PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY BUDGET OFFICE

Unpacking the Estimates of Revenue and Expenditure for 2019/20 and the medium term

MAY 2019

Disclaimer

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Executive Summary

The challenge of the 2019/20 budget is to replicate the economic performance of 2018, pushing economic growth to 6.2 percent in 2019 and 7.0 percent over the medium term. It is expected that the implementation of policies and programmes under the MTP as operationalized by big four agenda will *"accelerate economic growth, create opportunities for productive jobs, reduce poverty and income inequality and provide a better future for all Kenyans".* The key drivers of this growth are stable weather conditions, strong service sector, stable macroeconomic environment, ongoing infrastructural investments and sustained business confidence.

The risks to this outlook however, emanate from the weak fundamentals driving economic performance. Weather conditions have not been favourable for this year, Inflation is likely to go up on account of food and water scarcity, the pace of implementation of infrastructure projects is too slow and there are risks to the external outlook from unfavourable export commodity prices.

Both in nominal terms and as a share of GDP, the overall budget has reduced from the 2018/2019 level, signaling the desire by the government to reduce spending and therefore lower the fiscal deficit. However, the higher budgetary allocations in the estimates compared to the BPS ceilings negate this plan and show the difficulty of the government in fully committing to lower spending (and a lower deficit).

The Big Four agenda accounts for approximately 14.6% of the total budget. The bulk of these resources (Ksh.374.1 billion) is for implementation of the enablers while Ksh. 76.1 billion is for the drivers. There is a general concern that the resources made available for implementation of the big four may not be adequate. According to the Medium Term Plan III, approximately Ksh. 367.334 billion is required to implement the big four plan in 2019/20.There is a concern also, on a perceived continuous revision of targets under the four pillars.

I. INTRODUCTION

1) The 2019/2020 budget has been presented against the backdrop of impressive economic growth performance. Overall, the economy grew by 6.3 percent in 2018; growth of agriculture value added to 6.6 percent in 2018 from 1.8 percent in 2017; 840.6 thousand new jobs created (83.6 percent in the informal sector); inflation at 4.7 percent and a narrowing of the current account deficit. The challenge of the 2019/20 budget therefore is to replicate the economic performance of 2018, pushing economic growth even further to 6.2 percent in 2019 and 7.0 percent over the medium term. It is expected that the implementation of policies and programmes under the MTP as operationalized by big four agenda will *"accelerate economic growth, create opportunities for productive jobs, reduce poverty and income inequality and provide a better future for all Kenyans".*

2) The purpose of the unpacking of the budget in any financial year is to determine whether and to what extent the budget is designed to meet economic development objectives as well as highlight any fiscal and budgetary risks contained in the budget. This entails establishing the extent to which the Budget Policy Statement, the Vision 2030, Medium term plans, Strategic plans and other policy documents formed the basis of preparation of the annual estimates for 2019/20 and the medium term. It also includes evaluating the medium-term approach to budgeting, how resources have been allocated, expected outputs and what this means for economic growth performance. The annual estimates should be broadly within the agreed expenditures and approved ceilings; and should provide a link between the annual estimates and the national development agenda.

II. REALISM OF THE MACROECONOMIC FRAMEWORK UNDERPINNING THE 2019/20 BUDGET

3) The 2019/2020 budget is pegged on an economic growth projection of 6.2 percent in 2019; single digit inflation of 5% (+or-2.5%) low and stable interest rates as well as a strengthening external position due to narrowing of the current account deficit. This favorable economic outlook is premised on stable weather conditions, strong service sector, stable macroeconomic environment, ongoing infrastructural investments and sustained business confidence. A critical review of this economic outlook reveals the following concerns:

i) Economic Growth

4) The economic growth projection of 6.2 percent for 2019 appears to be premised on weak fundamentals. Stable weather condition is indicated as a key driver of economic growth in 2019 despite the already very apparent poor performance of the March-April-May long rains season. Given a much delayed onset of the long rains season, the amount of rainfall for most parts of the country is currently below 55 percent of what is normally experienced[1]. According to forecasts, the rains are likely to peter out by end of May 2019 and most of the country will receive below average rainfall amounts by end of the season. This presents significant challenges in terms of the food and inflation outlook. The delayed onset adversely affected the planting season and a below average rainfall performance is likely to

