	729	641	742	680	884	*785*
Other Taxes	81	73	97	72	77	86	89	93	106	86	135	*103*
AIA	94	75	103	96	124	143	194	170	258	103	260	*123*

Source: The National Treasury and PBO Projections

58. The total actual tax revenue collection including appropriation in aid (A-in-A) grew from Ksh. 1,106 billion in the FY 2014/15 to Ksh. 1,580billion in FY 2018/19 while the actual tax revenues grew from Ksh. 1,031 billion in the FY 2014/15 to Ksh. 1,477 billion in the FY 2018/19 as shown in table 3.1. On average, annual total tax revenue (including A-in-A) shortfall stood at **Ksh.128 billion** in the period FY 2014/15-2018/19.The annual tax revenue (less A-in-A) shortfall was **at least Ksh. 97 billion for** the period FY 2014/15-2018/19. During the period, income tax had an average annual revenue shortfall of Ksh. 58 billion; appropriation in aid (A-in-A) average annual revenue shortfall was Ksh. 37 billion; VAT annual average revenue shortfall was Ksh. 14 billion; excise duty annual average revenue shortfall was Ksh. 6 billion; and import duty annual average revenue shortfall was Ksh. 5 billion.

59. As reported in previous PBO publications, persistent tax revenue shortfalls over the years has been attributed to various factors including insufficient capacity at the National Treasury to undertake credible revenue forecasting, weaknesses in tax administration including the proliferation of tax waivers and exemptions which undermines tax revenue collections.

(b) Tax Revenue Targets for the FY 2019/20

60. The government plans to collect total tax revenues (excluding A-I-A) of Ksh. 1,894.33 billion in the FY 2019/20 up from an estimate of Ksh. 1,498 billion in the FY 2018/19.The total approved tax revenue collection target including A-I-A in the FY 2019/20 is Ksh. 2,154.77 billion comprising of Ksh. 884.37 billion from income taxes; Ksh. 495.98 billion from VAT; Kshs. 242.97 billion from excise duty; Ksh. 135.66 billion from import duty; Ksh. 135.36 billion from other taxes; and Ksh. 260.44 billion as A-I-A.

61. Given recent revenue performance trends and lower than expected provisional actual collections for 2018/19 (baseline year),it is estimated that tax collections could fall short by at about Ksh. 165 billion in 2019/20 financial year. This could have implications on budget execution and in the absence of expenditure rationalization, may potentially increase debt accumulation. The following is a summary of what to keep an eye on:

(a) **Income tax which is expected to contribute approximately 47% of the total tax revenues in the FY 2019/20 is likely to have a shortfall of approximately Ksh 99 billion in the year if the challenges affecting corporate income tax streams are not addressed;**

(b) **Keep an eye on VAT collection which is likely to face a shortfall of approximately Ksh. 24 billion in the year. The VAT refunds backlogs is expected to decline with the proposed reduction of the withholding VAT rate from 6% to 2% and adjustment of the VAT refunds formula to ensure a full refund of input tax credit relating to zero-rated supplies. A reduction in VAT refunds will be a boost to suppliers of zero-rated goods and services;**

(c) **The performance of excise duty: Despite the expansion of categories of excisable supplies over the years and introduction of EGMs, excise duty has consistently performed below the annual targets for the last five years. This tax head is likely to have a shortfall of approximately Ksh. 14 billion in the year. In this regard:**

(d) **It is important to oversight the implementation of EGMS and the effect of the proposed increase in the specific tax rates on alcohol and cigarettes on tax yield. Gambling excise duties: It is equally critical to evaluate the tax yield implications of the betting taxes including the proposed excise duty of 10% of the amount staked ;**

(e) **Under collection and reporting of A-in-A by the MDAs which is projected to have a shortfall of Ksh. 37 billion during the year.**

1.5.2. Overview of the Finance Bill, 2019

a) New Tax Measures in 2019

62. The Finance Bill, 2019 seeks to raise an additional Ksh. 37 billion in the FY 2019/2020 from the various tax policy measures and other administrative measures. The Finance Bill 2019 proposes to make amendments to various legislations including Income Tax Act Cap 470; the VAT Act, 2013; Excise Duty Act, 2015; and the Tax Procedure Act, 2015. The Bill also proposes to grant various tax incentives and proposes to introduce other miscellaneous amendments in the various financial sector statutes.

63. Table 5 provides a summary of some of the various new measures and what to keep an eye on if the Bill is enacted in its present form.

Table 5: Summary of What to Keep an Eye on in some of the Selected New Tax Measures for FY 2019/20

Legislation	New Tax measures	Keep an Eye on
The Income Tax Act Cap 470.	▪ Taxation of income generated from digital market place.	▪ The administration challenges of the new tax measures especially application foreign-based digital service providers and multinationals.
	▪ The rate of Capital Gains Tax (CGT) is set to be increased from 5% to 12.5%.	▪ The impact of the tax rate increase on the performance of the real estate sector.

VAT Act, 2015	▪ Reduction of the withholding VAT rate from 6% to 2%.	▪ The impact of this measure on reduction of VAT refunds build up and improvement in cash flows for affected businesses.
	▪ Adjustment of the VAT refund formula to ensure a full refund of input tax credit relating to zero-rated supplies.	▪ The impact on VAT refunds build up and the ease of calculation of input tax credit for zero-rated supplies. The government estimates to refund a total of Ksh. 43.2 billion relating to VAT on domestic goods and services in the period FYs 2019/20- FY2021/22.
Customs Duty	▪ Application of 25% import duty on paper and paperboard instead of 10%.	▪ The impact (if any) of these new measures on promotion of locally manufactured paper and paperboard and imports which has grown from Ksh. 29.95 billion in 2014 to Ksh. 41.9 billion in 2019.
	▪ Reduction of import duty on raw timber from 10% to	▪ The impact of this on reduction of logging and conservation of forests in the country. The gross value of forestry and logging has significantly from Ksh.72.2 billion in the year 2014 to Ksh. 115.7 billion in 2018.
	▪ Proposal to retain import duty on finished timber products at 25%.	▪ The impact on imports especially of furniture and parts which has grown from Ksh. 6.3 billion in 2014 to Ksh. 8.8 billion in 2018.
Excise Duty	▪ An excise duty of 10% on amount wagered or staked in a betting transaction.	▪ The impact on betting and gambling revenues and the operationalization of the Sports Fund.
Miscellaneous Fees and Levies	▪ Increase in Railway Development Levy (RDL)on finished goods from 1.5% to 2%	▪ The impact on cost of imports especially on general cost of living and cost of imported inputs. ▪ The utilization of the total Ksh. 116. 4 billion RDL levy collected from the inception FY 2013 to FY 2018/2019. The government estimates to collect a total of Ksh. 24.7 billion in the FY 2019/20.

Source: PBO, 2019

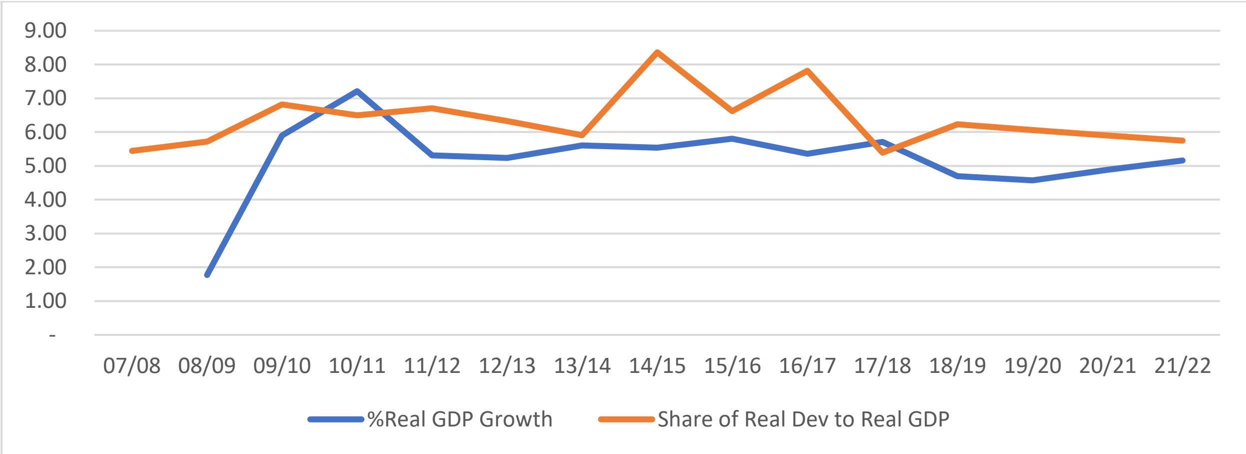
Chapter Two:

Up-scaling Public Expenditure Oversight and Efficiency

Keeping an eye on Public Investments

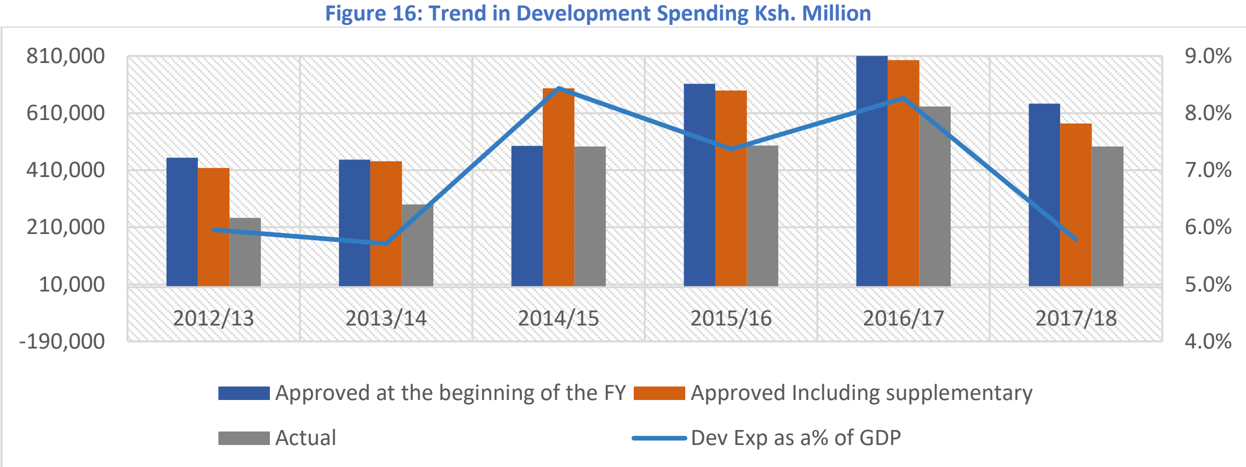
64. **Government expenditure on development projects and activities has increased significantly over the past six years; but are we spending on the right infrastructure?** A quick glance at development spending over the past ten years indicates that it may not have had a very significant impact on economic growth. Though a deeper study may be necessary to control for other variables such as population growth as well as long term value of investments, a cursory analysis of the share of real development spending to real GDP vis-à-vis the trend in Real GDP growth (Fig 15) shows no significant correlation between the two. While one would expect economic growth to mimic development spending to some extent, even with lags, economic growth has remained at more or less the same level since FY 2011/2012. This is despite significant spikes in development spending over the years in a bid to stimulate economic growth.

Figure 15: Share of Real Development Expenditure to Real GDP FY 2007/08 - 2021/22



Source: PBOM

Figure 16: Trend in Development Spending Ksh. Million

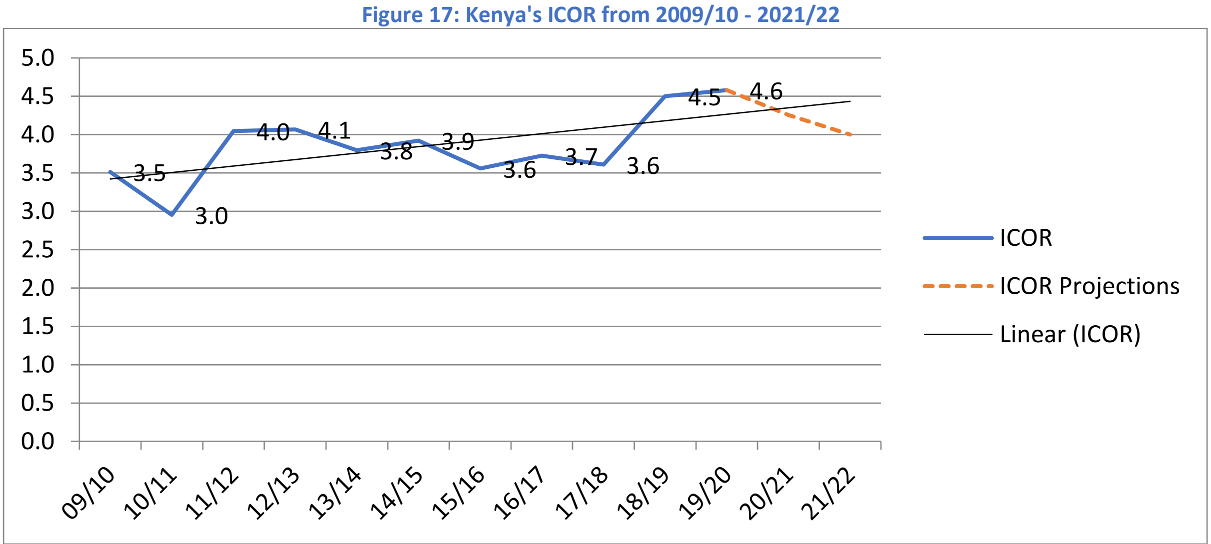


65. **A review of past budgets indicates a significant rise in development spending from 5.4 percent of GDP in 2012/13 to as high as 8.3 percent of GDP by 2016/17 before declining to 5.8 percent of the GDP in 2017/18.** The growth of capital expenditure during this period is attributable to the government objective to enhance the scale and pace of economic transformation through infrastructure development; identified as a key driver of economic growth through its capacity to lower the cost of transportation and energy and ease the cost of doing business.

66. **It is notable that the approved development expenditure at the beginning of the financial year tends to be significantly higher than the actual amount spent by close of the financial year –a factor that contributes to lower than expected economic growth outcomes.** The development budget cuts typically occur through supplementary budgets in the course of the year – primarily an outcome of revenue underperformance. For instance, in the FY 2018/19, the approved spending plan for development amounted to KSh. 676.6 billion but was revised downwards to KSh. 642 billion by the end of the same financial year. Other factors affecting implementation of the development budget include the unpredictable nature of donor funding whose disbursement is often irregular and comes with conditions which are sometimes not met by the Government. For instance, some donor funded projects may require counterpart funding by the National Government but if the Government fails to meet its end of the bargain, then donor funding shall also not be forthcoming. As a result, the projects are left in limbo.

67. **The likelihood of significant underlying inefficiencies in use of capital is further illustrated by a high Incremental Capital Output Ratio (ICOR).** The Incremental Capital-Output Ratio (ICOR) is a measure of the amount of investment necessary to produce an additional unit of output/GDP growth. It is useful in gauging efficiency of capital spending in an economy. An ICOR of 3 is recommended by the United Nations Conference on Trade and Development (UNCTAD).[22] Any reduction of the ICOR (3 or lower) generally indicates increasing efficiency in use of capital whereas an increasing ICOR (higher than 3) denotes declining efficiency. Kenya's ICOR has oscillated between 3.6 and 4.0 over the last six financial years and is estimated to have shot to 4.5 in 2018/19 and may reach 4.6 in 2019/20. This denotes declining efficiency in capital spending that can be attributed to either investing in the wrong projects, inherent inefficiencies in the investment process, poor utilization of funds and/or inflated cost of projects[23] (World Bank Report, 2016).

