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Parliamentary Budget Office

EYE ON THE 'BIG FOUR'

Budget Watch for 2018/19 and the Medium Term

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Disclaimer

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11th Edition of the Budget Watch (2018/19)

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Chapter One:

Budget, Economic Policy and Economic Performance

1.1.Budget 2018: A 'big promises' Budget – but we shall know it by its fruits

The 2018/2019 budget is fraught with high expectations and has the unenviable task of delivering on key election promises. Not only is it the first budget to be prepared in the second term of the current administration, but also, it is the budget that will initiate implementation of the Medium-Term Plan III of Vision 2030. The government's strategic agenda over the next five years (2018-2022) is under a banner dubbed, the 'Big Four' plan. The idea behind the big four plan is to implement projects and policies that will accelerate economic growth and transform lives by creating jobs, enabling Kenyans to meet their basic needs, improve health standards, improve living conditions, lower cost of living and reduce poverty and inequality. If properly implemented, the big four agenda has the capacity to enhance the country's economic performance and improve the livelihoods of Kenyans.

The challenge of post-election budgets is that they are typically expected to deliver too much, too soon and can end up being 'broken promise' budgets. In the 2018/2019 budget, the government has initiated a number of key projects that are geared towards supporting value addition and raising the manufacturing sector's share of GDP to 15 percent by 2022; enhancing food security and nutrition security to all Kenyans by 2022; providing universal health coverage to guarantee quality and affordable healthcare to all Kenyans; and providing affordable and decent housing for all Kenyans (at least 500,000 affordable new houses by 2022). These are in addition to the ongoing strategic interventions under the pillars for the economic transformative agenda which the government has been implementing over the last five years. This is an ambitious undertaking that will in all likelihood; encounter a number of challenges during implementation. It is therefore the responsibility of all stakeholders and especially Legislators as the key public finance watchdogs, to ensure that the approved budget remains on track and the key projects therein are implemented as envisaged.

Enhanced budget transparency and good governance is arguably the 'shot in the arm' required that will deflect the 2018/2019 and subsequent budgets towards effectiveness in service delivery. The advantage of the 2018/2019 budget is that it has been prepared during a period of recovery and political goodwill for the economy. The war on corruption intensified in the first half of the year as more than seven corruption scandals were unearthed and are currently under active investigation. Succeeding in the fight against corruption will enhance efficiency in allocation of resources, improved service provision, re-distribution of wealth and attractiveness to foreign investors. Furthermore, the presidential directive that no new projects should be introduced until ongoing ones are finalized is a step in the right direction as it will enable the government to concentrate on finalizing ongoing projects some of which have taken too long to complete. Ordinarily, the development budget faces the most challenges in terms of its implementation and at any given time, there are a number of projects being implemented that encounter numerous challenges and end up taking too long to complete. Rarely, has a project been finalized within the stipulated time line.

Projects under the big four plan are not entirely new; some have been mapped into existing projects and programs and are part of the Medium Term Plan III and ultimately, the Vision 2030. Alignment of policy priorities of government is crucial in ensuring that the general policy direction of the

budget is streamlined and therefore easy to keep track of. It is a useful starting point in terms of monitoring the budget as it can make it easier to keep an eye on those projects in the course of the year that are already in motion and thereby start determining to what extent the big four plan is being implemented. A coherent and well costed project "portfolio" and PIP may be a game changer if the big four plan is to succeed.

1.2.Economic Outlook and domestic growth performance

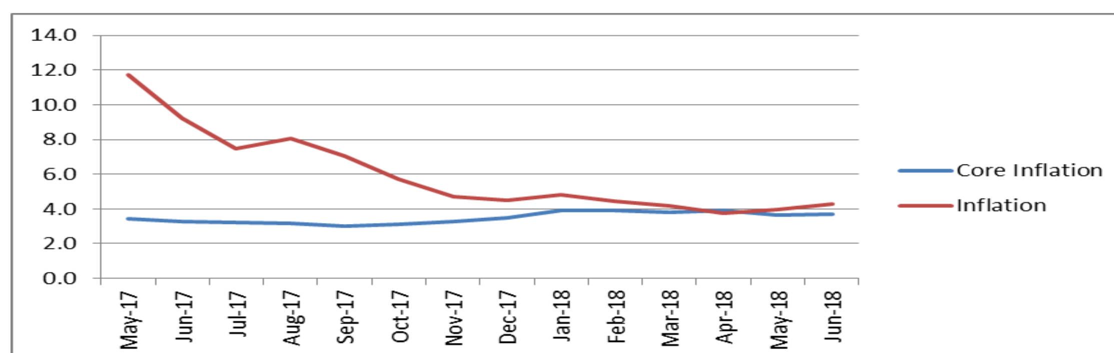
The macro-framework underpinning the 2018/19 budget is premised on a growth projection of 5.8 percent in 2018 and 7 percent over the medium term. This growth will be supported by a rebound in the agricultural sector, ongoing public infrastructural investments, strong manufacturing sector and stability in the macroeconomic environment. However, this outlook faces global and domestic risks such as weather-related risks, low uptake (issuance?) of private sector credit, a shift towards protectionist policies especially among countries that influence the global economy, increase in international crude oil prices among others. Should these risks materialize, the high envisaged growth trajectory for 2018/19 may not be achieved. It is important therefore to keep an eye on these uncertainties and anticipate measures to deal with them, should they occur.

Central to the economic growth and revenue projection of financial year 2018/2019 is stability of key macroeconomic fundamentals. The opportunities and risks surrounding each of these macro variables and other key drivers of economic growth are discussed in the section below:

a) Inflation

Inflation has been low and stable for the better part of 2018 and it is expected that the rate will be maintained within a target of 5 percent (± 2.5) in the FY 2018-19. In the first half of 2018, inflation has been within the desired range. This is mainly supported by low food prices occasioned by the above-normal rainfall. Core inflation rose slightly but remained below 5 percent indicating that demand driven inflationary pressures are muted. However, despite the relatively low inflation levels, fuel and transport prices have been on an upward trend. This could be attributed to increased international crude oil prices which has affected oil prices in Kenya. Crude oil prices are on the rise after OPEC and Non-OPEC Countries agreed to extend production cuts through 2018 so as to drive up prices; as well as due to geopolitics especially in the Middle East. Latest statistics indicate that the price of Murban crude oil increased from $ 70.97 per barrel in April 2018 to $76.71 per barrel in May 2018. OPEC countries agreed to increase production by 600,000 barrels per day in the second half of 2018 but the lost supplies from collapsing production in Venezuela as well as Iran as a result of the US Sanctions could tighten the oil market more. Crude oil prices therefore seem likely to remain high in the remainder of 2018.

Figure 1: Trends in core inflation and overall inflation May 2017 - June 2018



Source: KNBS, 2018

Table 1: Contribution to Monthly Average Inflation (Nov 2017 - June 2018)

Category	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Food & Nonalcoholic Beverages	45.9	38.5	35.7	30.7	17.8	2.1	2.64	6.52
Alcoholic Beverages, Tobacco & Narcotics	1.4	1.4	1.3	1.4	1.2	1.3	1.00	1.15
Clothing & Footwear	4.8	5.0	5.6	6.3	6.4	7.9	6.83	6.23
Housing, Water, Electricity, Gas and Other Fuels	21.2	21.4	22.1	23.4	37.0	49.5	54.12	52.11
Furnishings, Household Equipment and Routine Household Maintenance	4.1	4.6	4.7	5.9	5.9	6.5	5.98	5.74
Health	3.0	3.5	2.8	2.3	2.3	2.5	2.68	2.65
Transport	7.3	11.5	12.4	13.4	12.9	13.9	13.08	13.00
Communication	0.4	0.5	0.5	0.7	0.7	0.7	0.67	0.65
Recreation & Culture	0.5	0.8	0.8	0.8	0.7	0.7	0.74	0.69
Education	2.2	2.3	3.6	3.6	3.6	3.7	3.43	3.22
Restaurants & Hotels	5.8	6.8	6.6	6.9	6.7	6.2	4.75	4.29
Miscellaneous Goods & Services	3.6	3.7	3.9	4.6	4.7	4.9	4.08	3.74
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: PBO, KNBS

Going forward, the housing, water, electricity, gas and other fuels index appears to hold the highest risk factor for inflation. Firstly, the recent revision of electricity tariffs by the energy regulatory commission has increased the cost of electricity significantly for a large section of domestic consumers particularly those consuming 11-1500KWh. Domestic consumers who consume less than 10 Kwh per month will also see an increase in their electricity charges from Kshs.2.5 per Kwh to Kshs.12 per Kwh. This significant rise shall affect an estimated 3.6 million Kenyans. On the other hand, domestic consumers who consume more than 1500 Kwh will benefit from lower electricity tariffs from Kshs. 20.57per Kwh to Kshs.15.8 per Kwh. this benefit has also been extended to commercial consumers as their electricity costs will decrease from an average of Kshs. 21.74 per Kwh to Kshs 20.71 per Kwh. In addition, industrial consumers are expected to benefit from the 50 per cent discount in off-peak tariffs, and the proposed Special Economic Zone tariff. This is meant to support the manufacturing industry. It should be noted that these tariffs do not take into account other charges such as fuel cost adjustment, foreign exchange fluctuation adjustment, inflation, ERC levy among others which also feed into the overall cost of electricity.

Table 2: Energy Tariffs effective as at August 2018

Customer Type	Energy Limit (Kshs/Kwh)	No. of Customers	2015/16 to date Approved	2018/19 ERC Approved
Domestic	0-10	3,633,720	2.5	12
	11-50	2,544,808	2.5	15.8
	51-1500		12.75	15.8
	>1500		20.57	15.8
Small Commercial	0-15,000	3,096	25.08	21.95
Medium Commercial/ Industrial	No limit	381	18.77	17.05
Commercial /Industrial	No limit	53	21.74	20.71

Source: ERC, 2018

The proposal to implement, VAT on petroleum products in September 2018 failed to garner support in Parliament and has been postponed by another two years. but perhaps what should be considered in the meantime before the two years elapse is the design of the VAT proposal. Reports indicate that taxes and levies account for a significant portion (33 – 40%) of fuel prices in Kenya. The coming into effect of petroleum VAT at any point in time will invariably lead to even higher oil prices. The prices of other products are also likely to go up due to increased production costs related to higher energy costs. If there is a reduction in crude oil prices, the benefit may only be felt slightly. The concern however is that should crude oil prices increase significantly, then the increase in fuel prices in Kenya will be very high. There seems to be no mechanism to counter or re-align the tax rate in order to protect the consumer in case such a major change occurs. The government should be ready to protect consumers in the event of such an occurrence.

Secondly, it is proposed that the excise duty specific tax rate on kerosene be increased from Ksh. 7.205 per litre to Ksh. 10.305 per litre. Kerosene is mostly consumed by low income households and this proposal is likely to greatly disadvantage low income households. Going forward, there should be measures to protect low income households from the impact of these taxes.

Thirdly, as earlier indicated, the projected cost of crude oil prices is likely to go up on account of various dynamics among the oil producing countries.

Keep an eye on:

- **International Crude Oil Prices**: The ongoing global tensions especially between Iran and USA may spike prices of international crude oil prices. This may push inflation up as transport and other related costs may rise.
- **Electricity prices:** The new energy tariffs that will commence as August 2018 will see households to pay Kshs. 12 per unit from the current 2.50 per unit. The subsidized electricity which was initially capped at 50 KWH/ units has been reduced to 15 units only. A section of manufacturers may experience higher production costs even though for some, this may be lower.
- **The impact of taxes on the low income consumer:** one of the proposed revenue raising measures under excise duty is to increase the specific tax rate of Kerosene from 7.205 per litre to

Ksh. 10.305 per litre ostensibly to discourage fuel adulteration using Kerosene. Low income consumers use kerosene as their primary source of fuel for lighting as well as cooking. Indeed with the environmental concerns on forests the price of alternative fuels particulary for cooking have increased. The application of excise duty on kerosene is likely to have a particularly devastating impact on this low income segment. The option of using alternative sources of fuel such as electricity and cooking gas may be a challenge given the relatively high cost of these commodities. ***Has the government put in place to protect the poor consumers and ensure fairness and equity in taxation?***

b) External Sector

The current account balance has improved significantly over the past few months; from 6.7 percent of GDP in 2017 (annual average) to 5.8[1] percent in the 12 months to June 2018. This was largely on account of improvements in the trade balance with the country earning more from exports and tourism. In the first half of 2018, there was an increase in export earnings from the country's main agricultural export products namely coffee, tea and horticulture; attributed to increased production of tea and horticulture on account of improved rainfall performance. By end of May, 2018, tea exports had increased by 20,974 tonnes while Horticulture exports increased by 6,936.7 tonnes. It should be noted however that the average tea prices for the period was lower at Kshs. 284.3[2] per kilo compared to Kshs. 306.9 per Kilo for the same quantity in the corresponding period of 2017.

Figure 2: Volume of Selected Agricultural Products

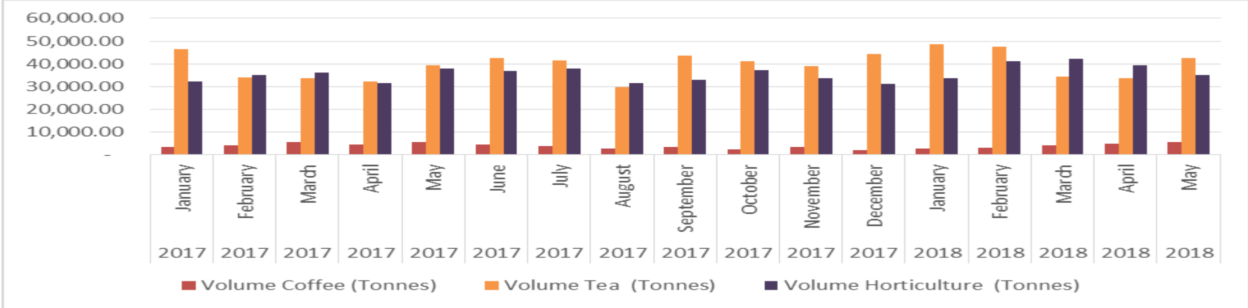
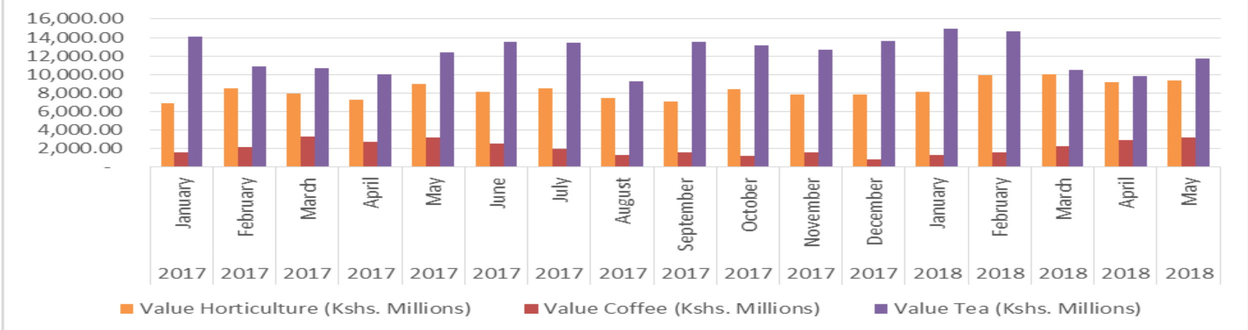


Figure 3: Value of Selected Agricultural Products



Data Source: KNBS, 2018

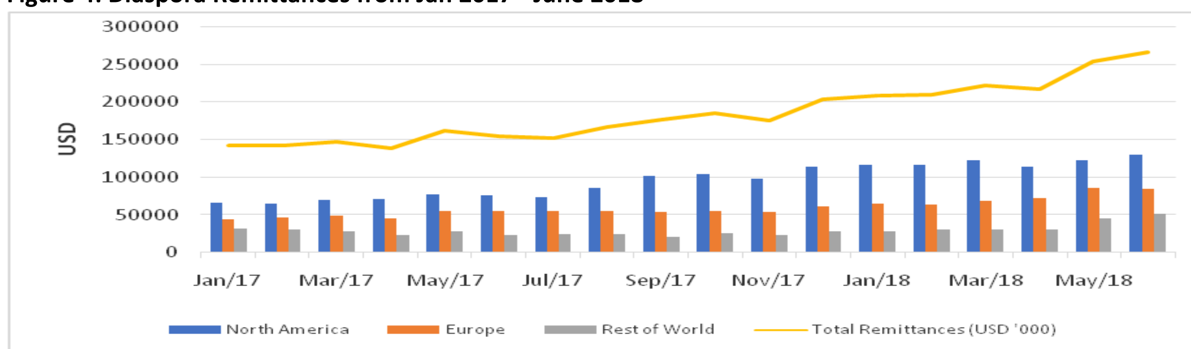
[1] **MPC Press Release JULY, 2018**

[2] **Leading Economic Indicators May, 2018**

Tourism earnings have been on a positive trend supported by continued investments in the country and policies that promote movement of people such as visa-on-arrival for Africans. Latest statistics from KNBS indicate that in the first half of 2018, tourist arrivals were recorded at 443,950 by end of June 2018 compared to 439,807 in the same period of 2017; denoting an increase of 4,143[3]. Going forward, it is estimated that tourist earnings will be Kshs. 204.6[4] billion for 2018 as the country is expected to attract 1.37 million international tourist arrivals. In 2017, the Tourism sector attracted Kshs. 89.4 billion[5] and this is expected to rise by 7.1 percent in 2018.