[1]Food security outlook update, April 2019- The Famine Early Warning Systems Network

result in lower food production, inadequate fodder for livestock, and inadequate water and electricity supply. Furthermore, the Kenya Agriculture Livestock Research Organisation (KALRO) has recently expressed fears of a worsening invasion of armyworms due to the scarcity of rains which creates a thriving environment for the pests. In 2017, the armyworms cut maize production by approximately five million bags. **As a result, there is likelihood of higher inflation on account of food scarcity and higher electricity prices;** reduced income for majority of rural dwellers who rely on income from agricultural activities; reduced agro-processing output and a possible widening of the current account deficit due to reduced agricultural exports. If the current trend persists, inflation is likely to reach 11 percent by close of December 2019.

5) The slow pace of implementation of infrastructure projects negates the benefits that these projects may yield to the economy. **A review of the Exchequer releases as at end of March 2019 indicates that three months to the end of the financial year, only slightly more than half of the GoK development funds (54%) have been released.** This trend is replicated in previous years and therefore, offers little in terms of contribution to economic growth. There are numerous slow moving/ stalled projects due to non-payment to contractors, insufficient allocation of funds to projects, litigation cases in court and revenue underperformance. **In FY 2017/18, the actual share of development expenditure was estimated at 26 percent below the threshold of 30 percent as provided in PFM Act.**

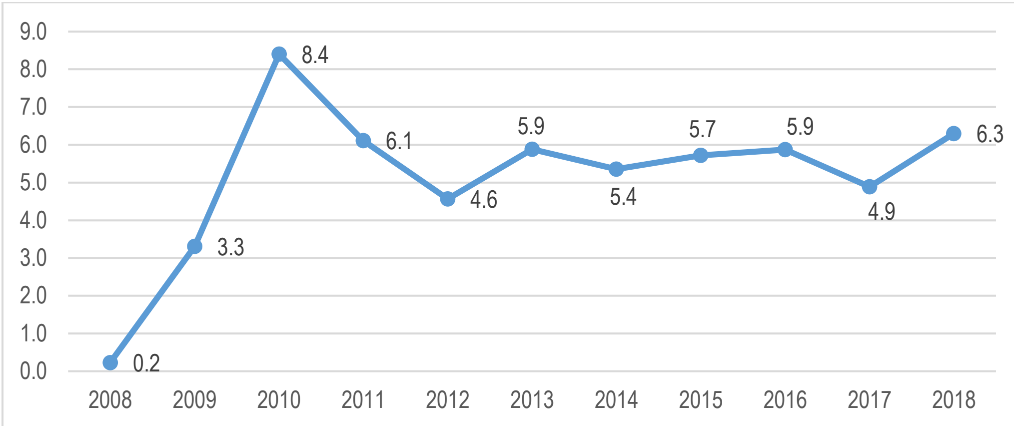
6) A weak global economic outlook also carries some risks for the Kenyan economy. The ongoing trade tensions between the US and China may not augur well for Kenyan commodity exports to China and the US which are key inputs for either Chinese exports to US markets or US exports to China especially if these products are targets for tariffs/trade wars between the two countries.