Figure 17: Kenya's ICOR from 2009/10 - 2021/22



Source: PBOM

[22] Economic Cooperation and Development Report (2014).
[23] World Bank Report 2016 ….

2.1. Keeping an Eye on Public Investments in the FY 2019/2020 Budget

68. **In FY 2019/2020, development spending has given priority to 'Big Four' related projects as set out by the MTP III of the Vision 2030.** According to information provided by the National Treasury, Kshs. 450.9 billion has been allocated in the FY 2019/20 Budget for both drivers and enablers of the Big Four agenda. The Big Four drivers alone account for Kshs. 76.7 billion. These are expenditures geared towards supporting the manufacturing sector, improving food security and nutrition, realizing universal health coverage, provision of affordable and decent housing for all Kenyans as well as employment creation and youth employment. However, if the previous analysis on performance of capital spending is anything to go by, then there is a concern that the focus of public investments could be mostly on quantity rather than quality; on volume rather than impact. As earlier illustrated, robust infrastructure spending in myriad projects over the years is yet to yield significant returns on investment and generate any real benefits for Kenyans. It is important therefore to carefully monitor the Big Four related projects to ensure adequate implementation and efficiency in use of resources.

Table 6: Big Four Drivers and their allocation in the FY 2019/20 Budget

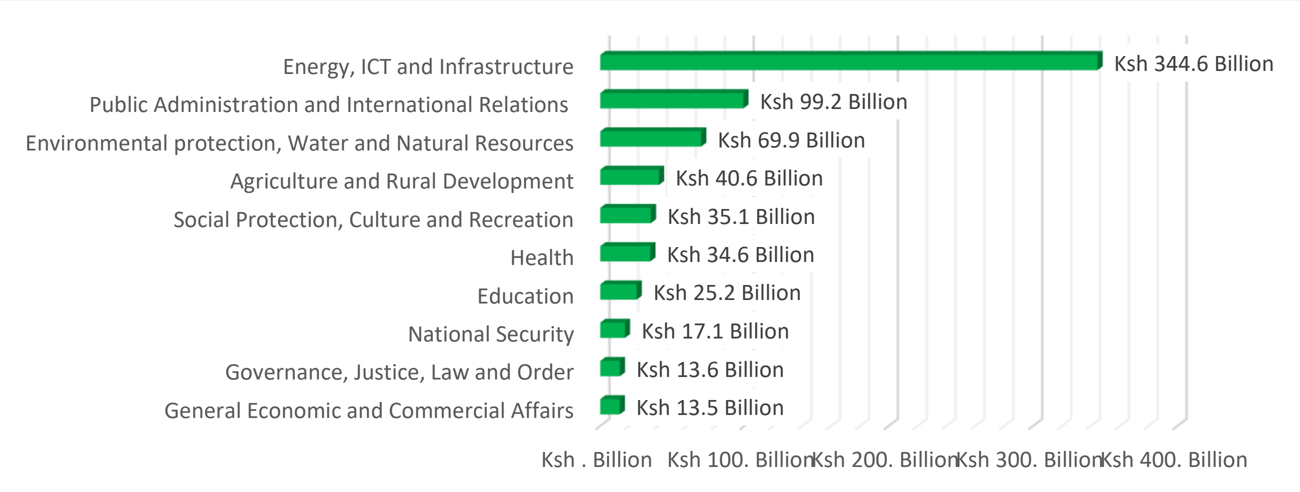
Details	Amount (Kshs. Billion)
Enhancing Food and Nutrition Security	
National Value Chain Support Programme	2.0
Cherry Coffee Revolving Fund	3.0
Smallholders Dairy Commercialization	0.6
Irrigation Programmes	7.9
Providing Universal Health Coverage	
Cover for the Elderly and Severely disabled	3.2
Scaling up Universal Health Coverage	6.0
Free Maternity Health Care	4.1
Transforming Health Systems for UHC	4.9
Conditional grant to Level 5 hospitals	4.3
Regional Cancer centres	0.4
Vaccines and Immunizations	3.3
Provision of Affordable and Decent Housing	
Social Housing	1.0
Construction of affordable housing units	1.0
House mortgage Schemes	2.5
National Housing Development Fund	5.0
Housing units for police and Kenya Prison	1.0
Support value addition to the Manufacturing sector	
Leather Industrial Park Development	0.1
Support to SMEs in Manufacturing Sector	1.7
Constituency Industrial Development Centres	0.4

Source: The National Treasury

69. **In overall terms, the approved total ministerial capital investments for the FY 2019/20 amounts to KSh. 693.4 billion comprising of GoK funded projects amounting to KSh.**

403.5 billion and donor funded investments amounting to KSh. 289.9 billion. Of these amounts, the Energy & Infrastructure and ICT sector accounts for 50 percent of the total capital expenditure (KSh.344.6 billion) and will be implementing 1,047 projects. Other sectors with significant allocation for capital investments include Public Administration and International Relations with approved capital expenditures of KSh. 99.2 billion (14 percent of the total capital investments), Environmental Protection, Water and Natural Resources with approved expenditure of KSh.69.9 billion (10 percent of the total capital investments) as depicted in figure 17.

Figure 18: Summary of Capital Investments by Sector



Source: Appropriation Act, 2019

70. **The 2019/2020 Development budget will mostly be funded through borrowing from both domestic and external sources, hence the need to carefully monitor project implementation to ensure effective use of resources in a manner that will yield maximum returns.** It can be inferred that nearly the full amount of domestically funded development spending amounting to Ksh. 403.5 billion is financed through domestic borrowing given that total ordinary revenue collections are only enough to cover part of the National Government recurrent spending and revenue transfers to county governments.

71. **A review of ordinary revenue collection over the past five years vis-à-vis the resources expended on mandatory CFS payments, total recurrent expenditure as well as county allocations indicates that the resources expended for these expenditure items exceeded ordinary revenue collection.** It follows that without expenditure adjustments in the 2019/2020 approved estimates, it is possible that any financing gap in the recurrent budget could be met through additional borrowing contrary to the provisions of the Public Finance Management Act, 2015. Given the costly nature of borrowing, it is important that borrowed funds are spent on activities that will yield some form of return thereby generating capacity to pay back. Using borrowed funds to meet recurrent spending is only likely to increase the cost of borrowing.

Table 7: Distribution to ordinary revenue to key expenditure categories, FY 2014/15 to 2019/20

Details		Distribution (%)					
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20*
Total Ordinary Revenue		100%	100%	100%	100%	100%	100%
o/w	Interest payments	17%	19%	21%	24%	23%	23%
o/w	Pensions	4%	5%	5%	5%	5%	6%
Total Net Recurrent		63%	65%	58%	63%	56%	54%
County Allocation		22%	22%	21%	22%	18%	17%
Available Resources for Development		-6%	-10%	-6%	-14%	-4%	1%

Data Source: The National Treasury; Derivations: PBO

2.2. Sectoral Analysis of the 2019/2020 Budget

72. Capital spending per sector in the FY 2019/20 budget is summarized in Table 7 below:

Table 8: Capital Expenditure Budget per Sector for FY 2019/20

Details	GoK Component (Kshs.)	*GoK component (%)*	External Financing (Kshs.)	*External Financing (%)*	Total (Kshs.)	*% share of Total Dev. budget*
Agriculture and Rural Development	21,971,550,000	*54*	18,710,533,629	*46*	40,682,083,629	*5.8*
Education	16,881,700,000	*66*	8,653,480,993	*34*	25,535,180,993	*3.7*
Energy, ICT and Infrastructure	172,040,000,000	*50*	173,340,702,900	*50*	345,380,702,900	*49.6*
Environmental protection, Water and Natural Resources	29,281,500,000	*42*	40,692,953,870	*58*	69,974,453,870	*10.0*
General Economic and Commercial Affairs	12,799,100,000	*86*	2,076,000,000	*14*	14,875,100,000	*2.1*
Governance, Justice, Law and Order	12,788,998,104	*99*	65,115,000	*1*	12,854,113,104	*1.8*
Health	19,392,000,000	*56*	15,248,680,042	*44*	34,640,680,042	*5.0*
National Security	4,000,000,000	*23*	13,079,049,600	*77*	17,079,049,600	*2.5*
Public Administration and International Relations	42,156,190,000	*74*	14,557,546,780	*26*	56,713,736,780	*8.1*
Social Protection, Culture and Recreation	73,561,060,000	*93*	5,461,313,390	*7*	79,022,373,390	*11.3*
Total	**404,872,098,104**	**58**	**291,885,376,204**	**42**	**696,757,474,308**	

Source: The National Treasury

2.2.1. Key public investments in Agriculture

73. **Agriculture has been a key driver of economic growth and had the biggest contribution to the 2018 economic growth.** It continues to play a pivotal role in the economy as one of the pillars of the "Big Four Agenda. According to the Economic Survey for 2019, agriculture sector grew by 6.4 percent in 2018, the highest in five years. However, despite its significance to the economic growth story, public investments to the sector are limited and not commensurate to the sector's contribution to the economy. In the FY 2019/20, the Ministry of Agriculture has been allocated Ksh. 51.6 billion of which Ksh. 37.4 billion is on capital spending.

74. **It is notable that Agriculture functions are largely devolved and any interventions to improve agricultural performance should be carried out in collaboration with the county governments.** The lack of a clear collaboration framework between the two levels of government is an impediment to the sector's growth, especially since Agriculture is a key pillar of the Big Four Agenda. The sector is faced with numerous challenges ranging from low production and productivity; high post-harvest losses; unstructured, unpredictable, and unreliable markets; as well as corruption. These are challenges that should be addressed by both levels of Government but the lack of a clear collaboration framework makes it difficult to do so. Nevertheless, the National Government has come up with a number of key interventions to boost productivity in the sector which are highlighted below:

    i. **Regional Pastoral Livelihoods Resilience Project (RPLP)**- the objective of the investment is to support pastoral and agro-pastoral communities in their efforts to reduce vulnerability to drought related shocks through participatory approaches. The projects targets to drill 11 boreholes, construct 3 water pans, and to vaccinate 10 million cattle, sheep and goats.

    ii. **Kenya Cereal Enhancement Programme (KCEP)-** The project targets to increase the productivity of smallholder farmers in cereal staples including maize, sorghum, millet, and associated pulses, and support smallholder farmers graduate from subsistence to commercial agriculture. In the FY 2019/20, the project targets to; support 100,000 smallholders with production inputs and technological packages, and enroll 50,000 farmers into an e-voucher scheme for smallholder's access to agricultural inputs and inclusive banking.

75. To enhance the development of agriculture, it is critical for Legislators to oversight implementation of productivity enhancing activities funded in the 2019/20 estimates. In this regard, Legislators should Keep an eye on the following:

    - **Adoption of climate resilient improved farming practices** where 100,000 farmers will be supplied with production inputs to increase their yield and further boost food security.

- **Enrollment of Smallholder farmers into e-voucher system**. The system targets 50,000 farmers from ASAL to be trained on agricultural practices through e-voucher technical package and extensional services.

iii. **Fertilizer Subsidy programme-** a key budgetary intervention geared towards promoting food security through reduction of cost of production to famers. The programme was started in 2009 to cushion farmers from the high prices of fertilizers. A number of issues have been raised on the efficiency and effectiveness of the program to increase productivity. However, it should be noted that the continued provision of subsidized fertilizers has not resulted in significant improvement in agricultural productivity and especially maize, the stable cereal crop. Indeed, agricultural input subsidy programmes have largely been unable to raise smallholder crop productivity and improve food security. This calls for close monitoring of the project. The intervention should target real farmers and not shadowy intermediaries who make billions by obtaining government fertilizers at cheap prices and reselling at huge mark ups. In the FY 2019/20 the government targets to distribute of 107,500 metric tonnes (MT) of subsidized fertilizers to benefit 459,000 farmers.

Keep an eye on….

- Timely distribution of 107,500 metric tons of subsidized fertilizers to 459,000 to farmers

iv. **National Agricultural and Rural Inclusivity Project (NARIGP)** project seeks to improve agricultural technologies, innovations and managerial practices. The aim is to increase agricultural productivity and profitability in order to improve the livelihoods and reduce vulnerabilities of targeted rural communities in selected counties. The project is being implemented in various counties including Kiambu, Nakuru, Narok, Nandi, Trans Nzoia, Bungoma, Kwale, Kilifi, Samburu, and Baringo. It targets vulnerable and marginalized groups, youth and women. In the FY 2019/20, the projects targets to support and benefit 42,000 people to increase their yield productivity by 20 percent in supported value chains.

v. **Fisheries, Aquaculture and the Blue Economy** is another key sector in realizing the food security initiative. Fisheries and aquaculture are essential in delivering fast socio-economic benefits to the communities in the coastal areas. The budget 2019/2020 focuses on operationalization and accreditation of fish quality control laboratories; rehabilitation of fish landing sites in Lake Victoria; operationalization of Fisheries Institutions- Kenya Fisheries Service (KeFS) and Kenya Fish Marketing Authority (KFMA); and Renovation, operationalization and expansion of Liwatoni Fisheries Complex.

Keep an eye on….

- **Increased marine fish exports**. The Kenya Marine Fisheries and Socio-economic development project targets to export 4,153 metric tons of marine fish and fish products.

- **Operationalization of fisheries institutions**. The Development and Coordination of Blue economy unit targets to operationalize the Kenya Fisheries Service (KeFS) and the Kenya Fish Marketing Authority (KFMA). The two Institutions were established under the Fisheries Management and Development Act of 2016. The KeFS will promote sustainable use, development and protection of fisheries resources while KFMA shall promote market access of Kenya's fish and fish products at local, national, regional and international levels.
- Rehabilitation of the 6 fish landing sites in L. Victoria

vi. **Investment in irrigation projects-** various irrigations projects continue being implemented except Galana Kulalu which is on the verge of collapsing. Others such as Bura, Mwea, and Small Holder Irrigation projects continue to be implemented. The key irrigation project, the National expanded Irrigation Programme, targets 572 irrigation projects and involves provision of irrigation infrastructure for abstraction, conveyance, distribution and application of irrigation water for the various irrigation projects. In the FY 2019/20, the investment targets to develop 15,000 acres under irrigation.

Keep an eye on….

- Increased acreage under irrigation. The State Department targets numerous irrigation projects across the country to increase food production covering an approximate area of 75,000 acres. The irrigation projects include small holder irrigation programme where 500 acres will be under irrigation, Community based irrigation (10,000 acres), Mwea irrigation Development project to boost the production of rice (15,000 acres), Galana Kulalu (5,300 acres), Turkana irrigation project (2,000 acres) among others.

vii. **Other key investments** in the sector include Fall Army Worm Mitigation, livestock insurance, crop insurance, and Cotton Industry Revitalization Project. In the 2019/20 budget, the target is to procure and distribute 35,000 litres of fall army worm pesticides to control the pest. Under Cotton Industry Revitalization, the target is to increase the acreage under rain-fed and irrigated cotton by 129,600.

