REPUBLIC OF KENYA

PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY BUDGET OFFICE

Unpacking the Estimates of Revenue and Expenditure for 2016/17 and the medium term

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Disclaimer

The Parliamentary Budget Office (PBO) is a non-partisan professional office of the Parliament of the Republic of Kenya. The primary function of the Office is to provide professional advice and objective analysis in respect of the budget, finance and the economy.

For more information, contact:

The Director,

Parliamentary Budget Office

Parliament of the Republic of Kenya

Protection House, 10th Floor

P.O. Box 41842 – 00100 GPO

NAIROBI, KENYA

Tel: +254-20-222-1291

Fax: +254-20-243-694

Email: pbo@parliament.go.ke

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THE KEY MESSAGE

- ✓ The total level of compliance is 57.14 percent; key concerns include lack of clarity on whether the public was consulted as there is no report that informs how the views of the public was factored in the 2016/17 budget estimates.

- ✓ The resolution of the House on the BPS 2016 approved a total expenditure of Ksh. 1,498.4 billion; this included Ksh 1.451.2 billion for the National Government, Ksh 29.4 billion for Parliament and Kshs. 17.8 billion for the Judiciary. However, all the three arms of government did not abide to these ceilings when preparing their estimates. In overall terms, the budget increased by Kshs.132.9 billion to stand at Kshs.1, 678.4 billion.

- ✓ GDP growth estimate of 6.0 percent in 2016 is unlikely to be met due to exogenous shocks such as the 2017 election's fever coupled with weak outlook of global economy. Overall, the budget for 2016/17 appears to build on policies that have been put in place in the previous years and expenditure has increased broadly in line with these policies. In 2016, the pace of growth is therefore likely to remain, on average, on the same level as what was recorded in 2015 (5.6 percent). This is expected to rise to about 5.8 percent in 2017.

- ✓ Realistic macroeconomic projections underpinning any budget provide the building blocks of a reasonable resource envelope. This in turn gives credibility to the budget and avoids adjustments in the course of the year. The 2016/17 resource envelope forecast is based on weak fundamentals emanating from an optimistic GDP forecast amid uncertainties with regard to absorptive capacity of donor funded development expenditure.

- ✓ The principle behind the resolution of the House and the guidelines from Treasury to have the development budget to include a list of projects reconcilable to development budget estimates was so as to ensure it is possible to have adequate information on all projects, including the spatial distribution. The list that has been provided is not comprehensive as it does not show the total cost of the project, the start date; the actual allocation to date and the balance. In addition, there are some projects that have allocations even in the financial years that are beyond their completion dates and are more than their total costs.

- ✓ Despite enhanced investment in agriculture, the country is yet to achieve food security and with inadequate rainfall over most parts of the country, there is a high likelihood of food shortage and high food prices.

- ✓ The declining number of tourists is a worrying trend to the economy in terms of loss of jobs and reduced foreign exchange earnings.

- ✓ Debt policies are not well articulated therefore it is hard to evaluate whether fiscal consolidation will be achieved or not. In the BPS, 2016, the domestic borrowing for financial year 2016/17 was projected at Ksh. 197.6 billion; however, in the estimates submitted the domestic debt is set to rise by Kshs.43.5 billion to Ksh. 241.1 billion. This clearly shows the budget is not driven by any policy as the aspirations as espoused in the BPS on fiscal consolidation were not adhered to. A case in point is that the 2016/17 deficit, including grants is projected to stand at 10.1 percent.

- ✓ The level of debt in Kenya is approaching unsustainable levels and is expected already the ratio of debt service to revenue has reached its limit of 30 percent and is expected to bypass its limit in the 2017 by 4.7 percentage points on account of debt redemptions and interest rate costs that are expected to rise substantially in the FY 2017/18.

- ✓ The implementation of Program Based Budgeting (PBB) was to ensure that budget is based on expected results. In an art shell, PBB was supposed to focus on expected services and goods rather than the inputs. A review of the estimates in particular the program based estimates its clear that there is inconsistency between the narrative in estimates and the targets in the programmes as provided in the estimates. In addition, a number of ministries their performance targets in most cases are not SMART (Specific, Measurable, Achievable, Realistic and Time bound)

- ✓ The 2017 pre-election mood has set in too early. The country will benefit more if its citizenry engage more of their time in activities for creating more wealth than those related to activism and that reduce the wealth already created leading to loss of income in some sectors.

I. INTRODUCTION

1) The 2016/17 budget estimates submitted to National Assembly for approval are the 4th under the current administration. The theme for this year's budget estimates is "***sustaining prosperity in a volatile global economy***". The budget has been prepared against a backdrop of uncertainties caused by both the external and internal factors affecting the macroeconomic environment of Kenya's economy. The weak global economic outlook occasioned by a decrease in aggregate demand in Europe and China, the strengthening of the US dollar and decrease in commodity prices could negatively affect the country's export earnings.

2) Regionally, Kenya is slowly losing its comparative advantage of being a hub of the region. This is a result of policies that are not in tandem with its East African counterparts. As seen recently, Uganda has decided to build its crude-export pipeline through Tanzania. Furthermore, the country is operating a deficit which is large, which means it may be difficult for the country to achieve a 3 percent fiscal deficit in 2021 as required in the criterion for macroeconomic convergence of East Africa economies.

3) The slowdown in development programmes that has been caused by low revenue collection as well as delay in exchequer issues, has also brought forth uncertainty as to whether the numerous projects in the various sectors of the economy are attainable within the specified timeframe in various policy documents. In addition, the election mood currently being experienced as the country is gearing itself for the 2017 general elections have dampened the investment mood of the country as most investors are practising the wait and see approach.

1.1 Legal basis for the Submission of the Budget Estimates

4) The submission and approval of the 2016/17 budget estimates by National Assembly is anchored in the Constitution pursuant to Article 221, the Public Finance Management ((PFM) Act, 2012 (section 38), Public Finance Management Act (PFM) Regulations and Standing Orders. The National Government and Judiciary submitted their respective budget estimates pursuant to Article 221(3) to Parliament on the 28th of April 2016 while Parliament submitted its budget estimates to National Assembly on the 27th April 2016.

5) The analysis of the 2016/17 Budget Estimates shall be divided as follows: Introduction and Legal Underpinning, Macroeconomic Environment underpinning the 2016/17 budget, Fiscal Framework for 2016/17, Government transformation programs, Highlights of Ministerial Expenditures, Analysis of CFS Expenditures and Analysis of Equalization fund.

1.2 Criteria for Assessing the 2016/17 Medium Term Budget

6) The analysis identifies and employs various overarching criteria with a view to assess and gauge the responsiveness of the 2016/17 medium term budget with respect to some of the measures outlined and expected performance. The aim of the criteria is to reinforce and underscore major strength of the budget but also highlight gaps and inadequacies that have in the past contributed and pose fiscal and budgetary risks that need to be addressed in line with international best practices. Listed below are five key criteria for overall assessment in which the analysis further expounds in the various sections:

(i) Comprehensiveness, Clarity and credibility: It is critical to assess whether the Budget as designed and submitted is within clear and credible limits for fiscal policy, quality of assumptions underpinning macroeconomic outlook as well as revenue projections upon which the expenditure framework is premised. Budget credibility also focuses on consistency between proposed allocation and expected targets with comparisons on past programme and fiscal and macroeconomic targets and performance

(ii) Alignment with medium-term priorities and approved 2016 Budget Policy Statement (BPS: This criterion is a critical indicator to assess whether the estimates of Revenue and Expenditure are aligned with the medium-term strategic priorities of government as provided for in the thematic pillars underpinning the Medium Term Budget Policy Statement. This is necessary to highlight allocations towards unplanned interventions at the expense of ongoing projects and programmes that are underfunded and unfunded. In addition, it is important to gauge to what extent the Budget Policy Statement guided the preparations of the estimates.

(iii)Efficacy of capital budgeting framework: The areas under focus under the capital budgeting framework is to evaluate whether outlined interventions meet the national development needs in a cost-effective approach especially where in the past allocations to some projects and programmes lack evidence of appraisal and evaluation profile. The analysis highlights project whose benefits have been delayed or are taking long to be implemented despite provisioning over the years. The assessment also reviews the adequacy of capital projects data beyond the traditional approved/proposed allocations which to a larger extent informs the constitutional imperatives of transparency and accountability in the use of public finances. Moreover, the push for development interventions to be assessed on account of asset creation or renewal necessary for meaningful and sustainable growth is critical. The criterion also highlights on cases of externally funded component that have registered below target absorption rate on account of low disbursements or poor utilization that further occasion additional costs in form of forgone opportunities and cost overruns.

(iv) Justification of the allocations: The goal is to assess whether the budget estimates provide for comprehensive, accurate and reliable account of the public finances.

(v) Quality of proposed management and monitoring of the Budget: The intention is to **a**ssess for concrete plan to manage, execute and monitor the commitments made in FY 2016/17 Budget in comparison with current budget under implementation. This is partly informed by the experiences of in year adjustments through revised estimates where annual approved spending plans are subjected to reallocations not in tandem with expected outputs and targets putting into question the realism of the budget as designed and executed, and new impetus to deepen national government budget reforms as well as the boosting nascent efforts at sub national levels.

II. LEGAL COMPLIANCE OF BUDGET ESTIMATES OF 2016/17

7) Table 1: below shows a review of the adherence of the submitted budget estimates to legal provisions.

Table 1: Review of adherence of budget estimates to legal provisions

Key Element	Detailed Requirements	Legal Provisions	Compliance Rate	Comments
1. Timelines: *Were the estimates of 2016/17 and medium term submitted to the National Assembly on time? i.e. by 30th April.*	**1.1** National Government	Constitution, PFM Act, PFM Regulations Standing Orders	2.5 out of 2.5	National Government submitted their estimates on 28th April, 2016
	1.2 Parliamentary Service Commission		2.5 out of 2.5	Parliament submitted their estimates on 27th April, 2016
	1.3 Judiciary		2.5 out of 2.5	Judiciary submitted their estimates on 28th April, 2016
2.Comprehensiveness of the estimates and related documents: *Do the estimates provide enough details?*	**2.1** The ceilings approved in the report on 2016 Budget Policy Statement, shall serve as the basis of the expenditure ceilings for 2016/17 and medium term		1.0 out of 2.5	Most of the ceilings were not adhered to. See table 8 and 9
	2.2 Fiscal responsibilities principles: explanation of how the budget relates to the principles.		1.0 out of 2.5	Information provided for in the Budget Summary indicates that some of the principles such as the threshold of compensation to employees
	2.3 List of all projects been implemented in the financial year 2016/17 and the medium term		0 out of 2.5	There is no comprehensive list of all projects being funded leading to lack of transparency and openness
	2.4 Allocation to state corporations/all entities on those that are to receive appropriated funds		2.5 out of 2.5	Information Provided
	2.5 Detailed estimated expenditure by vote and programme indicating both recurrent and development expenditure		2.5 out of 2.5	Information is provided
	2.6 Summary of budget policies		1.5 out of	Some policies are not well articulated.

Key Element	Detailed Requirements	Legal Provisions	Compliance Rate	Comments
	including policies on revenue, expenditure, debt and deficit		2.5	Such as debt and revenues policies in the Budget Summary
	2.7 Information on revenue allocations to county governments from the national government's share, including conditional and unconditional grants		2.5 out of 2.5	Information is provided
	2.8 Information on estimated revenue by broad economic classification		2.5 out of 2.5	Information has been provided
3. Financing proposals: *Do the estimates provide reliable information of the government's financing of the budget?*	**3.1** On anticipated deficit / surplus for the financial year and the MT and the proposed source of financing	Constitution, PFM Act, PFM Regulations	1.0 out 2.5	Though the information is provided, the framework is may be based on unrealistic GDP growth level
	3.2 On loans and guarantees made to and by the national government, including an estimate of principal, interest and other charges to be paid by the national government in the financial year in respect of those loans		1.5 out of 2.5	The information provided does not indicate interest and other charges to be paid in the financial year
	3.3 On payments to be made and liability to be incurred by the National Government for which an Appropriation Act is not required.		2.5 out of 2.5	Information has been provided.
	3.4 Information regarding payments to be made and liabilities to be incurred that need constitutional approval or legislative authority for such payments		1.5 out of 2.5	Limited information provided
4. Public Participation: *Were the key stakeholders consulted during preparation of the estimates?*	**4.1** Do the estimates comply with the CRA policy: on revenue allocated to, and expenditures projected from, the equalisation Fund over the medium term.	Constitution, PFM Act, PFM Regulations	0 out of 2.5	The criterion used by National Treasury does not comply with CRA recommendations
	4.2 Did the National Government consult the public when preparing their estimates?		0 out of 2.5	National Government have not attached a report that informs on the views of the public
	4.3 Did Parliament consult the public when preparing their estimates?		0 out of 2.5	Parliament have not attached a report that informs on the views of the public
	4.4 Did Judiciary consult the public when preparing their estimates?		0 out of 2.5	Judiciary have not attached a report that informs on the views of the public
5. Adherence on the recommendations by National Assembly on the BPS and previous year(s) budgets	**5.1** Memorandum explaining how the resolutions adopted by the National Assembly on the BPS have been taken into account	PFM Act, PFM Regulations	1.5 out 2.5	The memorandum has been included in the budget summary document but some of the resolutions were not adhered to.
	5.2 A statement specifying the measures taken by the national government to implement any recommendations made by the National Assembly with respect to the budget for previous financial year or years.		1.5 out 2.5	No information provided after the year 2015/16
Total Level of Compliance	-	-	**30.0 out of 52.5**	**57.14 %**