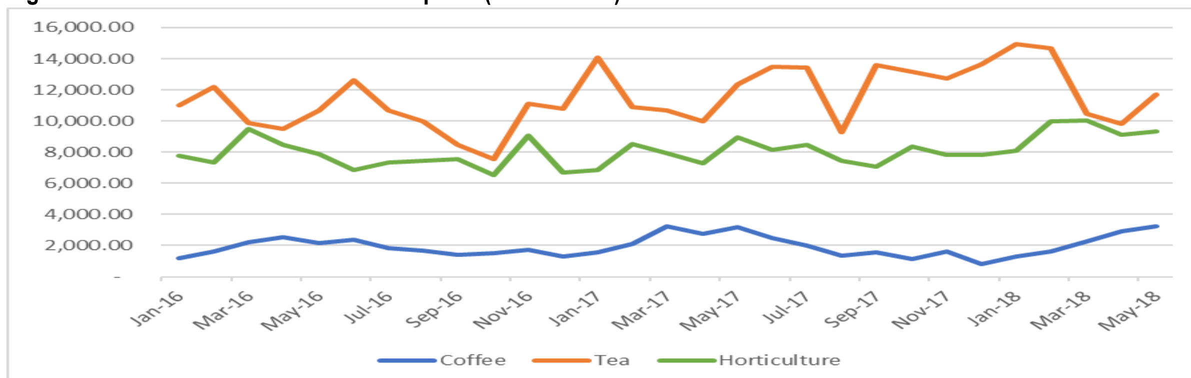
Diaspora remittances also played a significant role in shoring up the current account balance. Remittances have been on the rise in the first half of 2018, growing at an average of 5 percent per month. At the end of June 2018, they were estimated at 266 million US dollars up from 142.4 million US dollars in December, 2017. This trend is attributed to recovery of the global economy which has led to increased money repatriation from Kenyans living abroad. In addition, foreign currency deposits are on the rise and stood at USD 514[6] million in May 2018. This may have been occasioned by the tax amnesty program, which ends on 30th June 2019. The build-up in foreign currency holdings has cushioned Kenya's shilling from pressures of rising import bill as banks have more forex reserves to transact internationally.

Figure 4: Diaspora Remittances from Jan 2017 - June 2018



Source: KNBS

Figure 5: Value of Selected Domestic Exports (Ksh. Million)

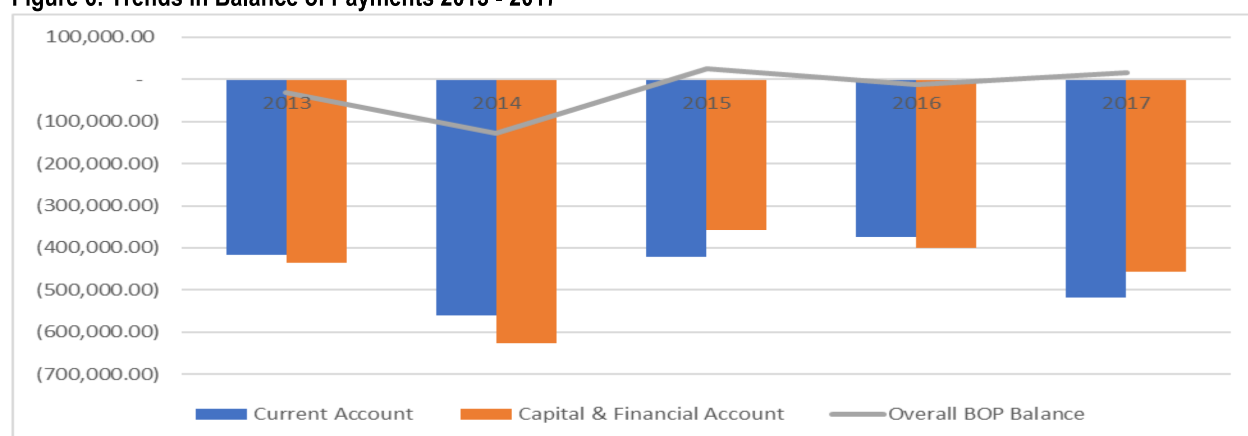


Source: KNBS, 2018

[3] **Leading Economic Indicators June, 2018**
[4] **Travel & Tourism Economic Impact 2018, Kenya**
[5] **Travel & Tourism Economic Impact 2018, Kenya**
[6] **Leading Economic Indicators, May 2018**

The capital and financial account performed well in the first half of 2018, supported by inflows from loans. Flows in the financial account increased as a result of the deposit of USD 1.78 Billion of Euro Bond funds. Conversely, Foreign Direct Investments and other investments have been on the decline from USD 672 million in December, 2017 to USD 6087 million in April 2018. In addition, other investment inflows which mainly include foreign financing for government infrastructure projects have decreased by more than 16 percent to stand at USD 4,109 million. Capital inflows are on a positive trajectory since the beginning of the year, rising to USD 230.2 million as at April 2018. This may have been occasioned by acquisition of non- financial transfers by embassies such as land and increased capital transfers.

Figure 6: Trends in Balance of Payments 2013 - 2017



Source: KNBS

A favourable external position has contributed to stability of the exchange rate. The Kenya shilling is also being supported by forex reserves of USD 8.7 billion (equivalent to 5.8 months of import cover) as at end of June 2018 and the USD 989.8 million precautionary facility by the IMF, still available until September 2018. Going forward, the shilling may come under pressure from tightening of financial conditions especially in the USA due to fed rate hike, growing trade tensions around the world and waning support for economic intergration as recently seen in Europe. In the domestic scene, a high import bill due to high crude oil prices as well as retiring of maturing debts may negatively impact the country's foreign exchange reserve that cushions the shilling.

Keep an eye on:

- **Export Products and Export Market:** Increased export earnings improve the current account balance. In addition to the traditional export products namely coffee, tea and horticulture, there is need to diversify the country's export portfolio as well as market destinations…
- **Foreign Direct Investments**: Foreign Direct Investments growth can be achieved by formulating policies that attract foreign investments such as tax incentives, transfer of technology and movement of labor.

c) Interest Rates

T-Bill Interest rates have remained fairly low and stable as banks lend mostly to government. The 91- Treasury bill rate has been on a downward trend, averaging 8.01 percent in 2017 from 9.52 percent in 2013. At the end of July, 2018, the 91- treasury bills rate fell to 7.6 percent. This decline is mainly occasioned by over- subscription in the domestic market. Since the enforcement of the interest capping law, banks have become more 'cautious' lenders to the private sector and prefer government securities which are regarded as 'risk free'.

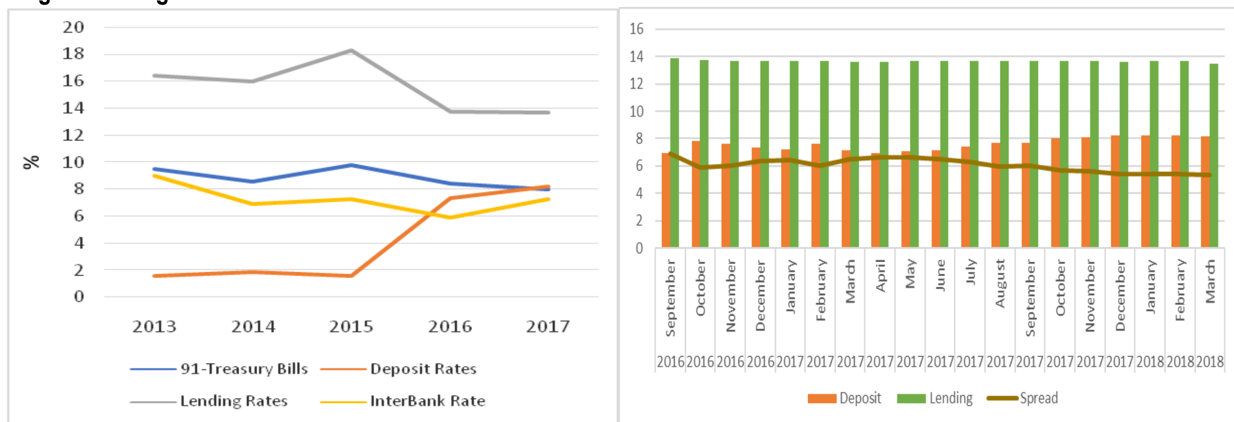
Authorities are pursuing expansionary monetary policy to stimulate private sector credit growth but the gains are yet to be seen. In March 2018, the Central Bank lowered the Central Bank (CBR) rate from 10 percent to 9.5 percent, denoting an expansionary monetary policy stance aimed at enhancing credit expansion to the private sector. This was the first time the Central Bank was lowering the CBR following implementation of the interest rate capping law. In July 2018, the CBR was reduced further to 9.0 percent. However, the benefits of these reductions are yet to be seen as banks remain cautious about lending to the private sector.

Going forward, ongoing discussions surrounding restructuring of the interest rate capping law should be in such a way that will unlock credit access by the private sector while at the same time protecting consumers from extremely high lending rates which necessitated interest rate capping in the first instance.

The increase on average interest rates on deposits narrowed the interest spread to 5.33 per cent in March 2018. Currently, the deposit rate has risen to its current rate of 8.16 percent while the lending rate has declined to 13.49 percent as at March, 2018. The capping of interest rates has been able to narrow the interest spread however there is a low uptake of loans by the private sector as highlighted above.

In the last five years, the interbank rate has had mixed performance, from 2013 to 2016, the interbank was on a downward trend from 8.98 percent to 5.92 percent, however in 2017, the interbank rate rose to stand at 7.27 percent. The rise indicates tight liquidity in the market. This may have been occasioned expenditure pressures occasioned by prolonged electioneering period and drought. Going forward, liquidity in the market is expected to be balanced as their no unforeseen expenditure pressures.

Figure 7: Weighted Commercial Interest Rates 2013 - 2018



Source: CBK

Keep an eye on:

- **Private Sector Credit performance**: Under the current interest capping regime, the growth of private sector credit has averaged less than 4 percent with a peak witnessed in December 2017 at 3.9 percent. To increase credit availability, In March, 2018[7], the Central Bank Rate was lowered by 100 basis points to stand at 9.5 percent. However, growth in private sector credit is still not within the desired range of above 10 percent[8]. Banks are still not lending much to Small & Medium Enterprises (SMEs) due to the credit risks involved. The small and medium enterprises have borne the greatest impact of the interest rate capping law. According to Kenya Bankers Association survey, lending by commercial banks to Micro, Small and Medium Enterprises (MSMEs) stood at 23.4 percent in 2015 but had declined to 17 percent in 2016. This has a negative impact on the economic growth of the country. There is evidence that suggests rationing of credit to private sector by commercial banks led to decline in economic growth by 0.4 percentage points in 2017 (CBK, 2018). It remains to be seen, how the lowering of the CBR further to 9 percent will impact on private sector credit performance.
- **Dynamics of interest capping law**: there have been proposals in the past to review the interest capping law due to some perceived challenges notably the declining private sector credit. In this regard, Legislators have reviewed the capping law and removed the deposit floor to allow a wider margin for banks to fix their lending rates. Going forward, the impact of this new proposal on private sector credit performance and monetary policy will be continuously monitored and assessed**.**
- **Level of domestic borrowing**: the more the government borrows from the domestic market, the less likely it will be for the private sector to access credit. Government limiting domestic borrowing will free up resources from commercial banks for lending to the private sector. Importantly pressure for additional spending in the course of the financial year should not be allowed as it lead to further escalation of the deficit which will eventually be financed through borrowing.

[7] **Monetary Policy Statement, 2018, Central Bank of Kenya**

[8] **MPC Markets Perceptions Survey, March 2018**

Chapter Two:

Economic Effects of the Budget: Eye on the ‘Big Four’

2.1.The 'Big Four' Agenda: a panacea for economic growth?

The thrust of the 2018/2019 budget is "*creating jobs, transforming lives for shared prosperity*"- a commitment that is expected to reverberate throughout the next four budget cycles as the current administration continues to implement its election promises. This budget builds on the progress made under the Economic Transformation Agenda implemented over the past five years and is anchored on the Big Four plan through which the government targets to support value addition and raise the manufacturing sector's share of GDP to 15 percent by 2022; focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022; provide Universal Health Coverage and guarantee quality and affordable health care to all Kenyans; and provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022.

Though the Big Four agenda portends great benefits for the economy, it may not necessarily be the silver bullet that will propel the economy to higher growth and development. The magnitude of the big four plan's impact on economic growth and social development will depend on how effectively and efficiently the projects are implemented. Kenya continues to face challenges in effectively implementing its development budget. Rarely, has a development project been initiated, well executed and finalized within the stipulated time frame. Many development projects get their budgets reduced during the supplementary budget process for various reasons, most commonly, poor absorption of funds. This may stem from poor planning, lack of preparedness and general capacity challenges during project implementation. Many times, the reasons for poor absorption are not very clear or well articulated. As such, the development budget continues to suffer setbacks which are never addressed in the next budget cycle.

The success of the Big Four plan will largely depend on a successful partnership between the National government and the county governments. The big four plan is essentially an agenda for counties. This is because at least two of the four pillars – quality and affordable healthcare as well as agriculture and food security - are devolved functions. However, it is not clear to what extent the counties have aligned their budgets to the big four agenda or if they even intend to do so. Indeed, some counties may not view the agenda as their primary objective. A critical review of the link between county budgeting and the big four agenda is provided in chapter four. In overall terms however there appears to be no clear collaborative framework between the national and county governments for implementation of strategic government projects. Authorities must ensure that any gaps relating to policy articulation, financing, skills and any other area at the county level are addressed urgently by the national government. There is also need for continuous consultation between national and county governments on progress of big four related projects being implemented at the county level.

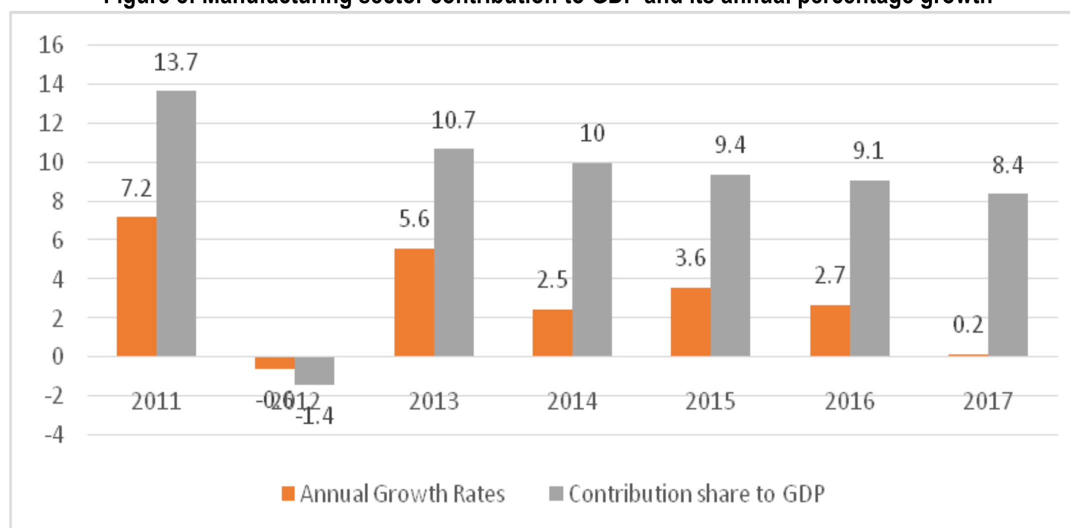
Some of the big four related projects are not new and will require critical focus as they were already experiencing implementation challenges. A number of projects particularly under manufacturing and Agriculture sectors were already in the process of being implemented at the time of preparation of the big four plan. Examples include the Kenanie Leather Industrial Park which was started in 2014/15, modernization of Rivatex which was started in 2014, Athi River Textile Hub which was started in 2016 as well as various irrigation projects. These projects have encountered various challenges since they were started and continue to experience budgetary shortfalls and other concerns pertaining to location, capacity and viability which ideally should've been addressed at the project planning stage.

2.2.The Four Pillars of the Agenda: a critical Review

Pillar 1: Manufacturing

The manufacturing sector is crucial for the achievement of Vision 2030 and is arguably the most important for job creation because of its strong forward and backward linkages with other sectors in the economy. The sector mainly produces agro-processing products, textiles, leather, construction materials and machinery. It is largely dominated by Micro and Small Enterprises (MSE) that are characterized by low skilled jobs. The sector's contribution to GDP over the last five years has been on a downward trend. In 2013, the sector contributed 10.7 percent of GDP but this has declined progressively to 8.4 percent as at 2017. The sector's real value added rose by a paltry 0.2 percent in 2017 compared to a growth of 5.6 per cent in 2013.

Figure 8: Manufacturing sector contribution to GDP and its annual percentage growth

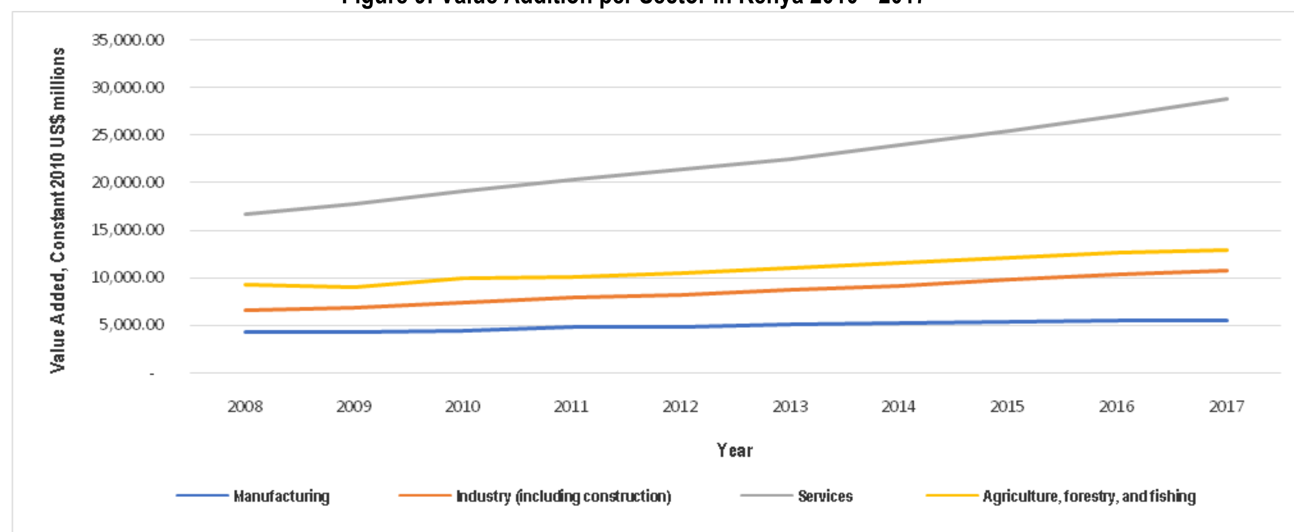


Source: KNBS

Value addition for manufacturing sector has stagnated for more than a decade. As illustrated in figure 13, manufacturing value addition lags at approximately USD 5 billion and there is very minimal growth. This could explain why Kenya is losing its competitiveness in the international trade. Indeed, the country appears to be losing its market share within the East African Community. Kenya has occupied a dominant position in supplying the region with manufactured goods with Uganda as the largest trade partner. Lately, that seems to have changed as Kenya's manufactured exports to the region have shrunk considerably. In 2017 exports to Uganda and Tanzania dropped by 5.4 percent and 29.5[9] percent respectively as compared to 2013. This drop is attributed to affordable imports from the Far East. In the recent past, many Manufacturing companies such as Procter and Gamble and Reckitt Benckiser have relocated from Kenya to other regions citing high cost of doing business. This may have been occasioned by high cost of inputs such as labour and electricity.