Table 1: Contribution to economic growth for selected sectors (2013- 2018)

Contribution to Growth (%)						
Sector	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Agriculture, forestry and fishing	1.23	0.99	1.19	1.04	0.41	1.35
Real estate	0.34	0.45	0.58	0.72	0.52	0.35
Transport and storage	0.09	0.37	0.53	0.44	0.49	0.61
Construction	0.28	0.59	0.67	0.52	0.46	0.37
Education	0.43	0.53	0.34	0.37	0.35	0.40
Finance and Insurance	0.47	0.49	0.56	0.43	0.18	0.34
Manufacturing	0.63	0.28	0.39	0.32	0.05	0.42
Information and Communication	0.40	0.49	0.27	0.37	0.43	0.46
Wholesale and Retail trade	0.62	0.53	0.45	0.29	0.43	0.48
Mining and Quarrying	-0.04	0.14	0.12	0.10	0.05	0.03
Accommodation and food services	-0.07	-0.24	-0.02	0.14	0.16	0.20
Real GDP Growth	**5.9**	**5.4**	**5.7**	**5.9**	**4.9**	**6.3**

Source: KNBS

Figure 1: Trend in Real Economic Growth (2008-2018)



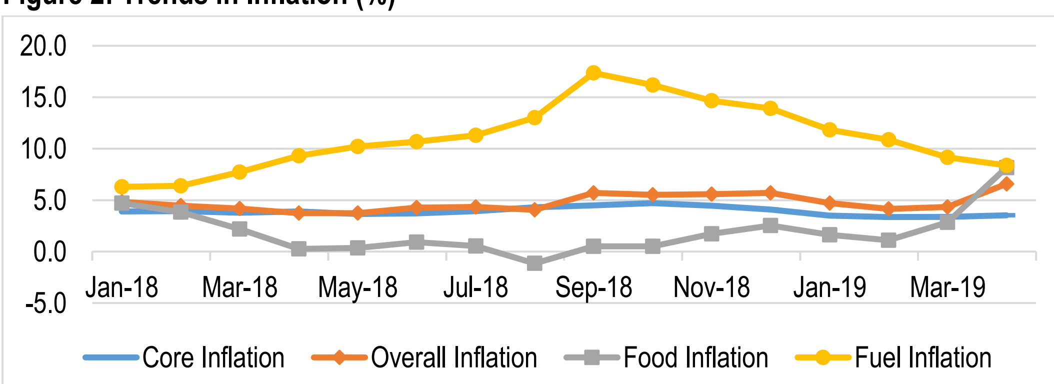
Source: KNBS

7) **The manufacturing sector is mainly agroprocessing and therefore dependent on agricultural performance. In addition, it is marred with challenges** such as inadequate capital especially for small-scale industries and SMEs, poor quality of raw materials and lack of skilled labour. The Purchasing Managers' Index, which is an indicator of manufacturing activities in the private sector, has been on the decline since December 2018 indicating a decline in performance of manufacturing activities.

Inflation

8) Monthly inflation remained within the target range of 5± 2.5 in 2018 but has been edging upwards and was estimated at 6.6 percent by end of April 2019. The upward trend of inflationis due to the cumulative effect of insufficient short rains (Oct – Dec 2018) and delayed long rains (March-May 2019) which have led to food and water scarcity. This has had a negative impact on food and electricity prices.

Figure 2: Trends in Inflation (%)



Source: KNBS, PBO

9) Risks to the 2019 inflation outlook will emanate from continued food and water scarcity and the resultant higher food and electricity prices.OPEC and Non-OPEC countries such as Russia and

Norway[2] have also agreed to reduce oil supply in the coming months which may lead to higher crude oil prices despite the low/ declining prices in the recent past.