Emerging Issues

8) *A review of the documents submitted to National Assembly indicate that there are some issues of concern in regards to the extent of its adherence. These issues are:*

i) *The spending agency ceilings in the adopted report BPS by the House were not adhered to as required under section 25(8) and 27(4) of the PFM Act and PFM Regulations respectively.*

ii) *Some of the fiscal responsibility principles spelt out in PFM section 15 and PFM Regulations 26 (1) have not been adhered to. The 2016/17 budget estimates have failed to factor in compensation to employees of state owned enterprises. Furthermore, revenues are unrealistic. The revenues projected are not in tandem with the forecasted revenues in Budget Policy Statement, 2016.*

iii) *The memorandum by the Cabinet Secretary explaining resolutions adopted by National Assembly on the BPS, indicates that some of the resolutions were not adopted. The resolutions not adopted include: The house resolved Kshs. 1 billion for Economic Stimulus Programme (ESP) however they were allocated Kshs. 0.5 billion. In addition, although a list of projects has been provided in the development estimates, it's difficult to evaluate the new and ongoing projects.*

iv) *Debt policies are not well articulated therefore it's hard to evaluate whether fiscal consolidation will be achieved.*

v) *There is no information in regards to the principle, interest and other charges for the new loans for the upcoming financial year.*

vi) *No publication of citizens' budget (Mwananchi's guide) on National Treasury Website as required under PFM regulations 6(2).*

III. MACROECONOMIC ENVIRONMENT UNDERPINNING THE 2016/17 BUDGET

"Who is really feeling the 5.6 percent economic growth? It is perhaps a paradox that the continued economic growth of above 5 percent as witnessed in the past 5 years has not put a dent to poverty. Could this be because those who benefit from growth are often those who own wealth?" ***from the desk of a fiscal analyst***

3.1Introduction

9) The 2016/17 budget provides the opportunities that Kenya may exploit to achieve the Vision 2030 targets. For this to happen, there is urgent need for the country to put in measures on how to constrain its expenditure while still focusing on providing an investor friendly environment for the private sector to thrive. Factors which had been counted on to propel this growth include a stable macroeconomic environment with inflation remaining within the single digits and the exchange rate remaining stable as well as increased investment levels due to ongoing major development projects such as the Standard Gauge Railway, road construction and Geothermal development. This includes enhancing security and governance issues in order to enhance investor confidence and boost tourism as well as address corruption to enhance efficiency in utilization of public resources.

10) However, the 2016/17 budget has been prepared at a time when the country is grappling with serious internal and external challenges in its macroeconomic environment which may prevent it from becoming an Africa tiger. These include the following:

3.2Economic Growth

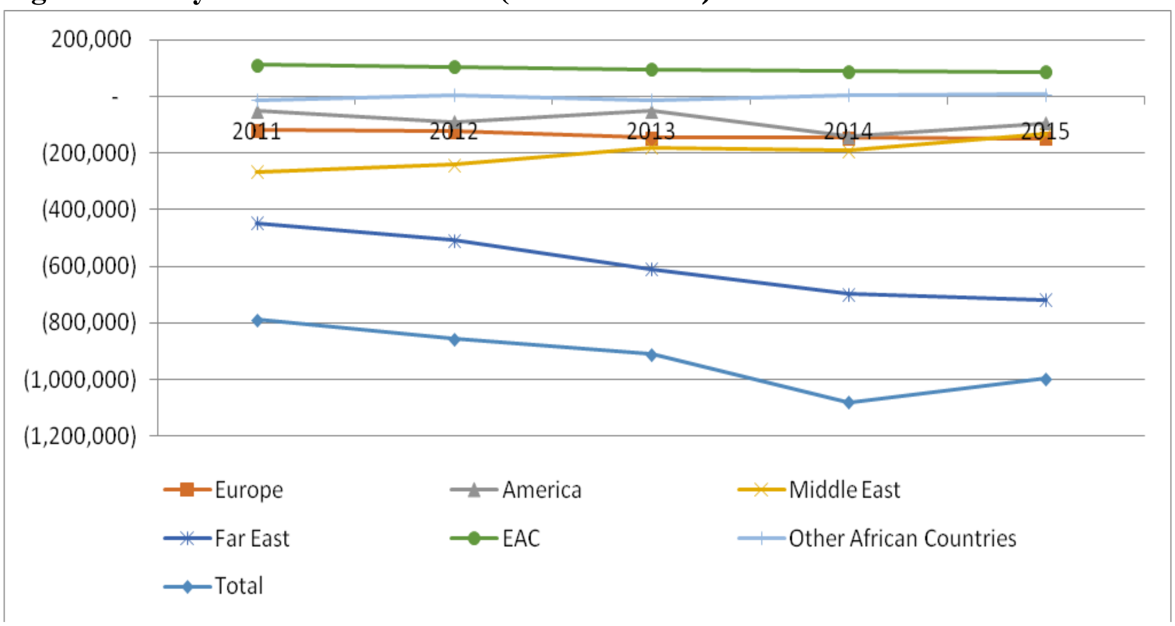
11) The Kenyan economy grew by 5.6% in 2015 up from 5.3% in 2014. The growth was largely supported by agricultural sector (30%), manufacturing sector (10.3%), transport and storage (8.4%), real estate (7.6%), wholesale and retail (7.5%), and financial and insurance activities (6.9%). **Analysis of the GDP from an expenditure approach denotes that the economy has continued to be largely supported by private consumption (78.6%) while the government consumption supported only 14.5%.**

12) **The framework underpinning the 2016/17 Budget Estimates projects that the economy will expand in 2016 by 6.0% compared to 5.6% in 2015.** The growth will be supported by a strong output in agriculture due to a stable weather outlook; completion of key infrastructure projects in energy, rail and roads; stronger consumer demand and private sector investment; and a stable macroeconomic environment. The government bases the growth on its progressive focus on the five pillars

13) **Downside risks still linger.** For instance, the trade balance is still not in the country's favor with the total imports being more than the total exports by about Kshs. 1 trillion. The only region where Kenya's trade balance has been improving over the recent past is the Middle East and other African countries while the trade balance with the Far East has drastically deteriorated. The increase in imports from the Far East is explained by the substantial increase in import expenditure for railway construction materials from China.

14) It is crucial to note the Kenya's trade balance with the EAC has been gradually reducing albeit still positive. This is because the country has experienced a slower growth of export to the EAC while the growth of imports has significantly improved thus raising a worrying trend. Unlocking Kenya's export potential, a high priority.

Figure 1: Kenya's Balance of Trade (Kshs. millions)



Source: Economic Survey 2016

15) In the international scene, the low projected growth is likely to dampen trade outlook:

i. In 2016, the Economy is poised to grown at 3.4 percent compared to the original forecast of 3.6 percent in January 2016.
ii. China is catching the cough, the growth forecast has been downgraded, and China is projected to grow at 6.3 percent amid huge capital outflows, slide in the currency and the summer stock market crush.
iii. In Europe, debt and unemployment levels continue to linger.
iv. Middle East and North Africa Region remains volatile in terms of oil shocks and political instability.

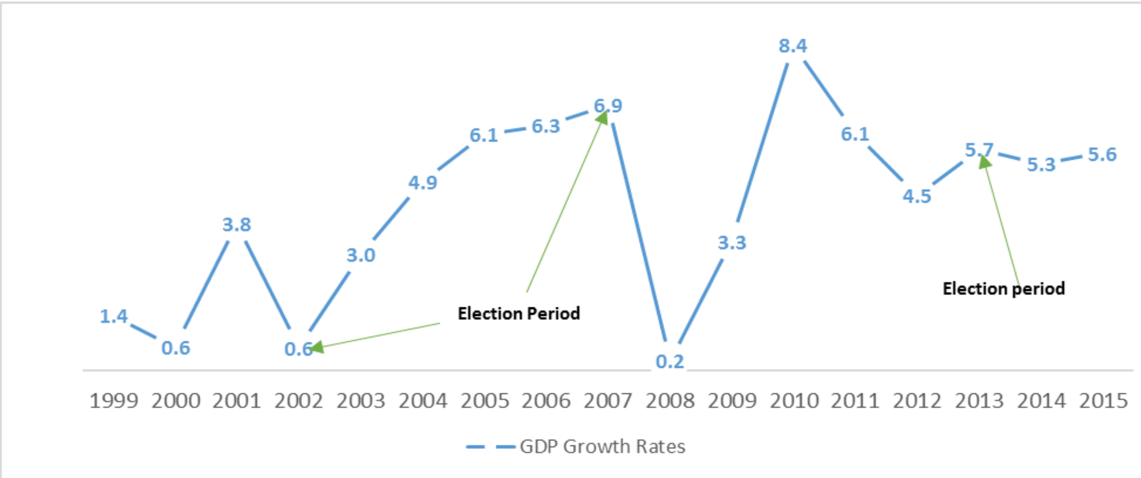
v. In Sub-Saharan Africa, economic growth is expected to slow down to 4.5 percent in 2016 from 5.0 percent in 2015 due to subdued growth in the oil exporting countries due to declining oil prices; low commodity prices continue to have a negative knock on effect on Africa growth and particularly sluggish growth in South Africa presents a worrisome trend.

vi. Close home, the challenges affecting key regional (EAC) infrastructure projects as well limited commitment to key aggregates underpinning the monetary convergence may limit Kenya's growth.

16) Based on the above, it is forecasted that the economy will grow at 5.6% in 2016. Despite the stronger projections by the National Treasury, risks to the outlook still remain evident. **The country is still facing numerous macroeconomic challenges with the fiscal consolidation still a big challenge coupled with pressure on the domestic interest rates arising from the envisaged increase in expected domestic borrowing beyond the ceiling projected in the BPS 2016.** With the 2017 elections closing in, it is projected that the economy will be largely supported by the private consumption which is poised to grow by 7.1% and government consumption by 4.1%. The export growth is expected to be modest at 4.1% while import is projected to growth by 7.1%.

17) ***Indeed, there are no significant policy adjustments to warrant growth leap of almost 400 basis points from 5.3 percent in 2014, 5.6 percent in 2015 to a projected growth of 6 percent in 2016. Thus economy likely to grow by 5.8 percent in 2016.The election fever may further dampen growth. Historically, election risk remains the greatest challenge going forward. From figure, 2 it is evident that election periods have coincided with low growth rates either during or after the election period***

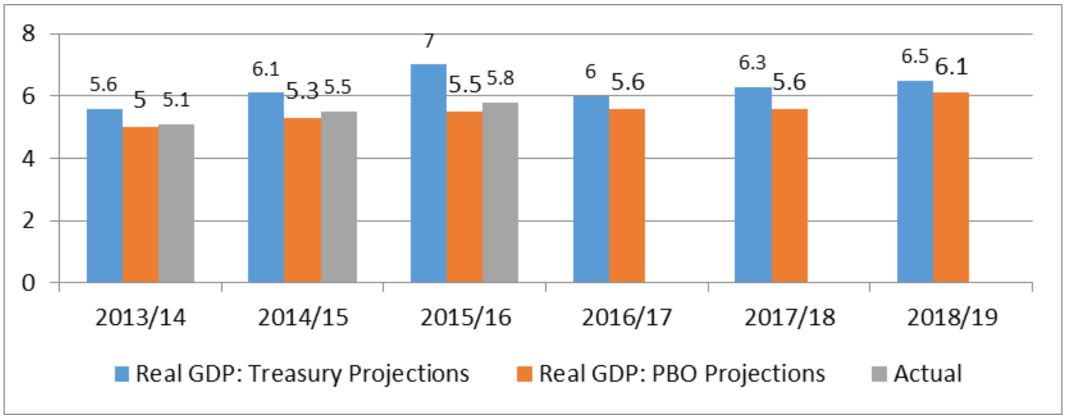
Figure 2: Kenya GDP growth rates showing the election periods



Source: KNBS

18) The last four years has witnessed an over projection of the real growth of the economy by the Treasury as compared to other institutions. This is shown in figure below.

Figure 3: Real GDP Growth (Historical trends)

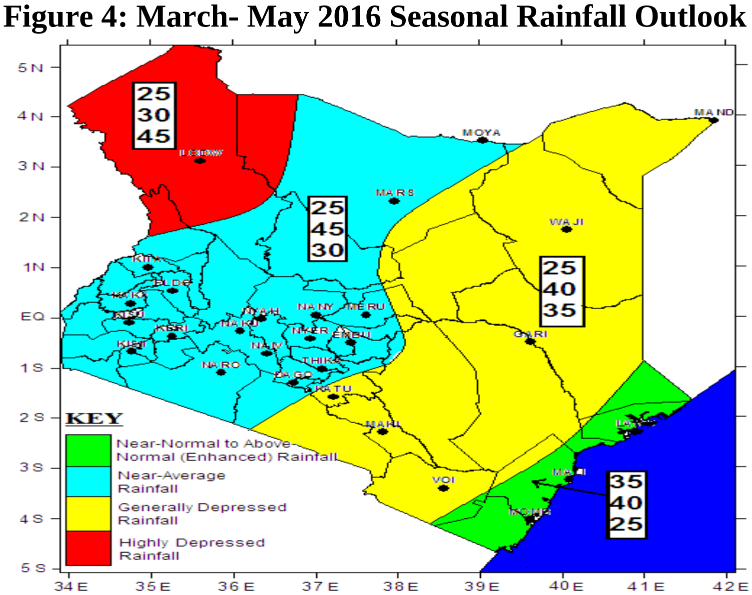


Source: PBO

3.3Inflation

19) The overall inflation has been on the decline since the beginning of the financial year generally due to a reduction in the price of foodstuff and the sustained lower fuel prices. The near normal rains in the last few months may be the reason for the lower food prices and the continued stability in the exchange rate has allowed a pass through effect of the lower oil prices to be witnessed in the country. The 5.27 percent recorded in April 2016 is the lowest in the past two years. We project lower inflation of about 6.2% for 2016 compared to 6.5 percent recorded in 2015. **Despite the lower projected inflation regime, the food component contribution to inflation remains the highest.**

Figure 4: March- May 2016 Seasonal Rainfall Outlook



Source: Metrological Department 2016

20) **Given the increasing deterioration of income among the poor over the past years, prices have risen more quickly for many of the things that low-income households spend a lot of their money on, such as food and nonalcoholic beverages as well as rent and utilities.** As a result, these households are experiencing a higher rate of inflation than the public at large. This is shown in table 1.