[9] **Economic Survey, 2018**

Figure 9: Value Addition per Sector in Kenya 2010 - 2017



Source: World Bank

To ensure that the objective of expanding the sector's contribution to economic growth is realized, there is need to focus on the following key result areas; acquisition of appropriate skills, providing tax incentives, cutting down electricity costs and bring down costs of raw materials. Lastly, there is need to constantly improve infrastructure such as reliable water and electricity that sustain and increase the competitiveness of locally manufactured goods against cheap imports.

Through various projects under the Big Four Agenda, the country aspires to enhance the sector's contribution to GDP to 15% by the year 2022. To promote manufacturing the 2018/2019 budget has set aside funds for the following key projects:

Table 3: Key projects identified under manufacturing sector in the 2018 - 19 budget

Name of the Project	Start Date	Completion Date	2017/2018	2018/19	Amount Expended (Kshs. Million)	Total Cost (Kshs. Million)	Completion Rate
Leather Industrial Park Development Kenanie leather factory	July 2016	June 2021	800	400	600	4,800	**12%**
Textile Development EPZA hub	2016	2021	800	400	1,325	7,568	**40%**
Modernization of RIVATEX	2014	2019	450	730(GoK) 604(Foreign)	375	2,119	**45%**
Modernization of New KCC	2015	2019	250	200	100	1,565	**50%**

Name of the Project	Start Date	Completion Date	2017/2018	2018/19	Amount Expended (Kshs. Million)	Total Cost (Kshs. Million)	Completion Rate
Cotton Development (Rivatex) Subsidy and Extension Support	2018	2022	-	100	-	12,200	**New project**
Construction of SMEs manufacturing centres	2016	-	196.4	300	-	21,500	**-**

Source: National Treasury

As earlier indicated, the key big four manufacturing projects in the 2018/19 budget - Kenanie Leather Industrial Park, modernization of Rivatex, Athi River Textile Hub - are ongoing projects and were already experiencing implementation challenges. The pace of implementation for these projects has been lower than expected with inadequate funding and budgetary cuts cited as the main reason. As a result, Kinanie Leather Park has been slow to attract investors. The role of the government in this project was to provide land (which it has) as well as the necessary infrastructures (which it hasn't). Arguably, the most critical infrastructure that is yet to be set up in the park is the common effluent treatment plant. This is a costly venture but the main attraction in the park for investors as it will greatly reduce tannery costs enabling leather firms to engage in some value addition. Other key elements include the development of link roads and water supply boreholes. At the beginning of this budget cycle, the facility was only 12% complete. Given the financing challenges, the Leather Park may benefit from a Public Private Partnership for it to fully take off. On the other hand, the Athi River Textile Hub, EPZA and modernization of Rivatex projects have made great strides and are at 80% and 60% completion rates respectively but budgetary shortfalls may delay finalization. It is not clear why the industry sector routinely experiences budget cuts during the supplementary budget process. Members should keep a close eye on exchequer issues and the pace of implementation of these projects within the year and critically review any budget cuts. It is imperative for any prevailing challenges to be expressly dealt with and for these projects to be concluded as soon as possible otherwise the country will continue to experience delayed returns on investment.

Keep an Eye On:

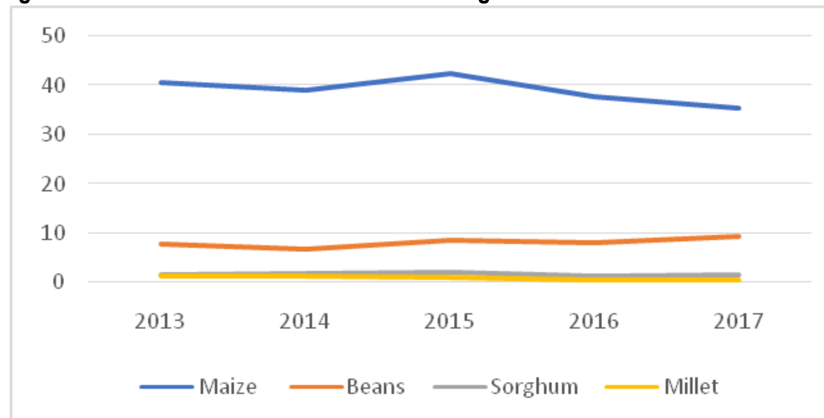
- **Budget cuts in the supplementary budget –** Key manufacturing projects have routinely faced budget cuts in the past with no clear explanation. Any expenditure adjustments should have sufficient reason with clear plan on how any prevailing challenge will be mitigated.
- **Key Performance Indicators –** each project has some specific targets for the current financial year. Kinanie Leather Park is in the process of setting up a common effluent treatment plant, Rivatex modernization programme is working towards finalizing upgrading of machinery in the spinning, weaving and finishing sections and the Athi River Textile hub is looking at finalizing construction of units, road works and water reticulation supply. Members should keep an eye on these specific targets to ensure the development works are on course.

- **Pace of implementation of new projects –**The new projects under manufacturing include development of SEZ Textile Park in Naivasha, Establishment of Kajiado Leather Manufacturing Facility as well as the Cotton Development-Subsidy and Extension Support. These should be critically reviewed in every quarter and measures undertaken to ensure the budget plan is followed.
- Fast tracking implementation of Special Economic Zones (SEZ) especially those with strong linkages to other sectors and harmonize and rationalize taxes between EPZ, SEZ and local manufacturers so as to promote trade.
- Marketing of the Kenyan brand in various market destinations to increase market access and increase market access and to boost exports.

Pillar 2: Food Security

Agricultural performance is expected to improve significantly in 2018 and has been cited as a key driver of economic growth due to strategic interventions in the 2018/2019 budget. The importance of the agricultural sector to the economy cannot be gainsaid. As of 2017, the sector accounted for 31.5 percent of the country's GDP, 75 percent of the labour force and over 50 percent of total revenue from exports. However, over the last five years, agricultural sector growth has been on a downward trend from 5.4 percent in 2013 to 1.6 percent in 2017. Indeed, food production in the country has been declining in the last five years. Notably, the production of Maize - Kenya's staple food - has decreased from 40.7 million bags in 2013 to an estimated 35.8 million bags in 2017; significantly lower than the national consumption of 45 million bags per annum (MOA, 2016). The decline in food production may be occasioned by a number of factors, such as drought, limited agricultural land expansion, low and declining soil fertility, inadequate use of quality seeds, delayed supply, high fertilizer cost and Pests such as the Fall Army Worms.

Figure 10: estimated Production of Selected Agricultural Commodities 2013 - 2017



Source: KNBS

According to the global food security index of 2017, Kenya is food insecure and was ranked position 86 out of 113 countries. The survey was based on affordability, availability, quality and safety of food. A snap review of Kenya's food balance sheet shows that Kenya imports most of the basic food commodities including wheat, Maize, Rice, Beans, Potatoes, sugar and Milk. Imports contributed 25% of

the key grains consumed in 2010 and this increased to 32% in 2015 and was projected to reach 36% in 2016. There is need for proper policy and strategic interventions with a view to mitigating the challenges the sector faces. These include pre- and post-harvest crop losses, inadequate research-extension- farmer linkages to increase agricultural productivity, lack of mechanized methods of production as well as high costs and adulterated farm input like fertilizer, seeds, pesticides and vaccines.

Table 4: production and imports of selected grains (Maize, wheat, rice & beans) in tonnes

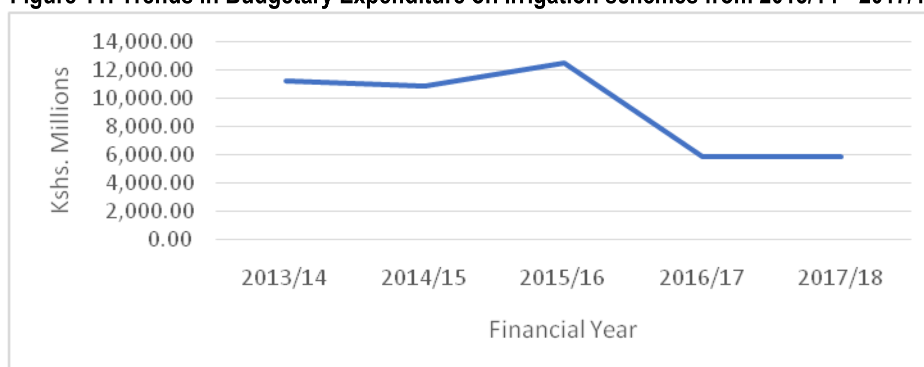
Year	Key Grain Production (tons)	Key Grain Imports (tons)	Total Consumption	% of imports
2010	4,152,200	1,360,713	5,512,913	25%
2011	3,887,900	1,696,948	5,584,848	30%
2012	4,694,700	1,769,121	6,463,821	27%
2013	4,707,500	1,536,149	6,243,649	25%
2014	4,460,900	2,143,805	6,604,705	32%
2015	4,847,600	2,330,742	7,178,342	32%
2016	4,669,580	2,621,404	7,290,984	36%
2017*	4,278,398	3,899,000	8,218,213	47%

Source: KNBS, MoAL&F, PBO

To achieve food security and proper nutrition for all Kenyans, the government targets to increase production of maize from 40 million 90 kg bags annually to 67 million bags by 2022; rice from around 125,000 metric tonnes currently to 400000 metric tonnes by 2022 and potatoes from the current 1.6 million tonnes to about 2.5 MT by 2022. In the 2018/2019 budget, Ksh. 17.9 billion has been allocated for ongoing irrigation projects countrywide with a view to transforming agriculture from subsistence to productive commercial farming.

Due to the strategic importance of maize as the country's staple food as well as rice, there are key interventions in the 2018/2019 budget geared towards enhancing the national grain reserves. Currently, there are eight large-scale irrigation schemes in progress, Galana Kulalu, Mwea, Bura, West Kano, Perkerra, Tana, Bunyala and Ahero irrigation schemes. It is estimated that in total, there are 125,000 hectares currently under irrigation in the country. Some of these irrigation schemes were initiated in the post independence period and have therefore been ongoing for a long time. Many others have been initiated within the last ten years. Over the last five years, the country has spent Ksh. 46.5 billion cumulatively on irrigation schemes alone. However, despite these interventions, grain production continues to perform dismally. Vision 2030 flagship projects such as Galana Kulalu which were envisioned to produce 300,000 tons of Maize continue to produce below the desired level. Some of the challenges experienced by irrigation schemes include low budgetary allocations, unreliable water supply, problems with water pumping, mismanagement and generally poor returns. It should be noted that Agriculture is a devolved function and this may explain the drop in allocation of resources. Any interventions to improve agricultural performance therefore should be carried out in collaboration with the county governments.

Figure 11: Trends in Budgetary Expenditure on Irrigation schemes from 2013/14 - 2017/18



Data Source: KNBS

In the current financial year, the government has allocated funds for various irrigation schemes as well as other projects geared towards enhancing food security as shown in table 3 below:

Table 5: key projects and outputs identified in the 2018-19 budget estimates for Agricultural Production

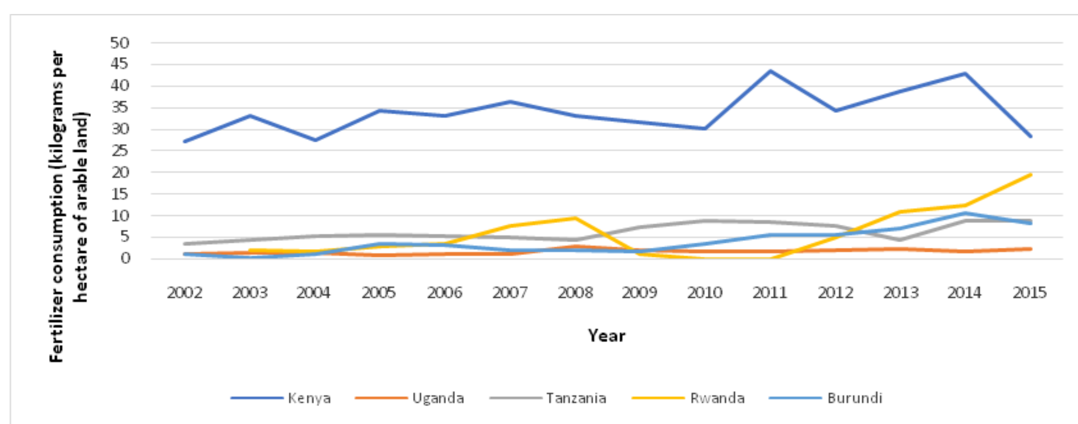
Name of the Project	Start Date	Completion Date	2017/2018(Kshs. Million)	2018/2019(Kshs. Million)	Amt Expended (Kshs. Million)	Total Cost	Current Output	Key Outputs for 2018/19
Galana Kulalu Irrigation project	August, 2014	July, 2019	1,061	615	2,556	8,680	5,145 acres planted. 118,323 (90 kgs bags)	7,250 acres planted. 243 tons of Maize and 358 tons of Rice
Bura Irrigation Rehabilitation Project	May, 2013	July, 2020	869	1,269	1,312	7,356	3,500 acres under irrigation.	8,000 acres planted; 10,000 tons seed maize.
Mwea Irrigation Development Project (Thiba)	2011	2021	2,114	1,550	3,615	19,966	22,000 acres under irrigation 59,291 tons of paddy	30 percent completion of Thiba dam. 25,000 acres; 120,000 tons of paddy.
National Expanded Irrigation Programme	July, 2010	June, 2021	2,205	2,355	11,429	114,000		7,250 acres; 243 tons maize, and 358 tons rice.
Fertilizer Subsidy	June, 2008	May 2030	4,130	4,300	28,000	42,500	Subsidized 531,481 MT of subsidized fertilizers to 2.3 million farmers	Purchase of 168,480 MT of subsidized fertilizers 210,000 farmers as beneficiaries

Fall Amy Worm Mitigation Measures	March, 2017		325	300	100	1,500	Reduced fall army worm infestation	3 pest surveillances conducted
Thwake multipurpose water development programme phase1	2015	2021	5,061	2,625(GoK) 5369 (Foreign)	-	42,363	-	Construction to begin in 2018

Source: National Treasury, National Irrigation Board

Provision of fertilizer subsidy is another key budgetary intervention that is geared towards enhancing food security. Within East Africa, Kenyan farmers use the highest fertilizer consumption per hectare (Fig. 3) yet the country's food production continues to remain low. With an increase in world fertilizer prices in 2007, the government intervened by introducing fertilizer subsidies so as to increase usage especially by small scale farmers. To date, the government has supplied more than 531, 481 MT of subsidized fertilizers to more than 2.3 million farmers. Though this led to increased use of fertilizers in Kenya, crop yield has not improved significantly. One of the major challenges facing fertilizer use in the country is unreliable distribution and supply mechanisms. There have been anecdotal reports of delay of fertilizers reaching the farmers especially during planting season which then compromises usage. Some farmers report not getting the fertilizers at all whereas in some cases, it is suspected that the fertilizer distributed could be of poor quality.

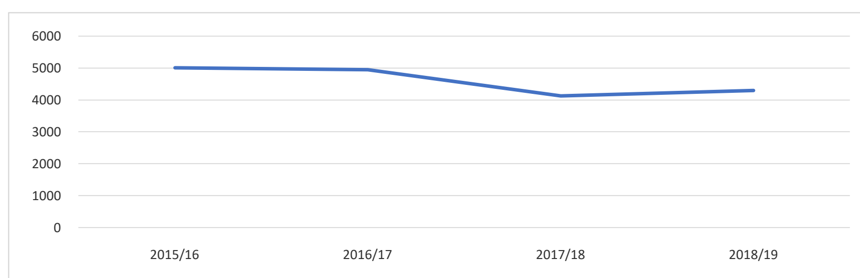
Figure 12: Trends in Fertilizer Consumption within EAC from 2002 - 2015



Source: World Bank

In the current financial year, the government intends to spend Kshs 4.3 billion to buy 168,480 MT of subsidized fertilizers which will benefit 210,000 farmers within seven selected counties.

Figure 13: Budgetary Allocations to Fertilizer Subsidy Programme 2015/16 - 2018/19



Source: KNBS

Other key agriculture interventions in the 2018/2019 budget include the Kenya cereal enhancement programme, crop insurance, crop diversification, mechanization of agricultural development and fall army worm mitigation.

Keep an eye on:

- In year budget revisions that may divert money from the irrigation projects, fertilizer subsidy allocations.
- Policies on water use and management in the irrigation schemes to ensure water is available for irrigation throughout the year.
- Progress on construction of water storage facilities in the irrigation schemes.
- Progress on provision of supporting amenities to irrigation such as electricity as well as improving the road network.
- Other costs that may affect viability of irrigation projects such as water pumping costs.
- Supply and distribution mechanisms of fertilizer provision including who the targeted farmers are and their locations as well as timelines of distribution.

Pillar 3: Universal Health Coverage

To address inequality of access to healthcare and improve health outcomes, the government targets to achieve 100 percent universal health coverage (UHC) by the year 2022 through scaling up National Hospital Insurance Fund (NHIF) uptake.

According to the World Health Organization (WHO)[10], UHC means that all people and communities can use the promotive, preventive, curative, rehabilitative and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose the user to financial hardship. The WHO definition of UHC embodies three related objectives namely: Equity in access to health services - everyone who needs services should get them, not only those who can pay for them;

[10] http://www.who.int/health_financing/universal_coverage_definition/en/

The quality of health services should be good enough to improve the health of those receiving services; and People should be protected against financial-risk, ensuring that the cost of using services does not put people at risk of financial harm.

The proposed initiatives towards the realization of UHC agenda for Kenya include: Driving NHIF uptake through enlisting 37,000 banking sector agent network, leveraging on self-help groups and religious groups for advocacy; Enlisting 100,000 Community Health Volunteers to each recruit 20 households; Expansion of the 'Linda Mama' programme to mission hospitals; Legal reforms to align NHIF with the UHC; Adopt new health care financing models that include gradual increment of budgetary allocation to health from 7percent in 2017 to 10 percent in 2022, introduction of Robin-Hood taxes on Real Time Gross Settlements (RTGS), mobile money transfers, and airfares; and Adoption of new low cost service delivery model that leverage on technology such as eHealth for telemedicine, mHealth, and eHubs collection and dissemination of information.