Table 2: Contribution to Inflation

Category	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Food & Nonalcoholic Beverages	2.1	2.64	6.52	3.80	-8.32	2.79	2.95	10.18	15.02	11.40	8.45	22.46	48.18
Alcoholic Beverages, Tobacco & Narcotics	1.3	1.00	1.15	1.17	2.40	2.07	2.28	2.44	2.31	2.61	3.25	3.49	2.98
Clothing & Footwear	7.9	6.83	6.23	6.07	6.22	5.27	5.52	5.06	4.16	4.06	3.88	3.86	2.83
Housing, Water, Electricity, Gas and Other Fuels	49.5	54.12	52.11	52.49	61.39	49.40	49.24	41.13	40.45	45.32	48.62	32.89	17.31
Furnishings, Household Equipment and Routine Household Maintenance	6.5	5.98	5.74	5.72	5.73	4.63	4.53	4.42	3.99	4.31	4.02	3.99	2.52
Health	2.5	2.68	2.65	3.85	3.58	2.86	2.91	2.47	2.32	2.76	3.01	3.10	2.33
Transport	13.9	13.08	13.00	14.58	16.30	23.18	20.83	22.14	20.38	18.69	17.81	19.16	15.36
Communication	0.7	0.67	0.65	0.62	0.48	0.36	2.58	2.97	2.92	3.50	3.71	3.79	2.85
Recreation & Culture	0.7	0.74	0.69	0.65	0.70	0.56	0.59	0.56	0.38	0.40	0.40	0.29	0.25
Education	3.7	3.43	3.22	3.20	3.22	2.38	2.37	2.44	2.54	0.91	0.84	0.85	0.75
Restaurants & Hotels	6.2	4.75	4.29	4.24	4.50	3.50	3.04	3.09	2.65	2.94	2.93	2.99	2.37
Miscellaneous Goods & Services	4.9	4.08	3.74	3.61	3.81	3.01	3.15	3.10	2.89	3.11	3.07	3.12	2.27
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: KNBS, PBO Estimates

Exchange Rate and the External Sector

10) The Kenyan Shilling exchange rate against major international currencies has been stable. In March 2019, it strengthened against the dollar at Ksh. 100.36, the Euro and the Sterling Pound at 113.51 and Ksh. 132.29 respectively. The outlook for a stable exchange rate in 2019 is anchored on improved performance of forex inflows from exports, continued increase in diaspora remittances, growth in tourism as well as confidence in the CBK management of the exchange rate.

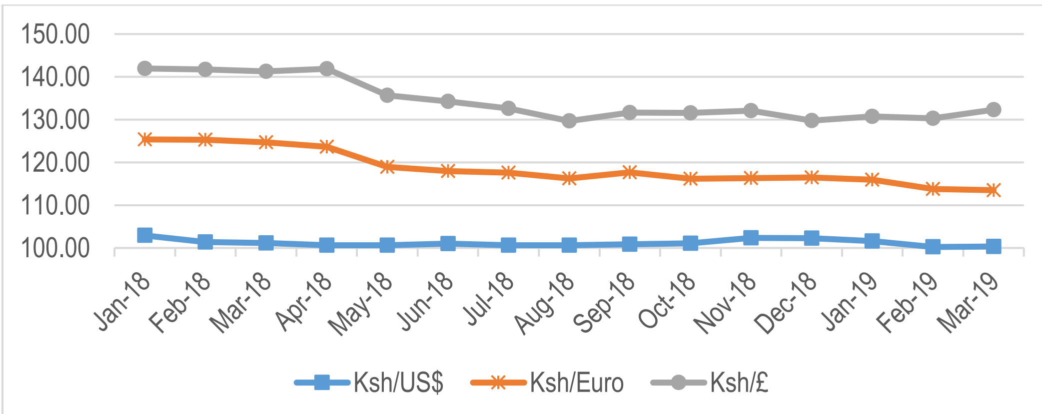
11) The foreign exchange reserves are adequate at 5.2 months of import cover which is above the 4.5 months of import cover required under the EAC Region convergence criteria. This coupled with

[2] OPEC Oil Market Report, April 2019

continued strong growth in foreign remittances (estimated at USD 2,722 Million in March 2019 from USD 2,156 Million in March 2018), will provide an adequate buffer for short-term foreign exchange shocks. The third Eurobond may also provide a further buffer by providing additional forex to fund a number of activities.

12) Risks may result if there is a sudden drop in remittances as well as subdued commodity prices in 2019. Coffee and tea are already encountering unfavorable prices in the commodity market.