Table 1: Trends in Contribution to Inflation Rate

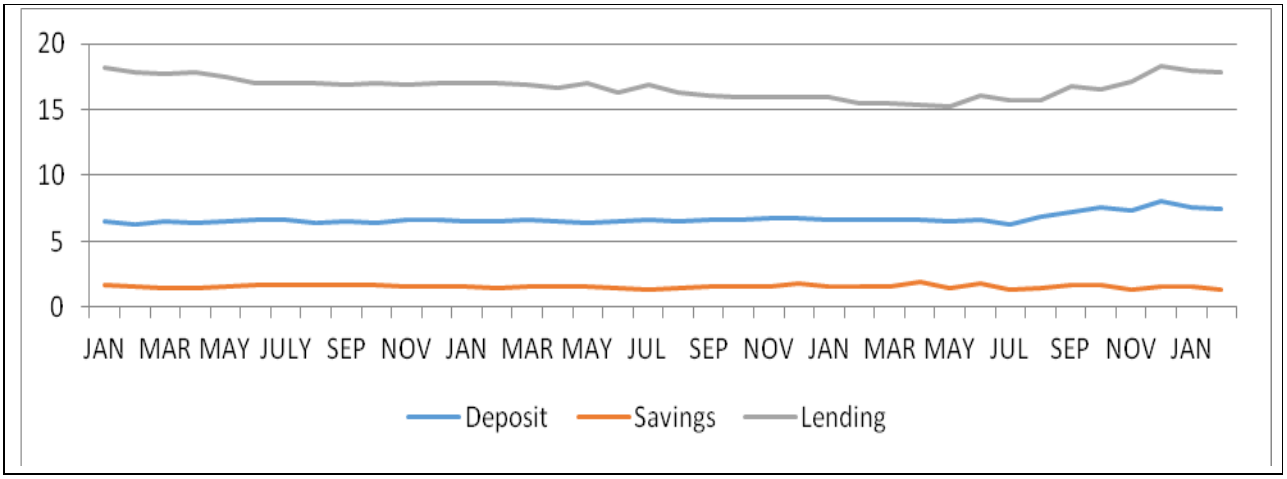
	Contribution %					
	Oct. 2015	**Nov. 2015**	**Dec. 2015**	**Jan. 2016**	**Feb. 2016**	**Mar. 2016**
Food & Nonalcoholic Beverages	65.21	67.93	64.39	62.79	61.81	57.27
Alcoholic Beverages, Tobacco & Narcotics	1.11	1.00	4.16	4.22	4.54	5.11
Clothing & Footwear	5.67	5.01	5.05	4.97	5.49	5.91
Housing, Water, Electricity, Gas and other Fuels	11.63	11.38	11.86	11.44	8.13	10.66
Furnishings, Household Equipment & Routine Household Maintenance	4.82	4.44	4.03	4.18	4.54	4.95
Health	2.52	2.32	1.97	2.38	2.69	2.73
Transport	-2.02	-1.61	-0.81	-0.28	-0.43	-0.45
Communication	0.70	0.65	0.69	0.72	1.62	1.71
Recreation & Culture	1.09	0.84	0.71	1.27	1.44	1.53
Education	2.02	1.90	1.72	1.77	2.16	2.24
Restaurants & Hotels	3.52	3.08	3.19	3.50	4.28	4.43
Miscellaneous Goods & Services	3.73	3.05	3.03	3.04	3.72	3.91
Aggregation	**100**	**100**	**100**	**100**	**100**	**100**

Source: KNBS, PBO Computations

3.4Interest Rates

21) Since the beginning of FY 2015/16, the Central Bank Rate and the Kenya Banks' Reference Rate (KBRR) have remained constant at 11.5 percent and 9.87 percent respectively. However, the lending rates have gradually increased from 15.8 percent in July 2015 to a high of 18.3 percent as at February 2016. The deposit rates have also increased from 6.3 percent in July 2015 to 8 percent in February 2016. This indicates that the unchanged monetary policy stance has had little effect especially on the lending rates. The high lending rates impact negatively on the private sector growth.

Figure 5: Comparison between lending rate and deposit rates (Jan 13- Feb 16)



22) On the other hand, the interbank increased from 13.5 percent in July 2015 to a high of 19.9% in September 2015 but has gradually reduced since then to stand at 4.5% in February 2016. Similarly, the 91-day Treasury bill increased from 10.6% in July 2015 to a high of 21% in September 2015 but gradually reduced to 9.3% as at the last week of February 2016. This decline indicates increased liquidity in the money market.

3.5Exchange Rate

23) In 2015, the shilling depreciated against all major international currencies but it was able to remain resilient at the beginning of 2016. The shilling was exchanging with the US dollar at Kshs. 101.2 in July 2015 but gradually weakened to a low of Kshs. 105.3 in September 2015 before it started gaining. As of January 2016 the Kenyan Shilling traded at Kshs. 102.3 against the US Dollar and has since stabilized. Since October 2015, the Shilling has been appreciating against the Sterling Pound to stand at Kshs. 147.5 and Kshs. 111.1 to the Euro as of January 2016.

24) The risks to the stability of the exchange rate include: the strengthening of the USA dollar that would make it costly to borrow in the international markets; a deteriorating trade balance owing to high imports and non performing export sector. However, going forward the exchange rate may depreciate in the coming months due to demand pressures occasioned by high absorption rates of development expenditures

Emerging Issues

25) *The following are the key emerging issues:*

i. *GDP growth estimate of 6.0 percent in 2016 is unlikely to be met due to exogenous shocks such as election's fever and weak outlook of global economy. Overall, the budget for 2016/17 appears to build on policies that have been put in place in the previous years and expenditure has increased based on some changes from the previous year's budget. The pace of growth is therefore likely to remain, on average, on the same level as it has been in the previous years. It is projected that the economy will grow by 5.6 percent in 2015 rising to 5.8 percent in 2017.*

ii. *Insecurity will continue hurting the economy not unless decisive measures are taken to address the crisis. This calls for concerted efforts amongst all citizens to promote safe communities.*

iii. *Though inflation has remained stable over the course of the previous year, it is slowly edging upwards and may increase further over the coming months due to the likelihood of food shortage.*

iv. *Despite enhanced investment in agriculture, the country is yet to achieve food security and with inadequate rainfall over most parts of the country, there is a high likelihood of food shortage and high food prices. The country should therefore prepare for provision of food support especially in Arid and Semi-Arid areas.*

v. *The declining number of tourists is a worrying trend to the economy in terms of loss of jobs and reduced foreign exchange earnings. Mitigation measures include tax rebates to hotels, tax rebates on domestic travel, infrastructure development particularly in touristic regions to improve linkages and extensive marketing the country as a tourist destination.*

vi. *There is likelihood of revenue underperformance as the revenue projections are based on a high GDP growth projection. Thus there may be need to use BPS ceilings as the baseline for review and approval of the budget*

IV. DEBT AND DEFICIT FINANCING

4.1Deficit financing

26) The government has highlighted that it intends to address debt sustainability issues by containing the overall fiscal deficit and putting emphasis on efficiency and effectiveness of public spending as well as enhanced revenue performance through broadening the tax base and improving revenue administration. The government borrowing plans are anchored on the approved 2016/17 Medium Term Debt Management Strategy.

27) However, one of the key concerns is the country's continued fiscal expansion which remains the greatest challenge to debt sustainability as the country is forced to borrow to meet its increasing expenditure demands. As such, despite commitments by the government to reduce the deficit levels over the medium term, this appears to be a moving target as the figures are continuously adjusted upwards as illustrated in the table below:

Table 2: Primary Balance Projections

	Financial Years(%GDP)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
BPS 2012	Balance(Commitment basis excl grants)	-5.2%	-6.3%	-5.6%	-4.9%	-4.6%				
	Balance(Cash basis incl grants)	-4.5%	-4.8%	-4.3%	-3.8%	-3.5%				
BPS 2013	Balance(Commitment basis excl grants)	-5.5%	-6.1%	-7.0%	-5.5%	-4.9%	-4.8%			
	Balance(Cash basis incl grants)	-4.8%	-5.6%	-4.9%	-4.3%	-3.7%	-3.6%			
BPS 2014	Balance(Commitment basis excl grants)		-6.2%	-7.4%	-10.8%	-7.9%	-7.2%			
	Balance(Cash basis incl grants)		-5.5%	-6.8%	-8.9%	-6.3%	-5.4%			
BPS 2015	Balance(Commitment basis excl grants)			-5.8%	-6.5%	-8.8%	-8.2%	-6.2%	-4.8%	
	Balance(Cash basis incl grants)			-5.3%	-5.9%	-8.0%	-7.4%	-5.4%	-4.0%	
MTEF (2015/16 Budget)	Fiscal Deficit(Cash basis incl grants)						-8.7%	-5.3%	-4.0%	
BPS 2016	Balance(Commitment basis excl grants)					-9.3	-9.2	-7.7	-6.2	-4.9
	Balance(Cash basis incl grants)					-8.6	-8.0	-6.8	-5.4	-4.1
MTEF (2016/17 Budget)	(Cash basis incl grants)						-10.1%	-9.3%	-6.4%	-5.3%

Data Source: BPS various issues/ Budget Summary April 2016

28) The level of deficit shows direction of the country's fiscal policy. If the set targets are continuously flouted, then predictability of the budget is compromised and effectiveness of the country's deficit policies is diluted. In the proposed budget, the government is proposing to borrow around Kshs. 689.1 billion in the FY 2016/17 which will decrease to Kshs.522.2 billion in 2017/19 and Kshs. 481.3 billion in 2018/19. This is to bridge the budget deficit which is forecasted to grow to 9.3 percent, 6.4 percent, and 5.3 percent respectively in FY 2016/17, FY 2017/18 and FY2018/19.

29) A close examination of the financing figures in the budget estimates submitted to Parliament (as shown in table 4) indicates that the figures do not correlate with the initial figures that were in the approved Budget Policy Statement, 2016 that was passed by the Parliament.

Table 3: Budget Deficit Financing in Estimates 2016/17 vs. BPS 2016/17

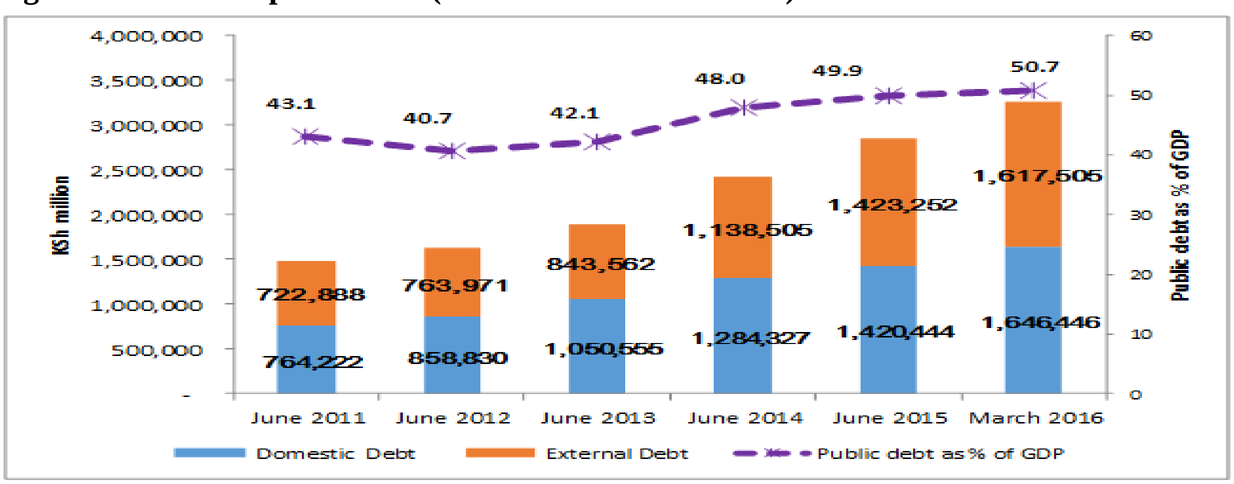
	Budget Estimates for 2016/17 Financial Year (In billions)			BPS, 2016 (In billions)		
	2015/16	**2016/17**	**2017/18**	**2015/16**	**2016/17**	**2017/18**
Financing	**662.6**	**689.1**	**522.2**	**517.3**	**495.5**	**440.8**
Project Loans	344.7	345.4	213.4	242.3	257.9	232.8
Commercial Financing	154.332	153.8	150	134.3	100.0	125.0
Foreign Repayments Due	(38.79)	(43.6)	(132.2)	(38.4)	(47.1)	(132.2)
Domestic Loan Repayments	2.8	(11.424)	(11.5)	0	(15.4)	(15.6)
Domestic Borrowing	191.2	241.1	302.3	168.2	197.6	228.0
Program Support	8.2	3.9	0	8.2	0	0

Source: National Treasury

4.2Debt

30) Over the period June 2013 to March 2016, domestic debt on external debt has growth by 14 percent in annual terms. On the other hand, the annual growth rate of domestic stood at 13.6 percent over the same period. In total, over the same period, the public debt grew by 14 percent in annual terms. The figure below shows the trend in growth of public debt.