The approved budgetary allocations to the UHC agenda in the FY 2018/2019 include: KSh. 4.3 billion for free maternal Health Care, KSh. 9.4 billion for leasing medical equipment, KSh. 4.7 billion for Kenya Medical Training Centres, KSh. 7.0 billion for CT (Computed Tomography) Scanners used in screening for diseases such as cancer projects, KSh 2.9 billion for Doctors, Clinical officers, Nurses internship; KSh 2.5 billion rolling out of Universal Health care to counties and KSh. 19.4 billion for Kenya and Moi Teaching Referral Hospitals.

The health sector continues to face critical challenges which if not adequately addressed, may hinder achievement of UHC targets. These include: low staffing numbers, capacity gaps, actual availability and ease of access to health facilities as well as lack of essential medical products and equipment. Management of health facilities in counties is seemingly facing teething problems. The success of the UHC will require significant governance reforms and close strategic collaboration between the national and county levels of governments.

Keep an eye on…

- Legislations on health insurance reforms particularly the review of the NHIF Act 9 of 1998 to align it with the UHC agenda, review of the Insurance Act and Retirement Benefits Act to set private health insurances as primary insurers and NHIF as secondary insurer for the formal sector, and amendment of the Public Finance Management (PFM) Act and County Allocation of Revenue Act to provide for ring-fencing of health services funds at the County level;
- The implementation of the managed medical equipment services (MMES) which is expected to ensure provisions of specialized medical services in at least 2 public hospitals per county and the roll out of Computed Tomography (CT) scan screening services;
- The implementation of the Linda Mama programme which aims at providing free maternity services including postnatal care to expectant women through NHIF in all public hospitals and selected faith based health facilities across the country; and
- The enrolment of residents into the NHIF through County Governments community based model initiatives.

Pillar 4: Housing

To address shortage of affordable housing, the Government has undertaken to facilitate provision of 500,000 housing units by 2022. Additionally, the State Department for Housing, Urban Development and Public works will construct 7,394 housing units for the National Police Service Commission and 4,900 units for public officers. Kenya is facing a shortage of affordable housing which directly and indirectly contributes to development of slums and poorly serviced informal settlements near the urban areas. This has contributed to ill health especially among the poor and also contributes to insecurity in the country. To reduce the cost of financing, the Government incorporated the Kenya Mortgage Refinance Company in April 2018. The Company will make it easier for financial institutions such as banks to access long term finance for homes. Additionally, the National Treasury has proposed scrapping of stamp duty for first time home owners under the affordable housing scheme.

Table 6: Big Four Projects in Housing and the Allocations over the Medium Term

Project	Allocation 2017-18 Kshs. millions	Allocation 2018-19 Kshs. millions	2019-20 Kshs. millions	2020/21 Kshs. millions
Construction of 7,394 housing Units for National Police and Kenya Prison Services	1,350	1,500	1500	1500
Construction of 440,000 affordable housing units	0	1,000	1,000	1,000
Construction of 200,000 social housing units	0	2,000	2,200	2,535
Civil Servants Housing Scheme (mortgage to 1,220 beneficiaries)	587	1,537	1537	1537

Source: National Treasury

In 2018/19 the target is to construct 83,000 units targeting urban centres as follows;

(i) Lot 1 A- this is a presidential Flagship project targeting 31000 units in Nairobi and Naivasha
(ii) Lot 1B- Social Housing which is slum upgrading targeting 12000 units
(iii) Lot 1 C- Counties to come in and do 40,000 units and start with provision of land for housing projects.

Provision of the 500,000 affordable housing units requires Kshs. 1.4 trillion and therefore the model of engagement is to bring in the private sector. However, cost drivers in the real estate industry needs to be addressed. These drivers include, Land, construction materials and design, documentation process, mortgage financing.

Keep an eye on;

- **Design of the housing plan and quality assurance:** the houses should not be too expensive to build. This will relate to the size of the house and the building materials used. quality should be observed
- **Mode of financing of the project:** This project is best funded through the private sector and efforts should be made to identify private investors.
- Standardization of documentation and processes by bringing all institutions/agencies involved in the construction industry under one stop shop

- Standardization of building materials
- Standardization of housing units such that the design of one bedroom house will be the same across all sites

Foundation for the Pillars: The key enablers

i. Infrastructure

In recent years, significant efforts have been made to address the infrastructure gaps in the country mainly in transport and energy sectors. It is expected that improving the country's infrastructure will enhance production, trade and increase investments. The percentage contribution of infrastructure to Kenya's GDP has increased from 4.5 percent in 2013 to 5.8 percent in 2017. In the previous financial year, development expenditure lagged in the first nine months. In that period, total development expenditure was Kshs. 282.6 billion only in contrast to the estimated Ksh. 605.5 billion development budget for that financial year (46.6 percent). This was occasioned by delay in exchequer releases as well as low absorption of donor funds.

Projects under the transport sector are mostly roads projects covering the entire country. Particularly, there is an allocation in the budget of Ksh. 8.7 billion to cater for roads damaged by floods during the rainy season in early 2018.

The government has invested substantial resources in the energy sector in the past four years to spur economic growth. Connectivity to electricity, ease of access to electricity and limited power cuts promote business growth that spurs job creation. The total installed and effective capacity of electricity increased from 1,800.4 MW (installed) and 1,723.1 MW (effective) in 2013 to 2339.9 MW AND 2264.4 MW in 2017 respectively. The number of customers connected under the rural electrification programme increased from 972,018 in 2015/16 to 1,319,490 in December 2017. Electricity generating capacity is currently being upgraded through various geothermal, wind and solar projects which is expected to increase by 875.9 MW by 2023 from the current 2,339 MW.

Power transmission and distribution programme is prioritized in the FY 2018/19 with an allocation of Kshs.51.573 billion translating 77% of the gross allocation to the State Department for Energy. Key projects implemented through this programme include; Loyangalani –Suswa transmission line Ksh.12.6 billion, Nairobi 220KV ring Ksh.3.1 billion, scaling up access to energy project Ksh.2.2 billion, last mile connectivity Ksh. 6.7 billion, street lighting Kshs. 1 billion, connectivity subsidy Ksh. 1 billion, electrification of public facilities Ksh. 5.2 billion among others.

Despite the huge investment on projects in the Energy sector, there are concerns due to delays by the national government in putting funds to improve transmission grid lines. this has led to high cost of power due to the use of the expensive Uganda Electricity Transmission Company Limited (UETCL) power and the use of Muhoroni diesel generator in Western Kenya; Unreliable power due to lack of sufficient transmission lines; fuel adulteration and lack of buy- in by the host communities to Early Oil Pilot Scheme (EOPS) projects among others;

In the 2018/2019 budget, the development expenditure ceiling, including donor funded projects, is Kshs. 676.5 billion.

Table 7: Key ongoing infrastructure projects in the 2018/19 budget

Name of the Project	Start Date	Completion Date	2017/2018 (Kshs. Million)	2018/2019 (Kshs. Million)	Amount Expended (Kshs. Millions)	Total Cost (Kshs. Million)	Average completion rate
Nairobi - Thika Highway Improvement Project Lot 1 & 2			123,093	650,000			
Meru Bypass Project			217,400	2,000			
Ol Karia II Geothermal Power Station				3,500			**New Project**
Standard Gauge Railway – Nairobi – Naivasha (Phase II)				74,400	14,792	172,919	40 km of be constructed.
LAPSSET project	January 2016	January 2022				47,000	**60 percent**
Construction of Affordable Housing Units	2018	2022		1,000			**New project**
Last Mile Connectivity	December 2015	Dec, 2022	14,295	5,690	58,400	38,400	
Loiyangalani- Suswa Transmission Line	October 2014	May 2022	17,089	9,608	26,889	25,192	**100 completion rates in 2018/19**

Source: National Treasury

Keep an eye on:

- **Timely exchequer release of Infrastructure Funds**: untimely disbursement of funds may delay completion. Historically, development budgets have been subjected to downward revision within the year through the supplementary budget. In order to ensure that projects are finalized on time, there is need for budget discipline.

- **Uptake of loans to finance projects:** given that many projects are financed through loans and grants, government should aggressively explore other avenues such as through Public Private Partnership in order to curtail the rising debt levels. Subsequently, a framework for carrying out regular appraisal on the performance of projects funded by these loans and grants should be developed by Parliament. This will enhance oversight of these allocations by Parliament.

- **Completion of Phase II of Standard Gauge:** issues surrounding land compensation are not yet fully resolved and this may derail the project.

- **Quarterly tracking of projects within Infrastructure sector particularly the flood damaged roads:** In the 2018-19 budget, Kshs. 8.7 billion was allocated to the State Department for Infrastructure for infrastructure rehabilitation following the damage caused by floods. The State Department is required to provide Parliament with the relevant data on the distribution of funds per constituency and in particular the roads affected by floods and a quarterly report on progress made. Indeed, there should be a quarterly report on all roads projects in the country.

- **Establishment of National Toll Fund:** Toll stations shall be introduced among major roads in the country in particular the Nairobi Southern Bypass, and Nairobi- Nakuru- Mau Summit Road. The revenue collected from the toll stations shall be put in a fund known as the National Toll Fund and they shall be used for maintenance of those roads. There is need to monitor governance structure of the toll fund and how the revenue raised will be used especially given the existence of the road maintenance levy fund (from fuel levy and transit toll collections) which also serves a similar purpose.

- *The success of Early Oil Pilot Scheme (EOPS) Project and Gas Mwananchi (LPG PROJECT)*
- *Fuel adulteration and its impact on the overall economy*

ii. Human Capital Development

Human capital development is a precursor for realization of the big four agenda and general economic wellbeing of the country. The 2018/19 budget focused on creating a literate and numerate population, providing quality education which is a pre-requisite for manpower development, laying the foundation for skills development at later years for the youth, contributing to basic health as well as lifelong learning by preparing a wholesome population. To achieve this objective, projects like primary and secondary schools infrastructure development, school feeding programme and Kenya secondary school education quality improvement were prioritized alongside construction and equipping of various Technical Training Institutes across the Country. In addition, there is a conditional grant to Counties amounting to Kshs. 2 billion to support village polytechnics.

Keep an *eye:*

- Efficiency of the government role in the distribution of text books to schools through the Kenya secondary school education quality improvement Project

iii. Governance and Security

An environment free of conflicts is a boost to investor confidence and will ease the process of implementing the big four plan. National security is a pre requisite for any development to take place. The role of the various security agents therefore helps to bring about confidence on the minds of the people, because, if the people are assured of security, the economy market will equally have their thrust and support which in turn win bring about progress and development, (Garuba 1997)

Nevertheless, the governance and security sector has been faced with challenges on the management of its borders attributed to political instability in the neighboring countries of Somalia and South Sudan which has lead to terror threats, infiltration of firearms and influx of refugees into the country. Additionally the housing crisis for the uniformed and disciplined service has affected the performance of these officers hence negatively impacting on the security environment in the country. Other challenges that impacts negatively on governance and the rule of law include disregard for the rule of law, drug abuse and trafficking, slow pace of decentralization of services among others.

These challenges however are being addressed by agencies under, General Public Services, Public Order and Safety, Defence including the Legislature and the Judiciary with 25 percent of total approved allocation in the 2018/19 budget. If these resources are not well utilized, the gains made in the sector may be eroded and the envisaged growth may not be attained.

Some of the reforms which will be necessary in the sector to overcome these challenges include enactment of strict migration laws, leveraging on technology to enhance security, increased transparency in acquisition of security equipments among others.

Housing Bond: A proposal for financing Affordable Housing

Emerging spending pressures, amid a leaner fiscal space and limited options for higher tax yield, have constrained financing options for accelerated spending envisaged by the governments Big Four Agenda. The recent push for fiscal consolidation and introduction for new tax proposals affirms the growing spending pressures. But, given the immediate risk of higher taxation on consumption, inflation and growth, the government may consider new financing models, including a more innovative model of targeted debt financing to appropriate government policy. In this regard, the government can consider issuing a well targeted Housing bond to help finance the affordable housing program.

The government's successful introduction of infrastructure bond program in Kenya may raise hope that a Housing bond could as well become a success story. Infrastructure bonds have received exceptional support by market participants relative to ordinary Treasury bond mostly due to tax exemptions. If a Housing bond is designed with appropriate terms and if supported by credible implementation strategy for the housing plan, then it can easily serve as a robust way of financing this critical Big Four program. A good design of the bond is however essential for its success. Following are some essential attributes of the proposed Housing bond:

1. **Tenor of the Bond:** The proposed Housing Bond would be a long term type of security, 20 to 30 years, with a fixed repayment and periodical amortization. The bond may be floated domestically or externally based on prevailing housing demand. Several bonds may be issued as would be necessary for the delivery of affordable housing.
2. **Legal Framework**: the Housing bond should be backed by regulations so as to ensure that the proceeds of the bond are promptly deposited in a Housing Development Fund for quick construction and delivery of affordable housing. The proceeds of the bond may not be allocated to other uses.
3. **House delivery and allocation system:** the house allocation system should remove unnecessary discrimination and can combine both affordable rental and mortgage components. A simple mortgage house allocation system targeting only the lower income earners could easily raise the risk of mortgage default. Thus, the proposed Housing bond model can focus on providing affordable house rentals or a mix of rentals and mortgage. This approach combines the delivery of both "affordable home ownership" and "affordable house rentals" across the income profile.
4. **Bond repayment and sustainability**: If the bond proceeds are quickly and efficiently delivered to the affordable housing program, the ensuing rental proceeds and interest from the mortgages can be used to build new houses or repay the bond. The rental income or mortgage interest may therefore serve as reliable long term income linked to the bond, which may allow easier securitization and trading in the capital markets.
5. **Addressing bottlenecks:** It will be essential to address typical bottlenecks such as procurement delays, inefficiency and uneconomical use of funds, problems in identification of contractors and house beneficiaries, mortgage repayment risks, among others.

Chapter Three:

Leveraging Fiscal Policy for debt sustainability and economic growth

3.1.Tracking Fiscal Policy: which way for fiscal consolidation?

Government spending has increased substantially over the past five years; registering a 75 percent growth from Ksh. 1.3 trillion in 2013/2014 to Ksh. 2.56 trillion in the 2018/2019 budget. This represents an annualized growth rate of 14.5%. This is largely on account of expenditure pressures faced by the government in order to actualize its development agenda and meet pressing societal needs. As earlier indicated, the thrust of this year's budget is to enhance social development through achieving universal healthcare, provision of affordable housing, sustainable food production as well as enhancing productivity by increasing the manufacturing share of Gross Domestic Product (GDP). This is in addition to ongoing infrastructural investments which are largely viewed as enablers towards enhancing the country's productivity and meeting the social development agenda.

Table 8: Summary Fiscal Framework for the 2018/19 budget

	2017/18	2018/19	Percentage Increase/Decrease	Percentage of GDP
Expenditure	2,329.3	2,556.6	10%	26%
Total Revenue	1,659.6	1,949.2	17%	20%
Grants	43.0	48.5	13%	0%
Budget Deficit	(626.7)	(558.9)	-11%	-6%
Financing				
Project Loans	207.7	235.8	14%	2%
Commercial Financing	290.2	298.9	3%	3%
Program Support	7.0	2.5	-64%	0%
Foreign Payments	(150.3)	(250.3)	67%	-3%
Net Domestic Financing	268.1	271.9	1%	3%

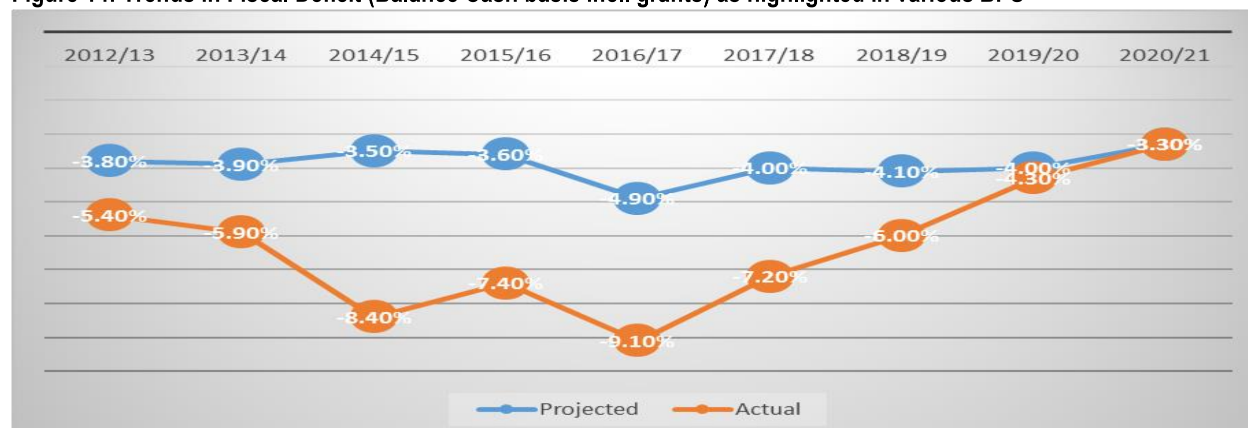
Source: National Treasury

A review of the fiscal policy framework for 2018/2019 indicates that the fiscal consolidation strategy is revenue driven, rather than expenditure driven, and is dependent on how fast the economy grows. According to the Budget Summary 2018, fiscal policy aims at sustaining the revenue effort at 19.2 percent of GDP over the medium term. The revenue projection indicates that national revenue is estimated at Ksh. 2.42 trillion by FY 2020/21 on the backdrop of strong tax performance. On the other hand, budget expenditure is expected to increase from Ksh. 2.6 trillion in 2018/19 to Ksh. 3.2 trillion by FY 2021/22. The fiscal consolidation plan aims to reduce the budget deficit from 7.2% of GDP in financial year 2017/18 to 3.0 percent of GDP by FY 2021/22 in line with East African Community Monetary Union protocol's fiscal targets. Thus, the strengthened fiscal position is primarily linked to improved revenue performance.

Previous commitments to a lower budget deficit have not been met and it is possible that this year may not be different. Since its commitment to fiscal consolidation, it has been the practice of government to project lower budget deficits over the medium term. However, lower than targeted revenue performance amidst rising expenditure pressures have often resulted in a higher than planned budget deficit. Rather

than reduce expenditure during the supplementary budget to reflect this new reality, the government has a tendency to resort to borrowing which then increases the level of national debt.