Keep an eye on….

- **Reduced fall army worm infestation**. The fall army warm mitigation unit will procure and distribute 35,000 litres of pesticide. Further they will undertake 30 pest surveillance to mitigate against the effects of army worm on maize production.
- **Management of Agricultural Risks**. The programme by crop insurance unit targets to ensure that 500,000 farmers are insured against any risk associated with disease outbreak/pest infestation on their crops. The programme further targets to insure 160,000 livestock units in drought prone areas.

76. A summary of key public investments in the Agriculture Sector are provided in the table below:

Table 9: Key Public Investments and Targets identified under 2019/20 Budget for Agriculture Sector

	Project	2019/20 Allocation (Ksh millions)	Targets
1.	Regional Pastoral Livelihoods Resilience Project (RPLP)(HQ)	1,394	To drill 11 boreholes, construct 3 water pans, and to vaccinate 10 million cattle, sheep and goats.
2.	Kenya Cereal Enhancement Programme (KCEP)	2,153	Support 100,000 smallholders with production inputs and technological packages, and enroll 50,000 farmers into an e-voucher scheme for smallholder's access to agricultural inputs and inclusive banking.
3.	Fertilizer Subsidy	2,000	Avail 107,500 metric tonnes (MT) of subsidized fertilizer to farmers (459,000 – the number of beneficiaries)
4.	National Agricultural and Rural Inclusivity Project (NARIGP)	3,779	Support 42,000 beneficiaries adopt agricultural technologies, innovations and management practices (TIMPs). Increased yields by 20% from selected value chains
5.	National expanded Irrigation Programme	2,050	15,000 acres of irrigation developed.
6.	Development of Blue Economy Initiatives	1,231	Operationalization of Kenya Fisheries Service (KeFS), and Kenya Fish Marketing Authority (KFMA)
			Liwatoni Fisheries Complex Renovated, operationalized and expanded
7.	others	22,731	
	Totals	**37,368**	

Source: The National Treasury

2.2.2. Key public investments in Infrastructure, Energy, and ICT

77. According to the World Bank, growth of GDP per capita for the Sub Saharan Region, Kenya included would increase by an estimated 1.7 percentage points each year if the region were to close the infrastructure financing gap in line with the rest of the developing world[24]. In the medium term, continuous but more effective and efficient public capital investment in the infrastructure sector – which is nearly 5% of the GDP - is key to actualizing the Big Four plans and contribute to employment creation and economic growth.

78. In the FY 2019/20, the government has committed a total approved sector level allocation of KSh. 435.11 billion - that mainly includes roads, rail, shipping and maritime, public works and housing as well as energy, petroleum and ICT. In view of the FY 2019/20 - being the 3rd

[24]Africa's Pulse -An analysis of issues shaping Africa's economic future, April 2017 , World Bank Group

budget cycle of the 2018/2022 MTP - it is also expected that committed resources in the infrastructure sector have been aligned with clear integrated and interlinked framework especially at both levels of government. This is a necessary step in the logical framework approach towards efficient use of resources especially where risk of duplication is pronounced.

79. **The portfolio of programmed projects to be implemented in the sector is approximately *921* projects** spread across the country with capital spending budget (Development vote) amounting to KSh. 345.38 billion, financed through GoK component (49.8%) and external financing (50.2%). The sector accounts for the biggest portion of development financing.

2.2.3. Improving Road and Rail connectivity and delivering affordable housing

80. **Construction and improvement of the road and rail network including expansion of existing roads (highways and critical access links) especially in the cities and urban areas remains a key priority of the government.** These public investments are expected to greatly facilitate trade, private sector investment and movement of people within and in the region. However, the accumulation of pending bills remains a significant downside risk to timely actualization of infrastructure investments and their impact on the economy. For instance under the road infrastructure sub sector, pending bills amounted to approximately Ksh. 48 billion by the end of FY 2017/18 and kshs 76.33 billion by third quarter of FY 2018/19[25].

81. In the FY 2019/20, KSh. 124.97 billion of capital expenditure has been allocated towards construction of roads and bridges including construction of footbridges to enhance pedestrian access and safety. The total number of projects under the road programme is approximately **723** projects. These projects require robust in-year monitoring to ensure project performance and primarily ensure commitment to set completion timelines.

82. **Keep an eye on...**

- The construction of 8,245 kilometers of roads in the medium term and rehabilitation of 763 kilometers though the Low Volume Seal and Annuity programmes,
- Further construction of 2,670 of kilometers of roads and rehabilitation of 222 kilometers of roads in the same period as well as routine maintenance of 34,841 kilometers of roads across the country.
- Construction of 33 Km of Standard Gauge Railway between Nairobi –Naivasha under phase II A and rehabilitation of 30Km of commuter rail rehabilitated within Nairobi.
- Mombasa port expansion project which involves completion of the second container terminal Phase II, completion of conversion of berths 11-14 into container berths, of which expected completion rate is expected to be 55% and 50% respectively, and to be finalized by end of the medium term.
- Progress of LAPSSET projects and development of northern corridor infrastructure with focus on completion of the first three berths in Lamu port that will achieve 80% and 100% completion in the FYs 2019/20 and 20/20, respectively.

[25]2018 Sector Report on the sub-sector pending bills and ministerial submissions

2.2.4. Enhancing energy access and connectivity while addressing cost of energy

83. **Availability of affordable (competitively priced) energy is key to manufacturing competitiveness.** Current electricity access is estimated at 75%, with medium term plans to close the access deficit by 2020. In addition to grid power and interconnected systems, there are approximately 30 off grid stations serving areas not currently accessing the grid network. In addition, a number of energy users are resorting to stand alone solar home systems and other cheaper energy solutions.

84. **On account of recent substantial investments in geothermal and wind power, there is enhanced installed energy mix with a relatively stable transmission and distribution infrastructure.** Generation capacity currently stands at approximately 2,800MW up from 1,664 MW in 2013/14. This is against demand currently estimated at approximately 1,832 MW. The current generation energy mix – and critical to the base load profiling - consists of more of renewable energy approximately between 73% and 80% with the remaining from other sources such as thermal and cross border purchase (Uganda and Ethiopia).

85. **However, the cost of power remains a major concern with approximately a third of the available power (demand) from thermal sources that use heavy fuel oil and diesel to produce electricity.** Thermal generation increases cost of electricity primarily due to the fuel cost component that is tied to other variable costs such as exchange rate fluctuations (Kenya's fuel is imported). With other costs such as levies and taxes, the attendant tariff regime is way above policy targets. The impact of the discounted Time of Use (TOU) Tariff by as much as 50% and applicable during off-peak period to enhance competitive use of and demand for electricity by as much as 50%, particularly for industrial use, is yet to be seen. In this regard, MPs should monitor and evaluate the utilization of the off-peak tariff programme and its impact to ensure it is meeting its intended purpose.

86. **In the FY 2019/20, the State Department of Energy has been allocated KSh. 77.41 billion, of which KSh. 71.66 billion is for capital allocation towards programmed projects and activities under generation, transmission and distribution to enhance electricity availability, connectivity and access.** The state department intends to implement a total of 58 projects majorly covering on-going generation projects and transmission infrastructure accounting for 97% of total capital spending. Some of the major projects include the construction of the Eastern Electricity Highway Project (KSh. 21billion) to enhance the inter country connectivity and power trade, Last Mile Electricity Connectivity (KSh. 5.5 billion) together with Electrification of Public Facilities (KSh. 4.5 billion) and installation of transformers in constituencies (KSh. 1.5 billion) to further scale up connectivity and access to electricity. The completion of the Olkaria Lessos Kisumu Power Lines Project (KSh. 3.1 billion) to replace the current thermal plant is also a key priority project designed to improve reliable electricity supply from geothermal power plants in Olkaria to western part of the country. The line will also address reduction in system losses while putting on-board idle capacity from geothermal power plants in Olkaria and other cheap sources.Other projects also cover geothermal steam gathering and exploration in Menengai and Bogoria- Silali area. Whereas the ongoing works in Bogoria – Silale is at exploration phase, Menengai geothermal development has managed substantial steam equivalent in excess of 105 MW that three qualified IPPs are expected to setup power plants by 2021/22.

87. **Despite steady allocations to the energy sub sector, various issues still affect distribution, access and cost of power.** Notably, some of the problems are linked to in-year budget cuts with re-allocations mostly affecting capital spending under last mile connectivity, Street Lighting and Installation of Transformers in Constituencies as well as various transmission lines.

88. **Critical timelines towards establishing a functional geothermal power plant have been a moving target even though necessary associated infrastructure such as transmission lines are in place.** One major risk under such arrangement that involve private investors are the terms and conditions contained in underlying risk mitigation instruments such as Partial Risk Guarantees or letters of support which terms must be negotiated fairly to also safeguard the industry and consumers.

89. **To help upscale provision of affordable power to businesses and citizens, the Legislators will need to pay special attention to the following targets:**
    i. Connection of 800,000 new customers to electricity under the Last Mile Connectivity Project, erection of 25,000 street lights and installation of 1,940 new transformers in various constituencies which is critical towards universal access to electricity.
    ii. Construction and completion of geothermal power plants critical to utilizing available steam in Menengai area and commitment to timelines as per underlying contractual agreements
    iii. Construction and Completion of key transmission lines including the fast tracking of the Olkaria Lessos Kisumu Power Line. The completion of the line is critical to supply excess and quality power from Olkaria and contribute to reduction of the current power losses in the existing infrastructure.
    iv. Fast tracking of connection of 7,440 public facilities and 20 primary schools with power by the Rural Electrification and Renewable Energy Corporation

2.2.5. Fast tracking ICT projects to support digital pillars and improve service delivery.

90. ICT, telecommunication and broadcasting is critical to the service industry and is a critical nexus to the success of the digital economy and access to quality information through growth in the media industry. Public capital investments in the ICT sub sector is primarily aimed at unlocking private investment.

91. Some of the capital projects under the ICT sub sector is the development of Konza Technopolis with a total allocation of KSh 12.8 billion for infrastructure projects such as completion of the Konza Complex, Construction of Konza data Center & Smart City Facilities and upto 75% development of roads, sewerage line and ducts. Notably this infrastructural development is under the Engineer, Procure, Construct (EPC) and Financing framework which contributed to the substantial funding of Konza projects relative to the base year. Others projects under the ICT sub sector include expansion of the national fibre optic to sub counties to enhance connectivity and service delivery, distribution of Digital Literacy Programme devices with establishment of computer labs for the period under considerations. However, timely completion of this critical infrastructure is imperative in view of the lost opportunity to the economy due to the obtaining delays in some of the flagship projects.

92. Consolidation of the government advertisement budget is further supported in the period under considerations although the policy initiative is fraught with backlog of pending payments and rising allocations mainly through supplementary budgeting negating its intended objectives of achieving efficiency through economies of scale and enhancing outreach. In that regard, there is need for enhanced oversight on the management of the consolidated budget items under the ICT sub sector with a view to promote policy goals including value for money.

93. Allocations under the ICT sub sector also cover the regulation and development of the creative industry through the Kenya Film Classification Board, Kenya Film Commission. Some of the key interventions to mainly spur the creative economy and support employment creation include the refurbishment and equipment of Nairobi Film Centre, film location mapping in 47 locations that will attract investments in the film and movie industry.

94. Keep an eye on....

- Completion of Konza Complex Building in FY19/20 and progress of implementation of Konza infrastructure projects under the EPC–Finance framework as well as the construction of Konza Data Center & Smart City Facilities while ensuring adherence to contractual requirements including strict commitment to critical project timelines and obligations.
- Procurement and distribution of 250,000 Digital Learning Devices to various primary schools in FY19/20and ensure that the learning devices have been delivered for use to the targeted beneficiaries.
- laying of 1000 km of fibre cable under NOFBI Expansion Project to enhance connectivity and improve service delivery
- Refurbishment and equipped of Nairobi Film Centre that is key to supporting the quality of local production and contribute to the creative economy.
- Efficient and effective implementation of consolidated government budget by Government Advertisement Agency on behalf of MDAs with the target of undertaking 52 publications during the FY 2019/20. This also includes prompt payment of incurred bills to media outlets and collection of outstanding amounts on account of non payments by MDAs.

2.2.6. Key public investments in Social sectors

95. The need for a well-functioning education and health care system has been given attention by the government evidenced through significant investments to support key reforms in these two sectors. The combined approved budget allocation in 2019/20 for the two sectors is Kshs 587.7 billion (30.5% of the entire Ministerial allocations). Given the huge resource investment, there is need to focus on the expected results from the key areas of investments in the two sectors to ensure there is value for money.

a. Education

96. The national government has continued to invest in providing access to education at all levels of learning through flagship programmes and projects such as provision of capitation at all levels of education, digital literary programme, expansion of learning amenities at various institutions, enhancing teaching resources, implementation of the new curriculum among others. In the 2019/20 approved budget, Kshs 213.3 billion has been allocated to various key areas of intervention in both the recurrent and development budget as listed below.

Table 10: 2019/20 Education sector key areas of interventions/ investments

Sub-sector	Key areas of intervention/investments	2019/20 Allocation (Billions)	Targets set in 2019/20
Basic Education	Capitation for learners	72.8	Support 9.2 Million learners in primary schools and 3 million in secondary schools.
	Feeding programme	1.8	Support 1.6 million learners in ASAL areas
	Digital Literacy programme and the new curriculum	2.4	Construct of 400 computer laboratories
			Train 40,000 curriculum implementers
			Rollout 33% of the new curriculum
	Examinations fee waiver	4.0	Waiver for 1.9 million National examination candidates (KCPE & KCSE)
	School infrastructure improvement	1.6	2,359 Schools benefiting
	Enhancement of teaching resources	3.2	Recruitment of 8,000 teachers (primary and secondary)
Technical and Vocational Education	Construction and equipping of TTI's	7.1	90% completion rates on construction of TTI's
	Technical students support (Capitation)	5.2	Support to 150,000 students enrolled in TVETS
	Support to Vocational Training Centres	2.0	Support to 98,642 trainees
University Education	Universities	96.4	Support to 250,820 government sponsored students
	Education loans	16.8	288,000 students to be awarded education loans
Total		**213.3**	

Source: National Treasury

97. The following are the key interventions:

i. **Construction of laboratories to support digital literacy programme-**the project was allocated Kshs 800 million in 2018/19 meant to construct computer laboratories in public primary schools as part of the digital literacy programme. This project is christened as phase two of the digital literacy programme where the first phase involved provision of computer tablets to primary school learners in lower primary.

ii. **The Secondary School Education Quality Improvement Project (SEQIP).** This is a multi-faceted World Bank funded project estimated at Kshs 20 Billion to support various interventions in secondary schools spread across 30 counties aimed at improving the learning outcomes. The 2019/20 allocation is Kshs 2.8 Billion.

iii. **Infrastructure funds to public schools -** Kshs 1.8 Billion has been allocated for towards support to public schools' infrastructure improvement which is a critical component of the

100% transition policy. These funds are meant to support various public schools across the country to ensure that the amenities in these schools are improved.

iv. **Mitihani house construction-** The construction of Mitihani house has been identified as one of the stalled projects and one of the longest stalled projects in the sector having lasted for more than three decades without being completed. In the recent financial years, the funding to this project has been on and off with the 2019/20 budget having no allocation for this project. This has resulted into sinking of public funds intermittently to a never ending project.

v. **Technical Training Institutes (TTI's) construction**- Over the last three years, this has been one of the flagship projects under the technical education sub sector where the goal is to ensure each constituency has a public technical training institution. The phase one (60 TTI's) of the project was completed and the phase two (70 TTI's) and phase three (30 TTI's) are ongoing having been allocated Kshs 1.1 Billion in 2019/20.