Figure 3: Kenyan Shilling exchange rate against major currencies



Source: CBK

Interest Rates and Credit to the Private Sector

13) Interest rates are expected to remain stable during the implementation period of the 2019/20 budget anchored on improved liquidity conditions and ongoing fiscal consolidation. The Central Bank Rate (CBR) has been maintained at 9.0 percent since March 2018 as a monetary policy instrument in support of increasing the uptake of credit especially by the Private Sector. However, given that the Government's debt strategy for 2019/20 is more inclined towards domestic borrowing at 62 percent compared to 38 percent for external borrowing, the growth in credit to the private sector may continue to decline in 2019 from the 2.4 percent growth in 2018, since government is more likely to crowd-out the private sector as creditors deem it as a less risky borrower. However the court ruling on the interest rate capping may be an issue if the law is not repealed in time or if interest rates are left to Market determination there may be spikes in the second half of FY 2019/20.

14) Considering the aforementioned prevailing opportunities and risks the macroeconomic framework underpinning the implementation of the2019/20 budget, the economy is likely to experience a lower than projected growth of 5.6 percent in 2019 and the medium term.

III. KEY HIGHLIGHTS OF THE 2019/2020 BUDGET

How much is in the proposed 2019/20 Budget?

Table 1: Key Highlights of the 2019/20 proposed Budget (Ksh. Billion)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
National Government	**1,418.70**	**1,621.70**	**1,764.10**	**1,841.30**	**1,821.60**	**1,810.60**
Recurrent	821.1	1,048.00	1,074.20	1,157.30	1,197.60	1,203.60
Development	597.6	573.7	689.9	684	624	607
Judiciary	**15.7**	**14.9**	**16.09**	**18.88**	**18.38**	**18.28**
Recurrent	12.92	12.99	13.39	17.34	15.38	15.78
Development	2.78	1.94	2.7	1.54	3	2.5
Parliament	**26.2**	**30.4**	**35.14**	**43.63**	**43.78**	**44.14**
Recurrent	24.3	28.9	32.8	40.56	40.01	40.57
Development	1.88	1.54	2.3	3.066	3.77	3.57
County Allocation (Inc. conditional)	**305**	**327.3**	**376.5**	**371.6**	**375**	**383.8**
Consolidated Fund Services	**526.2**	**726.8**	**962.6**	**805.8**	**927.6**	**1,014.50**
Overall Budget	**2,292**	**2,721.10**	**3,154.43**	**3,081.21**	**3,186.36**	**3,271.32**
Percentage GDP						
National Government	*18.4*	*18.4*	*18.1*	*17.1*	*15.0*	*13.1*
Recurrent	*10.6*	*11.9*	*11.0*	*10.7*	*9.8*	*8.7*
Development	*7.8*	*6.5*	*7.1*	*6.4*	*5.1*	*4.4*
Judiciary	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Recurrent	*0.2*	*0.1*	*0.1*	*0.2*	*0.1*	*0.1*
Development	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Parliament	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.3*
Recurrent	*0.3*	*0.3*	*0.3*	*0.4*	*0.3*	*0.3*
Development	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
County Allocation (Inc. conditional)	*4.0*	*3.7*	*3.9*	*3.5*	*3.1*	*2.8*
Consolidated Fund Services	*6.8*	*8.3*	*9.9*	*7.5*	*7.6*	*7.3*
Overall Budget	*29.7*	*30.9*	*32.4*	*28.6*	*26.2*	*23.7*
Nominal GDP	**7,710.9**	**8,796.5**	**9,726.6**	**10,765.7**	**12,168.8**	**13,807.5**

**Judiciary and Judicial Service Commission*

*** Parliamentary Service Commission and National Assembly*

*** *As provided in the Budget Summary for Fiscal Year 2019/2020*

15) The Total budget for the three arms of government including the county allocation and the Consolidated Fund Services (CFS) during the FY 2019/2020 is estimated as **Ksh.3.08 trillion.** This is a 2.3 per cent reduction from the 2018/19 budget; mainly due to reduced allocation to CFS.**As a share of GDP, the overall budget has reduced from 32.4 per cent to 28.6 per cent in nominal terms.** Despite this budget reduction however, there is a concern that the actual budget implementation may adjust expenditure upwards. History has shown a tendency for the government to fail to adhere to its expenditure plans in the course of the year with upward adjustments during the supplementary budget particularly for the recurrent estimates. This is compounded by revenue underperformance which leads to budget reorganization/ rationalization mostly for the development budget. Thus, the fiscal consolidation path as well as the development plan may not fully materialize.