Figure 14: Trends in Fiscal Deficit (Balance Cash basis incl. grants) as highlighted in various BPS



Source: National Treasury

Supplementary budgets tend to weaken the country's fiscal position and should be implemented with caution. The tendency during supplementary is to reorient spending towards general operations and maintenance rather than specific high impact projects; an outcome that can significantly alter the general policy direction of the budget. To illustrate, in financial year 2017/2018, the second supplementary budget was brought to parliament with several reasons cited, notably, the need to scale down expenditures to achieve the targeted overall deficit level of 7.2 percent of GDP. The second supplementary budget reduced development spending by 6.28 percent and increased the recurrent budget by 2.35 percent. Further analysis revealed that development expenditure had been steadily declining in the course of the year whereas recurrent expenditure increased. The big question under efficient public spending lies not in the amount expended but on what it is used for. Effective use of public resources requires that the bulk of spending be directed towards projects that have the highest impact in terms of development.

Fiscal consolidation cannot be achieved if unproductive expenditure is increased at the expense of the more productive capital expenditure. The impact of spending reductions is different depending on what is being cut. A general rule of thumb should be that if revenue is declining, recurrent expenditure ***should not*** go up. Fiscal consolidation will be better achieved by the government when the (unproductive) recurrent spending is reduced and development expenditure shielded from any form of adjustments.

Table 9: Projected revenue versus actual revenue collected (Ksh. millions)

	2013/14	2014/15	2015/16	2016/17	2017/18*
Budget	1,006,862	1,170,529	1,299,912	1,514,989	1,704,503
Actual	974,418	1,113,038	1,235,845	1,403,692	1,650,989
Deviation	**(32,444)**	**(57,492)**	**(64,067)**	**(111,297)**	**(53,514)**
Performance Rate	**97%**	**95%**	**95%**	**93%**	**97%**

Source: Economic Survey, 2017 & 2018, *- Budget Policy Statement, FY 2018/19

Despite reported shortfalls, revenue performance has generally been within target with an average performance rate of 95 percent over the last five financial years. The main challenge facing the country's fiscal sector has to do with expenditure pressures that continue to place a significant demand on the country's revenues. Though there have been reported attempts to re-align expenditure and eliminate non-core items, the country's development agenda is such that significant sums of money are continuously required to implement mega development projects. It is worth noting that recurrent spending continues to raise a number of concerns, notably, if at all the non-core spending has truly been streamlined. In 2017/18, the actual recurrent spending overshot the initial planned expenditure by Ksh. 58 billion. This increase was on account of salary increments due to progressive CBA negotiations, increase in operation and maintenance costs. The overall effect is a tradeoff of deferred but long-term development benefits for immediate short-term benefits from recurrent expenditure.

Table 10: initial budget vs. Actual Expenditure - recurrent and development (Ksh. billion)

		2013/14	2014/15	2015/16	2016/17	2017/18
Recurrent	Projected	1,043.90	1,411.16	1,583.82	1,734.40	1,335.30
	Actual	1,021.92	1,381.04	1,564.29	1,657.22	1,392.80
	Deviation	**(22)**	**(30)**	**(20)**	**(77)**	**58**
	Performance Rate	**98%**	**98%**	**99%**	**96%**	**104%**
Development	Projected	635.18	684.36	682.98	761.71	613
	Actual	511.07	572.46	483.07	625.78	580
	Deviation	**(124)**	**(112)**	**(200)**	**(136)**	**(33)**
	Performance Rate	**80%**	**84%**	**71%**	**82%**	**95%**

Source: Economic Survey, 2017 & 2018, *- Budget Policy Statement, FY 2018/19

Keep an Eye on:

In year expenditure adjustments particularly if recurrent expenditure is increasing at the expense of development expenditure.

3.2.Kenya's Debt status and Embedded Medium Term Risks: Debt Portfolio & Trend

Though Kenya's debt is reportedly within manageable levels, the country's borrowing trend remains a concern. Recent statistics estimate the country's nominal debt at KSh. 5.04 trillion[11]. This comprises Ksh. 2.56 trillion (51%) in external debt and Ksh. 2.48 trillion (49%) in domestic debt. At this new level, nominal debt will amount to 58 percent of GDP[12] in 2018. In Net Present Value (NPV) terms, public debt is estimated at 49% against IMF threshold of 74%[13]. It should be noted however, that the Kenyan Public Finance Management Framework sets an NPV of debt to GDP ratio limit of 50%[14] indicating that

[11] According to the Quarterly Economic and Budgetary Review Report, August 2018
12 Based on BPS FY 2017/18 GDP (Ksh. 8.65 Trillion)
13 Medium Term Debt Management Strategy FY 2018-2020/21.
14 Public Finance management Act *(No. 18 of 2012)* Regulations - Regulation 26(1-C)

current levels are one percentage point from breaching this threshold. The emerging concern is that the government's appetite for borrowing seems unlikely to wane any time soon and this could eventually push debt towards unsustainable levels. The government's public investment plan is geared towards addressing the country's infrastructure gaps among other bottlenecks in the economy in order to promote economic growth and development. This plan requires significant resource outlays which will invariably lead to further borrowing.

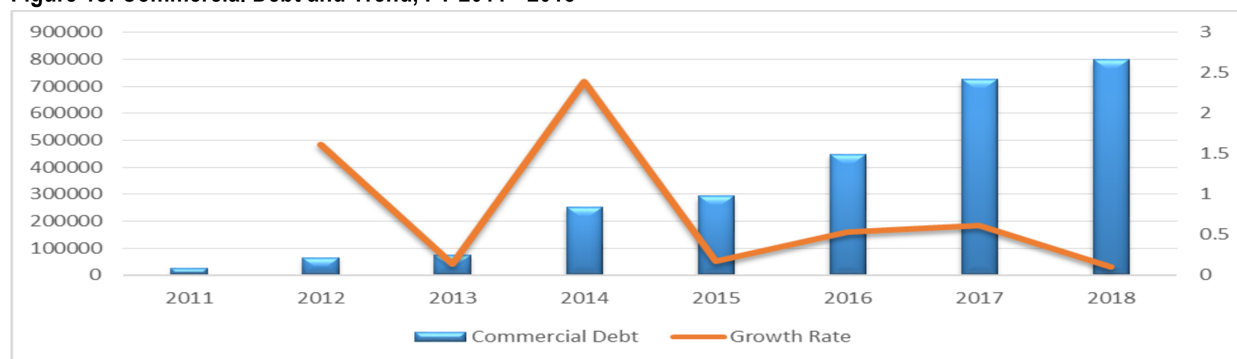
Kenya's debt stock has mostly been on concessional terms but the increasing volume of commercial loans is escalating the country's vulnerability to risk. Commercial financing has been increasing steadily over the past five years and currently constitutes 36 percent of the country's total external debt. In financial year 2018/19, commercial debt is estimated at Ksh. 298.9 billion and will be the largest source of financing for the country's Ksh. 562.75 budget deficit. Commercial loans are expensive and a leaning towards this trend is increasing the country's debt service. Already, in the current financial year, interest payments are due on the following; New Loans (Ksh. 17.9 billion), China EXIM and Development Banks (Ksh. 26 billion), Debut International Sovereign Bond -USD 2.75 BN (Ksh. 19.4 billion), TDB Syndicated Loan (Ksh. 13.1 billion), CITI Bank Syndicated Loan (Ksh. 7.9 billion) and the 2018 International Sovereign Bond (Ksh. 15.5 billion). On the other hand, the following debts are maturing: Debut International Sovereign Bond (USD 2.75 BN) Ksh. 78.3 billion, the Standard Chartered Syndicated loan (Ksh. 78.7 billion), IDA (Ksh. 14.6 billion), China (Ksh. 8.4 billion), France (Ksh. 7.6 billion) and Japan (Ksh. 5.6 billion). These will place a huge demand on the country's forex reserves and may require rollover or refinancing to avert a debt crisis. This will invariably lead to higher interest payments.

Table 11: Commercial debt acquired since 2012

Year	Loan
2012	2 year US 600 million syndicated loan
2014	debut 5 and 10 year Eurobond totaling $2.75 billion
2015	2 year syndicated loan of $750 million and a 7 Year commercial loan worth $600 million
2018	2 year international sovereign bond – $ 2 billion

Source: National Treasury

Figure 15: Commercial Debt and Trend, FY 2011 - 2018



Source: Statistical Annex 2018/19

In a bid to diversify its external creditor portfolio, Kenya's policy to 'look east' could be inadvertently increasing the country's debt burden. Loans from China have increased consistently to account for over 68% of total bilateral debt[15] by June 2018 and rendering China Kenya's biggest bilateral lender. These loans are on semi-concessional terms and are therefore relatively expensive. On the other hand, multilateral debt - composed of debt from multiple financial institutions - comprises concessional loans from the African Development Bank and the World Bank's International Development Assistance (IDA). Generally, the share of concessional loans is falling and this has rendered debt to be more expensive. It is important therefore, to ensure that money accrued from debt is well utilized and any public investment inefficiencies are effectively addressed to ensure that debt funded projects yield high economic returns.

Domestic debt has been a critical source of revenue to the government but seems to have crowded out the private sector. Currently, domestic debt comprises Treasury bills and Treasury bonds worth Ksh. 821.1 billion (34% of total domestic debt) and Ksh. 1.52 trillion (63% of total domestic debt) respectively. The borrowing strategy is to have more T-Bonds (primarily through benchmark bonds) in order to improve the maturity profile of domestic debt while using T-bills mainly to manage cash flows. Ideally, a country's debt mix should contain more of domestic debt in order to mitigate against external risks. However, Kenya's domestic borrowing, especially in the context of an interest rate capping regime, appears to have crowded out the private sector.

Contingent liabilities also pose a great risk to the country's debt portfolio. By December 2017, the National Government had loan guarantees amounting to KSh. 133.79 billion. Out of the portfolio, loans worth KSh. 2.5 billion are non-performing – a liability that may have to be borne by the government. The non-performing loans are from the following parastatals: Kenya Broadcasting Corporation, Tana & Athi Rivers Dev. Authority and East African Portland cement. As a result of these liabilities, the government incurred a cost of Ksh. 1.1 billion and Ksh. 1.37 billion in FY 2017/18 and FY 2018/19 respectively. Given that there is a limit to how much more Kenya can borrow, the government has had to explore other avenues of funding infrastructure budget shortfalls such as through the public private partnerships (PPP) which has exposed the country to implicit contingent liabilities should the private investors default. PPP is still a fairly new concept in the country and the government should endeavor to ensure that the framework of PPP management as outlined in the PPP Act 2013 is adhered to.

Keep an Eye on:

- **Procurement of new public debt:** This should be carried out with approval of Parliament.
- **Pre-approval of projects financed through public borrowing:** no new debt financed projects should be introduced within the budget cycle as these may fail to go through proper appraisal

[15] Quarterly Economic & Budgetary Review Report, August 2018

Public Debt Sustainability Analysis (DSA) Framework

Debt sustainability analysis, compares debt burden indicators to thresholds over 20 -year projection period, if a debt burden indicator exceeds its indicative threshold then it would suggest that a risk of experiencing some form of debt distress exists. The objective of Debt Sustainability Analysis (DSA) is to evaluate a country's capacity to finance its policy agenda, and service the ensuing debt without unduly large adjustments that may compromise its macroeconomic stability and/or that of its economic partners.

Latest Public Sector DSA indicates that the level of debt in Kenya remains sustainable at 49% (NPV for debt to GDP) against an IMF threshold of 74%, this is based on National treasury data derived from an IMF report dated February 2017. It is important to note that the sustainability of debt is kept within limits based on increase in GDP rather than containment of debt growth. Never the less, this ratio cuts close to the PFM Act regulations NPV of debt to GDP ratio limit of 50% and it would be important therefore to obtain quarterly report as to the adherence of this threshold throughout the fiscal year as any financial provisions above this threshold would be an illegality. Any adherence to this limit will require strong adherence to fiscal consolidation measures in the long term.

While external debt sustainability indicators indicate that all ratios remain sustainable, public debt ratios indicate that the ratio of debt service to revenue, has breached its threshold of 30 percent in the FY 2017/18 is indicated to recover in FY 2018/19 but the threshold will remain breached until FY 2019/20. In is important to note that there is no concrete evidence provided to indicate as to why there is a sudden recovery of the ratio in FY 2018/19 as opposed to a gradual recovery trend like all other ratios.

Table: Public Debt Sustainability Analysis

	Threshold	**2015**	**2016**	**2017**	**2018**	**2019**	**2026**
PV of Debt as % of GDP	**74**	45.8	48.3	49	48.6	47.1	35.6
PV of debt as % of GDP (PFM)	**50**	45.8	48.3	49	48.6	47.1	35.6
PV of Debt as % of Revenue	**300**	231.8	237.8	235.7	226.6	217.4	161.4
Debt Services as a % of Revenue	**30**	29.7	29.4	35.8	30.5	33.4	24.3

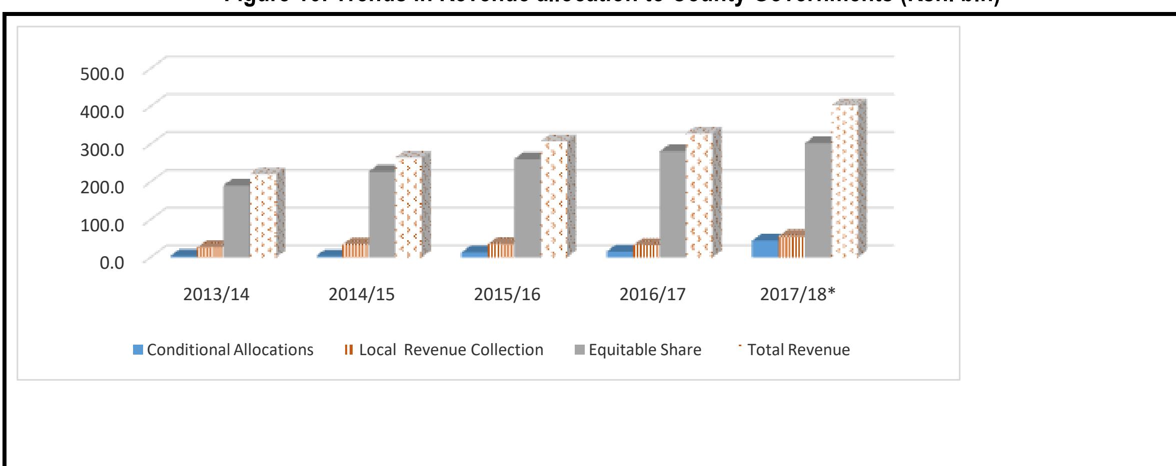
Chapter Four: County Planning, budgeting and policy

4.1.County Budget Implementation

Over the past five years, there has been intensified effort in improving the budget process in the counties. This is especially on ensuring there is formulation and approval of statutory budget documents such as the County Integrated Development Plans (CIDPs), the Annual Development Plans (ADPs), the County Fiscal Strategy Papers (CFSPs) and the annual budget estimates. County governments were established in the 2010 Constitution with the aim of improving the *mwanainchi's* access to public services. These services are identified, planned and budgeted for, implemented and evaluated through a system articulated in law, mainly in Chapter 12 of the Constitution and the Public Finance Management Act.

Counties are heavily relying on the equitable share allocation from the national government to finance their budgets, even though the growth of the equitable share from the nationally raised revenue has reduced from 19.3 percent in FY 2014/15 to 4.0 percent in FY 2018/19. Since the inception of devolution, the revenue available to county governments has been increasing every year from Ksh. 219.70 Billion in FY 2013/14 to an estimated Ksh. 387.20 Billion *(including local revenue collection)* in FY 2018/19[16]. Cumulatively, counties have received approximately Ksh. 1.91 Trillion. These amounts are comprised of the Equitable Share from national government revenue, Conditional Allocations and Local Revenue collection.

Figure 16: Trends in Revenue allocation to County Governments (Ksh. bln)



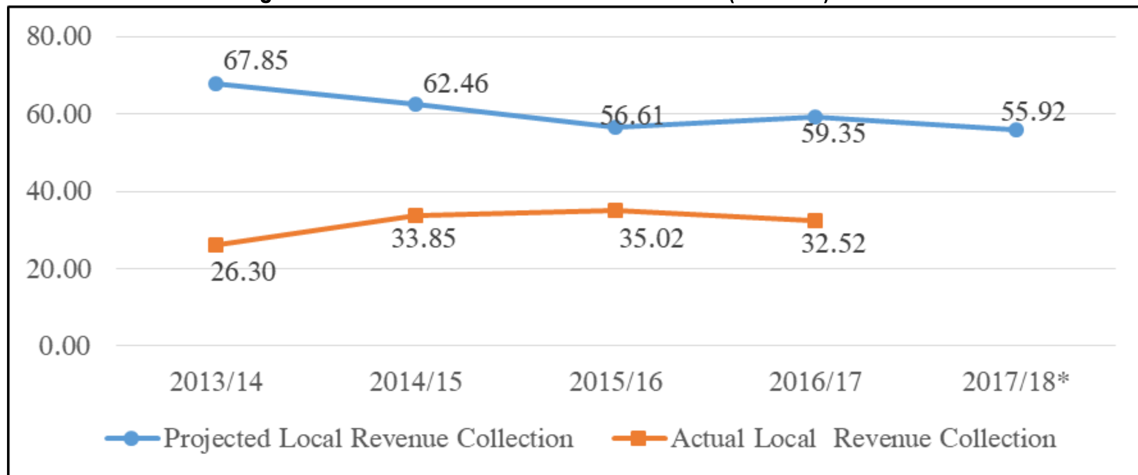
Source: KNBS

The actual local revenue collection by counties has been as low as 50 percent of the projected revenue collection at the beginning of the financial year (Figure 17). Overly optimistic revenue targets distort the budget process as they are a basis of financing of the county budgets. This has often resulted to the increased number of supplementary budgets during the financial year, to realign the expenditures with the lower revenue collections. Therefore, some projects in the budget are not implemented as envisaged

[16] Economic Survey, Division of Revenue Act, County Allocation of Revenue Act (Various Issues)

and this slows down the developmental progress in counties. It is therefore important to ensure that local revenue collection targets are achieved based on each county revenue potential.