Figure 6: Trends in public debt (June 2011 to March 2016)



Source: National Treasury

4.3Debt Sustainability Analysis

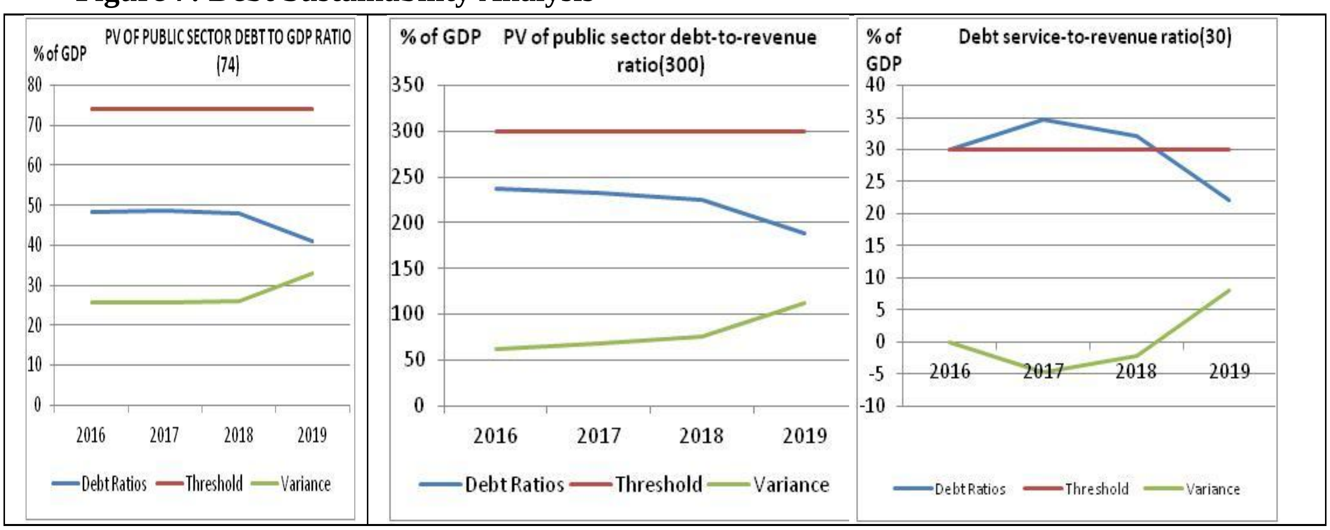
31) Debt sustainability analysis, compares debt burden indicators to thresholds over 20 -year projection period, if a debt burden indicator exceeds its indicative threshold then it would suggest that a risk of experiencing some form of debt distress. Currently DSA indicates that the level of debt in Kenya is generally sustainable. Even though the level of public sector debt to GDP is sustainable at 48.5% against a threshold of 74%. It is important to underscore that the current debt level is slowly approaching the level set under the EAC convergence criteria of 50%. In addition, one of the indicators of DSA, which is the ratio of debt service to revenue, is projected to go beyond the threshold of 30 percent over the period 2016/17. Indeed, in 2017, this level is projected bypass its limit in the 2017 by 4.7% on account of debt redemptions and interest rate costs that are expected to rise substantially in the FY 2017/18. For this ration to be within the laid limits, the Government must double its efforts of enhancing revenue mobilization (Table 4 and Figure7).

Table 4: Public debt sustainability thresholds and performance

	Threshold	2014	2015	2016	2017	2018	2019	2020	2025	2035
PV of Public Sector Debt to GDP Ratio	***74***	42.9	45.8	48.3	48.5	48.5	47.9	47	40.9	33
PV of Public Sector Debt To Revenue Ratio	***300***	221.1	231.8	237.8	232	228.1	224.5	218	187.6	148.5
Debt Service - to - Revenue Ratio	***30***	41	30.4	30	34.7	28.8	32.2	26.4	22	18.1

Source: Budget Summary FY 2016/17

Figure 7: Debt Sustainability Analysis



Source: National Treasury

32) Secondly, even if the borrowing is being used for development expenditure, the investment must be able to yield returns that far outweigh the cost of the loans. Is Kenya's public investment producing assets? Over the period 2002/03- 2014/15, the allocation towards development grew by 29 times in nominal terms. However, the rate of completion of projects has been very low. It is estimated that as of June 2015, there were more than 1,000 projects which were classified as ongoing. The estimated cost to complete these projects is estimated at Kshs.3 trillion. In a country where cost overruns in project implementation is inevitable it means the overall completion costs for these projects will be eventually be more than Kshs.3 trillion.

Emerging Issues

33) *The following are some of the key emerging issues:*

i. *The strategy of government is to reduce public debt over the medium term. However, the increase in budget deficit shows lack of commitment to debt sustainability in the long run. This is a worrisome trend since according to the Constitution Art.201 (c), the government is obliged to maintain debt levels sustainable for future generations also.*

ii. *There is a high likelihood that the framework is not fully financed. Indeed, the government may not be able to raise the revenue projected due to the fact that the revenue projection is premised on a higher growth trajectory.*

iii. *The new proposed level of financing is not accompanied with other supporting documents. For instance, in light of the new developments of financing the new budget deficit, there is need for the Government to adhere to the MTDS 2016 as approved by the Parliament.*

iv. *In the BPS, 2016 the domestic borrowing for financial year 2016/17 was projected at Kshs.197.6 billion, however in the estimates submitted the domestic debt is set to rise by Kshs.43.5 billion to Kshs.241.1 billion. This clearly shows the budget is not driven by any policy as the policies in the BPS were those of austerity and containing the deficit expansion. An expansion shows that the budget is tending to be more of supply driven rather than demand driven. This negates the government policy of facilitating private sector growth as this trend will crowd out the private sector. Even though, domestic borrowing appears to be decreasing in the medium term, judging from history, this could be a moving target.*

V. REVENUE PERFORMANCE AND OUTLOOK

34) The Government projected total revenue to reach Kshs.1.295 trillion in 2015/16, or Kshs. 1.184 trillion excluding Appropriation in Aid (AIA). This is compared with the original total revenue projection of Kshs. 1.358 trillion and Kshs. 1.255 trillion in ordinary revenue. Overall the revenue was revised downwards by Kshs.71 billion in ordinary revenue terms and Kshs.63 billion in total revenue (including AIA). Unlike the previous years, a summary indicating the global sum of the key revenue types has not been provided. This makes it difficult for a quick comparison with regard to the performance of the various revenue categories.

35) According to the National Treasury, (see the Quarterly Economic and Budgetary Review) the perennial underperformance of the AIA is attributable to underreporting by universities. Though no corrective measures have been proposed. But, little explanation is given for either underperformance or equally overestimation of corporate income tax and import VAT. Some of the likely plausible reasons for the low collection of import VAT is possible overestimation of the effect of the VAT Act 2013, or equally volume changes to VAT as a result of demand changes and exemptions of some VAT imports.

36) A careful review of approved budget revenue estimates and end-of-period actual revenue points to systematic overestimation of revenue. Despite the fact that forecast errors should be lower if the growth of given revenue components is stable (for instance, growth of income tax and import duty are stable and their shares in GDP are predictable using historical information compared to AIA), these revenue components are always overestimated. Table 5 shows a comparison between approved revenue estimates (forecasts) relative to actual revenue outturn, revealing substantial overestimation of revenue way above average trends. Notably, the deviation between the amount of revenue that was anticipated during budget approval by Parliament and the actual was highest in 2012/13 and 2013/14. Overestimation is particularly remarkable for import duties (69 percent relative to 17%) and the other taxes1 (105 percent relative to a contraction by 12%) in 2013/14.

Table 5: Growth rates of revenue forecasts relative to actual revenue collections

	2011/12	2012/13	2013/14	2014/15	2015/16	Average growth
Approved Revenue Forecasts						
Total Revenue	18%	28%	33%	21%	23%	24%
Ordinary Revenue	17%	26%	34%	18%	22%	23%
Import Duty	21%	30%	69%	15%	11%	29%

[1]Comprising license fees, agency revenues, property taxes

Excise Duty	16%	17%	17%	17%	23%	18%
Value Added Tax	19%	26%	24%	15%	19%	21%
Income Tax	13%	23%	22%	21%	23%	20%
Other Taxes	30%	49%	105%	20%	33%	47%
AIA	27%	48%	24%	70%	37%	41%
Actual Revenue Outturn						
Total Revenue	12%	13%	15%	14%		13%
Ordinary Revenue	13%	13%	18%	12%		14%
Import Duty	12%	11%	17%	10%		13%
Excise Duty	-2%	9%	19%	14%		10%
Value Added Tax	7%	1%	26%	12%		11%
Income Tax	21%	19%	21%	13%		18%
Other Taxes	24%	19%	-12%	9%		10%
AIA	-2%	24%	-22%	36%		9%

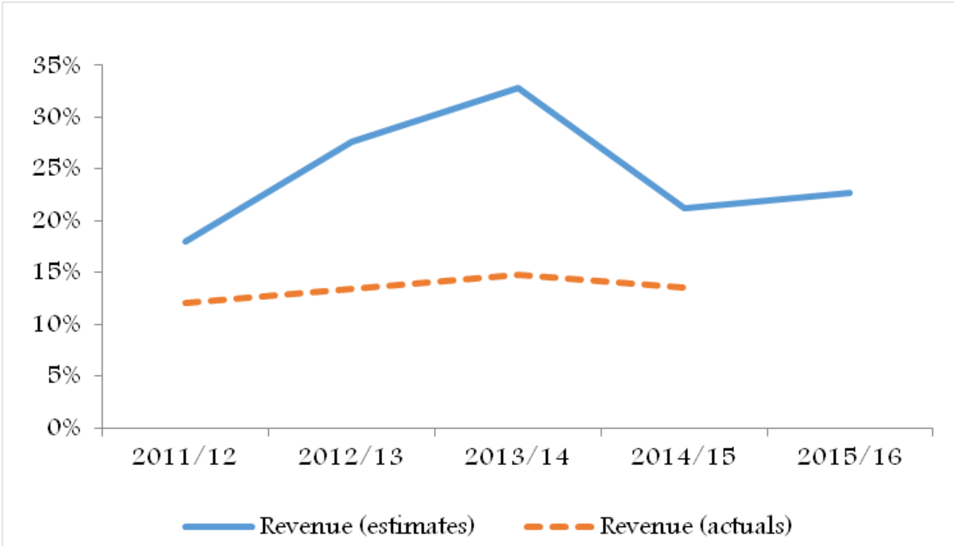
Sources: QEBR (various issues); Budget Estimates (various issues)

37) As would be expected, revenues during budget approval are also quite high on average for two unstable revenue sources, namely ‘other taxes’ and AIA. On average, for the total revenues and through most of the revenue categories, the Government tended to overestimate revenue growth during budget approval by about 12 percent points. This hints that either the Government needed to cut spending during the financial year through supplementary budgets, or needed to ramp up domestic borrowing including external borrowing to cater for the difference. Over the four years reviewed, real revenue collections grew at a modest 14 percent while the Government believed that revenues would grow at 23 percent, invariably contributing to rising fiscal deficits and borrowing.

38) There is anecdotal evidence that revenue forecasts tend to correspond to rising expenditure pressures and governments overall borrowing plans. To avoid a financing gap during the budget approval process, domestic taxes are nudged to their limits so as to accommodate excess spending plans to curb debt financing whenever possible. With revenue collections repeatedly falling short of their target for several years since 2010, for example, and with rising spending pressures from the wage bills, expenditure allocations to counties, increased spending on infrastructure developments and social sector, debt financing took marked prominence.

39) Tax pressures have remarkably increased due to this fiscal stance. August to November 2015 macroeconomic shocks clearly mean that this stance, high Government spending, inflexible revenues, and borrowing, is unsustainable. Ambitious revenue targets tend to fuel more spending requests and indirectly appear to drive overall deficit and consequent borrowing. This stance should therefore give way to modest fiscal deficits, which means reduced Government spending growth, and realistic revenue forecasts.

Figure 8: Growth Rates of Revenue Estimates and Actuals

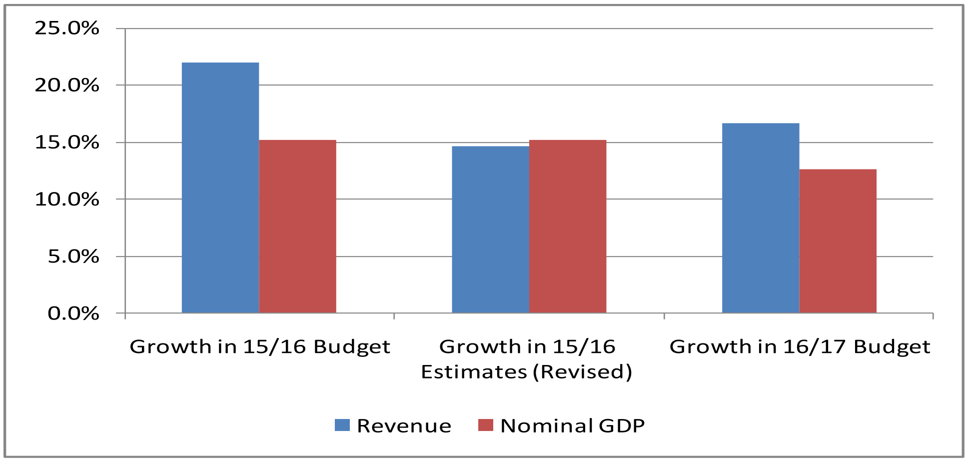


Sources: QEBR (various issues); Budget Estimates (various issues)

40) To achieve credible revenue targets requires reduced Government spending pressures and improved forecasting of revenue. Additionally, certain measures may be implemented in the next financial year and the medium term to improve revenue performance. If tax smoothing takes precedence, then more buoyant taxes such as income tax and VAT will drive revenue growth in the medium term. Certain administrative efforts could also be implemented, among them a more concerted clamp down on tax cheating. Recent laws such as Excise Duty Act and the VAT Act clearly outlaw schemes designed to reduce tax liability of taxpayers. Other nascent measures include digitizing most revenue collection as well as curbing tax erosion from transfer pricing.