Table 2: Where exactly are the resources going?

	2019/2020	**% Share**
TOTAL	Ksh. 3081.21 billion	
o/w **Counties**	Ksh. 371.6 billion	12.1%
Projects (Total)	Ksh. 684.08 billion	22.2%
(Gok)	Ksh. 399.19 billion	
(Foreign)	Ksh. 284.89 billion	
Big Four	Ksh. 450.9 billion	14.6%
Enablers	Ksh. 374.1 billion	
Drivers	Ksh. 76.7 billion	
CFS	Ksh. 805.8 billion	26.15%
Others (excl. CFS, Counties, Total projects)	Ksh.1219.73 billion	39.6%

16) It is worth noting that the ministerial recurrent budget has increased significantly. The bulk of recurrent spending (57.7 per cent total MDAs recurrent budget) is under the State Department of Interior (the policing services programme), the Ministry of Defence (the Defence programme), the State Department of Early Learning and Basic education (secondary education programme), the National Treasury (general administration and support services programme) as well as the Teachers Services Commission (Teachers resource management programme).

17) On the other hand, the bulk of capital spending (45 per cent of total MDAs capital budget) is accounted for by the State Department of Infrastructure under the program of road transport, the State

Department of Transport under the program of rail transport, the Ministry of Water and Sanitation under the program of water and sewerage infrastructure development, State Department of Energy under the program of power transmission and distribution as well as the state department for housing and urban development.

Which way for the Big Four Agenda?

18) The Big Four agenda accounts for approximately 14.6% of the total budget. The bulk of these resources (Ksh.374.1 billion) is for implementation of the enablers while Ksh. 76.1 billion is for the drivers. There is a general concern that the resources made available for implementation of the big four may not be adequate. According to the Medium-Term Plan III, approximately Ksh. 367.334 billion is required to implement the big four plan in 2019/20. According to the Plan, the Indicative 2019/2020 budget for agriculture and livestock is estimated at Ksh. 55.97 billion, Manufacturing at Ksh. 125.42 billion, Health at Ksh. 82.8 billion and Population, Urbanization and Housing at Ksh. 103.15 billion.

19) It is important however, to consider efficiency gains in the implementation of the big four agenda. Many of the big four related projects are not new and were actually already in the course of implementation before the big four agenda was created. As such, they probably may not require such huge resource outlays. The main concern however is with regard to the pace and progress of implementation of these projects. As is the case with many government projects, slow and casual implementation of big four related projects is a major hindrance to the agenda's progress. Another major hindrance is the lack of a clear collaborative framework between the national and county governments. Two of the big four pillars, Agriculture and Health, are actually devolved functions of government. There is need therefore for a clear collaborative framework between the two levels of government in order for the plan to be implemented adequately.

20) Further, a review of the 2019/20 budget estimates shows a continuous revision of targets under the four pillars. Notably, under Agriculture, there is a downward revision of acreage to be put under irrigation as well as the plans for water storage. **Some key interventions appearing in the MTP III plan and previous policy documents such as Ewaso Ng'iro camel milk factory appear to have somehow dropped off as these are not expressly referred to in the budget estimates.**

21) **In the Health sector, it isn't clear whether much is being done to improve the key health infrastructure such as through provision of laboratories countrywide, specialized equipment or even health commodity storage centres**. These are critical interventions highlighted in the policy documents but with the exception of the MES equipment, it isn't clear if the government will be able to revamp health. It should be noted also that the MES equipment have encountered various challenges in the implementation including some equipment not being operational in some centres due to various challenges such as lack of power, lack of personnel or the equipment simply not being required or fit for purpose. It isn't clear if these challenges have been addressed.