Figure 17: Trends in Local Revenue Collection (Ksh. Bln)

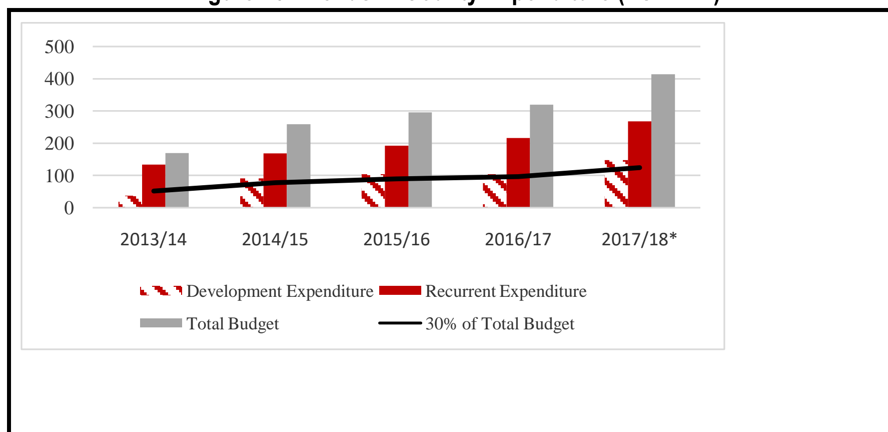


Source: KNBS

*Actual revenue collection data for FY 2017/18 not available

The actual county expenditures have been on an upward trend from Ksh. 169 Billion in FY 2013/14 to Ksh. 319 Billion in FY 2016/2017 and estimated at Ksh. 413 Billion by end of FY 2017/18 (Figure 18). The share development expenditure to total expenditure has slightly been above the 30 percent threshold enshrined in law but increasing at a slower pace compared to the recurrent expenditure. This impedes the growth in job creation and productive capacity in counties as more funds are used for recurrent expenditure, which is mainly on personnel emoluments and operations and maintenance.

Figure 18: Trends in County Expenditure (Ksh. Bln)



Source: COB

*Estimated data for FY 2017/18

A review of expenditure according to functions of government indicates that over the years, conditional allocations have an impact on the proportion of expenditures to a particular function. Notably there has been an increase in the share of the health function to total expenditure, which is

expected since this is a function that is fully devolved, however, the health services at the county level are still inadequate in specific areas such provision of essential stock of medicines in county pharmacies[17]. In addition, the transport function has been receiving a higher share of expenditures and this can be attributed to the annual conditional grant to counties from the Road Maintenance Fuel Levy Fund.

Table 12: Percentage share of expenditure on a function to the total county budgets

	Function	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
1	General Public Services	83.8	50.2	37.7	41.6	35.7
2	Economic Affairs	6.9	14.8	21.2	19.2	19.3
	General Economic Affairs	*0.8*	*2.3*	*5.9*	*3.8*	*4.2*
	Agriculture	*1.8*	*5.2*	*3.5*	*3.7*	*4.6*
	Transport	*3.7*	*6.9*	*6.8*	*11.0*	*9.0*
	Other economic Affairs	*0.6*	*0.3*	*5.0*	*0.7*	*1.5*
3	Environmental Protection	0.5	1.9	4.3	2.9	3.5
4	Housing and Community Amenities	2.2	2.6	5.3	7.1	7.4
5	Health	5.3	20.2	22.3	20.2	24.2
6	Recreation, Culture and Religion	0.6	2.9	2.1	1.8	1.9
7	Education	0.8	7.4	6.8	7.0	7.9
8	Social Protection	0.0	0.1	0.3	0.2	0.1

Source: KNBS

The budget implementation in county governments continues to face numerous challenges that vary from one county to another. A review of the county budget implementation reports by the Controller of Budget (COB) indicate that the challenges faced by counties at the onset of devolution to date, have largely remained the same (Annex 1). These challenges include-

i) **High expenditure on personnel emoluments:** County governments continue to spend a huge portion of their budgets on salaries and allowances that are often non-discretionary. In many counties in 2013/14, employment of county staff was done by MCAs and not by the County Public Service Board as required by law. This led to a bloated wage bill and has continued to be a challenge even though employment is now been done using the correct process. The Commission of Revenue Allocation has recommended the optimal staffing levels for each of the county governments, however, this challenge will require county-owned solutions supported by Senate legislation, to ensure that optimal staffing levels are achieved within a specified period.

ii) **Underperformance of local revenue collection:** This is mainly because of overly optimistic revenue targets at the beginning of the financial year that are not achieved. This results in revisions of the budget through supplementary budgets and increased reliance on the equitable share from the national government revenue.

[17] KIPPRA Special Paper No. 19/2018, "An Assessment of Healthcare Delivery in Kenya under the Devolved System"

iii) **Delayed submission of financial reports:** late submission of financial reports by the county governments to the controller of budget results in the delay in the consolidated report on budget implementation for all the counties by the Controller of Budget. These delays affect timely and effective decision making on emerging issues in these reports by the policy makers, mainly the Senate, Council of Governors and IBEC.

iv) **IFMIS connectivity challenges by county governments:** IFMIS is used to process government financial transactions and connectivity challenges have often resulted in delays in honoring payments on time.

v) **Delay in the disbursement of the equitable share to counties by the National Treasury:** There are often delays in the disbursement of the equitable share of revenue raised nationally in line with the approved cash disbursement schedule approved by the Senate. The releases are often done at the near end of the financial year and this leads to deferment of budgeted initiatives to the next financial year.

vi) **High level of pending bills:** This is often because there are no finances available to fund approved expenditure by the end of the financial year, therefore the approved county budgets are not implemented as envisaged.

Keeping an eye on:

- *Disbursement of funds in line with the approved cash disbursement schedule for FY 2018/19*
- *Achievement of local revenue collection targets*
- *Adherence to the legal framework on reporting as highlighted in the PFM Act*
- *Measures put in place by the county governments to ensure there are optimal staffing levels to reduce the strain on expenditure by high wage bills in counties.*

4.2.The Link between County Budgeting and the Big Four Agenda

The PFM Act requires that all county budgets should be linked to the country's agenda which is currently the Vision 2030 through its Medium Team Plan III (2018-2022) which is envisaged to be a blueprint for the Big Four Agenda. The county governments have a substantial role to play in the implementation and attainment of the Big Four Agenda. Indeed, some of the objectives envisioned in the Medium Term Plan III of the Vision 2030 are largely devolved and therefore the success of the Big Four Agenda is also hinged to the extent the county governments will be able to implement this agenda.

A review of 15 selected county budgets for FY 2018/19 reveal that there is some budgetary allocations in each of the four sectors of focus under the agenda, that is, Health, Manufacturing, Agriculture and Housing.

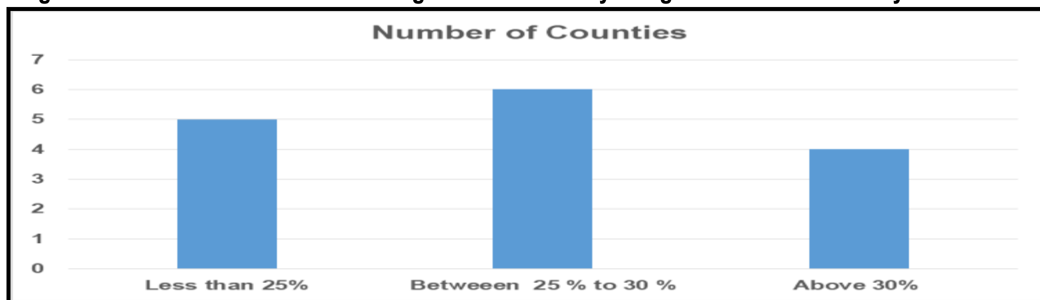
However, there are challenges that will impede the achievement of the Big Four Agenda at the county level which include- lack of a sessional paper that clearly indicates the specific role of county governments in the Big Four Agenda and an intergovernmental framework for the achievement of the same; the available budgets are in a non-uniform structure of classification of the budget that impeded adequate assessment and lack of available information of costing of the functions under the Big Four Agenda that will be carried out by the counties for each of the financial years to 2022/2023.

a) Universal Health care and Coverage

The health function is fully devolved and as such the county governments carry a great onus towards the achievement of 100 % universal health care coverage for all households by the year 2022. The interventions in the agenda to be carried out by the county governments have not been expressly stated. However, the following can be deduced to be implemented at the county level; *Advocacy for increasing the uptake of National Hospital Insurance Fund (NHIF); Provision of specialized medical equipment for surgical, radiology and dialysis; Employment of community healthcare volunteers to increase the provision of health services at the county level; Increased provision of referral services through increasing the number of Level 5 hospitals in some counties.*

A review of the approved 2018/19 budget estimates for the selected counties indicates an average total allocation towards the health sector of 26% of total county budgets. A huge proportion of this health budget is recurrent expenditure at 82 % and only 18 % for the development expenditure. The share of the allocation to the health sector compared to overall budget ranges between 25% and 30 % for a majority of the selected counties (Figure 19). Some of the key projects and programmes in support of the universal healthcare with major allocations include: - Administration, Planning and Support Services Programme (that includes compensation to health workers); Forensic and diagnostics intervention and Curative Health Services including utilization and management of specialized medical services under the Managed Equipment Service (MES) Programme.

Figure 19: Share of Health Sector Budget to Total County Budget for Selected County Governments FY 2018/19



Source: Selected County Budgets for FY 2018/19

**75 % of all the county budgets were either not available or contained non-uniform structure of classification of the budget that impeded adequate assessment.*

Keep an eye on:

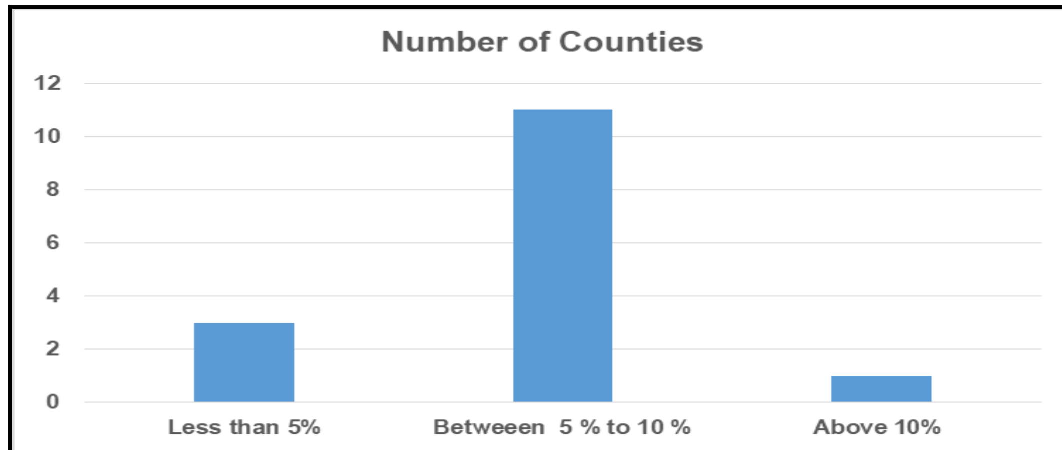
- Formulation of a Sessional Paper that clearly states the role of the county governments in achievement of the Universal Health Coverage goal in the Big Four Agenda.
- Relevant legislation that can be enacted for successful implementation of policies geared towards achievement of seamless health service delivery, for example establishment of a health services management fund for every county.
- The timely release of conditional allocations from the national government and development partners enacted through the DORA and the CARA, to fund health programmes at the county level.
- Development of an intergovernmental framework for conditional grants to the county governments to enable monitoring and evaluation of these allocations.
- Implementation of health programmes that are implemented in the counties through the Ministry of Health such as the Leasing of Medical Equipment in the MES programme and the 'Linda Mama' programme for free maternal healthcare through NHIF.

b) Achieving Food Security

The achievement of food security for all Kenyans by 2022 is not a goal for National government but a collaborative effort that calls for County led initiatives. Some of the interventions that can be implemented by the county governments include boosting smallholder productivity through the county governments negotiating for access to export markets depending on the individual county's comparative advantage; elimination of multiple levies across counties for agricultural produce to reduce the cost of food and enhancing largescale production of food (maize, potatoes and rice) in some of the counties. The Malabo Declaration on accelerating agricultural growth and transformation for shared prosperity and improved livelihoods in Africa provides that at least 10 % of the total public expenditure should be allocated to agriculture.

A review of the approved 2018/19 budget estimates for selected counties indicates a 6% allocation of the total budget to the sector, of which recurrent allocation is 39% while development outlays amounts to 61%. The average allocation towards the agriculture sector for a majority of the selected counties is between 5% and 10%. (Figure 20). Analysis of the allocations indicate investment in interventions geared towards programmes and projects on promoting smallholder irrigation projects, environmental conservation efforts that include tree planting and soil conservation; supporting fruit farming and processing; provision of certified seeds at a subsidized rate; provision of farm inputs; establishing credit system; expansion of extension services; provision of storage and post harvesting handling which is key ensuring food availability throughout the year and enhancing market access. Other interventions are geared towards livestock productivity and protection of animal health which is critical farmers in the livestock sector. However, most of these interventions lack key performance indicators for performance monitoring and oversight.

Figure 20: Share of the Agriculture Sector Budget to Total County Budget for Selected County Governments for FY 2018/19



Source: Selected County Budgets for FY 2018/19

******75 % of all the county budgets were either not available or contained non-uniform structure of classification of the budget that impeded adequate assessment.*

Keep an eye on:

- Relevant legislation that can be enacted for successful implementation of policies geared towards achievement of food security goal at the county level.
- Development of an intergovernmental framework on food security to enable implementation of policies on that will scale-up food production in the counties; ensure adequate and affordable storage facilities for farm produce which will enable stable food supply and prices and provision of affordable fertilizers.
- The timely release of conditional allocations from the national government and development partners enacted through the DORA and the CARA, to fund agricultural programmes at the county level such as the Agriculture Sector Development Programme that will be implemented in all the 47 counties.

c) Manufacturing and increasing share of the sector contribution to GDP

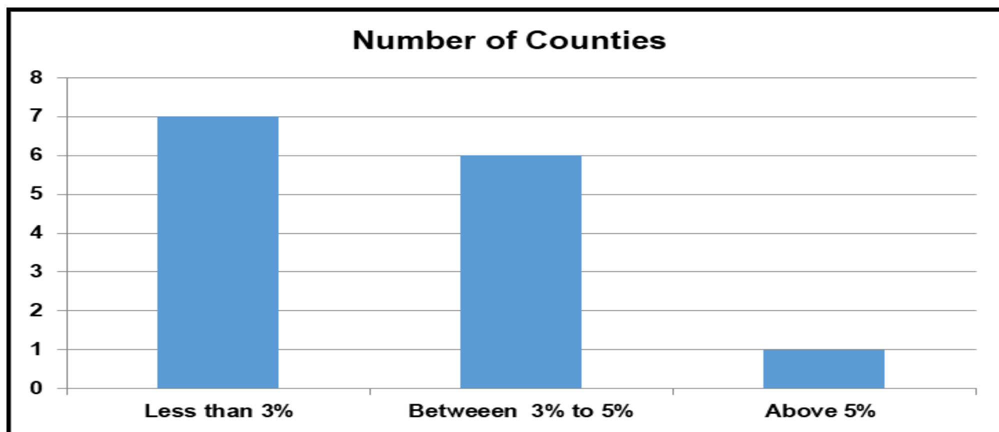
Supporting value addition and raising the share of Manufacturing Sector to GDP to 15 Percent by 2022 will require substantial county interventions. Even though the agenda does not give specific measures to be undertaken by the county governments, the counties will be key in enhancing the export profile of locally produced products that are export oriented through investment in value addition. Improving county competitiveness and putting legislation and policies such spatial plans that enhances ease of doing business are also other county strategies to support enhancing the manufacturing agenda.

In view of the 2018/19 selected county budget estimates, the allocation relating to functions involving trade, industry and other related functions reflect an average allocation of 3% of total county budget. The allocation is comprised of 37 % of recurrent expenditure and 63% of recurrent

expenditure, in addition, a total of seven counties had less than 3% budget allocation and six counties between 3% and 5%. Figure 21 gives a summary of selected counties and categories of respective share allocation relative to overall county budget. A critical review of the county budgets indicate that specific programmes allocations are for trade development in form of County Enterprise Fund & Market Development; development of Strategic Frameworks for Jua Kali /SME Sector and Marketing, value addition and research as well as domestic trade development.

The low budgetary allocation in this sector at the county level may have resulted to limited capacity to exploit available opportunities, to stimulate the local industry and trade development in the counties. Moreover, spatial plans across majority of the counties and relevant legislations may not have been put in place to guide county interventions in promoting industry and trade development especially geared towards attracting medium to large scale private sector investments.

Figure 21: Share of the Manufacturing Sector Budget to Total County Budget for Selected County Governments FY 2018/19



Source: Selected County Budgets for FY 2018/19

Keep an eye on:

- Relevant legislation that can be enacted for successful implementation of initiatives geared towards achievement increased value addition of locally produced products at the county level; improve county business environment to spur private sector investments.
- Development of an intergovernmental framework to coordinate initiatives that cut-across several counties in several sub-sectors such as agro-processing, ICT, Mining and Gas, Oil, Fish processing, Textile and Leather processing sectors. In addition, identify manufacturing hubs that may require allocation of land by the beneficiary county governments.

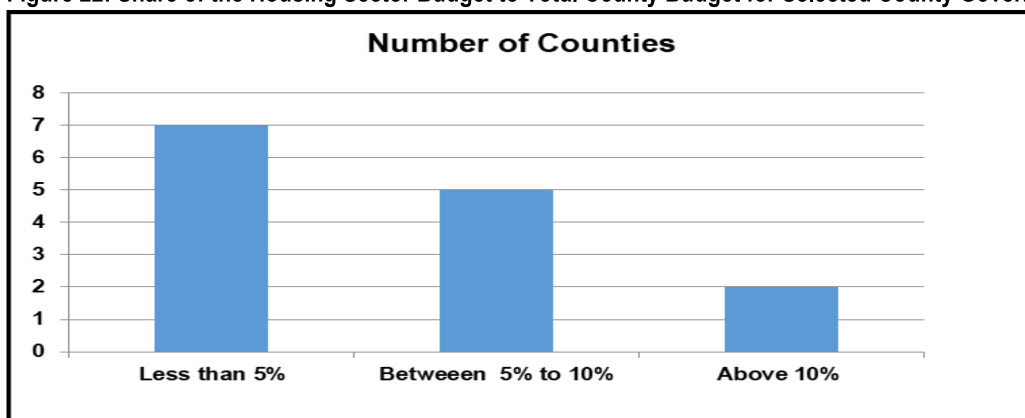
d) Affordable Housing

The delivery of 500,000 housing units by 2022 will require the support of the county governments especially in provision of land and the incorporation of this agenda in the county planning and development. Whereas the national government will come up with the relevant policy on low-cost housing

and improved access to affordable mortgages, the county governments will be key in ensuring there is provision of public land and urban planning at the county level through land survey and mapping, provision of clean water and sanitation, development of access roads and other social amenities.