41) The 2016/17 revenue forecast depicts the same analogy as the one explained above. Indeed, the envisaged growth in ordinary revenue in 2016/17 will stand at 16.7 percent compared to nominal growth in GDP of 12.6 percent. This implies that revenue is projected to grow faster than economy. This phenomenon can only manifest itself if there are radical reform measures in revenue administration. It is important to point out that the initial ordinary revenue growth for 2015/16 was set at 21.9 percent. Owing to slowdown in economic growth among other variables the treasury projects the growth of ordinary revenue to stand at 14.6 percent by the close of June, 2016. The revised growth is broadly in line with the nominal growth of GDP, which projected to stand at 15.1 percent.

Figure 9: Comparison between revenue growth and Nominal GDP



VI. EXPENDITURE FRAMEWORK UNDERPINNING THE 2016/17 BUDGET

6.1Analysis of 2016/17 Program Based Budgeting

42) The policy behind the adoption of programme based budgeting is to link the various programs being funded in the budget with its indicators and targets. This linkage enables one to track the efficiency of delivery of services to its citizens. The narrative for program based budgeting in the 2016/17 estimates is weak.

43) *The following are the emerging Issues:*

i) There are some changes in programs in the 2016/17 estimates as compared to the BPS, 2016. Furthermore, the indicators and targets lack baselines i.e. there is no progress report for previous years on ongoing programs.

ii) Some programs have zero indicators and targets especially in the energy sector. This makes it difficult to track the desired output. In addition, there is no information provided for exemption to disclosure of some programs.

iii) The economic classification provided in the 2016/17 lacks clarity. There is no information provided that entails what qualifies to be other recurrent and development.

iv) There is no detailed information on Appropriations in Aid, including donor funding. The national treasury has indicated in their budget summary that they have received new funds from donors which they have factored in the budget. However, it's difficult to trace which programs will be funded by donor funds. It's crucial to know programs funded by donor funds, since the low absorption rate among MDAs reported in year is a result of donors not fulfilling their commitments hence resulting to the introduction of the supplementary budget.

6.2Analysis of the Fiscal Framework

44) As stated earlier, the government targets to increase its revenue collection in 2016/17 to Kshs. 1.5 trillion (21.3% of GDP) compared to Kshs.1.2 trillion (18% of GDP) targeted to be collected in 2015/16. From the revenue collection, external grants and other borrowings, the National Government intends to spend a total of Kshs. 2.27 trillion (30.8% of GDP) in 2016/17 up from Kshs. 2.09 trillion (31.8% of GDP) in 2015/16. This includes Kshs.310 billion for Consolidated Funds Services (interest payments, pensions, etc); Kshs.858.1 billion for recurrent expenditures; Kshs.817.9 billion for development expenditures; and Kshs.284.8 billion for County Allocations. The contingency fund and equalization fund have been allocated Kshs.5 billion and Kshs.6 billion respectively.

45) The expenditures in the printed estimates are higher than that in the BPS by Kshs. 224.6 billion. The CFS expenditures have been increased by Kshs. 35.2 billion, ministerial recurrent expenditure has been increased by Kshs. 39.3 billion, and development expenditure increased by Kshs. 150.2 billion.

46) The budget deficit is set to be funded through external grants amounting to Kshs.72.6 billion (1% of GDP), foreign financing amounting to Kshs.459.4 billion (6.2% of GDP) and domestic financing of Kshs.243.7 billion (3.3% if GDP). Compared to the fiscal framework of the BPS, the increments in expenditure will be largely financed from increased in borrowings and grants. The external borrowings are set to increase by Kshs.148.7 billion, the domestic borrowing be increased by Kshs.58.9 billion and the external grants set to increase by Kshs. 12.8 billion. The table below indicates the deviations between the fiscal framework in the BPS ceilings and the printed estimates.

Table 6: Comparison of the Fiscal framework from the BPS and the Printed Estimates

	2015/16 Revised Estimates	2016/17 BPS Estimates	2016/17 Printed Estimates	2015/16 Revised Estimates	2016/17 BPS Estimates	2016/17 Printed Estimates	Difference	% change
		Kshs. billions			As a % of GDP			
Total Revenue and Grants	**1,371.4**	**1,556.2**	**1,573.2**	**20.9%**	**21.1%**	**21.3%**	**16.96**	**1.1%**
Total Revenue (incl. AiA)	1,294.7	1,496.4	1,500.6	19.7%	20.2%	20.3%	4.21	0.3%
External Grants	76.6	59.8	72.6	1.2%	0.8%	1.0%	12.75	21.3%
Total Expenditure and Net Lending	**2,086.6**	**2,051.7**	**2,276.3**	**31.8%**	**27.8%**	**30.8%**	**224.61**	**10.9%**
Recurrent	1,034.8	1,094.2	1,168.6	15.8%	14.8%	15.8%	74.43	6.8%
CFS (Interest & Pensions)	*242.8*	*275.4*	*310.6*	*3.7%*	*3.7%*	*4.2%*	35.16	12.8%
Ministerial Recurrent	*792.0*	*818.8*	*858.1*	*12.1%*	*11.1%*	*11.6%*	39.27	4.8%
Development	782.6	667.7	817.9	11.9%	9.0%	11.1%	150.19	22.5%
Domestic	*363.0*	*351.3*	*400.9*	*5.5%*	*4.8%*	*5.4%*	49.56	14.1%
Foreign	*413.6*	*310.4*	*411.0*	*6.3%*	*4.2%*	*5.6%*	100.64	32.4%

Equalization Fund	*6.0*	*6.0*	*6.0*	*0.1%*	*0.1%*	*0.1%*	-	
Contingencies	5.0	5.0	5.0	0.1%	0.1%	0.1%	-	
County Allocation	264.2	284.8	284.8	4.0%	3.9%	3.9%	(0.01)	0.0%
Overall Balance (incl. grants)	**(715.3)**	**(495.5)**	**(703.1)**	**-10.9%**	**-6.7%**	**-9.5%**	**(207.65)**	**41.9%**
Statistical Discrepancy	-	-	-	-0.7%	0.0%	0.0%	-	0.0%
Financing	**715.3**	**495.5**	**703.1**	**10.1%**	**6.7%**	**9.5%**	**207.65**	**41.9%**
External Financing	472.6	310.7	459.4	7.2%	4.2%	6.2%	148.73	47.9%
Domestic Financing	242.7	184.8	243.7	3.7%	2.5%	3.3%	58.91	31.9%
Nominal GDP	**6,566.4**	**7,392.2**	**7,392.2**	**100.0%**	**100.0%**	**100.0%**		

Source: PBO

6.3Comparison of the 2016/17 Budget Estimates to the Approved BPSCeilings

47) The total expenditure for 2016/17 budget is Kshs. 2.26 trillion as compared to the Kshs. 2.05 trillion approved by Parliament in the BPS, 2016.This represents a 11 percent increase in total expenditure. The increase in expenditure is occasioned by an increase in expenditure ceilings for the three arms of government as well as the Consolidated Fund Services (CFS). National government, Judiciary and Parliament have increased their budget ceilings as compared to the BPS, 2016 by 12 percent, 9percent and 10 percent respectively. The Consolidated Fund Services (CFS) payments also rose by 6.5 percent as opposed to what was approved in the BPS, 2016. The increase in expenditure in the CFS will be driven by new loans, interest expenses and debt redemptions.

48) The BPS, 2016 was anchored on austerity policies however; the 2016/17 budget estimates submitted to Parliament indicate that these austerity policies will not be adhered to. This is a clear indication that the 2016/17 estimates are not driven by policies prescribed earlier. This poses a serious challenge on whether the 2016/17 budget will have a meaningful impact to the citizens.

49) The Public Finance Management Act, 2012, Section 25(8) and PFM Regulation 27(4&5), indicates that once the Budget Policy Statement (BPS) has adopted by Parliament, the resolution of the House shall serve as the basis of expenditure ceilings specified in the fiscal framework, and that the ceilings of development expenditure and personnel emoluments shall be binding for the next 2 budget years. Also, Section 38(a)(iii) of the PFM requires the National Treasury, when presenting the budget estimates to the National Assembly, to present a memorandum explaining how the resolutions of the National Assembly have been taken into consideration.

50) The resolution of the House on the BPS 2016 approved a total expenditure of Ksh 1,498.4 billion; this included Ksh 1,451.2 billion for the National Government, Ksh 29.4 billion for Parliament and Ksh 17.8 billion for the Judiciary. However, all the three arms of government did not abide to these ceilings when preparing their printed estimates thus the total net budget increase of by Ksh 180.1 billion to Ksh 1,678.4 billion; this includes Ksh 175.708 billion for National Government, Ksh 2.6 billion for Parliament and Ksh 1.8 billion for Judiciary.

Table 7a: Total Deviation of the Budget per Arm of Government

	Approved BPS Ceilings			Proposed Budget Estimates			Variation		
Item	**Recurr**	**Capital**	**Total**	**Recurr**	**Capital**	**Total**	**Recurr**	**Capital**	**Total**
National Government	801,326	649,870	1,451,196	817,010	809,894	1,626,904	15,684	160,024	175,708
Parliament	26,206	3,200	29,406	27,493	4,500	31,993	1,287	1,300	2,587
Judiciary	13,310	4,449	17,759	13,570	5,949	19,519	260	1,500	1,760
Total Net Increase	**840,842**	**657,519**	**1,498,361**	**858,073**	**820,343**	**1,678,416**	**17,231**	**162,824**	**180,055**

Source: 2016 BPS & 2016/17 Printed Estimates

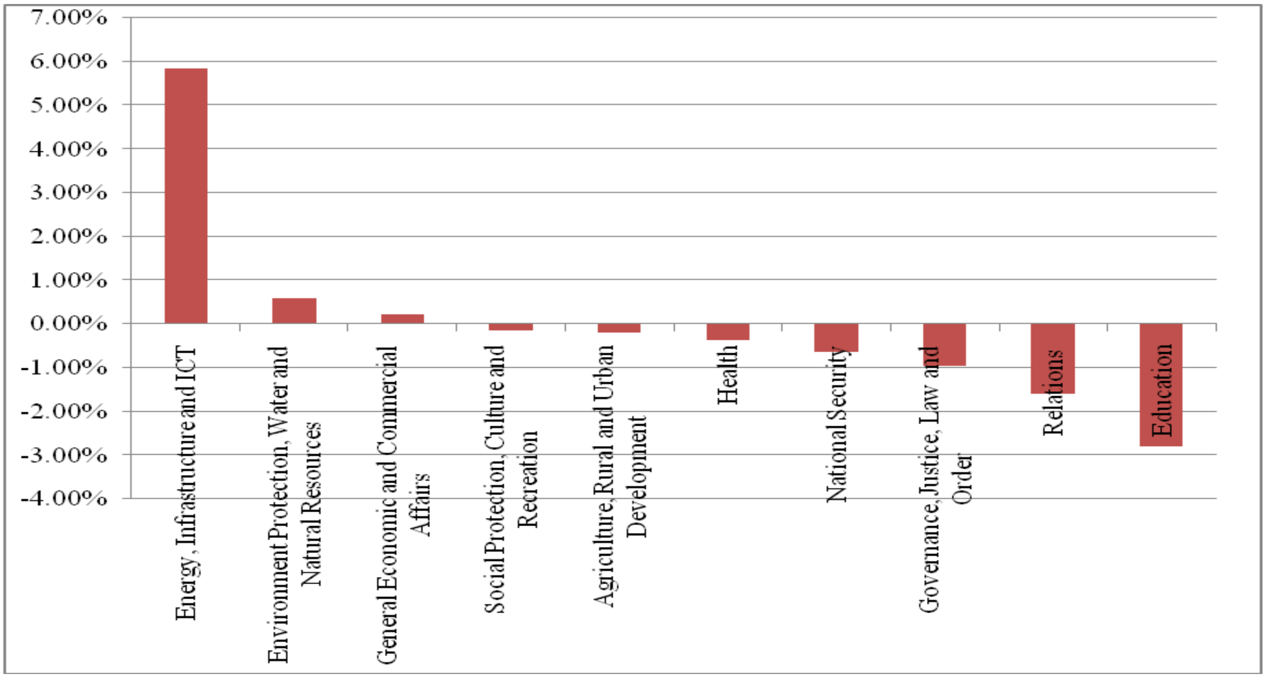
51) From a sectoral point of view, safe for the infrastructure (5.3 percent), environment (0.59 percent), and general economic services sectors (0.23), all other sectors had reduction in allocation when compared to the BPS level. Indeed, the increase in allocation amounted to Kshs.139 billion in absolute terms. This is shown in table 7b and figure 10.