98. Keep an eye on…

- The progress in the construction of 400 computer laboratories in public primary schools as part of the digital literacy programme;
- The distribution and application of infrastructural funds to 2,360 public schools (both primary and secondary);
- Monitor the progress in the construction of the seventy (70) Technical Training Institutes in phase 2 and thirty (30)Technical Training Institutes in phase 3 across various Constituencies where the target is 90% and 75% completion level respectively;
- The enrolment levels in the TVET institutions given the funding to Higher Education Loans Board (HELB) to support TVET students through education loans.
- Recruitment of 8,000 teachers in both primary and secondary schools and their eventual distribution across the country to ease the shortage;

b. Health

99. The 2019/20 interventions for the expansion of public healthcare include the Linda mama programme which caters for free maternity services for women, equipping of 119 hospitals through the leasing of medical equipment and support to county hospitals through conditional grants. Others include: scaling up of the universal health coverage which is currently on the pilot stage; expansion of the vaccines and immunization programmes; and support to the six (6) national referral hospitals. These interventions have a total approved budget of Kshs 51.9 Billion in 2019/20 spread across both recurrent and development budget.The 2019/20 allocation for the sector has specific allocations to support the Universal Health Coverage (UHC) some of which are highlighted below:

Table 11: Selected 2019/20 UHC interventions

Program/Project	2019/20 Target	Allocation (Blns)
Free maternity programme (Linda mama programme)	81% of deliveries conducted by skilled birth attendants	4.1
Equipping of hospitals (Leasing of medical equipment)	119 hospitals fully equipped with medical equipment	6.2
Scale up of UHC project	190,000 vulnerable households and 533,000 elderly persons accessing subsidized health insurance	5.2
Vaccines and immunizations	90% of children immunized	3.3
Regional cancer centres	1 cancer center established	0.4
Construction of laboratories and classrooms at KMTC	17,692 new admissions in KMTC colleges	0.3
Total		**19.5**

Source: National Treasury

100. **The sector will be implementing a total of 42 capital projects in 2019/20 aimed at supporting various interventions in the sector such as HIV and AIDS, immunization, maternity care, education amongst others.** The projects are funded through a mixture of both the government and development partners. Some of the key capital projects funded purely by the exchequer in 2019/20 in the sector are listed below.

Table 12: Key capital projects in Health sector purely funded by GoK, FY 2019/20

Project	Estimated Cost	Actual Expenditure as at Feb 2019	Outstanding project Cost	2019/20 Allocation (Mlns)
Hire of medical equipment (119 Hospitals)	60,100	25,480	34,620	6,205
Free maternity program (Strategic intervention)	45,500	20,215	25,285	4,098
Establishment of Cancer Institute	8,000	242	7,758	400
Roll out of universal health coverage	160,500	-	-	5,400
KMTC- Construction of Laboratories and classrooms	1,272	296	976	330
Total	**275,372**	**46,233**	**229,139**	**16,433**

Source: Ministry of Health

101. **Keep an eye on…**

- **The rollout of Universal Health Coverage (UHC)** - This programme is in the pilot stage in four counties and is expected to end in December 2019 before full rollout across the country. This is an area to monitor in 2019/20 in terms of implementation including the targeted number of households of 190,000 and 533,000 elderly persons to benefit. The outcome of the pilot will play a critical role in informing the anticipated full rollout.

- **The new enrolment levels at KMTC as a result of construction of laboratories and classrooms at Kenya Medical Training Colleges (KMTC's) across the country**. The target is to increase enrolment in KMTC by 17,692 students through expansion existing tuition infrastructure in various colleges.

- **Progress in the implementation of the leasing of medical equipment project and their usage**. It is noted that the number of hospitals under the project increased from the initial 98 to 119 hospitals and the target is **fully equipped 119 hospitals** with **functioning medical equipment** under this programme. As part of the monitoring its implementation, performance audit report of this project as recommended by the Legislature must be provided.

i. Social Transfers

102. **Investment in social protection is an essential component of a successful and sustainable economy and a range of developing countries are now investing a significant proportion of their national wealth in social protection.** The Kenyan government is in strong support of social assistance in Kenya. This is demonstrated by the annual increase in the national budget directed towards the social assistance Programmes.

103. **The National Safety Net Programme (NSNP) in Kenya is a social protection programme established to improve and enhance social protection delivery in the country.** In the FY 2018/2019 the Programme had a budget of Kshs. 26.80 billion and in FY 2019/2020, it is estimated at Kshs. 29.58 billion. The National Safety Net Programme covers a total of 1.2 million households in the three cash transfer Programmes (Cash Transfer-Orphans and Vulnerable Children, Older Persons Cash Transfer and People With Severe Disabilities-Cash Transfer). By FY 2018/19, the cash transfer for orphans and vulnerable children (CT-OVC) had enrolled 353,000 households, representing 29 per cent coverage. The older persons cash transfer (OPCT) (targeting households with individual(s) aged over 65 years) and the Inua Jamii programme (targeting individuals aged 70 years and above) had 833,129 beneficiaries, representing a coverage of 78 per cent.

104. **Because of the stigma surrounding PWSDs, many remain hidden and are therefore not included in the Cash Transfer for Persons with Severe Disabilities.** The persons with severe disability cash transfer (PWSD-CT) had 47,000 beneficiaries, representing only 3 per cent coverage. Being certified as a PWSD is also challenging as it can only be done in County headquarters. In addition, the cash transfer programme only covers households with members living with profound disabilities –and is further limited to households living in extreme poverty. As such, a large proportion of people with disabilities are not eligible for support under the cash transfer programme.

105. **In the financial year 2019/20 and the Medium Term, the State Department of Social Protection will implement one (1) new project: the Kenya Social Economic Inclusion Project**

(KSEIP). The KSEIP builds on the National Safety Net Programme (NSNP), through strengthening already established systems, but also contains new interventions. It is an effort by the National Government to move beyond the cash transfers to a more comprehensive social protection system that enhances social and economic inclusion and shock responsiveness among poor and vulnerable households. The project will support three components: (i) Strengthening Social Protection Delivery Systems; (ii) Increasing Access to Social and Economic Inclusion Interventions; and (iii) Improving Shock Responsiveness of the Safety Net System. It is funded through a World Bank Credit and DFID grant and requires GoK counterpart funding. The donor component allocations for KSEIP are **Kshs. 2.154 billion**, **Kshs. 1.456 billion** and **Ksh. 1.105 billion** for the **FYs 2019/20, 2020/21** and **2021/22** respectively.

106. Details on implementations are as shown:

Table 13: KSEIP Implementation Matrix

Component	Component Description	Target Counties
1: Strengthening Social Protection Delivery Systems	Enhance existing SP delivery systems by establishing a social registry module as a part of an enhanced Single Registry	47 counties
	Strengthen both the new payment solution and the case management system	47 Counties
2: Increasing Access to Social and Economic Inclusion Interventions	Support a functional referral mechanism to improve NSNP beneficiaries' access to the National Health Insurance Fund (NHIF)	47 Counties
	Expand Nutrition-sensitive Safety Net Services	5 Counties- Kilifi, Marsabit, Turkana, West Pokot & Kitui
	Testing of GoK-led economic inclusion models that can be scaled up to improve the welfare and self-sufficiency of targeted households	5 Counties, Isiolo, Kisumu, Makueni, Marsabit and Muranga
3: Improving Shock Responsiveness of the Safety Net System	Expand HSNP coverage to four additional drought-affected counties	4 Counties - Garissa, Isiolo, Samburu, and Tana River

Source: State Department for Social Protection

107. Keep an eye on:

- The increased number of beneficiaries through the enhanced single registry which is intended to streamline registration of beneficiaries and the targeting process to include the vulnerable and marginalized groups which are difficult to reach.
- The number of beneficiaries who will benefit from strengthened technical capacity so that they can meaningfully engage in and benefit from the project.
- The number of National Safety Net beneficiaries accessing the National Health Insurance Fund

b. Access to Clean Water

108. **The United Nations classifies Kenya as a chronically water scarce country on the basis of having one of the lowest natural water replenishment rates.** This is estimated at 647 metres cubed per capita per annum which is below the recommended 1,000 metres cubed per capita per annum. According to the National Integrated Budget Household Survey, estimates of water supply in the country indicate that the proportion of households with access to water from an improved source increased from 56.1% in 2009 to 72.6% in 2015/16. In urban areas, 86.7% of households have access compared to 61.8% in rural areas.

109. **The water and sanitation sector has been characterized by deviations between approved budgets and actual spending, thus undermining budget credibility.** This is mostly the case in development expenditure which is financed through external funding. Low/underutilization of development funds, affects development of water infrastructure and it further lowers the sector's capacity to be allocated more resources. Besides improving on budget absorption levels, the sector needs to review its resource mobilization to be able to fund the sector requirements.

2.2.7. Financing the Water and Sanitation Sector

110. **In the FY 2018/2019, 67% of the budget for water and sanitation was funded through loans from development partners.** This is mainly for construction of large dams and water Supplies infrastructure. Development partners have continued to support the sector consistently, with loans and grants having grown from Kshs. 30.43 billion in the FY 2015/16 to Kshs. 36.03 billion in the FY 2019/2020. This however, raises concerns on the financial sustainability of the sector.

111. In the recent past, the financing model of Engineering, Procurement, Construction and Financing (EPC+F) – a form of contracting where the contractor is made responsible for all the activities of the project from design, procurement, construction, commissioning of the project – has been preferred especially in construction of dams. The model is usually through commercial contracts. Financing models for dam projects should be efficient and cost effective. However, it has been noted that the bilateral loans from development partners such as African Development and World Bank are more cost effective than the commercial loans procured through the EPC-F model whose costs are bound to be exorbitant due to hidden costs such as insurance costs.

112. Out of the total allocation of Kshs. 56.97 billion for the FY 2019/2020, Kshs. 36.03 billion (63%) is financed through loans and grants. The Ministry of water and sanitation is implementing 115 projects.

113. **Keep an eye on…**

- **Construction of Water works infrastructure development**: The large dam projects have in the past not met the expected schedules and in turn lead to challenges of suspension of works by contractors, interest on delayed payments, cost overrun due to contractual claim arising from idle plant and equipment and prolongation costs. Further, delays in the date at which a project is completed lead to increases in interest accumulated on funds borrowed for construction activities and to delays in revenues accruing to the country from the completed project

- **Completion of compensation of persons** i.e. Resettlement Action plans for projects such as Ruiru Dam before making any financial commitments with donors/partners to avoid huge costs that accompany delays in the implementation phase.

- **Financing model and value for money**; The Dam projects that are not in the approved budget for the FY 2019/2020 but are in the process of procurement either tendered or about to be tendered and which could be introduced in the supplementary budget. The model of financing for these upcoming dam projects is the Engineering, Procurement, Construction and Financing scheme (EPCF) which is prone to abuse as has been the case with Itare dam where the contractor filed for pre-bankruptcy before completion of the project

2.2.8. Key investments in Manufacturing and Trade

114. **The Manufacturing sector plays a key role in the growth and development of a country. The sector holds the key to unlocking the potential of the economy by providing long term skills critical for job creation and sustainable development through its forward and backward linkages**. Based on the Big Four pillar on manufacturing, the government targets to support value addition and raise the manufacturing sector's share of GDP to 15 percent by 2022. This critical pillar however, had an approved capital investment of KSh. 13.4 billion (representing only 2 percent of the total capital investments). This seems to imply that the government will have limited direct manufacturing investments with manufacturing growth expected to come from the private sector. This however requires the alignment of manufacturing enablers so as to achieve planned manufacturing expansion in the financial year.

115. **Over the years, the sector has had minimal resource allocation with significant in year budget cuts which affect project implementation.** The projects include the development of Leather Industrial Park at Kenanie in Machakos, development of Athi River textile hub at EPZA, the Construction of Industrial Research Laboratories in Kisumu and South B in Nairobi among others.

116. **It is likely that the Kenanie industrial leather park may not take off as was envisaged and may actually be unviable.** The Park was started in 2014 and has so far accumulated expenditure amounting to KSh. 1,680 million yet there has been no tangible output. According to the State Department for Industrialization, the Kenanie Park is being re-designed after being affected by heavy rains in 2018 and 60 percent of the land has been rendered unsuitable. This is a clear case where projects are being implemented without any comprehensive feasibility studies to ascertain their viability.

117. **The Modernization of Rivatex project has made strides, having been commissioned in June 2019, is now operational and has secured tenders for the supply of police uniforms under the "Buy Kenya Build Kenya" Policy.** However, procurement of additional plant and machinery is still ongoing to increase its productive capacity. The Athi River Textile Hub, EPZA has equally made strides with 40 investors reportedly having submitted their request to take up space for operations at the zone[26]. The shortfall in their allocation however is likely to delay their finalization as scheduled.

118. **Available information suggests that the sector has a number of projects that have stalled and are not prioritized for resource allocation in the medium term (except one).** The projects include the Dongo Kundu SEZ in Mombasa, the Accreditation of motor vehicle inspection body building centres and garages and construction of Industrial Research Laboratories in Nairobi, the construction of auditorium at Kenya Industrial Training Institute (KITI) among others. Lack of provision for these stalled projects is likely to escalate their cost.

119. **Keep an eye on…**

- **Implementation of new projects**. The sector will be implementing two new projects funded by the Trade Mark East Africa (TMEA) at KSh. 600 million. The project entails giving support to the Ministry of Industrialization to develop value addition and industrial clusters for agro processing, fisheries and textile sectors in six counties. The allocation is meant for site identification, Master planning, design lay out plans and basic infrastructure development.

- **Revival of stalled projects**. As noted earlier, the construction of Industrial Research Laboratories in Nairobi stalled over the last medium term but has now been allocated KSh. 1 billion for its revival. It is critical that members keep an eye on its completion for the delayed return on investments to be realized.

- **Other consolidated key performance indicators; among them:**

    - Kenanie Industrial Leather Park – targets to tarmac 70 kms of road network within the park.
    - The Athi River Textile Hub – targets to increase investments within the EPZ by attracting 35 companies and thereby creating 80,000 additional direct jobs.
    - Modernization of Rivatex project – the government targets to procure 7 textile machines to increase textile production.
    - Kenya Youth Empowerment and Opportunities project – targets to give grants to 1,070 youths..

[26]Departmental Committee Report on the Scrutiny of the Estimates of Expenditure for the year ending June 2020 of the sector.

2.3. Emerging Issues in Public Investments

2.3.1. Stalled Projects

120. **Stalled projects continue to tie up resources while adding little value to economic development.** As per the National Treasury Circular of 2018 on stalled projects, currently, there are 545 projects valued at Ksh. 366 billion which have stalled; having already utilized Ksh. 72.5 billion. It is observed that this list is probably not comprehensive enough and the actual number of stalled projects and amounts expended could be much higher.