The FY 2018/19 allocation by selected counties towards Housing and related function indicates an average allocation of 6% to the sector to the total budget. This is comprised of 38% for recurrent expenditure and 62% for development expenditure. A total of seven counties had less than 5% budget allocation in this sector and five counties between 5% and 10%. Only two counties had above 10 share allocation, each with 14% and 15%, respectively (Figure 22). Some of the key interventions relating to housing include; Fast-tracking approvals and putting in place Land Use Policy and Physical Planning; Partnerships with real estate developers and stakeholders to set up low cost housing; Provision of basic services and infrastructure such as water, electricity and transformation through physical planning and urban development for example by zoning of county by industries/ sectors; and promoting policy impetus for Urban and Cities to set aside land for low cost housing.

Figure 22: Share of the Housing Sector Budget to Total County Budget for Selected County Governments for FY 2018/19



Source: Selected County Budgets for FY 2018/19

Keep an eye on:

- Development of an intergovernmental framework on approval of inter-county spatial plans and to support Land Use Policy and Physical Planning towards promoting county planning and development.
- The timely release of conditional allocations from the national government and development partners enacted through the DORA and the CARA, to support development of urban areas at the county level. For FY 2018/19, there is an allocation for the Kenya Urban Support programme that will benefit 45 county governments (excluding Nairobi and Mombasa Counties), that is aimed at supporting formulation of urban development plans and establish charters and municipal boards.

4.3.Allocations in the Division of Revenue Act & County Allocation of Revenue Act 2018

Article 218 of the Constitution provides for the vertical allocation of national government revenue between the national and county governments through the Division of Revenue Act (DORA) and horizontal allocation of revenue among the 47 county governments through the County Allocation of Revenue Act (CARA).

The vertical allocation of revenue through the DORA is based on a fiscal framework that is aimed at achieving the national agenda that is disintegrated into specific policies to be achieved annually as outlined in the Budget Policy Statement. It is at this point that the budgetary ceilings are set to guide the formulation of the annual budget estimates. On the other hand, the horizontal allocation of revenue through the CARA is based on the overall allocations in DORA and allocated amongst the county governments using an approved criteria in accordance to Article 217 of the Constitution[18].

The DORA 2018 and CARA 2018 provide for a total allocation of **Ksh. 372.74 Billion** to county governments, which is comprised of –

i) Equitable Share- **Ksh. 314 Billion**
ii) Conditional allocations from national government revenue- **Ksh. 25.50 Billion**
iii) Conditional allocations form development partners as loans and grants- **Ksh. 33.24 Billion**

Table 13: Revenue Allocation to COunty Governments for FY 2018/19 (Ksh. bln)

Type / Level of Allocation				2017/18	2018/19
	2016/17	2017/18	2018/19	% Growth Rate	
1. Equitable Share	280.30	302.00	314.00	7.7%	4.0%
2. Conditional Grants	21.90	43.68	58.74	99.5%	34.5%
*Free Maternal Health Care**	4.12	-	-	-	-
Leasing of Medical Equipment	4.50	4.50	9.40	0.0%	108.9%
Compensation for user fees foregone	0.90	0.90	0.90	0.0%	0.0%
Level 5 Hospitals	4.00	4.20	4.33	5.0%	3.0%
Special Purpose Grant (Emergency Medical Service)	0.20	-	-	-	-
Rehabilitation of Youth Polytechnics	-	2.00	2.00	-	0.0%
Supplement for Construction of County HQs	-	0.61	0.61	-	0.0%
Allocation from the Fuel Levy (15%)	4.31	11.07	8.27	157.0%	-25.3%
Allocation from development partners (Loans and Grants)	3.87	20.41	33.24	427.2%	62.9%
Total Allocation to Counties (1+2)	**302.20**	**345.68**	**372.74**	14.4%	7.8%

Source: DORA* Ksh. 4.30 Billion has been allocated for FY 2018/19 as a special grant to the National Hospital Insurance Fund (NHIF) to cater for free maternal health care, to be disbursed as a reimbursement to county government

[18] The CARA 2018 is based on the Second Criteria of allocating revenue among counties, for FY 2016/17 to FY 2018/19

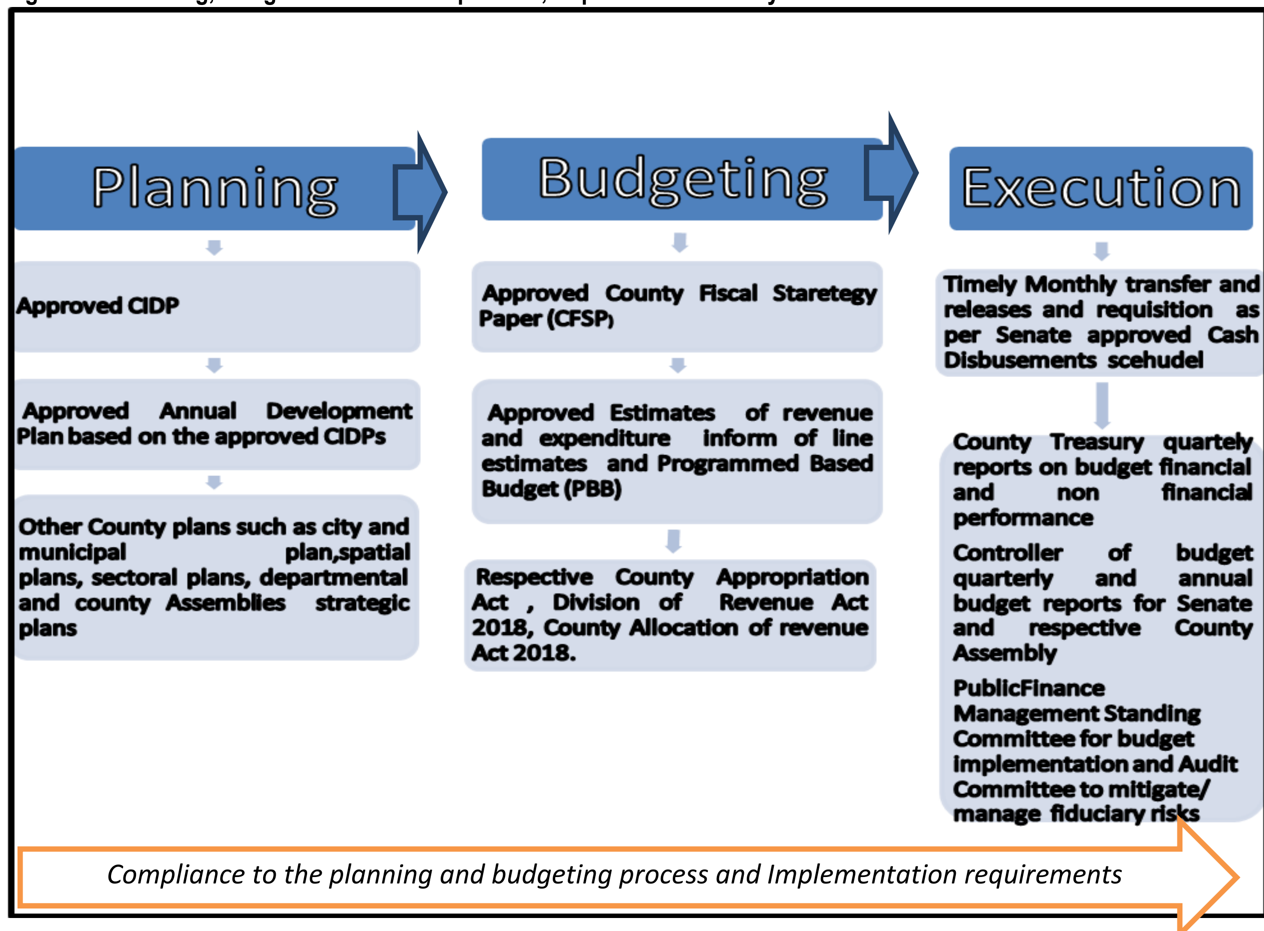
4.4.Legal Adherence: A Case of Budgets without Plans

County expenditure utilization is anchored on the basis of sound planning and budgeting with clear adherence to the core legal regimes. This include; the Public Finance Management Act, 2012, County Government Act, 2012 and Public Procurement and Asset Disposal Act, 2015 as well as enabling Regulations and other policy guidelines.

In principle, legal adherence provides critical safeguards to ensure fidelity and coherence in the planning and budgeting process, and to primarily ensure resources are not appropriated without an approved planning framework or plans. Moreover, it involves entrenching fiscal rules and principles for purposes of counties to pursue balanced budgeting and promote overall fiscal discipline and prudence in the medium term.

Fiscal rules such as threshold of development and recurrent expenditure are to specifically foster strategic use and improve allocative efficiency of county resources and towards achieving balance between operational and social spending and infrastructure development. Consequently, legal adherence underpins budget execution and implementation and informs indicators of budget performance. Figure 23 provides the ideal systematic process flow and critical documentation on the basis of the legal provision towards achieving effective County planning and budgeting and execution.

Figure 23: Planning, Budget and Execution process, requirements and key documentation



4.4.1. Legal Timeliness on Planning and Budgeting Process

Approximately 19 counties (40% percent) were able to have estimates of revenue and expenditure and respective appropriation law approved by end of June 2018. This means that the planning and budgeting process for most counties is beyond the legal timelines, despite national fiscal legislation by Parliament on division and share of revenue[19] been in place to guide county planning, budgeting and execution. Consequently, the near 60% of counties have no (timely) approved budget estimates and guiding county plans for the FY 2018/19, of which this level of non-compliance to legal timelines risks rendering affected counties ineffective with respect to service delivery.

Actual budget performance and in-year quality financial reporting will be substantially curtailed. This is due to prolonged budgeting phase and exigencies associated with vote on account window that limits expenditure provision to not more than 50% of county estimates. Budget execution involves a number of core activities such as initiation of procurement processes and award; undertake non-discretionary spending such as salaries; payment processing and cash management including the process of requisitions; programme and projects monitoring and evaluation; and reporting which require adequate time during the financial year under consideration. In addition, approved county estimates indicate weak linkages between county budget estimates and county plans, especially where planning frameworks had been considered after approval of budget estimates. Worryingly, in some cases there are no plans underpinning approved budget estimates, as budgets without plans poses considerable fiscal risks to county devolved resources and overall sound fiscal stance and economic development.

Keep an eye on:

- Impact on performance of county budgets in view of the continuous budgeting beyond the legal timelines.
- Legal implications of county releases as well as resource utilization by dint of the legal provision that planning framework shall underpin county budgeting. County budget estimates also includes Programme Based Budgeting framework which outlines key expected outputs and outcomes (See figure 23 on planning and budgeting requirements)
- Alignment of approved budgets including Programme Based Budget to County planning frameworks
- Extent to which county budgets and planning documents have been published and publicised for effective transparency and accountability and for purposes of monitoring budget performance.
- Balance between budget preparation and approval on one hand and actual budget implementation and accountability on the other to ensure compliance and service delivery at all stages/cycle as opposed to focus on budgeting only.

[19] National Legislation include Division of Revenue Act, 2018 and County Allocation of Revenue Act, 2018 indicating share of national revenue between two levels of governments and among counties, respectively

4.4.2. Legal threshold on Recurrent and development allocation

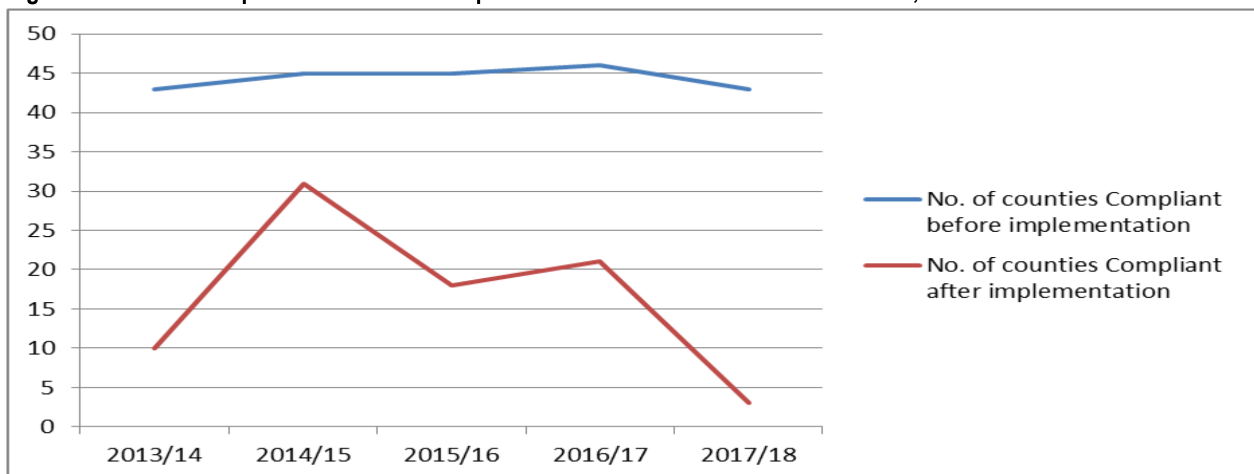
Fiscal rules form the basis for anchoring compliant budget, and thus facilitate expenditure control and implementation. County expenditure is informed by explicit fiscal rule stipulating 30:70 threshold for development (at least) and recurrent allocations, respectively. This is mainly to ensure balance between operational and development outlays and support overall fiscal policy strategy. Enforcing such measures and enhancing commitment alongside adequate sanctions involves expenditure items classification while guarding against drawbacks of short term approach by promoting long term budgeting objectives, for instance that of the county plans as per CIDP and aligning with big four agenda and fiscal consolidation.

In the last fiscal years, county expenditure allocations reflect compliance to the threshold of development – recurrent mix at the formulation stage including at the legislative approval stages (ex-ante). This compliance at the formulation stage of estimates of expenditure and revenue is partly as result of growing quantum transfers of equitable county share and to some extent over estimation of own source revenue as financing measures. However, review of county actual expenditure indicates substantial breach across most counties over the past five years (see figure 24). The ratio of development allocation continues to deteriorate for most counties perhaps due to virements of allocations between programmes and towards recurrent expenditure during budget execution coupled with low expenditure performance of capital outlays.

In addition to posing clear potential risk to county expenditure performance (and fiscal sustainability) in the medium term, some of the immediate drawbacks of non-adherence to the legal measures include high recurrent operations and increasing non-discretionary expenditure such as wages that technically inform higher baselines for subsequent budgeting.

Figure 24 indicates past performance and breaches on the threshold of development and recurrent allocation by counties before and after budget implementation.

Figure 24: Trends and performance of development allocation threshold of at least 30%, FY 2013/14 to 2017/18



Source: COB (Various Issues)

For FY 2017/18 no. of counties compliant after implementation is based on the 2017/18 nine months expenditure so far

As noted, key drivers of noncompliance level obtaining during the implementation phase is numerous supplementary budgeting sanctioning substantial reallocations which potentially negate overall objective of the medium-term budget.

Another major driver of non-compliance, and with associated risks to county fiscal capacity development, is underperformance of own source. Evidence from actual expenditure and revenue performance points to own source revenue overestimation, a budgeting practice that may be attributable to attaining 30% development threshold by programming expenditure outlays that correspond with amount overestimated. Technically, this eventually occasions increase in the stock of pending bills due to obtaining 'unbalanced budget' status informed by non-realization of budgeted own source revenue while corresponding expenditure are committed for implementation. This overestimation circumvents the principle underpinning fiscal rule. Consequently, affected counties, as a result of the effect of the overestimation, miss out on component of equitable transfers tied to respective county revenue performance (Fiscal Effort) as was the case for the FY 2018/19 allocations among county governments.

Moreover, this may exacerbate overall fiscal position especially in light of cross country evidence pointing to lack of inherent incentives and attendant sanctions to fiscal rules commitment at sub-national levels in view of the context that national government bears overall fiscal burden[20].

Keep an eye on:

- Compliance level of approved budgets to fiscal rules such as the one stipulating 30:70 thresholds of allocation between development (minimum) and recurrent outlays, respectively
- Alignment of approved budget estimates with Appropriation Act vis a vis budgets under implementation
- Impact of In-year supplementary budgeting on across votes and programme re-allocation breaching on fiscal rules on development and recurrent expenditure allocation mix.
- Program/item virement that do not merit supplementary budgeting that is not unforeseen and not urgent that also end up breaching critical legal safeguards
- Impact of overestimation of own source revenue and performance of expenditure financed through own source revenue
- Timelines and content of quarterly expenditure report and monthly fiscal out turns by County Treasury and Controller of Budget for purposes of monitoring deviations and alerts on breaches for prompt corrective measures and sanctions

[20] Teresa T., 2007 , "Fiscal Rules for Sub-national Governments: Can They Promote Fiscal Discipline?," OECD Journal on Budgeting Volume 6 – No. 3

4.4.3. Vote on Account Provisions and Expenditure before budget approvals

The law envisages Vote on Account window to mitigate against effects of delays in approval of county appropriation bill or circumstance where the county budget estimates are not approved to ensure continuity of service delivery at the county. In the case of delay of enactment of the County Appropriation law or the law is not likely to be assented to before start of the next financial year, the County Assembly grants authority to withdraw from the County Revenue Fund of up to 50% of the approved estimates until the Act is in place as stipulated in PFM, Act 2012 (Section 134) and County PFM Regulation 36. In the case where there is no estimates approved for whatever reasons, the Controller of Budget authorizes withdrawals from the County Revenue Fund on the basis of the last approved budget by the County Assembly up to fifty percent (50%) as per County PFM Regulation 38, for the purposes of meeting expenditure of the County government for the financial year under considerations.

However, and in view of past practice, this puts more focus to resource transfers and utilization that are not anchored on sound county plans and budgets and potentially circumvents results based and accountable budget performance. This major challenge is mainly on account of non-adherence to key timelines governing the budgeting process and lack of or delayed approval of key budget documents and attendant law. While the law may have envisaged a window for continuity of service delivery and avoid potential shutdown of essential services in such circumstances, this may have promoted circumventing the actual stages required in planning and budgeting since quality and comprehensiveness of key documentation and required engagement is inherently weak at this level.

In counties where this practice is increasingly viewed as an option, there have been prolonged disagreements between the Executive and the County Assembly during the budget execution stages, as the latter's role in budget making and approving is minimized substantially on account of inherent constraints such as inadequate legislative scrutiny and limited stakeholder engagements.

Keep an eye on:

- Vote on account operation that is technically the basis for county financial operations without substantive Budget Estimates and Appropriation Act.
- Counties promoting or using Vote on Account as substitute to sound planning and budgeting.
- Transfers and releases beyond the 50% approved by the County Assembly or authorized by CoB and not harmonized with approved respective Appropriation Act.