Table 7b: Deviation between sectoral in BPS and the Estimates for 2016/17

	BPS Ceilings	Gross Estimates	Differen ce	% Change	Approved BPS Ceilings	Gross Estimates	
Sector	**Total**				**% of total**	**% of total**	**Diff.**
Energy, Infrastructure and ICT	367.60	506.65	139.05	37.8%	24.53%	30.37%	5.83%
Environment Protection, Water and Natural Resources	74.56	92.86	18.30	24.5%	4.98%	5.57%	0.59%
General Economic and Commercial Affairs	15.36	20.88	5.52	35.9%	1.03%	1.25%	0.23%
Social Protection, Culture and Recreation	32.35	33.73	1.38	4.3%	2.16%	2.02%	-0.14%
Agriculture, Rural and Urban Development	65.38	69.64	4.26	6.5%	4.36%	4.17%	-0.19%
Health	59.58	60.27	0.69	1.2%	3.98%	3.61%	-0.36%
National Security	120.84	124.05	3.21	2.7%	8.06%	7.44%	-0.63%
Governance, Justice, Law and Order	182.73	187.56	4.83	2.6%	12.20%	11.24%	-0.95%
Relations	233.40	233.45	0.05	0.0%	15.58%	13.99%	-1.58%
Education	346.57	339.32	-7.25	-2.1%	23.13%	20.34%	-2.79%
Total	**1,498.37**	**1,668.41**	**170.04**	**11.3%**	**100.00%**	**100.00%**	**0.00%**

Source: National Treasury

Figure 10: Deviation between sectoral in BPS and the Estimates for 2016/17



52) Out of a total of 47 MDAs in the National Government, only 18 complied with the ceilings approved by the National Assembly while 29 did not. The National Treasury provided a statement explaining the reasons for the deviations by the 29 MDAs as required by Section 38(a)(iii) of the PFM Act. The National Treasury indicated that a number of the deviations were either as a result of either budget rationalization, especially for recurrent expenditures or increase in donor commitment especially for development expenditure. This therefore implies that only Parliament and the Judiciary have not provided the justifications for deviations. The table below details some of the MDAs with significant deviations.

Table 8: MDAs with significant deviations from the BPS Ceilings

Details	Approved BPS Ceiling	Proposed Estimates	Variation	% ch ange	Rationale given for development variation only
State Department for Interior	113,183	120,292	7,109	6%	Securitization of Borders
State Department for Devolution	10,236	15,871	5,635	55%	Resettlement of IDPs
Ministry of Defense	96,994	98,699	1,705	2%	Multi Agency Security Operation
Ministry of Foreign Affairs and International Trade	14,232	21,929	7,697	54%	Purchase of Chancery in New York
State Department of Science and Technology	73,791	78,040	4,249	6%	Construction of TTIs (confirmed donor commitment)
State Department for Infrastructure	1304,545	176,752	42,207	31%	Low seal roads and donor commitments
State Department for	130,753	181,626	50,873	39%	Lappset Project (KSh. 10

Details	Approved BPS Ceiling	Proposed Estimates	Variation	% ch ange	Rationale given for development variation only
Transport					Billion) & revised donor commitments
Ministry for Water and Regional Authorities	46,284	62,271	15,987	35%	Confirmed donor commitments
Ministry of ICT	11,218	25,930	14,712	131%	Digital learning Program (school laptop project)
Ministry of Sports Culture and Arts	7,446	8,619	1,173	16%	Budget rationalization
Ministry of Energy and Petroleum	91,081	122,342	31,261	34%	Installation of transformers, LPG distribution, street-lighting program and Donor projects
State Department for Livestock	6,836	13,282	6,446	94%	Confirmed donor commitments
Ministry of Industrialization and Enterprise Development	7,748	11,244	3,496	45%	Modernization of new KCC and Donor commitment
State Department for Commerce and Tourism	5,950	8,028	2,078	35%	tourism marketing
Ministry of Mining	1,975	4,588	2,613	132%	Geo- physical survey
National Intelligence Service	23,846	25,346	1,500	6%	Security operations
Parliamentary Service Commission	13,458	14,967	1,509	11%	Explanation not Provided
National Assembly	15,948	17,026	1,708	7%	Explanation not Provided
Judicial Service Commission	450	1,711	1,261	280.2%	Explanation not Provided
Teachers Service Commission	191,294	194,094	2,800	1%	Assignment for salary expenses

6.4 Analysis of Development Expenditure Budget

53) The 2016/17 proposed Development Vote provide for item allocations under respective Project Heads unlike before where only item allocation was indicated and it was unclear the name of the project to be undertaken. While this is a step in the right direction as project allocation is concerned, there is need for more fiscal information on the same.

54) Moreover, the current project allocations are not matched with baseline allocations (approved estimate for FY 2015/16) to evaluate if current proposed allocations are justified and further determine if such projects are under/over funded. This poses a concern whether current approved allocations for the FY 2015/16 actually reconciles with ongoing projects or interventions, and whether proposed allocations take into account past allocations. Project design and appraisal as well costing have in the past been a challenge as far as allocation and expected outcomes are concerned.

55) A comparison of sample of projects as submitted in the Estimates with earlier project profiles from various documents indicate inconstancies in terms of actual names of such projects and movement of project allocations between votes. These may affect project outcomes especially where the initial objective for instance changes from construction to rehabilitation for the case of projects in the State Department of Infrastructure and Ministry of Foreign Affairs and International Trade. In addition, the implications of frequent transfer of project allocation between votes may also affect project administration, implementation and monitoring since it’s not clear who is responsible for actual implementation thus affecting output and delivery time. There is need for consistency going forward.

Table 9: Sample of development projects and project data and allocations (past details and as currently submitted)

No	Name of the project	Source of Funds	Start Date	Expected Date of Completion	Status as per 2015/16 FY	Allocation 2014/15	Allocation 2015/16	Actual Expenditure **	Proposed Allocation for 2016/17	Total Cost of the Project
						(Kshs. million)				
1	Galana Kulalu Irrigation development Project (10,000 acres) (Galana Kulalu Irrigation Project)*	GoK & Donor	June, 2013	June, 2018	Ongoing	3,500	9,700	3,000	3,215	250,000
2	itare Dam water project	GoK & Donor							10,189	
3	Regional Pastoral Livelihood Resilience Project	GoK & Donor	2014	2019	Ongoing	218	1,890	110	2,056	8,500
4	Refurbishment of 5 Regional Stadia (Feasibility study for the three National Stadia under Jubilee Manifesto (Mombasa, Eldoret, Nairobi)	GOK	January, 2015	July, 2015	80%	200	0	200	1,000	
5	Loiyangalani-Suswa Transmission Line	GoK & Donor	Jul-14	Jun-16	On -going	2,500	2,754	0	11,413	
6	Street lighting (strategic interventions - Street lighting)	GOK	Jul-15		On-going	953	4,500	0	3,100	0
7	Menengai Geothermal Project	GoK & Donor	2009/10	Dec-16	On-going	7,105	2,310	0	1,800	34,556
8	Rural Electrification - various projects - Electrification of public facilities (electrification of public primary schools through the National Grid and Solar PVs and gensets and other public facities)	GoK & Donor	Dec. 2009	Continous	On- going	11,103	9,431	29,600	7,750	53,410
9	LPG Distribution and infrastructure	GoK	Jul-16						2,000	
10	Digital Literacy Programme (ICT integration in Primary Education)	GoK	2013/14 FY	2018/19	Capacity building-150 national trainers and 2,555 county ToTs trained. Digital content for std 1 completed.		17,700	0	13,408	53,000
11	Konza Complex (Konza Techno City - Phase1)	GOK	2013/14	2019/20	On-going	500	810	1,800	500	64,000
12	NOFBII II (ICT Infrastructure Connectivity: National Optic Fiber Backbone Infrastructure -NOFBI II)	GoK and Donor	2012/13	2014/15	On-going	2,667	2,948	2,500	1,552	6,500
13	Development of Mombasa to Nairobi Standad Gauge Railway (Standard Gauge Railway Project Phase 1)	GOK/CHINA-EXIM Bank	30-08-2014	Jun-17	on going	19,422	210,914		154,395	327,000
14	Low volume seals Roads Batch 1(various roads)	Gok							12,371	
15	Nairobi - Thika Highway Improvement Project lot 1 and 2	G.O.K							800	
	*** names of projects captured in brackets are as provided in earlier fiscal years ** Given in 2014/15 & 2015/16**									

6.5Estimates of Expenditure on Consolidated Fund Services (CFS)

56) The total expenditure towards CFS is expected to rise from revised position of Kshs. 465.7 billion in FY 2015/16 to Kshs. 527.3 billion in 2016/17), projecting an increase of Kshs. 61 billion or 13 percent. This on account of an overall increase in public debt expenditure by Kshs. 49.3 billion, and increase on pensions and guaranteed debts. In the medium term, provisions for CFS are set to rise to Kshs.610. 8 billion and Kshs. 595.3billion in 2017/18 and 2018/19 mainly driven by interest expenses, debt redemptions including that of the Standard Chartered Syndicated Loan and Sovereign Loan as well as increasing pension liabilities.

57) This therefore implies that total CFS expenditure in view of its non-discretionary nature account for up to 23% of the total budget estimates and 7% of GDP.

Table 10: Consolidated Fund Service Payables 2016/17 - Medium Term (Kshs. Millions)

Items	2015/16	2016/17	2017/18	2018/19
Interest				
Internal	160,676.5	197,266.8	196,858.1	189,184.1
External	34,562.5	53,520.4	55,215.0	52,916.3
Total Interest Payables	**195,239**	**250,787**	**252,073**	**242,100**
Redemptions				
Internal	187,263.3	172,104.2	161,779.6	154,732.1
External	34,688.7	43,622.6	128,566.4	131,759.8
Total Debt Redemptions	**221,952**	**215,727**	**290,346**	**286,492**
Total Public Debt Expenditure	**417,191**	**466,514**	**542,419**	**528,592**
Pensions, salaries, allowances & Others				
Pensions	42,991.1	55,691.1	63,111.1	61,311.1
Salaries	4,437.8	3,956.0	4,149.0	4,326.6
Miscellaneous	128.0	128.0	128.0	128.0
guaranteed Debt	944.7	1,017.2	993.5	969.9
Subscriptions to International Organizations	2.2	0.5	0.5	0.5
Total Expenditure	**48,504**	**60,793**	**68,382**	**66,736**
Total CFS Expenditure	465,695	527,307	610,801	595,328

Source: Budget estimates 2016/17

Interest Payables

58) The more volatile domestic interest payable is projected to rise by 23% or Kshs.Kshs. 36.6 billion from Kshs. 160.7 billion to Kshs. 197.3 billion and is a direct result of domestic bonds and Short term borrowing (T-Bills Interest) that are projected to rise to Kshs. 137.7 billion and Kshs. 52 billion, respectively. – Annex External interest debt, on the other hand, is expected to rise by Kshs. 18.96 billion from Kshs. 34.6 billion to Kshs. 53.52 billion, in the FY 2016/17. The external interest payables portfolio indicates that for 2016/17, the largest interest costs will relate to Peoples Republic of China worth Kshs. 16.2 billion (indicating

30% of all interest costs) and settlement of the International Sovereign Bond ($2.75 billion) amounting to Kshs. 19.4 billion (indicating 36% of all interest costs).

Debt Redemptions

59) Total debt redemption expenditure is expected to decline from Kshs. 222 billion in FY 2015/16 to Kshs. 215.7 billion in FY 2016/17. However, over the medium term this is expected to rise aggressively to Kshs. 286.5 billion and will be the main drive behind the rise in public debt.

60) Internal debt redemption expenditure are expected to decline by (8%) from Kshs. 187.3 billion (FY 2015/16) to Kshs. 172.1 billion in FY 2016/17, while the external debt redemption expenditure is expected to go up by 26% from Kshs. 34.7 billion to Kshs. 43.6 billion in FY 2016/17. The largest debt redemption repayments for FY 2016/17 will relate to IDA, Japan, France and China at Kshs. 12.7 billion, Kshs. 6.0 billion, Kshs. 5.12 billion and Kshs. 4.6 billion, respectively.

61) External debt redemption expenditure is expected to rise aggressively over the Medium Term i.e. from Kshs. 43.6 billion to Kshs. 128.6 billion in FY 2017/18 on account of Kshs. 80.18 billion debt redemption payment relating to the Standard Chattered $750 million, Syndicated Loan, obtained in 2015, (2 year tenor).

Pensions and Miscellaneous CFS Expenditure

62) For the FY 2016/17 Pensions expenditure are expected to increase from Kshs. 43 billion in FY 2015/16 to Kshs. 55.7 billion. This is on account of increase of gratuity to civil servants that increased by Kshs. 12.7 billion (117%) from Kshs. 10.9 billion to Kshs. 23.6 billion in FY 2016/17. Salaries and allowances are expected to decrease from Kshs. 4.4 billion in FY 2015/16 to Kshs. 3.96 billion on account of the winding down of the Commission for the Implementation of the Constitution in 2015, and might have contributed to the increase in pension indicated above. However, the budget estimates relate this change to winding down of the committee of experts on constitutional review that ended its existence forty-five days after the proclamation of the new Constitution.

63) Finally, the country expects to incur Kshs. 1.017 billion (from Kshs. 944.7 million in FY 2015/16) relating to guaranteed debt (as required under Section 58 of the PFM Act) to institutions that have defaulted on their loan repayments. However, the total guaranteed debt expenditure is expected to fall in subsequent years owing to fall in interest payments on guarantees.

Emerging Issues

i. *The level of debt in Kenya is approaching unsustainable levels. Already the ratio of debt service to revenue has reached its limit of 30 percent and is expected to bypass its limit in the 2017 by 4.7% on account of debt redemptions and interest rate costs that are expected to rise substantially in the FY 2017/18.*
ii. *With the current level of debt growth (15% p.a) and a ratio of 48.5 PV of debt to GDP, the country is likely to exceed the EAC convergence criteria that recommends a level of 50% of PV of debt to GDP for macroeconomic stability and sound debt framework*
iii. *The rise in CFS expenditure is likely to pose constraints to the level of financial resources available and fiscal space for other budgetary needs.*
iv. *The country is expected to experience exponential rise in external debt redemption in FY 2017/18 from* Kshs. *43 billion in 2016/17 to* Kshs. *128.6 billion in 2017/18 and similarly in 2018/19 partly due to the payments to standard chattered $750 million, syndicated loan and sovereign bonds. This increase in debt service costs and redemptions calls for pragmatic measures to avert economic shocks and fiscal turbulence*
v. *Salaries and allowances are expected to decrease from* Kshs. *4.4 billion in FY 2015/16 to* Kshs. *3.96 billion due to end of the mandate of the Commission for the Implementation of the Constitution in 2016.*
vi. *The 2016/17 budget estimates also indicate that the country is to incur Kshs. 10.305 billion as interest payables (Item E002000219) however, the estimates do not indicate when this debt was issued, the principal, amount tenor or due year.*

VII. LINKING THE FIVE PILLARS IN THE 2016 BPS TO 2016/17 BUDGET ESTIMATES

64) The 2016/17 estimates have been prepared on the basis of the pillars that were in the 2016 BPS. It is thus expected that the submitted budget estimates targets will realize the envisaged activities as set out in the BPS.