121. Table 14 summarizes stalled projects across the MTEF sectors, pointing to a growing systemic fiscal pitfall across government departments and agencies.

Table 14: Analysis of stalled projects in Ksh. Million

	MTEF Sector	No of Projects	Estimated Project Cost	Actual Cumulative Expenditure	Outstanding Project Cost
1.	Education Sector	33	11,686	8,056	7,130
2.	Health Sector	67	3,915	2,368.9	1,546.8
3.	Governance, Justice, Law & Order Sector (GJLOS)	132	32,186	2,143	30,043.
	o/w which judiciary	37	3468	1,383	2084
4.	Public Administration and International Relations	3	11,174	2,774	8,400
5.	Agriculture Rural and Urban Development	233	65,259	14,180	51,079
6.	Energy ,Infrastructure and ICT	88	106,950	30,053	76,897
7.	General Economic Affairs	16	71,149	2,221	68,928
8.	Environment Protection ,Water and Natural Resources	17	19,484	11,023	8,461
9.	Social protection ,Culture and Recreation	25	49,824	4,510	45,314
10.	**Total**	**618**	**363,409**	**70,655.9**	**292,752.8**

Source: PBO

122. **A review of stalled projects indicates that critical components to the framework of project life cycle such as feasibility studies, appraisal documents and implementation support such as quarterly monitoring and mitigating challenges during budget execution are not available or not well aligned.** The delays in project completion are also exacerbated by budgetary cuts, re-allocations to other areas of spending, Low budget ceilings and lack of funds including donor components, expiry of loan agreements before disbursements/payments, fiduciary concerns including investigations by EACC, litigations among other challenges.

123. **Effective management of cash flow and procurement plans are necessary tools towards effective budget execution for the period 2019/20.** This informs procurement timelines and delivery of project milestones, a key impetus to reducing cases of projects stalling or contractors abandoning projects on account of cash flow difficulties. Due to absence of mediation platform or institutional mechanism to resolve disputes between contractors and concerned government agency, contractors affected by poor cash flows often resort to abandoning the project and seeking court action, which inevitably affects project timelines leading to escalation of medium term allocations. Consequently, the vicious cycle of non-adherence to procurement plans, budget cuts and re-allocations often lead to the escalating cases of pending bills which if not checked may widen the fiscal deficit.

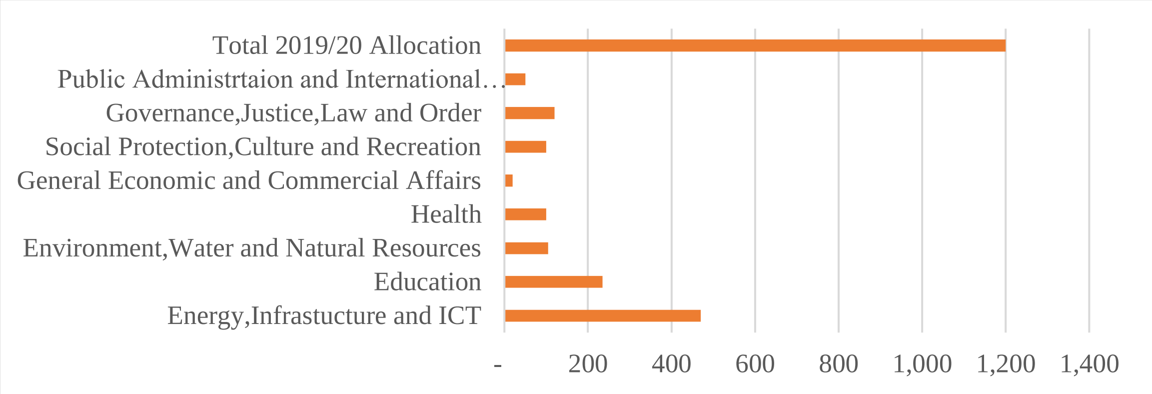
124. **To minimize stalling of projects, capacity of contractors or implementing agencies to undertake earmarked projects is an important area of focus during budget execution.** Winning bidders sometimes run into headwinds that affect project implementation timelines, an indication of weaknesses of the procurement evaluation process. In-year quarterly reports on project results can mitigate such risks. However, current quarterly reports only focus on financial performance contrary to reporting requirements that outline both financial and non-financial (out based) performance reporting. Other factors that may contribute to stalling of projects include inadequacies in project planning as well as poor governance during the project life cycle. This includes mismanagement of contractual obligations as well as absence of a framework to monitor capacity and performance of contractors. Also, there are cases involving change of scope, prolonged litigation and call on guarantees (as with the case in some energy projects) on account of breaches that kick in payment for contractual penalties further constraining the fiscal space.

125. The Legislators can help curb accumulation of stalled projects by strict review of draft estimates and more importantly through regular oversight or monitoring of annual budget implementation. In this regard, the Members of Parliament can, through Departmental Committees, keep an eye on potential projects with high risk of staling and addressing the problem through budgetary interventions or sanctions.

2.3.2. New Projects

126. **In the 2019/20 public consultations on the budget, the National Assembly approved forty (40) new projects which were allocated KSh. 1.2 Billion to be funded entirely by the exchequer.** The Energy and Infrastructure sector where roads sub-sector is domiciled accounts for the biggest portion of new projects with an allocation of KSh. 470 million. The spread of these projects across the various sectors is indicated in the figure below.

Figure 19: Spread of new projects across the various sectors (2019/2020)



Source: BAC report on the 2019/20 Budget

127. In addition to the public hearings projects, there are other new projects which were introduced in the 2019/2020 budget. These are highlighted in the table below.

Table 15: 2019/20 New Projects per sector (Ksh. Million)

Sector	No. of Projects	Donor	GOK	Total
Environment Protection, Water and Natural Resources	13	975	4,365	5,340
Governance, Justice, Law and Order	42	-	458	458
Social Protection, Culture and Recreation	1	2,155	-	2,155
Health	4	964		964
Education	2	3	807	810
Energy, Infrastructure and Information, Communication and Technology	332	800	9,389	10,189
Agriculture, Rural and Urban Development	1	-	60	60
General Economic and Commercial Affairs	1	-	83	83
Total	**396**	**4,897**	**15,162**	**20,059**

Source: National Treasury[27]

128. Keep an eye on....

- Feasibility studies for the new projects are undertaken to determine their viability as well as the capacity of the agencies to implement them. Projects without feasibility studies could be suspended for implementation in succeeding Financial Year. Going forward, the Legislature may consider implementing projects identified during the national budget public hearings in the succeeding financial year to allow feasibility study as well as establishment of an implementation strategy.

- The multiyear cost implications of some of the new projects in order to allow scheduling of resource allocation in the subsequent financial years and deter possibility of having pending bills or stalled projects.

[27] 2019/20 List of capital projects of the National Government of Kenya

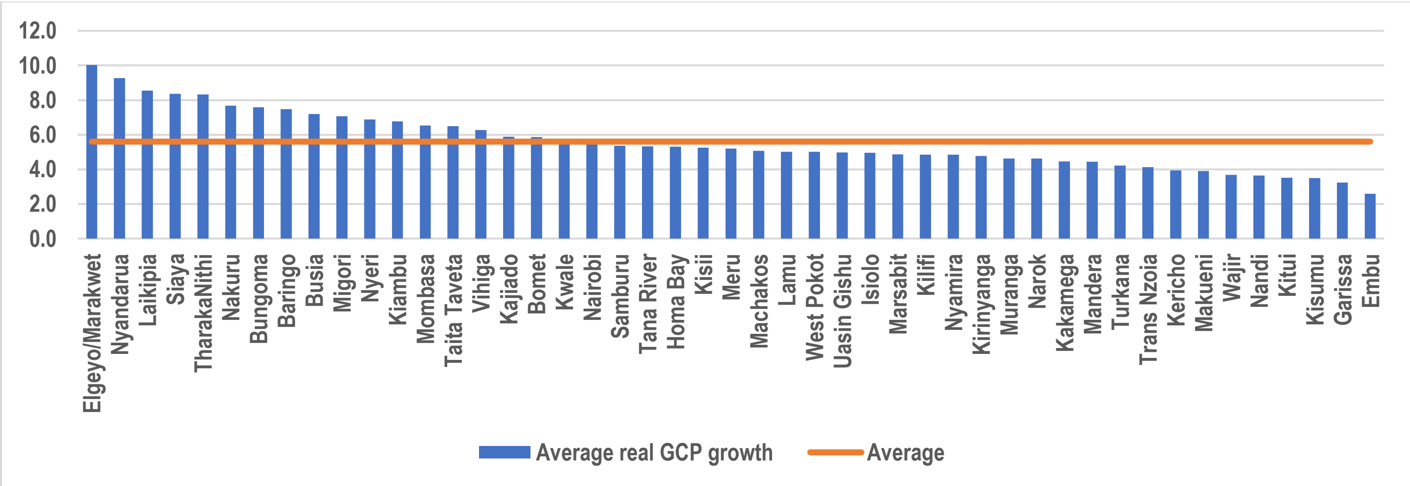
Chapter Three:

County Spending, Economic Growth and Fiduciary Risks

3.1.Role of County Governments in Economic Growth

129. **Substantial resources have been transferred to the county governments and some have recorded a high level of growth. However, this growth is neither being felt at the county level nor at the national level.**The year2018 marked the beginning of availability of official data on the Gross County Product (GCP), which in the past has beenthe main hindrance in the scrutiny of economic growth from the county perspective. County governments have been growing at an average of 5.6 percent since the onset of devolution. The fastest growing county is Elgeyo Marakwet County at a double-digit growth averaging 10 percent. Other county governments include Nyandarua (9.3 percent), Laikipia (8.6 percent), Siaya (8.4 %), Tharaka Nithi (8.3%), Nakuru (7.7%), Bungoma (7.6%) and Baringo (7.5%).

Figure 20: Average Real GCP growth for 2014 to 2017 (%)



Source: KNBS

130. According to Schedule IV of the 2010 Constitution, Agriculture and Health are county functions. It is expected that these two sectors should get the highest priority especially in allocation of resources and are part of the Big Four Agenda of the Jubilee Government. The agenda aims at achieving universal healthcare, food security, increase the share of manufacturing in GDP and provision of affordable housing. It is expected that some of these interventions willcontinue to be implemented in FY 2019/20 as provided in the individual county budgets. The following is an indication of the economic performance of some of the key sectors-

a) Agriculture Sector[28]

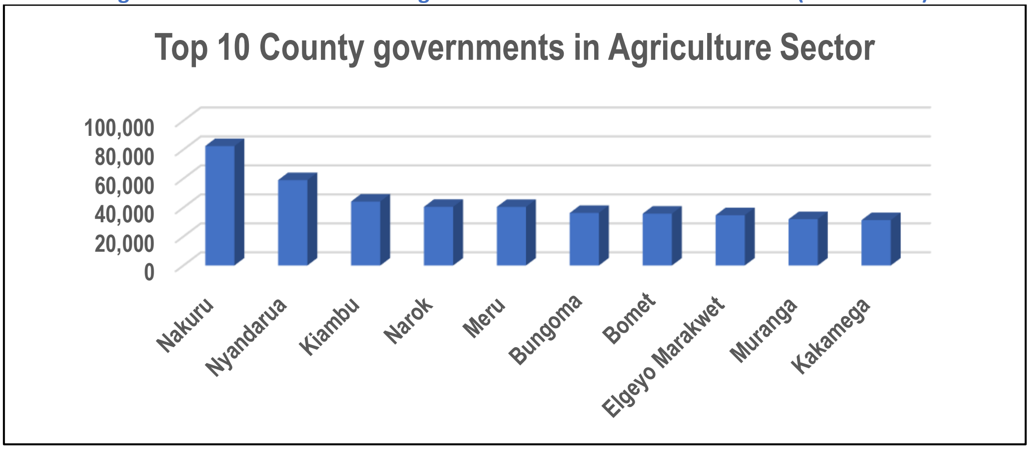
131. **For many years Agriculture has been the major sector in Kenya as it has provided a bulk of employment opportunities and also has highly contributed to economic growth. Still, it has not been able to cater for the food security needs for the country.** This has necessitated changes in policy, increased budgetary requirements to move away from the traditional methods of enhancing agricultural productivity. For some counties, the farmers have shifted from Agriculture as the main economic activity to other sectors since it is no longer profitable. An example is Kiambu County where fertile arable land has been converted into housing hubs for the upper and middle class population working in Nairobi City, thus providing dormitory setups for other counties.

[28] Includescrops, animal production, forestry and fisheries

Conversely, there are counties that have adopted modern agriculture methods to emerge out of food deficiency such as Kitui, where the provision of quality *Ndengu* (green grams) seedlings to farmers has significantly improved food security and increased the source of income for small-scale farmers within the county. Similarly, Turkana[29] is another county that is already recording a change in farming alternatives. Normally, these counties would have been adversely affected by drought, but this is no longer the case.

132. **The agriculture sectorcontributed23 percent of the real Gross County Product in 2017 but the benefits are not yet fully devolved.**A review of the sector performance in 2017 indicates that most of the top performing counties have high-demand agricultural products that are exported such as horticulture (cut flower, vegetables, and fruits), coffee and tea, while other products for instance maize, wheat and livestock, have high demand locally.The counties with the largest agricultural activities include Nakuru, Nyandarua and Kiambu as illustrated in the figure xx. Notably, the benefits to the counties from the high value of the agricultural products are indirect- mostly in form of wage-employment opportunities- as levying of taxes on these products are under the purview of the national government. Therefore it may seem there is high performance in the value of agriculture sector activity in some counties but a large share of the benefits remains at the national level. Therefore, budgetary allocations to agricultural activities in most of the counties should be focused on boosting small-scale agricultural productivity.

Figure 21: Performance of the Agriculture sector in real terms in 2017 (Ksh. Million)



Source: KNBS, PBO

133. ***Keep an eye on…***

- Intensified provision of agricultural extension services to the small-holder farmers in the county.
- Promotion of "one county-one product" so as to enhance resource utilization on specific projects that are well costed and have value for money. This will enhance competitive advantage within the county.
- Implementation of policies by the county governments on marketing agricultural produce.
- Benefits to counties from national government projects/programmes on enhancing food and nutrition security that will be implemented in certain counties. Some of these projects aim at developing acres of irrigation area under National Expanded Irrigation programme; increase area under smallholder irrigation; improve livestock productivity by producing 60 million doses of assorted vaccines annually

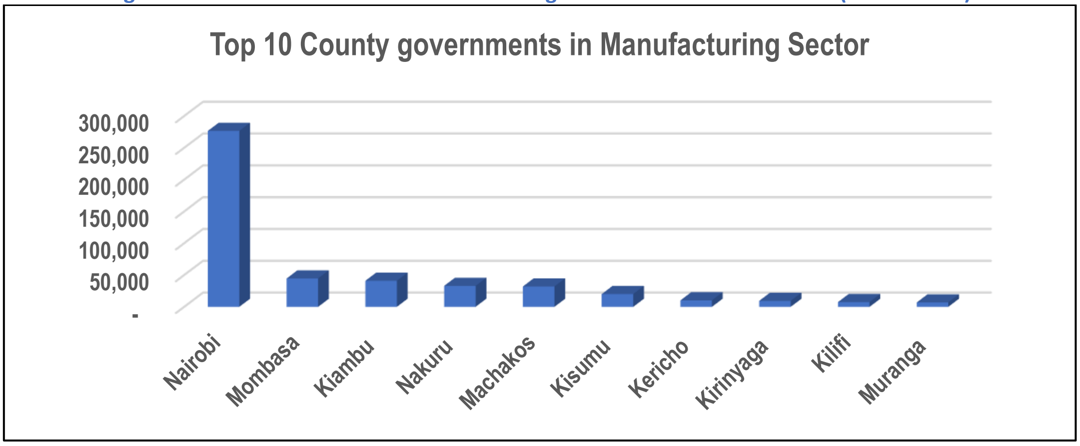
[29]A study on this is yet to be completed by PBO

and expand livestock vaccination coverage; upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks.

b) Manufacturing Sector

134. **County governments have potential in scaling up the capacity in building small-scale industrial hubs that mainly utilize production inputs that are locally and readily available in the county governments.** The manufacturing sector accounted approximately 14 percent of the real Gross County Product in 2017 which is mainly from the more urban counties. The trade, industrial and commerce departments in county governments should identify key projects that have been budgeted for in the 2019/20 budget and further form partnerships with the private sector on setting up industrial hubs whose implementation will result in job creation for the youth, increased investment in the county governments and utilization of the unique resources available in individual county governments based on the competitive advantage.