ANNEXURES

Annex 1: Challenges encountered by counties in budget implementation for FY 2013/14 to FY 2016/17

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
1	Inadequate staffing and staff capacity	High expenditure on personnel costs	High expenditure on personnel emoluments	High expenditure on personnel emoluments
2	Underperformance in local revenue collection	Low local revenue collection	Underperformance in local revenue collection	Underperformance in local revenue collection
3	Inadequate Budget monitoring, evaluation and reporting framework	Inadequate reporting and administration of county funds in contravention with Section 168 of the PFM Act	Late submission of financial reports by the county governments to the COB leads to delays in preparation of the County Budget Implementation review reports	Delay in submission of financial reports
4	Intermittent use of IFMIS by County Governments	Large outstanding imprests	Delays in preparation and approval of key budget documents such as ADP, CFSP in line with budget timelines as given in Section 117 and 126 of the PFM Act.	IFMIS Connectivity challenges and frequent downtime that affected timely approval of procurement requests, payments and financial reporting by the county treasuries
5	Lack of internal audit functions and committees	Lack of effective monitoring and evaluation frameworks for development projects	Failure by the National Treasury to disburse funds based on the approved cash disbursement schedule which affects timely implementation of approved expenditure	Delay by the National Treasury to disburse the equitable share of revenue raised nationally in line with the approved cash disbursement schedule
6	Low absorption of development funds	High level of pending bills	High level of pending bills	High level of pending bills
7	Operationalization and financial independence of the county departments	Some counties higher incurred expenditure than the approved supplementary budget allocations	Inadequate internal audit function and audit committees	
8	Frequent budget revisions	Recruitment and remuneration of ward employees under the county assemblies by the MCAs instead of the County Public Service	Some counties had not established County Budget and Economic Forums (CBEF) in line with Section 137 of the PFM Act, to provide a consultation forum	

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
		Boards as required by law	on budget and financial management issues at the county level.	
9	Failure to deposit local revenue into the county exchequer accounts			
10	High expenditure on domestic and foreign travel			

Source: COB Reports

Annex 2: Fiduciary Risks per County for FY 2012/13 (Ksh. Million)

County	Under Expenditure	Unsupported expenditure	Unbanked revenue	Unbudgeted expenditure	Outstanding Imprests	Irregular payments	Over expenditure
Baringo			2,355,366			996,500	
Bomet							
Bungoma					4,413,632		
Busia		10,320,867			6,179,410		
Elgeyo Marakwet		2,343,965				928,600	
Embu		4,053,445			3,600,000	1,337,740	
Isiolo						790,950	
Kitui						2,882,100	
Garissa		14,733,013			7,888,074	1,895,350	
Homabay						186,000	
Kajiado		1,318,250					
Kakamega					3,455,972		
Kericho		30,170,712					
Kiambu		300,000		1,058,348,332			
Kilifi					2,088,016		
Kirinyaga							
Kisii					14,202,850	5,875,500	
Kisumu							
Kwale							
Laikipia							
Lamu					631,570		
Machakos		19,851,875					
Makueni						425,000	
Mandera		14,216,363					
Marsabit							
Meru		2,984,100					
Migori						4,825,000	
Mombasa		11,481,604					
Muranga							
Nairobi		470,386,525			235,903,246		
Nakuru						29,319,926	
Nandi							
Narok							
Nyamira					3,913,172		
Nyandarua		1,693,536				342,000	19,780,000
Nyeri							
Samburu							
Siaya							

County	Under Expenditure	Unsupported expenditure	Unbanked revenue	Unbudgeted expenditure	Outstanding Imprests	Irregular payments	Over expenditure
Taita Taveta							
Tana River		3,723,747		2,157,240			
Tharaka-Nithi						6,794,740	
Trans Nzoia							
Turkana	146,037,837					42,227,550	
Uasin Gishu	114,481,338					78,958,368	
Vihiga		25,665,213			3,675,676		
Wajir		7,685,500				5,311,750	
West Pokot							
Total	**260,519,175**	**620,928,715**	**2,355,366**	**1,060,505,572**	**285,951,618**	**183,097,074**	**19,780,000**

Source: Report of the Auditor General

Annex 3: Fiduciary Risks per County for FY 2013/14 (Ksh. Million)

	County	Under Expenditure	Pending Bills	Unsupported Expenditure	Unaccounted for Expenses	Under Reporting of Revenue	Unbudgeted Expenditure	Uncompleted Projects	Outstanding Impress	Irregular Payments
1	Baringo	152.00	-	36.01	-	-	-	-	20.72	8.25
2	Bomet	-	-	30.63	94.73	27.31	11.98	-	0.90	15.44
3	Bungoma	-	-	9.92	14.73	-	-	-	34.46	29.08
4	Busia	-	-	-	-	15.72	70.60	293.64	7.12	-
5	E/Marakwet	-	-	16.59	-	-	-	-	12.67	17.96
6	Embu	-	-	-	-	-	-	-	-	-
7	Garissa	-	13.10	335.78	188.69	-	-	-	46.35	44.00
8	Homa Bay	-	-	59.32	-	-	-	-	-	7.11
9	Isiolo	1.12	50.21	25.94	113.65	7.71	-	-	-	1.98
10	Kajiado	-	6.81	114.83	118.40	-	4.06	-	17.93	5.06
11	Kakamega	557.24	-	445.95	22.20	-	10.00	-	-	511.28
12	Kericho	-	650.91	-	253.00	7.92	-	-	3.19	-
13	Kiambu	-	99.28	32.80	-	9.31	-	-	26.36	34.80
14	Kilifi	-	-	295.12	7.32	-	140.00	-	22.66	58.00
15	Kirinyaga	129.33	39.24	67.52	44.36	13.74	-	-	4.55	96.34
16	Kisii	-	0.14	-	38.36	5.14	66.10	-	35.87	465.21
17	Kisumu	-	266.08	249.11	92.15	33.76	35.37	81.00	-	243.70
18	Kitui	-	529.00	540.93	3.25	39.65	-	-	-	41.97
19	Kwale	-	-	62.28	1.37	-	-	-	19.59	4.14
20	Laikipia	-	232.10	13.48	9.81	15.71	-	-	-	30.29
21	Lamu	-	-	-	-	-	-	-	36.81	104.83
22	Machakos	-	712.86	219.42	-	-	-	12.54	46.96	28.20
23	Makueni	1,128.50	273.39	282.89	0.30	-	-	-	5.03	62.60
24	Mandera	-	18.70	164.47	6.87	12.93	-	-	26.21	141.53

	County	Under Expenditure	Pending Bills	Unsupported Expenditure	Unaccounted for Expenses	Under Reporting of Revenue	Unbudgeted Expenditure	Uncompleted Projects	Outstanding Imprests	Irregular Payments
25	Marsabit	-	-	-	-	-	-	-	-	-
26	Meru	-	-	95.12	72.08	0.32	904.30	-	26.70	93.47
27	Migori	-	1.84	39.12	3.27	0.26	145.29	-	29.39	359.92
28	Mombasa	-	-	140.59	25.43	1,077.98	-	-	57.95	41.60
29	Murang'a	-	32.96	37.50	28.28	-	-	-	24.00	74.89
30	Nairobi	-	58,342.85	190.55	44.48	96.15	88.40	-	31.29	252.88
31	Nakuru	-	1,326.10	180.60	-	-	540.28	-	20.12	64.27
32	Nandi	-	28.50	8.13	18.43	0.84	-	-	-	13.45
33	Narok	-	-	112.00	4.71	-	-	-	4.22	19.96
34	Nyamira	-	8.76	40.67	6.70	-	5.08	-	6.44	50.46
35	Nyandarua	-	-	717.44	106.26	10.48	-	-	27.89	148.99
36	Nyeri	-	120.43	243.34	44.50	19.61	793.74	-	26.82	45.36
37	Samburu	-	-	6.10	-	22.05	-	-	89.65	12.24
38	Siaya	-	-	114.72	4.30	-	69.45	-	1.20	254.70
39	Taita Taveta	-	-	676.59	27.30	-	5.51	-	44.55	92.58
40	Tana River	-	-	250.16	8.46	-	-	-	8.25	110.46
41	Tharaka Nithi	-	40.10	66.03	10.27	151.34	649.31	-	40.60	119.82
42	Trans Nzoia	-	45.17	191.51	41.82	72.32	-	-	64.15	24.79
43	Turkana	-	-	140.65	-	-	-	-	-	51.48
44	Uasin Gishu	-	-	14.78	14.11	17.34	-	-	36.69	8.41
45	Vihiga	-	-	255.65	46.12	1.05	12.73	-	56.98	53.03
46	Wajir	-	-	17.20	69.19	-	-	-	-	139.65
47	West Pokot	-	-	41.01	2.43	4.13	-	-	-	7.14
	Total	**1,968.20**	**62,838.52**	**6,582.46**	**1,587.29**	**1,662.78**	**3,552.20**	**387.18**	**927.46**	**3,886.48**

Source: Report of the Auditor General

Annex 4: Fiduciary Risks per County for FY 2014/15 (Ksh. Million)

	County	Under Expenditure	Pending Bills	Unsupported Expenditure	Under collection of revenue	Uncompleted and stalled projects	Outstanding imprests	Irregular payments	Completeness and Accuracy	Others
1	Baringo	904	174	_	50	3	_	_	_	43
2	Bomet	96	210	22	275	20	_	54	_	190
3	Bungoma	140	140	494	632	18	_	153	89	128
4	Busia	_	_	14	_	32	24	42	142	59
5	E/Marakwet	295	274	_	19	_	12	_	494	89
6	Embu	_	254	22	357	13	_	114	807	230
7	Garissa	1,027		119	370	_	_	3,367	2,991	578
8	Homa Bay	346	404	22	(80)	_	_	123	534	321
9	Isiolo	313	169	4	229	_	2	42	29	46
10	Kajiado	551	1,056	1,454	186	_	_	13		401
11	Kakamega	441	734	1,727		27	_	815	1,875	349
12	Kericho	412			375	44	_	35	413	234
13	Kiambu	1,291	609		1,241	13	4	47	895	544
14	Kilifi	1,776		1,073	467	392	97	59	514	431
15	Kirinyaga	724	241		687	_	_	187	5,888	327
16	Kisii	_	2,068	705	838	_	10		7,287	128
17	Kisumu	3,024	536	_	715	17	996	37	1,032	58
18	Kitui	40	397	276	216	_	_	67		406
19	Kwale	1,905	1,681	_	_	1,168	_	26	1,356	324
20	Laikipia	_	389	95	528	18	4	21	3,473	443
21	Lamu	136	_	63	_	378	34	136	748	246
22	Machakos	2,314	2,291	65	_	_		147	3,361	654
23	Makueni	272	78	160	184	_	5	239	2,428	563
24	Mandera	_	2,572	40	163	_		2,071	3,652	2,437
25	Marsabit	641	630	1,233	1,101	_	6	35	145	66

26	Meru	1,012	1,823	1,079	49	_		292	1,123	211
27	Migori	501	426	2	145	_	9		5,466	
28	Mombasa	2,801	1,971		2,490	_	112	50	8,404	617
29	Muranga	355	1,434	1,074	238	4		1,016	4,695	545
30	Nairobi	1,865	78,905	_	1,906	115	40	_	11,417	987
31	Nakuru	2,457	2,457	_	43	_	1	_	534	698
32	Nandi	541	487	23		_	_	_	1,607	457
33	Narok	1,641	1,220	11	1,734	_	_	_	_	
34	Nyamira	923	403	5	23	_	_	130	1,283	139
35	Nyandarua	466	408	833	_	_	_	48	1,439	456
36	Nyeri	_	324	2,822	694	_	_	103	842	229
37	Samburu	_	408		236	5	32	_	5	49
38	Siaya	1,468	24	1,319	158	_	36	90	94	325
39	Taita Taveta	910	599	283	266	_	6	_	1,010	121
40	Tana River	951	_	725	88	_	28	420	121	46
41	Tharaka Nithi	_	801	38	87	_	70	40		35
42	Tran Nzoia	805	232	56	84	18	76		220	42
43	Turkana	4,695	_	448	_			282	6,190	646
44	Uasin Gishu	966	388	566	82	26	12	202	547	276
45	Vihiga	713	959	1	18	_	26	243	432	46
46	Wajir	666	671	27	1,012	_		220	260	125
47	West Pokot	_	307	_	_	_	7	487		_
		39,479.90	**108,978.38**	**16,899.65**	**17,852.90**	**2,306.80**	**1,648.07**	**11,451.15**	**83,841.10**	**15,300.80**

Source: Report of the Auditor General

Annex 4: Fiduciary Risks for County Executives for FY 2015/16 (Ksh. Million)

No.	County	Irregular Procurement	Under Expend.	Pending Bills	Unsupp. Expend.	Unaccount. Expenses	Under Collection of revenue	Excess Expend.	Uncomplete and stalled projects	Outstanding Imprests	Irregular Payments	Others
1	Baringo	22.14	18.47	184.52	11.69	1.50	95.52	97.84	236.13	5.67	-	1,583.58
2	Bomet	2.00	275.66	194.99	1,062.79	15.83	118.36	819.64	160.48	-	0.65	103.67
3	Bungoma	-	1,395.00	-	123.76	2.23	659.60	-	85.91	24.07	4.00	3,364.90
4	Busia	-	1,216.51	668.89	118.29	-	252.26	-	171.85	2.16	-	2,166.85
5	Elgeyo Marakwet	-	850.77	805.06	37.29	-	317.12	-	13.87	13.22	-	4,826.58
6	Embu	3.40	222.74	1.04	40.16	14.14	1,200.54	-	434.52	-	-	3,719.26
7	Garissa	-	877.00	-	63.00	160.91	877.58	-	117.89	-	1.29	-
8	Homa Bay	370.73	-	466.75	34.61	8.23	10.03	-	91.22	-	-	3,393.03
9	Isiolo	33.46	243.99	448.49	96.57	12.45	243.97	-	-	-	332.38	16,912.24
10	Kajiado	1.05	1,647.29	679.48	1,646.35	13.08	-	-	100.55	-	1,527.49	742.53
11	Kakamega	219.60	-	626.36	215.47	17.18	557.44	55.60	454.79	14.03	-	2,640.07
12	Kericho	8.73	599.77	552.63	4.98	5.98	-	5.53	343.04	-	45.42	2,891.72
13	Kiambu	-	916.18	388.36	31.64	-	893.32	14.62	184.31	-	77.59	2,881.09
14	Kilifi	92.18	3,043.11	-	3,200.77	1,191.54	353.06	-	187.79	82.28	188.99	3,169.94
15	Kirinyaga	-	581.74	98.28	111.85	-	109.62	-	-	11.16	-	-
16	Kisii	94.21	1,011.50	84.18	3.77	116.89	311.62	-	2.67	18.14	7.00	30.00
17	Kisumu	-	-	-	-	2.74	1,197.27	-	1,806.93	182.13	91.36	1,428.16
18	Kitui	-	-	-	185.49	-	3,354.57	-	-	11.79	-	3,404.31
19	Kwale	-	-	-	47.36	-	5.35	1,290.08	59.59	4.65	12.50	5,018.04
20	Laikipia	-	1,068.56	995.80	9.99	-	252.72	-	52.77	-	-	10.09
21	Lamu	241.15	-	21.62	2,666.78	-	53.86	-	19.77	7.62	13.34	-
22	Machakos	-	-	-	5,374.26	24.29	1,252.95	-	-	-	-	-
23	Makueni	-	-	292.01	393.31	-	329.07	-	-	-	-	572.18
24	Mandera	-	1,913.40	-	272.27	-	189.98	-	-	-	-	3,174.52
25	Marsabit	-	-	696.02	1.23	-	17.96	-	-	-	-	13.99
26	Meru	7.47	605.58	1,311.16	3,702.19	-	716.40	-	-	-	1.83	15.10

No.	County	Irregular Procurement	Under Expend.	Pending Bills	Unsupp. Expend.	Unaccount. Expenses	Under Collection of revenue	Excess Expend.	Uncomplete and stalled projects	Outstanding Imprests	Irregular Payments	Others
27	Migori	-	458.06	937.86	2,604.28	2.85	-	-	-	1.24	-	124.11
28	Mombasa	-	15.90	1,411.19	3,809.79	-	146.09	-	113.83	323.65	82.21	-
29	Murang'a	272.07	-	1,132.75	156.91	37.29	208.19	-	-	35.18	0.16	671.22
30	Nairobi City	0.91	1,741.97	48,297.62	-	663.34	6.60	1,243.62	-	25.20	480.27	-
31	Nakuru	42.63	-	-	7,757.83	8.76	2,450.32	-	428.73	11.24	948.16	-
32	Nandi	-	831.10	633.46	132.11	-	-	-	96.52	-	-	-
33	Narok	-	720.95	502.26	206.14	-	1,100.33	-	-	4.04	34,021.69	-
34	Nyamira	91.26	-	89.24	34.96	-	138.84	223.32	5.64	5.14	3.76	52.50
35	Nyandarua	90.09	-	563.90	66.86	4.12	298.83	5.14	50.18	7.97	6.21	-
36	Nyeri	-	-	97.21	-	-	660.10	-	3.41	63.59	-	5,029.90
37	Samburu	5.09	533.70	1,226.09	11.49	10.23	196.13	-	-	32.23	53.56	-
38	Siaya	72.63	131.18	1,153.98	392.32	14.30	7.30	-	-	31.12	101.74	7,094.01
39	Taita Taveta	35.12	-	295.48	162.66	-	326.07	-	-	28.75	0.53	-
40	Tana River	-	-	-	97.36	304.22	93.88	-	-	9.27	251.41	-
41	Tharaka-Nithi	6.85	-	329.90	575.67	1.25	432.40	21.73	-	86.02	88.22	-
42	Trans Nzoia	164.88	-	9.29	-	-	-	-	22.07	46.00	-	1,835.59
43	Turkana	55.17	3,007.92	-	1,505.69	82.37	100.87	-	3,246.54	-	115.59	1,063.79
44	Uasin Gishu	16.10	-	-	627.23	-	317.80	-	261.03	13.48	34.50	10.60
45	Vihiga	18.60	233.54	-	76.42	93.41	-	-	-	4.03	-	1,339.50
46	Wajir	848.99	-	365.27	13.30	50.00	-	-	13.33	-	-	-
47	West Pokot	-	328.52	42.39	520.33	-	79.05	-	-	-	-	54.00
	Total	**2,816.50**	**24,490.11**	**65,603.54**	**38,207.22**	**2,859.15**	**19,932.95**	**3,777.11**	**8,765.36**	**1,105.06**	**38,491.85**	**79,337.08**

Source: Report of the Auditor General