65) This analysis assesses the extent whether some of the targets and activities that had been earmarked for implementation in accordance with 2016 BPS have been prioritized for actualization in the 2016/17 budget estimates. Further, this analysis will inform the Legislature on key targets that require to be followed during the implementation stage of the 2016/17 budget. This is as indicated in the table below: -

Table 9: Targets as contained in BPS vs Targets in the 2016/17 estimates

Pillars	Targets as contained in the BPS 2016	Targets in the 2016/17 estimates
Pillar I: Creating a Conducive Business Environment for Employment	(i) Develop a database on crime and its incidence to facilitate improved planning and deployment of assets. (ii) Improved police welfare and performance improvements through comprehensive medical cover and housing.	(i) Crime reduction from 160 to 150 cases. (ii) 1,200 police house to be built (iii) 3,500 police operational vehicles to be provided.
Pillar II: Continued spending in infrastructure to unlock constraints to growth.	(i) Construction of 3,800 km of low volume seal roads across the country. (ii) Fast tracking of the Nairobi metropolitan mass rapid transport system (iii) Implementation of metropolitan transport authority bill. (iv) Construction of roads- Nairobi Outering road, Voi-Mwatate-Wundanyi,Malindi-Mombasa –Lunga Lunga,Kisumu-Kakamega. (v) First phase of the Lamu Port and Southern Sudan-Ethiopia Transport. (vi) Creating of an independent body to audit and certify construction and maintenance of roads. (vii) Scaling up of the modernization of airports/airstrips and commissioning of terminal 1E in JKIA. (viii) Generation of additional 5,000 MW of power comprising of renewable geothermal, wind and coal	(i) Construction of 537Km of low seal volume and rehabilitation of 593km (ii) 20% of first 3 berths under LAPSSET Project (iii) Construction of 2.0km for Nairobi Outering road, 8.0Km of Voi-Mwatate-Wundanyi, (iv) Generation of 752 MW from Geo-Thermal, 450MW from Coal and 7MW from wind.
Pillar III: Sustaining sectoral spending for employment creation.	(i) Roll out a program covering at least 100,000 acres of land under irrigation. (ii) Establishment of Disease Free Zone facilities in Bachuma, Kurawa and Miritini (iii) Establish a fertilizer manufacturing plant. This plant should be completed by September 2016. (iv) Development and managements of sports facilities in partnership with the private sectors and constructions of 5 stadia	(i) 10,000 acres in Galana-Kulalu,450 acres in Lower Nzoia , 1,000 acres in Bura, 2,500 in Mwea and 15,000 acres in National expanded irrigation programme. (ii) 100% level of refurbishment of five regional stadias will be achieved.
Pillar Iv: Sustained Investment in Social Services for the Welfare of Kenyans	(i) Equipment modernization in 94 hospitals (ii) Reducing morbidity and mortality from malaria, HIV/AIDs, tuberculosis and non-communicable diseases (iii) Recruitment of more health workers (iv) Strengthening health research for improved quality of health (v) Increasing provision of student loans, bursaries and scholarships to fully finance the universal free primary education, free day secondary education and tertiary education. (vi) Provision of electricity and integration of ICT in curriculum delivery at all levels of education. (vii) Construction of low cost boarding facilities in ASALs	(i) 98 Hospital to be equipped with specialized equipment (ii) Distribution of first line anti –TB doses to 88,355 and Artemether Combination doses to 12 million (iii) 400 secondary schools to benefit from ICT integration.
Pillar V: Further entrenching Devolution	(i) Enhancing support to devolved units	(i) 51 model laws to guide Counties in legislation to be developed (ii) Capacity Building for Counties in various areas i.e. PFM, Monitoring and Evaluation e.t.c

66) The following are the Emerging issues

(i) Its noted that targets in the 2016 BPS were highly optimistic and majority of them are not attainable. For example, in the 2016 BPS targets 3,800Km of low volume seals roads were to be constructed, however, the 2016/17 estimates targets are for 537 Kms for construction and 593km for rehabilitation.

(ii) There is inconsistency between the narrative in estimates and the targets in the programmes as provided in the estimates for example in the narrative in page 477 and 379 of the programme based budget, there are indications that a fertilizer plant will be established and commissioning of 600,000 devices to 11,000 public primary schools respectively. However, these activities are missing in the 2016/17 targets for the respective Ministries.

VIII. ESTIMATES FOR THE EQUALIZATION FUND FOR 2016/17

67) The Equalization Fund as established under Article 204 of the Constitution provides for annual appropriation of one half percent of all the revenue collected by National Government each year calculated on the basis of most recent audited accounts. Appropriation under this Fund is towards basic but critical services such as water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services to the level generally enjoyed by areas which are relatively better off.

68) The proposed allocation for the FY 2016/17 is Kshs.6 billion which together with an amount of Kshs.6.4 billion reflected as balance brought forward brings the total equalization amount available for programmed projects across the 14 counties to Kshs.12.4 billion. Expenses for administrative services and operational activities amount to Kshs.598.82 million.

69) However, in view of past four fiscal years, all approved annual allocations for the purpose of the Fund have not been utilized. These allocations cumulatively amount to Kshs.15.8 billion including amount undercurrent FY 2015/16 of Kshs.6 billion. This cumulative approach is based on the constitutional provision that any unexpended money at the end of the financial year remains under the Fund. Comparatively, the advisory Board through the National Treasury provide for amounts totaling Kshs 15.4 billion for similar period (2011/12 to 2015/16) using ‘entitlement approach’ (one half percent against audited revenues for respective years).

70) It is estimated that the entitlement towards the fund amount to Kshs.20.080 including that of 2016/17as compared with Kshs.23.8 billion together with the proposed amount using the approved approach.

71) The 2016/17 proposed estimates for the Fund provide for proposed allocations to various projects to be undertaken in 14 counties identified by Commission on Revenue Allocation Marginalization Policy pursuant to Art. 216(4) of the Constitution.

72) The amount per county is as shown as below.

Table 10: Allocations per County

No.	Name of the County	Aggregate percent for each county against total amount (11.8 billion)	County Share
1	Garissa	6.64%	783,520,000
2	Isiolo	6.33%	746,940,000
3	Kilifi	6.47%	763,460,000
4	Kwale	6.74%	795,320,000
5	Lamu	6.12%	722,160,000
6	Mandera	8.20%	967,600,000
7	Marsabit	7.51%	886,180,000
8	Narok	6.86%	809,480,000
9	Samburu	7.37%	869,660,000
10	Tana River	7.28%	859,040,000
11	Turkana	8.90%	1,050,200,000
12	Taita Taveta	6.37%	751,660,000
13	Wajir	7.88%	929,840,000
14	West Pokot	7.34%	866,120,000
		100.01%	11,801,180,000

Source: National Treasury

73) The proposed horizontal allocation across the 14 marginalized counties is on the basis that fifty (50) percent (Kshs.5.9 billion) of the total amount be shared on the basis of the Composite Development Index (CDI) by CRA, 42.5 percent (Kshs.4.9 billion) on the basis of population and 7.5 percent (Kshs.8 billion) on the basis of land area. Based on this criterion mentioned above, Turkana County is set to get the highest allocation while Lamu County gets the least. See annex for proposed projects under each county.

74) **Emerging Issues**

i. *There is inordinate delay in the operationalization of the Equalization Fund which was partly attributed to lack of Guidelines on the administration of the fund and implementation. There is need to avert further delays in utilizing approved allocations as envisioned in the Constitution.*

ii. *Art. 204 (5) provides for retention of any unexpended allocation into the Fund. Based on approved allocations over the years and the proposed allocation for the FY 2016/17 the cumulative amount total to Kshs. 21.8 billion, more than the Board's Estimate of Kshs.20.080 by Kshs billion. There is need to clarify the variance and why the National Treasury is using the entitlement approach as contrasted with approved amounts by Parliament.*

iii. *Art. 201 of the Constitution stipulate openness and accountability including public participation in financial matters. It is not clear whether the proposed projects listed under respective counties have been subjected to public participation. This maybe important and necessary to avoid duplication especially where other MDAs or counties may have planned undertaking a similar project in the identified area.*

iv. *The counties of Isiolo and Garissa shall have additional projects identified within the financial year through a supplementary budget of the Fund in order to fully apply their ceilings based on the approved criterion.*

IX. ANNEXTURES

Annex 1: Sample of Development Projects and Project Data Profile

No	Name of the project	Source of Funds	Start Date	Expected Date of Completion	Status as per 2015/16 FY	Allocation 2014/15	Allocation 2015/16	Actual Expend iture **	Proposed Allocation for 2016/17	Total Cost of the Project
						(Kshs. million)				
1	Galana Kulalu Irrigation development Project (10,000 acres) (Galana Kulalu Irrigation Project)*	GoK and Donor	June, 2013	June, 2018	Ongoing	3,500	9,700	3,000	3,215	250,000
2	Mwea Irrigation Development Project - Thiba Dam and Irrigation Area (Mwea Irrigation Development Project)	GoK and Donor	2013	2018	Ongoing	2,500			3,247	
3	Itare Dam water project	GoK and Donor							10,189	
4	Sugar Reforms Support Project (Support to Sugar Reforms)	Donor	2013	2017	Ongoing	356	67	412	416	1,000
5	Regional Pastoral Livelihood Resilience Project	GoK and Donor	2014	2019	Ongoing	218	1,890	110	2,056	8,500
6	lower Nzoia Irrigation Project Phase 2	Donor							300	
7	Disease Free Zones (Construction and Refurbishment - Disease Free Zones)	G.O.K	2012	2017	Ongoing	278	900	900	0	17,000
8	Modernization/ Rehabilitation of Kenya Meat Commission Factory (KMC- Enhancement of Livestock Market Infrastructure/ modernization)	G.O.K	2014	2018	Ongoing	700	350	350	550	1,200
9	Cash Transfer to Older Persons	G.O.K	-	-	-	5,580	0	0	5,062	0
10	Cash Transfer to Orphans and Vulnerable Children	GoK and Donor		-		7,442	0	0	8,875	0
11	Support to Orphans and Vulnerable Children outside Households	G.O.K							100	0
12	Refurbishment of 5 Regional Stadia (Feasibility study for the three National Stadia under Jubiliee Manifesto (Mombasa, Eldoret, Nairobi)	GOK	January, 2015	July, 2015	80%	200	0	200	1,000	
13	The Kenya Academy of Sports Phase I and II (The Kenya Academy of Sports Phase I)	GOK	March, 2013	March, 2016	55%	350	0	553	250	860
14	Loiyangalani-Suswa Transmission Line	GoK and Donor	Jul-14	Jun-16	On -going	2,500	2,754	0	11,413	
15	Olkaria I and IV (Kenya Electricity Expansion Programme (KEEP) - Geothermal Generation at Olkaria I and IV)	Donor loans	Dec-11	Oct-18	On - going	0	1,493	0	3,000	0

No	Name of the project	Source of Funds	Start Date	Expected Date of Completion	Status as per 2015/16 FY	Allocation 2014/15	Allocation 2015/16	Actual Expend iture **	Proposed Allocation for 2016/17	Total Cost of the Project
						(Kshs. million)				
16	Last Mile Electricity Connectivity	GoK and Donor	2015	continous	On- going	0	4,530	0	8,890	0
17	Intallation of transformers in Constituencies	GOK							3,000	
18	Street lighting (strategic interventions - Street lighting)	GOK	Jul-15		On-going	953	4,500	0	3,100	0
19	Menengai Geothermal Project including menangai	GoK and Donor	2009/10	Dec-16	On-going	7,105	2,310	0	1,800	34,556
20	Olkaria V - geothermal	Donor loans							8,800	0
21	Rural Electrification - various projects - Electrification of public facilities (electrification of public primary schools through the National Grid and Solar PVs and gensets and other public facities)	GoK and Donor	Dec. 2009	Continous	On- going	11,103	9,431	29,600	7,750	53,410
22	Kenya Petroleum Technical Assistance Project (KEPTAP)	GoK	Jul-14		On- going	251	665		450	4,450
23	Preparatorty activities for the Lokichar - Lamu Crude Oil Pipeline (Lokichar - Lamu Crude Oil Pipeline ProjectProject - way leave acquisition)		Jul-14		On - going	200		0		200
24	Early Monitization of First Oil Project	GoK	Jul-16						150	
25	LPG Distribution and infrastructure	GoK	Jul-16						2,000	
26	Digital Literacy Programme (ICT integration in Primary Education)	GoK	2013/14 FY	2018/19	Capacity building-150 national trainers and 2,555 county ToTs trained.Digital content for std 1 completed.Budget approved to train 61,000 teachers (3 per school)		17,700	0	13,408	53,000
27	Konza Complex (Konza Techno City - Phase1)	GOK	2013/14	2019/20	On-going	500	810	1,800	500	64,000
28	Konza - Access road								148	
29	NOFBII II (ICT Infrastructure Connectivity: National Optic Fiber Backbone Infrastructure -NOFBI II)	GoK and Donor	2012/13	2014/15	On-going	2,667	2,948	2,500	1,552	6,500