Figure 22: Performance of the Manufacturing sector in real terms in 2017 (Ksh. Million)



Source: KNBS, PBO

135. ***Keep an eye on…***

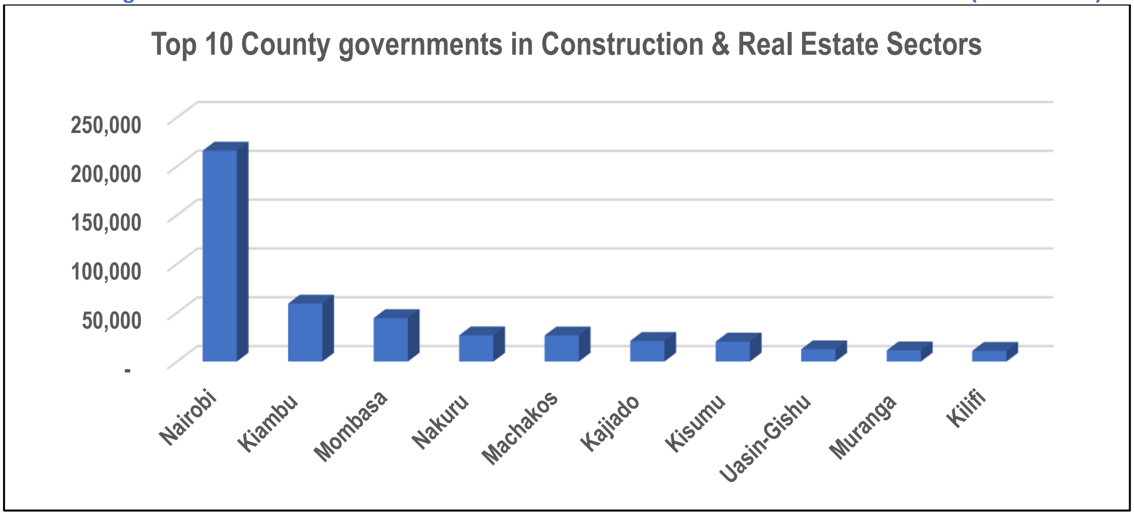
- ❖ Implementation of key programmes and projects that are budgeted for under the trade, industrialization and commerce departments in county governments. Specifically, on the number of business permits issued by the county governments to small-scale industries within the counties for FY 2019/20.
- ❖ The agreements between the private sector and the county governments on boosting affordable credit for SMEs within the counties; utilization by the small industries of locally available inputs in terms of raw materials, labour and land.
- ❖ Reports on the number of employment opportunities created in the manufacturing sector during FY 2019/20.

c) Construction & Real Estate Sector

136. **Similar to the manufacturing sector, Nairobi city leads in the construction and real estate sector activities with a huge gap with the rest of the county governments.** The affordable housing agenda will mostly benefit the cities and the fast- growing urban towns as this is where there is the highest demand. The Urban Areas and Cities Act and the County Government

Act requires that counties have in place urban and spatial plans integrated in the CIDPs and ADPs. These plans are actualized through the annual budgets and implemented mainly through the housing and urban development departments in the county governments. For instance, in the FY 2019/20 it is proposed that counties will benefit from the conditional allocation on the Kenya Urban Support Programme that has an allocation of Ksh. 11.86 Billion for both the Urban Development grant and the Urban Infrastructure grant.

Figure 23: Performance of the construction and real estate sector in real terms in 2017 (Ksh. Million)



Source: KNBS

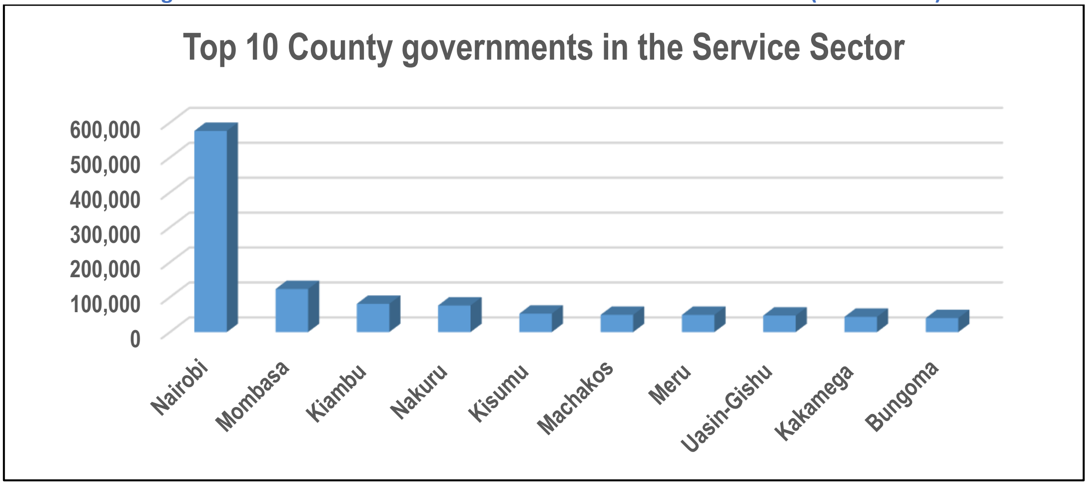
137. ***Keep an eye on…***

- The number of houses built during the financial year in the county by implementing key projects and programmes under the housing and urban development departments.
- The reports on theperformance of property taxes and land rates collected by the county governments. These resources should be utilized in urban planning.

d) Services Sector

138. **The service sector mainly depends not only on the availability of labour but increasingly much more emphasis is being put on the quality of the labour.** Nairobi County has remained the main hub for the services sector and the other cities and towns as shown in figure xx. The sector's share to real GCP was approximately 46 percent in 2017 with the main activities being in wholesale and retail trade, education, transport and financial and insurance activities. There has been resources in support of capacity building initiatives in the county governments. The Kenya Devolution support programme by the World Bank aims at strengthening the capacity in counties in PFM systems, county human resource management, civil education and public participation. The funds are allocated as conditional allocations to the county governments provided for in the Division of Revenue Act and the County Allocation of Revenue Act. For FY 2019/20, the proposed allocation is Ksh. 1.40 Billion for Kenya Devolution Support Program (KDSP) county capacity building (Level 1) Grant and the Kenya Devolution Support Program (KDSP) performance (Level 2) Grant of Ksh. 4.90 Billion.

Figure 24: Performance of the Services sector in real terms in 2017 (Ksh. Million)



Source: KNBS

139. ***Keep an eye on…***

- The performance of counties to enable access to the KDSP level 2 grant by the World Bank that can only happen if counties are able to achieve certain conditions such as strengthening PFM systems, Human Resource Management , Monitoring and Evaluation systems and Intergovernmental relations.

3.2.Link between Real GCP growth and Poverty reduction in Counties

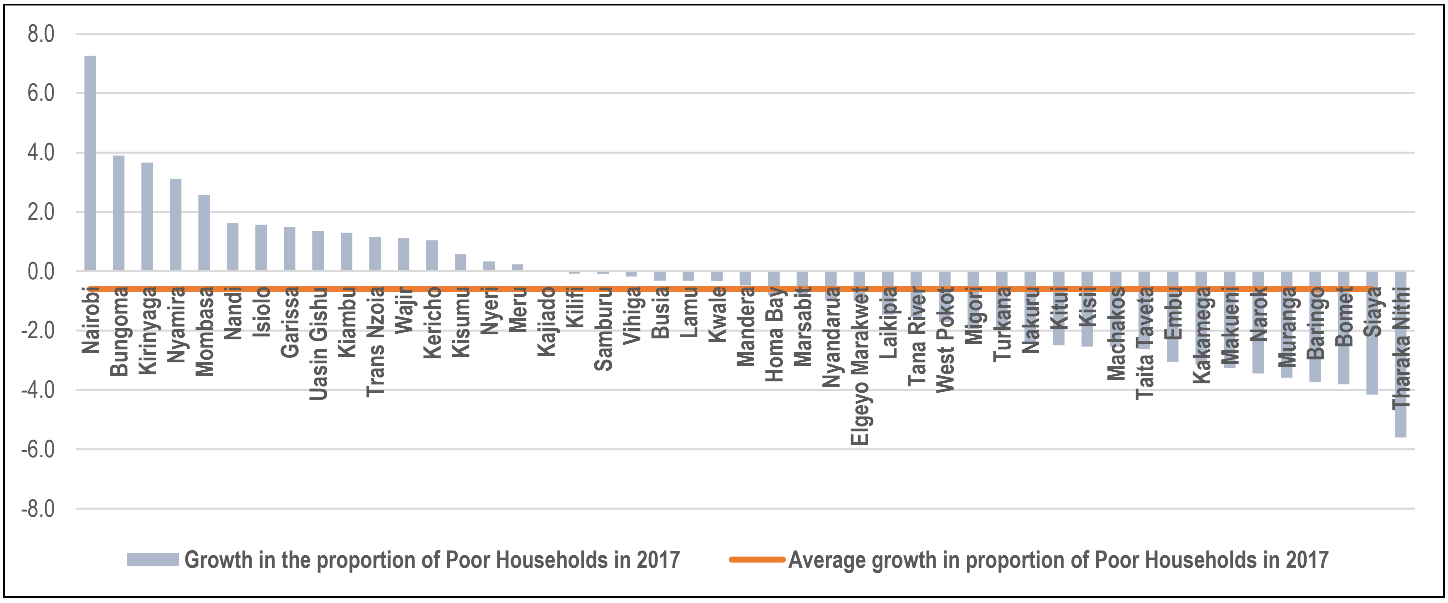
140. **The expectation and the spirit of the 2010 Constitution was that with devolution, counties would be empowered, through decentralization of public resources and there would be faster eradication of poverty among the people residing at the county level.** Through efficient use of resources it was expected that there would be effective delivery of services and this would lead to equitable development. Specifically, the benefits of these would be increased job opportunities and higher income levels for the poor households.

141. **An analysis of real GCP growth and proportion of poor households in the counties for 2017 compared to the average indicates that counties are at different levels.** County governments' growth in real GCP can be used to indicate the extent to which the growth has been effective in reducing the poverty levels in each county. Many empirical studies have pointed out that rapid and sustainable economic growth has a positive impact in reducing poverty. Therefore in counties, the focus would be on the growth of real GCP and compare it to the reduction in the growth of the poor households for a particular year as provided in figures 25 and 26-

a) **High real GCP growth and a reduction in the growth of poor households:** These are counties that experienced a high real GCP growth and for the same period it is estimated that there was a significant reduction in the growth of poor households. It implies that the growth in real GCP is likely to have resulted to increased income levels, job creation in counties such as - Tharaka Nithi, Migori, Siaya, Machakos, Kitui, Elgeyo Marakwet, Nakuru, Embu and Kisii.

b) **High real GCP growth and a high growth of poor households:** These counties were able to achieve a high real GCP growth however the proportion of poor households also increased, indicating that the real GCP growth may not have enabled reduction in the level of poor households in these particular counties. Further, it implies that the resource allocation and budget implementation in these counties has been inadequate to reduce the level of poor households. They includeNairobi, Mombasa, Bungoma, Wajir, Isiolo,Kiambu and Trans Nzoia.

Figure 25: Growth in the proportion of poor households in 2017

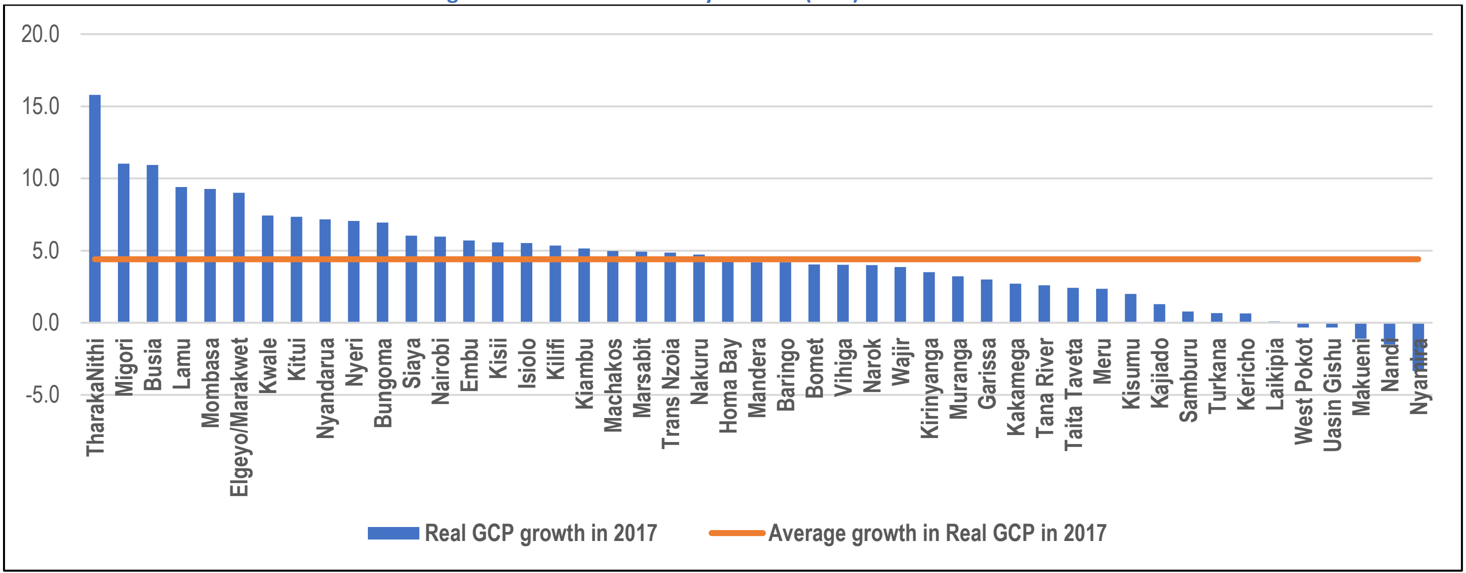


Source: PBO

c) **Low real GCP growth and a reduction in the growth of poor households:** These counties experienced a reduced growth in real GCP but they were able to reduce the growth of poor households in the counties. This implies that the implementation of policies and the budget were not sufficient enough to induce a higher real GCP growth, however, was adequate to result in the reduction of poor households in these counties. They include – Makueni, West Pokot, Laikipia, Taita Taveta, Turkana, Murang'a, Kakamega and Tana River.

d) **Low real GCP growth and a high growth of poor households:** These counties achieved a low real GCP growth and also an increase in the level of the poor households in the county. This indicates that the implementation of policies and the budget for were not sufficient to induce growth and reduction in the proportion of poor households in the county. Some of these counties include- Nyamira, Uasin Gishu, Garissa, Kirinyaga, Kericho, Nandi and Kisumu.