No	Name of the project	Source of Funds	Start Date	Expected Date of Completion	Status as per 2015/16 FY	Allocation 2014/15	Allocation 2015/16	Actual Expend iture **	Proposed Allocation for 2016/17	Total Cost of the Project
						(Kshs. million)				
30	NOFBII Phase II Expansion	GoK and Donor							1,500	
31	Online Transactional Mining Cadastre Portal	GoK				30	12		60	0
32	Development of Mombasa to Nairobi Standad Gauge Railway (Standard Gauge Railway Project Phase 1)	GOK/CHINA-EXIM Bank	30-08-2014	Jun-17	on going	19,422	210,914		154,395	327,000
33	Low volume Sealed Roads Phase 1 A(various roads)	Gok							5,230	
34	Low volume seals Roads Batch 1(various roads)	Gok							12,371	
35	Low volume seals Phase 1 Batch 2 (various Roads)	Gok							9,797	
36	Low volume seals Roads Phase 1 Batch 2(various roads)	Gok							1,616	
37	Annuity Low Volume Seal Roads (R10000 Programme (Annuity) development)	G.O.K	1/7/2015	30/6/2016	Ongoing	**0**	50		9,489	
38	Nairobi - Thika Highway Improvement Project lot 1 & 2	G.O.K							800	
39	Nairobi - Thika Highway Improvement Project lot 3	G.O.K							800	
40	Kangema – Gacharage	G.O.K	1-Aug-12	3-Jan-15	Ongoing	1,799	1,000	2,498	760	4,293
41	Emali – Oloitoktok	G.O.K	1/7/2007	30/6/2010	Ongoing	958	170	1,779	92	5,140
42	Sotik – Ndanai	G.O.K	7-Sep-11	11-May-14	Ongoing	583	33	1,944	12	1,852
43	KCC (Sotik)-Ndanai-Gorgor (C15) - Phase II	G.O.K	18-Sep-14	30-Jul-16	Ongoing	380	650	0	2,580	1,060
44	Nuno – Modogashe	Gok / ADB/OPEC/Saudi/Kuwait/ BADEA	6-Aug-14	9-Aug-17	Ongoing					
45	Kibwezi - Mutomo - Kitui Road	GoK							500	
46	Kehancha-Migori – Muhuru	G.O.K	15/5/13	18-Feb-16	Ongoing	2,229	1,500	2,958		4,734
47	Kehencha - Suna - Masara Road	G.O.K							800	
48	Construction Of The Interchange At City Cabanas	G.O.K	5/10/2013	30/6/2016	Ongoing	507	336	2,012	200	2,514
49	Purchase of Chancery and Ambassador's Residence – Geneva	GoK				0	1,400			0
50	Purchase of Office space-New York	GoK			new project	0	0		2,000	0
	* names of projects captured in brackets are as provided in earlier fiscal years ** Given in 2014/15 & 2015/16									

Annex 2: Priority Areas in the 2016/2017 Budget and the Medium Term

The 2016 Budget Policy Statement set out the broad policy objectives to be achieved in the Fiscal year 2016/2017 and the medium term. The BPS outline the fiscal year and medium term priorities under the five thematic areas:

Pillar	Details
Pillar 1 : Sustaining Conducive Business Environment for Investment Opportunities	i. Macroeconomic stability for sustained growth and development. to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development. ii. Enhancing security for sustained growth and development this is done through police welfare/performance improvement through a comprehensive medical cover and housing, and investment in security infrastructure covering housing, offices, security installation and additional leasing of police vehicles and training facilities.
Pillar 2 : Continued spending in Infrastructure to Unlock Constraints to Growth: transport, logistics, energy and water to encourage growth of competitive industries	i. Expanding Road Network- the Construction of 3,800 km of low volume seal roads across the country. ii. Expansion of major roads in the Urban Centers e.g. Outer-ring road in Nairobi. iii. Construction of East Africa Road Network (Voi-Mwatate-Wundanyi),Malindi-Mombasa-Lunga Lunga. iv. Construction of Kisumu-Kakamega Road v. Dredging of Mombasa Port and construction of Road network around and out of the port. vi. Commissioning of new terminal 1E in JKIA. vii. Generation of an additional 5,000 MW comprising of renewable geothermal, wind and coal.
Pillar 3: Sustaining Sectoral Spending for Employment Creation: in particular agricultural transformation to ensure food security and lower prices and employment	i. Establishment of Disease Free zones in Bachuma, Kurawa and Miritin. ii. Procurement of offshore patrol vessel (OPV) . iii. Establishment of Fertilizer plant. iv. Facilitating tourism promotion and marketing to increase international arrival and tourism revenue. v. Development of sport facilities and the construction and improvement of the 5 regional stadia.
Pillar 4: Sustained Investment in Social Services for the Welfare of Kenyans: quality and accessible health care services as well as relevant education and strengthening the social safety net	i. Scaling up universal health coverage initiatives including free maternity services, subsidies for the poor and vulnerable groups; increased funding of the health sector by Government and partners. ii. Equipping public hospitals with specialized medical equipment and equipment modernization in 94 hospitals. iii. Reducing morbidity and mortality from malaria, HIV/AIDs,

Pillar	Details
	tuberculosis non-communicable diseases. iv. Recruitment of more health workers and strengthening health research for improved quality of health. v. Improving and expanding schools and training institutions infrastructure through construction/rehabilitation of class rooms, provision of electricity and integration of ICT in curriculum delivery at all levels of education, vi. Construction of low cost boarding facilities in ASALs, construction of special needs education infrastructures) throughout the country over the medium term; vii. Increasing provision of student loans, bursaries and scholarships to fully finance the universal free primary education, free day secondary education and tertiary education. viii. Increase the number of beneficiaries in Cash transfer programmes from 717,000 in FY 2015/16 to 1, 047,000 in FY 2015/17. ix. Decentralization of Single registry for the National Safety Net Programme to 15 additional Counties.
Pillar 5: Enhancing Service Delivery through Devolution.	i. The enactment of the Public Audit and Public Procurement and Asset Disposal Acts as well as the gazettement of the Public Finance Management Regulations to strengthen County financial management. ii. The strengthening accountability and fiscal discipline by the National Government in the use of devolved resources for better service delivery. iii. The National Treasury through the Intergovernmental Budget and Economic Council (IBEC) will initiate the development of a national framework legislation to support the enhancement of county own-source revenue. In addition, a comprehensive review and harmonization of all existing legislation relating to county taxes, fees, user charges and business licenses will be undertaken.

Annex 3: Critical Areas Funded in the Estimate That Were Not Funded in the 2016 BPS

Allocation to the Critical Areas in the 2016/2017 Budget

Ministy	Programme	Current	Capital	Total	Details of Additional request	Additional Allocations in the budget	Comments
Ministry of Defence	**Total**	**54,270**	**-**	**54,270**			
	P.1 Defence	54,270	-	54,270	**54.27 billion** for Modernization programme	**1.7 billion** for Multi-Agency Security Operation	Not funded
Ministry of Foreign Affairs and International Trade	**Total**	**12,000**	**-**	**12,000**			
	P.2 Foreign Relation and Diplomacy	12,000	-	12,000	12 billion for additional personnel and facilities for foreign missions abroad	**5.7 billion** for Adjustment for O and M expenses and **2 billion** for the purchase of chancery in New York	Partly funded
State Department for Education	**Total**	**-**	**500**	**500**			
	P.2 Secondary Education	-	500	500	500 million for decongestion and refurbishment of National Schools (This is Phase 1 covering 25 schools)		Not funded
State Department of Science and Technology	**Total**	**-**	**3,000**	**3,000**			
	P.5 Technical Vocational Education and Training	-	3,000	3,000	**3 billion** for equipping of 60 Technical Training Institute which are near completion	**1.6 billion** For construction of TTIs (confirmed donor commitment) and **2.6 billion** for National Research fund.	Partly funded
1081 Ministry of Health	**Total**	**30**	**1,000**	**1,030**			
	P.1 Preventive & Promotive Health Services	30	-	30	30 million for operationalization of Tobacco Control Board	**150 million** for Salary expanses	Not funded
	National Referral and Specialized Services	-	500	500	500 million for: expansion of Government Chemist (100 million); Phase 1 construction of National Quality Control Laboratories (100 million); Procurement of Vaccines (300	**545 million** for donor funded projects in the health sector	Funded

Ministy	Programme	Current	Capital	Total	Details of Additional request	Additional Allocations in the budget	Comments
					million)		
	P.3 Health Research and Development	-	500	500	500 million for expansion of KMTC campuses		Not funded
State Department for Infrastructure	**Total**	**-**	**16,400**	**16,400**			
	P.2 Road Transport	-	16,400	16,400	16.4 billion for: pending bills (KeNHA; KeRRA; KURA)	**44.8 billion** For low seal roads and donor commitment.	Funded
State Department for Transport	**Total**	**200**	**10,000**	**10,200**			
	P.4 Marine Transport	-	10,000	10,000	10 billion for first three berths at Port of Lamu (LAPPSET)	**10 billion** for LAPPSET project	Funded
	P.7 Road Safety	200	-	200	NTSA for implementation of road safety action plan (200 million)		Not funded
State Department for Environment and Natural Resources	**Total**	**4,000**	**4,970**	**8,970**			
	P.2 Environment and Natural Resources Management and Protection	4,000	-	4,000	4 billion for compensation of victims of human-wildlife conflict	**730 million** for green schools programme, water towers agency and net fund.	Not funded
	P.5 Integrated Regional Development	-	4,970	4,970	4.97 billion for: KVDA to cater for expenditure shortfalls (300 million); TARDA for pending bills in Kieni Irrigation Project (200 million); ENSDA for bamboo sector development (1 billion); ENSDA for leather factory project (170 million); and RDAs pending bills (3.3 billion)		Not Funded
Ministry for Water and Regional Authorities	**Total**	**-**	**8,750**	**8,750**			
	P.4 Water Resources Management	-	8,150	8,150	8.15 billion for: GoK conterpart funding of projects (5 billion); Compensation and resettlement of people occupying dam sites areas in Mwache and Lower Nzoia (3 billion); water storage and supplies emergency	**15.6 billion** for Confirmed donor commitment	Funded

Ministy	Programme	Current	Capital	Total	Details of Additional request	Additional Allocations in the budget	Comments
					interventions (150 million)		
	P.3 Irrigation and Land Reclamation	-	600	600	600 million for small-scale irrigation		Not funded
Ministry of Sports Culture and Arts	**Total**	**1,420**	**-**	**1,420**			
	P.1 Sports	1,300	-	1,300	1.3 billion for: Setting up of Anti-Doping Agency of Kenya (500 million); Logis- tical support for athletes and officials in the 2016 Summer Olympics in Brazil (800 million)	**1.7 billion** For cash award.Anti-Doping and international competition.	Funded
	P.2 Culture	120	-	120	120 million for personnel emoluments in the New State Department for Cul- ture and Arts		Not funded
Ministry of Labour Social Security and Services	**Total**	**924**	**-**	**924**			
	P.2 Manpower Development, Employment and Productivity Management	734	-	734	734 million for establishment of National Employment Authority	**490 million** for NEA.labour consular offices in Saudi arabia and Qatar.	Funded.
	P.3 Social Development and Children Services	190	-	190	190 million Productivity, Improvement, Measurements and Promotion		Not funded
State Department for Livestock	**Total**	**-**	**700**	**700**			
	P.6 Livestock Resources Management and Development	-	700	700	500 million for KMC Mordenization; 100 million for KEVEVAPI; 100 million for Disease Free Zone	**6.5 billion** confirmed donor commitment	Funded
State Department for Fisheries	Total	**50**	**50**	**100**			
	P.5 Fisheries Development and Management	50	50	100	50 million for operationalization of fisheries bill (establishment of Kenya Fisheries Services, Fisheries Advisory Council and Fish Marketing Authority); 50 million for completion of fish quality laboratories	**77 million** for salary expanses and KEMFRI and MV Mtafiti.	Not funded

Ministy	Programme	Current	Capital	Total	Details of Additional request	Additional Allocations in the budget	Comments
Ministry of Mining	**Total**	**786**	**2,000**	**2,786**			
	P.2 Resources Surveys and Remote Sensing	-	2,000	2,000	2 billion for National Airborne Geophysical Survey	**2.7 billion** for Geo-physical survey	funded
	P.3 Mineral Resources Management	786	-	786	786 for various expenditure shortfalls		Not funded
The Judiciary	**Total**	**500**	**500**	**1,000**			
	P.1 Dispensation of Justice	500	500	1,000	500 million for recurrent expenditure; 500 million for development expenditure		Funded
National Intelligence Service	**Total**	**5,400**	**-**	**5,400**			
	P.1 National Security Intelligence	5,400	-	5,400	5.4 billion for modernization programme	**1.5 billion** for security operation	Partly funded
Parliamentary Service Commission	**Total**	**-**	**1,000**	**1,000**			
	P.3 General Administration, Planning and Support Services	-	1,000	1,000	1 billion for purchase of land for CPST		Funded
Teachers Service Commission	**Total**	**3,150**	**-**	**3,150**			
	P.1 Teacher Resource Management	3,150	-	3,150	1.35 billion for recruitment of additional teachers; and 1.8 billion For promotion of teachers in various cadres.	**2.8 billion** For salary expenses.	Funded
Auditor General	**Total**	**1,270**	**-**	**1,270**			
	P.1 Audit Services	1,270	-	1,270	1.27 billion for: Personnel Emoluments (449.6 million); domestic travel (82 million); purchase of motor vehicle (100 million); ICT (184.02 million); rentals of assets (74.42 million); outsourcing of audits (180 million); car loans (200 million)	**333 million** for salary expenses.	Partly funded