Figure 26: Real Gross County Product (GCP) Growth in 2017



Source: KNBS, PBO

142. ***Keep an eye on…***

- Development of systems to enable efficiency in mobilization and utilization of resources from the national government revenue, development partners and own-source revenue collection.
- Reports from the Controller of Budget (COB) on budget implementation by the county governments.
- Other performance surveys from government institutions and development partners.

3.3.Fiduciary Risks in the Counties: What Does the FY 2019/20 Portend

143. Cumulatively since inception of devolution a total of Kshs 1,689.3 billion has been allocated to county governments. This comprises of Kshs 1,472.6 billion of equitable share and another Kshs 216.7 billion in form of conditional grants from national governments share of revenue as well proceeds from Loans and grants from development partners of approximately Kshs 99.02 billion. These conditional grants are national government programmes and projects implemented by line ministries at the county level.

Table 16: County Revenue trends FY 2015/16 - 2019/20 (Ksh. Billion)

	2015/16	2016/17	2017/18	2018/19	Proposed 2019/20	Cumulative Allocations
Equitable Share	**259.8**	**280.3**	**302**	**314**	**316.5**	**1,472.60**
Conditional Grants	**24.9**	**21.9**	**45.3**	**63**	**61.6**	**216.70**
o/w *Free Maternal Health Care**	4.3	4.12	-	-	-	8.42
Leasing of Medical Equipment	4.5	4.5	6.1	9.4	6.2	30.70
Compensation for user fees foregone	0.9	0.9	0.9	0.9	0.9	4.50
Level 5 Hospitals	3.6	4	4.2	4.33	4.33	20.46
Emergency Medical Service	-	0.2	-	-	-	0.20

	2015/16	2016/17	2017/18	2018/19	Proposed 2019/20	Cumulative Allocations
Rehabilitation of Village Polytechnics	-	-	2	2	2	6.00
Construction of County HQs	-	-	0.61	0.61	0.48	1.70
Allocation from the Fuel Levy (15%)	**3.3**	**4.31**	**7.88**	**8.27**	**8.98**	**32.74**
Allocation from Loans and Grants	**10.67**	**3.87**	**12.54**	**33.24**	**38.7**	**99.02**
County Own Source Revenue	**35.02**	**32.52**	**32.49**	**50.06**		**150.10**
Total Revenues to Counties	**333.69**	**342.90**	**400.21**	**468.57**	**425.78**	**1,971.16**

Source: Economic Surveys (various)

144. Since inception of devolved governance structures, counties rely heavily on national government subventions mainly the equitable share of the nationally raised revenue. The annual local revenue generated by the counties is on average in the range of Kshs 32.5 billion.

145. The major sources of revenue in the counties are national government fiscal transfers in the form of equitable share of the nationally raised revenue, the counties collection of locally generated revenues / own source revenue, the conditional grants to county governments from national government share of revenue for specific interventions to implement programmes and projects at county level and balances carried forward from the previous financial years county revenue fund.

Table 17: County Government Expenditure Share classified by function FY 2014/15 - 2018/19

Classification	2014/15	2015/16	2016/17	2017/18	2018/19
General Public Services	50.21	37.71	41.59	38.84	31.30
Economic Affairs	14.80	21.15	19.21	17.45	21.88
Environmental Protection	1.95	4.33	2.90	3.21	4.35
Housing and Community Amenities	2.58	5.28	7.08	6.74	8.61
Health	20.15	22.31	20.20	24.96	23.52
Recreation, Culture and Religion	2.89	2.06	1.84	1.45	1.91
Education	7.35	6.84	7.02	7.06	8.00
Social Protection	0.07	0.31	0.15	0.28	0.44
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

146. A close review of the county governments' expenditure patterns classified by functions shows that more resources are spent in provision of general public services even though at a decelerated rate from high of 50.21 percent of total expenditure in FY 2014/15 to a low of 31.3 percent in FY 2018/19. This clearly demonstrates that there is positive correlation between the general public services and compensation of employees which takes on average about 35 percent each year. It is also notable that spending in Housing and Community amenities have had accelerated spending where spending rose from 2.58 percent in 2014/15 to 8.61 per cent in FY 2018/19 as percentage of total spending.

147. It has also led to equitable distribution of resources through spatial cover and mapping of county zones according to their potential. This leads to balanced growth as local communities are involved in decision making given that each county has equal chances of growth as the share of resources is equitably distributed and promotes self-governance and management of community development and affairs.

ANNEXES

Annex 1: List of stalled projects

Vote	Details	Reported No of Projects	Kshs ' million		
			Estimated Project Cost	Actual cumulative expenditure to June 2018	outstanding Project Cost as June 2018
1011	The Presidency	-	-	-	-
1021	State Department for Interior	20	744	354	390
	Crime Date Repository Unit	1	27,000	-	27,000
1023	State Department for correctional Services	74	940	397	543
1064	State Department for Vocational and Technical Training	6	1,105	680	425
1065	State Department for University Education				
	Kirinyaga University	*2*	483	90	394
	South Eastern Kenya University	*1*	20	1	19
	Kisii University	*3*	2,046	1,156	890
	Laikipia University	*3*	707	377	330
	Pwani University	*1*	350	301	49
	Multimedia University	*3*	494	203	291
	Murang'a University	*2*	123	16	107
	Egerton University	*1*	233	21	211
	Meru University of Science & Technology	*3*	318	54	264
	Machakos University	*1*	15	5	10
	University of Nairobi	*1*	643	193	450
	Technical University of Mombasa	*4*	466	254	211
	University of Kabianga	*1*	250	75	175
1055	State Department for Early Learning & Basic Education	1	3,967	2,315	1,652
1071	The National Treasury	3	11,174	2,774	8,400
1092	State Department for Transport	10	79,097	13,114	65,983
1096	State Department for Housing, Urban Development	33	4,148	1,200	2,949
1092	State Department for Public Works	44	14,896	10,121	4,775
1107	Ministry of Water and Sanitation	14	15,105	9,689	5,416
1108	Ministry of Environment and Forestry	2	3,499	1,186	2,313

Vote	Details	Reported No of Projects	Kshs ' million		
			Estimated Project Cost	Actual cumulative expenditure to June 2018	outstanding Project Cost as June 2018
	Kenya Forest Service	*1*	880	148	732
1112	Ministry of Land and Physical Planning	3	6,000	3,412	2,588
1132	State department for Sports	5	43,841	3,843	39,998
1134	Department for Heritage				
	National Museum	6	806	64	743
1152	State Department for Energy	1	8,809	5,618	3,191
1162	State Department for Livestock	21	6,369	1,870	4,499
1165	State Department for Crop Development	4	43,024	6,021	37,003
1168	State Department for Agricultural Research	-			
	KARLO	*3*	1,309	702	607
1167	State Department for Irrigation	193	5,538	1,351	4,186
	Nation Irrigation Board	6	1,710	674	1,036
1173	State Department for Cooperatives	1	1,565	958	608
1174	State Department for Trade	3	10,227	45	10,182
1181	State Department of Labour	5	1,344	472	872
1185	State Department for social protection	9	3,833	131	3,702
1222	State Department for Regional and Northern Corridor Development	-			
	Coast Development Authority	*6*	4,860	656	4,204
	Kerio Valley Development Authority (DEVELOPMENT)	*1*	2,300	195	2,105
	Ewasong'iro North River Basin Development Authority (ENNDA)	*4*	51,800	288	51,512
	lbdaRegionasl Housing Development Project	*1*	397	79	317
1252	State Law Office and Department of Justice	1	34	9	25
1164	The Judiciary	37	3,468	1,383	2,084
	Totals	**545**	**365,937**	**72,141**	**293,051**

Data Source: National Treasury

Annex 2 : List of projects above Kshs. 1 billion

S.No	Details of the Project Above 1Billion	Total KSH'
1.	Development of Nairobi to Naivasha Standard Gauge Railway	55,812,000,000
2.	National Government Constituency Fund (NGCDF)	41,789,800,000
3.	Eastern Electricity Highway Project (Ethiopia- Kenya Interconnector)	21,687,000,000
4.	Modernization Programme.	17,079,049,600
5.	Sports, Arts and Social Development Fund	13,200,000,000
6.	Konza ECPF	12,280,000,000
7.	Kenya Urban Programme (KenUP)	11,961,000,000
8.	Annuity Low Volume Seal Roads	11,180,000,000
9.	LAPSSET Project.	11,000,000,000
10.	Special Global Fund - HIV-AIDS Grant - KEN-H	8,201,034,967
11.	Mombasa Port Development project Headquarters	7,200,000,000
12.	Devolution Support Programme For-Results (PforR) - Headquarters	6,832,000,000
13.	Kenya Power and Lighting Company - Construction and Civil Works	6,205,000,000
14.	Managed Equipment Service-Hire of Medical Equipment for 98 Hospital	6,205,000,000
15.	Cash Transfer for orphans and Vulnerable Children Headquarters	6,173,800,000
16.	Equalization Fund Transfers	5,765,000,000
17.	Last Mile Electricity Connectivity - HQ	5,500,000,000
18.	Roll-out of Universal Health Coverage	5,400,000,000
19.	Cash Transfer to Older Persons (CT-OP)	5,067,100,000
20.	National Housing Development Fund - HQ	5,000,000,000
21.	Contingency Fund Transfers	5,000,000,000
22.	Transforming Health Systems for Universal Care Project.	4,920,370,873
23.	Electrification of Public Facilities	4,556,000,000

S.No	Details of the Project Above 1Billion	Total KSH’
24.	Kibwezi - Mutomo - Kitui Road (B7)	4,450,000,000
25.	Mpard Package 3 - Mteza – Kibundani Section	4,300,000,000
26.	Free Maternity Program (Strategic Intervention)	4,098,000,000
27.	SS-EARTTDFP- Upgrade of Kalobeiyei River—Nadapal (88 km) ro	3,889,500,000
28.	NOFBI Phase II Expansion - HQ	3,884,000,000
29.	SS-EARTTDFP- Upgrade of Lokitaung Junction - KalobeiyeiRiv	3,745,752,000
30.	Strategic Investments in Public Enterprises.	3,700,000,000
31.	Support to Public Financial Management (PFM-R) Headquarters	3,633,000,000
32.	Development of Mombasa to Nairobi Standard Gauge Railway Headquarters	3,548,500,000
33.	Development of Mombasa to Nairobi Standard Gauge Railway Headquarters	3,548,500,000
34.	Nairobi Metropolitan Services Improvement Project (NAMSIP)	3,150,000,000
35.	Olkaria I and IV.	3,000,000,000
36.	Karimenu II Dam Water Supply Project	3,000,000,000
37.	Cherry Coffee Revolving Fund	3,000,000,000
38.	ThwakeMultiPurpose Water Development Program Phase I - HQ	2,949,000,000
39.	ThwakeMultiPurpose Water Development Program Phase I - HQ	2,949,000,000
40.	Menengai Geothermal Development Project - HQ	2,900,000,000
41.	Coastal Region Water Security & Climate Resilience Project (CRWSCRP)	2,850,000,000
42.	Kenya Secondary Education Quality Improvement Project.	2,811,669,353
43.	NYS Youth Empowerment Programme in 69 informal settlements	2,805,070,000
44.	Digital Literacy Programme - Headquarters	2,800,000,000
45.	Kenya Water Security Climate Resilience Project (KWSCRP)	2,773,350,000
46.	EXIM: Nairobi Western Bypass	2,650,053,300
47.	Extension Of Nairobi Water Supply (Northern Collector) - HQ	2,631,300,000
48.	Health System Management (GAVI Vaccines)	2,600,000,000
49.	Nairobi 220KV Ring	2,564,000,000
50.	Nairobi City Centre E.H.V & 66KV Network Upgrade & Reinforcement.	2,500,000,000

S.No	Details of the Project Above 1Billion	Total KSH'
51.	Police Modernization Programme	2,500,000,000
52.	Kenya Youth Empowerment -HQ	2,387,240,000
53.	Kenya Youth Empowerment and Opportunities Project	2,370,000,000
54.	Eldoret Town Bypass Road	2,255,900,000
55.	Special Global Fund - Malaria Grant - KEN-M	2,237,015,818
56.	ICT Shared Services	2,230,614,114
57.	Nairobi Metro Area Bulk Water Sources- Ruiru II Dam	2,175,000,000
58.	Nairobi Metro Area Bulk Water Sources- Ruiru II Dam	2,175,000,000
59.	Kenya Social and Economic Inclusion Project	2,154,569,200
60.	Kenya Cereal Enhancement Programme (KCEP)- HQ	2,153,426,117
61.	Affirmative Action Social Development Fund	2,130,000,000
62.	Kenya Informal Settlements Improvement Project Headquarters	2,060,000,000
63.	Dualling of Mombasa - Mariakani Road (Lot 2: Kwa Jomvu - Ma	2,046,853,958
64.	SS-EARTTDFP- Upgrading of Lokitaung Junction to Lodwar (80	2,017,097,145
65.	Nuno-ModogashiRoad.Headquarters	2,011,562,031
66.	Processing and Registration of Title deeds	2,000,000,000
67.	National Value Chain Support Programme	2,000,000,000
68.	BogoriaSilali Geothermal Project.	2,000,000,000
69.	Cross-County Bulk Water & Sanitation Services Improvement Programme	2,000,000,000
70.	Mwea Irrigation Development project (Thiba Dam and Irrigation Area).	1,987,556,674
71.	Nairobi Outering Roads	1,920,000,000
72.	Dualling of Mombasa - Mariakani Road (Lot 1: Msa - Kwa Jomv	1,907,836,596
73.	Headquarters Kenya Petroleum Technical Assistance Project (KEPTAP).	1,794,102,900
74.	Kitale -Endebes - Suam Road	1,720,000,000
75.	Multi-National Kenya-TZ Power Interconnection Project.	1,720,000,000
76.	Garsen - Witu - Lamu Road(C112)	1,686,333,077
77.	SS-EARTTDFP- Upgrading of Lodwar-Loichangamatak (50 km) roa	1,649,883,826

S.No	Details of the Project Above 1Billion	Total KSH’
78.	Isebania - Mukuyu - Kisii - Ahero Road (A1) Lot 1 & 1	1,596,468,035
79.	Isebania - Mukuyu - Kisii - Ahero Road (A1) Lot 1 & 2	1,596,468,035
80.	Exploitation of Living Resources under the Blue Economy	1,566,000,000
81.	National Secure Communication and Surveillance System	1,550,000,000
82.	Disbursement of Loans to Civil Servants to purchase, Civil Servant Housing Scheme Fund	1,500,000,000
83.	Installation of Transformers in Constituencies.	1,500,000,000
84.	National Water Harvesting and Ground Water Exploitation	1,500,000,000
85.	Monitoring and strengthening Budget Implementation	1,500,000,000
86.	SS-EARTTDFP- Upgrading of Loichangamatak - Lokichar (40 km)	1,490,424,800
87.	Small Scale Irrigation and Value Addition Project	1,459,334,228
88.	National Integrated Identity Management System	1,423,000,000
89.	Agricultural Sector Development Support Programme II (ASDSP II)	1,418,051,150
90.	Kenya Statistics Programme For Results	1,389,000,000
91.	SS-EARTTDFP- Replacement of Kainuk Bridge	1,336,702,980
92.	Connectivity Subsidy	1,329,000,000
93.	Household Irrigation Water Harvesting Project	1,325,000,000
94.	Kenya's Water Tower Protection & Climate Change (Water) Programme - HQ	1,309,000,000
95.	Regional Pastoral Livelihood Resilience project - HQ	1,256,767,474
96.	Secondary Infrastructure Improvement.	1,239,800,000
97.	Lamu Port Access Road	1,200,000,000
98.	Provision of Finances to SMEs in the manufacturing sector KIE	1,200,000,000
99.	Special Global Fund HIV Grant KEN-H-TNT	1,150,000,000
100.	Special Global Fund Malaria Grant KEN-M-TNT.	1,150,000,000
101.	Equity and Subscriptions in International Financial Institutions	1,120,000,000
102.	Supply and Installation of an Internet Based 4000 Network - HQ	1,117,600,000
103.	Sondu Homabay Ndhiwa Awendo Electrification Project.	1,100,000,000
104.	LPG Distribution and Infrastructure	1,096,000,000

S.No	Details of the Project Above 1Billion	Total KSH'
105.	Support to Universal Health Care in the Devolved System in Kenya	1,072,833,544
106.	Changamwe-Magongo - Kwa Jomvu (A109L) Road dualling	1,053,200,000
107.	Special Global Fund - TB Grant - KEN-T.	1,014,149,354
108.	Construction of Housing Units for National Police & Kenya Prison	1,010,000,000
109.	Construction of Affordable Housing Units	1,010,000,000
110.	Construction of Social Housing Units	1,000,000,000
111.	Street-lighting	1,000,000,000
112.	Siyoi-Muruny Water Project	1,000,000,000
113.	Soin-Koru - National Water Harvesting and Storage Authority	1,000,000,000
114.	National Tree Planting Campaign Project	1,000,000,000
115.	Kenya Development Response to Displacement Impact.	1,000,000,000

Source: The National Treasury

Annex 3: Chronology of Passage of DORA and CARA since FY 2013/14

Financial Year	*Date DORA Approved*	*Date CARA Approved*	*Remarks*
FY DORA 2013	Passed by NA 6th June 2013 *Assent: 11th June 2013*	31st July 2013 Passed by the Senate and Referred to the National Assembly for concurrence CARB Passed by the National Assembly on 06/08/13 *Assent: 9thAugust 2013*	No Mediation on DORB
FY DORA 2014	Passed by the N/A 15th May 2014 *Assent: on 24th July 2014*	Bill passed by Senate and referred to the N.A. Bill passed by the NA with amendments Senate passed the Bill with NA amendments on 02/09/14 *Assent: on 5th September 2014*	DORB went through Mediation Process
FY DORA 2015	Passed by the N/A on 9th April 2015 *Assented to on 5th July 2015*	26th June 2015 CARB passed by Senate with amendments and referred to the National Assembly -Passed by the N.A. without amendments *Assented to on 9th July 2015*	DORB went through Mediation Process
FY DORA 2016	Passed by N/A on 30th March 2016 *Assent: 6th May 2016*	CARB Passed by the Senate with amendments and forwarded to the National Assembly on 8/06/16 Passed by the NA without amendments *Assent: 22nd July 2016*	No Mediation on DORB
FY DORA 2017	Passed by N/A on 15th June 2017 *Assent: 21st June 2017*	*Bill passed by the Senate without amendments and referred to the National Assembly–* *Bill passed by the National Assembly without amendments* *Assent: 6th July 2017*	DORB went through Mediation Process

FY DORA 2018	Passed by N/A on 20th March 2018 *Assent: on 10th April 2018*	*Bill passed by the Senate with amendments and referred to the National Assembly–* *Bill passed by the National Assembly without amendments* *Assent: on 29th June 2018*	No Mediation on DORB
FY DORB 2019	Passed by N/A on 26th March 2019 and referred back from Senate on 7th May 2019 to proceed to Mediation. First Mediation Collapsed. New Bill republished on 16th July 2019 now completing second mediation	Currently the annual division of revenue allocations Bills (DORB and CARB)are in the process of enactment.	DORB went through Mediation Process

Annex 4: Performance per county in growth of real GCP and proportion of poor households

	County	Real GCP growth in 2017			County	Growth in the proportion of Poor Households in 2017
1	Tharaka Nithi	15.8		1	Tharaka Nithi	-5.6
2	Migori	11.0		2	Siaya	-4.2
3	Busia	10.9		3	Bomet	-3.8
4	Lamu	9.4		4	Baringo	-3.7
5	Mombasa	9.3		5	Murang'a	-3.6
6	Elgeyo/Marakwet	9.0		6	Narok	-3.4
7	Kwale	7.4		7	Makueni	-3.3
8	Kitui	7.3		8	Kakamega	-3.1
9	Nyandarua	7.2		9	Embu	-3.1
10	Nyeri	7.1		10	Taita Taveta	-2.6
11	Bungoma	6.9		11	Machakos	-2.5
12	Siaya	6.0		12	Kisii	-2.5
13	Nairobi	6.0		13	Kitui	-2.5
14	Embu	5.7		14	Nakuru	-2.4
15	Kisii	5.6		15	Turkana	-2.0
16	Isiolo	5.5		16	Migori	-1.9
17	Kilifi	5.4		17	West Pokot	-1.7
18	Kiambu	5.2		18	Tana River	-1.5
19	Machakos	5.0		19	Laikipia	-1.5
20	Marsabit	4.9		20	Elgeyo Marakwet	-1.0
21	Trans Nzoia	4.9		21	Nyandarua	-1.0
22	Nakuru	4.7		22	Marsabit	-0.9
23	Homa Bay	4.4		23	Homa Bay	-0.8
24	Mandera	4.2		24	Mandera	-0.5
25	Baringo	4.2		25	Kwale	-0.3

	County	Real GCP growth in 2017			County	Growth in the proportion of Poor Households in 2017
26	Bomet	4.0		26	Lamu	-0.3
27	Vihiga	4.0		27	Busia	-0.3
28	Narok	4.0		28	Vihiga	-0.2
29	Wajir	3.9		29	Samburu	-0.1
30	Kirinyaga	3.5		30	Kilifi	-0.1
31	Murang'a	3.2		31	Kajiado	0.0
32	Garissa	3.0		32	Meru	0.2
33	Kakamega	2.7		33	Nyeri	0.3
34	Tana River	2.6		34	Kisumu	0.6
35	Taita Taveta	2.4		35	Kericho	1.0
36	Meru	2.4		36	Wajir	1.1
37	Kisumu	2.0		37	Trans Nzoia	1.2
38	Kajiado	1.3		38	Kiambu	1.3
39	Samburu	0.8		39	Uasin Gishu	1.4
40	Turkana	0.7		40	Garissa	1.5
41	Kericho	0.6		41	Isiolo	1.6
42	Laikipia	0.1		42	Nandi	1.6
43	West Pokot	-0.3		43	Mombasa	2.6
44	Uasin Gishu	-0.3		44	Nyamira	3.1
45	Makueni	-1.1		45	Kirinyaga	3.7
46	Nandi	-1.5		46	Bungoma	3.9
47	Nyamira	-3.3		47	Nairobi	7.3

Source: PBO, KNBS

Annex 5: Categories of growth of poor household and real GCP growth

	Category	County
1.	**Low real GCP growth and a reduction in the growth of poor households**	8 counties-Makueni, West Pokot, Laikipia, Taita Taveta, Turkana, Murang'a, Kakamega and Tana River.
2.	**Low real GCP growth and a high growth of poor households**	7 counties-Nyamira, Uasin Gishu, Garissa, Kirinyaga, Kericho, Nandi and Kisumu.
3.	**High real GCP growth and a reduction in the growth of poor households**	9 counties-Tharaka Nithi, Migori, Siaya, Machakos, Kitui, Elgeyo Marakwet, Nakuru,

		Embu and Kisii.
4.	**High real GCP growth and a high growth of poor households**	7 counties-Nairobi, Mombasa, Bungoma, Wajir, Isiolo, Kiambu and Trans Nzoia.
5.	**Moderate real GCP growth and a reduction in the growth of poor households**	16 counties- Baringo, Nyeri, Meru, Kajiado, Kilifi, Samburu, Vihiga, Busia, Lamu, Kwale, Mandera, Homa Bay, Marsabit, Nyandarua, Bomet, Narok

Source: PBO

Annex 6: Summary of County Executives Audit Opinions FY 2013/14 – 2017/18

Ref	County Executive	FY 2017/18	FY 2016/17	FY 2015/16	FY 2014/15	FY 2013/14
1	Baringo	Qualified	Qualified	Qualified	Adverse	Disclaimer
2	Bomet	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
3	Bungoma	Qualified	Qualified	Adverse	Adverse	Adverse
4	Busia	Qualified	Qualified	Qualified	Qualified	Adverse
5	Elgeyo/Marakwet	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
6	Embu	Adverse	Adverse	Adverse	Adverse	Disclaimer
7	Garissa	Qualified	Adverse	Qualified	Adverse	Disclaimer
8	Homa Bay	Adverse	Disclaimer	Disclaimer	Disclaimer	Disclaimer
9	Isiolo	Qualified	Adverse	Adverse	Qualified	Disclaimer
10	Kajiado	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
11	Kakamega	Qualified	Qualified	Adverse	Adverse	Disclaimer
12	Kericho	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
13	Kiambu	Qualified	Qualified	Qualified	Qualified	Disclaimer
14	Kilifi	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer

Ref	County Executive	FY 2017/18	FY 2016/17	FY 2015/16	FY 2014/15	FY 2013/14
15	Kirinyaga	Qualified	Adverse	Qualified	Adverse	Disclaimer
16	Kisii	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
17	Kisumu	Qualified	Adverse	Disclaimer	Disclaimer	Disclaimer
18	Kitui	Qualified	Disclaimer	Disclaimer	Adverse	Adverse
19	Kwale	Qualified	Adverse	Disclaimer	Disclaimer	Disclaimer
20	Laikipia	Qualified	Qualified	Qualified	Adverse	Disclaimer
21	Lamu	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
22	Machakos	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
23	**Makueni**	**Unqualified**	**Qualified**	**Qualified**	**Adverse**	**Disclaimer**
24	Mandera	Qualified	Qualified	Qualified	Adverse	Disclaimer
25	Marsabit	Qualified	Qualified	Adverse	Adverse	Disclaimer
26	Meru	Qualified	Qualified	Adverse	Adverse	Disclaimer
27	Migori	Disclaimer	Disclaimer	Disclaimer	Adverse	Qualified
28	Mombasa	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
29	Muranga	Adverse	Adverse	Disclaimer	Disclaimer	Disclaimer
30	Nairobi City	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
31	Nakuru	Qualified	Qualified	Adverse	Disclaimer	Disclaimer
32	Nandi	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
33	Narok	Qualified	Qualified	Qualified	Qualified	Adverse
34	Nyamira	Qualified	Adverse	Disclaimer	Adverse	Disclaimer
35	**Nyandarua**	**Unqualified**	**Qualified**	**Qualified**	**Adverse**	**Adverse**
36	Nyeri	Qualified	Qualified	Adverse	Disclaimer	Disclaimer
37	Samburu	Qualified	Adverse	Adverse	Disclaimer	Disclaimer
38	Siaya	Qualified	Adverse	Qualified	Adverse	Disclaimer

Ref	County Executive	FY 2017/18	FY 2016/17	FY 2015/16	FY 2014/15	FY 2013/14
39	Taita/Taveta	Adverse	Disclaimer	Disclaimer	Disclaimer	Disclaimer
40	Tana River	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
41	Tharaka-Nithi	Qualified	Adverse	Adverse	Adverse	Disclaimer
42	Trans Nzoia	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
43	Turkana	Qualified	Adverse	Disclaimer	Disclaimer	Disclaimer
44	UasinGishu	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
45	Vihiga	Qualified	Disclaimer	Disclaimer	Disclaimer	Adverse
46	Wajir	Disclaimer	Qualified	Adverse	Qualified	Qualified
47	West Pokot	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer

Annex 7: Bilateral and multilateral debt issuers that will influence CFS expenditures in FY 2019/20 and the medium term (Kshs. Millions)

INSTITUTION / COUNTRY	2018/19	2019/20	2020/21	2021/22
ITALY	1,847	6,355	14,280	19,307
FRANCE	7,615	9,048	10,931	11,581
SPAIN	1,575	2,068	2,099	1,994
EXIM BANK CHINA	8,386	33,570	44,883	70,882
CHINA DEVELOPMENT BANK	1,683	17,561	17,876	17,876
ADB/ADF	2,084	4,626	7,098	8,330
EIB	306	1,965	2,047	2,539
STANDARD CHARTERED - SDY	78,738	-	-	-
DEBUT INT. SVRNG BOND (USD 2.75 BN)	78,303	-	-	-
UNITED KINGDOM	243	62	-	-
CANADA	182	11	-	-
SWITZERLAND	94	-	-	-
AUSTRIA	702	-	53	85

Source: FY 2019/20 Budget Estimates

Annex 8: Pension expenses FY 2017/18 to FY 2020/21 (Kshs. Millions)

CLASS	ITEM	2017/18	2018/19	2019/20	2020/21

ORDINARY PENSION	Monthly Pension - Civil Servants	23,725	26,725	30,725	40,636
	Monthly Pension - Members of Parliament	247	1,747	1,947	2,717
	Monthly Pension - Military	6,345	7,345	10,345	14,570
	Monthly Pension - Retired Presidents	74	74	74	74
	Pensions - Dependents	1,619	2,119	2,669	3,428
	Quarterly Injury - Military	38	38	38	38
	Refund Exgratia and other Service Gratuities	0.12	0.12	0.12	0.12
	Widows and Children - Military	472	852	1,402	2,419
	Widows and Children's Pensions -Civil Servants	1,350	1,970	2,970	4,478
	Total Ordinary Pensions	33,871	40,871	50,170	68,360
COMMUTED PENSION	Gratuity - Civil Servants	28,906	34,558	39,495	41,839
	Gratuity - Members of Parliament	2,856	1,300	1,300	1,300
	Gratuity - Military	6,000	9,261	11,761	12,728
	Gratuity - Retired Presidents	-	-	1,500	2,000
	Total Commuted Pensions	37,762	45,119	54,056	57,867
OTHER PENSION SCHEMES	Refund of Pension to UK Government	150	150	150	150
	Refund of Contributions to WCPS and other Ex-Gratia	112	112	112	112
	Sub-Total other Pension Schemes	262	262	262	262
	TOTAL PENSIONS	71,895	86,252	104,489	126,490

Source: Budget Estimates, FY 2018/19