22) Manufacturing heavily relies on agroprocessing and given the fragile nature of agriculture and in the absence of radical interventions, it also appears that not much will be achieved in the current financial year.

Adherence to House resolutions on the BPS 2019

23) The 2019/20 budget is largely accounted for by the Education Sector, the Energy, Infrastructure and ICT, the Public Administration and International Relations, Governance, Justice, Law and Order as well as National Security Sectors. The sectors under which food security, health as well as manufacturing are domiciled are the least funded.

24) The National Treasury is required by law to take into account resolutions passed by parliament when preparing the budget estimate for a given year. **In the 2019/2020 budget, it is observed that most of the sectors did not adhere to the ceiling set by parliament in the BPS.** There was a significant upward shift in the resources allocated to the Social Protection, Culture and Recreation Sector as well asthe General Economics and Commercial Affairs sector. On the other hand, the Public Administration and International Relations Sector have lower allocations than the BPS allocation.

Table 3: Sectoral Allocations vs. BPS ceilings (Kshs. Million)

Sectors	**House Resolutions**	**2019 Budget Estimate**	**% Variation**
Agriculture, Rural and Urban Development	59,117.0	59,600.80	0.8
Energy, Infrastructure and ICT	406,794.0	428,826.00	5.4
General Economics and Commercial Affairs (GECA)	23,943.4	29,328.30	22.5
Health	93,046.5	93,324.60	0.3
Education	473,364.7	487,537.20	3.0
Governance, Justice, Law and Order (GJLOS)	186,861.8	171,957.5	(7.9)
Public Administration and International Relations	232,450.9	197,130.7	(15.2)
National Security	153,596.0	159,270.10	3.7
Social Protection, Culture and Recreation	54,807.4	67,535.00	23.2
Environment Protection, Water and Natural Resources	82,339.0	88,929.20	8.0
Parliament	39,501.0	43,625.3	10.4
Judiciary	18,936	18,936	0.0

Source: National Treasury, BAC 2019 BPS Report

25) Many times, BPS resolutions are rarely adhered to and fail to form the basis for preparation of the budget as required by law. This has rendered the BPS a document for the willing as its role in the budget making process doesn't seem to be fully appreciated. The National Treasury has provided a number of reasons for failure to adhere to the BPS resolutions. These include budget rationalization, increase/decrease of donor commitments, enhancement of O&M, realignment of programmes as well as AiA not previously reflected. Committees should seriously interrogate these to determine whether the adjustments are truly justifiable.

Is the government really on a fiscal consolidation path?

26) In the expenditure front, it is projected that overall expenditure will decline as a share of GDP from 26.3 per cent to 25.7 percent to 22.8 per cent over the medium term. Expenditure pressures are however expected from projects and programmes being implemented under the MTP III including the Big Four Agenda.

27) The fiscal deficit in FY 2019/2020 is projected at **Ksh.607.8 billion** (5.6 per cent GDP). This will be financed through net external financing of Ksh.324.3 billion, net domestic borrowing of Ksh.289.2 billion and other domestic receipts (Ksh.5.7 billion). It should be noted however, that a low fiscal deficit has been a moving target for the government as illustrated in the table below:

Table 5: The moving Fiscal Deficit targets

	Financial Years	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
BPS 2013	Balance(Commitment basis excl grants)	-5.5%	-4.9%	-4.8%				
	Balance(Cash basis incl grants)	-4.3%	-3.7%	-3.6%				
BPS 2014	Balance(Commitment basis excl grants)	-10.8%	-7.9%	-7.2%	-6.6%			
	Balance(Cash basis incl grants)	-8.9%	-6.3%	-5.4%	-4.9%			
BPS 2015	Balance(Commitment basis excl grants)	-6.5%	-8.8%	-8.2%	-6.2%	-4.8%		
	Balance(Cash basis incl grants)	-5.9%	-8.0%	-7.4%	-5.4%	-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%	
BPS 2017	Balance(Commitment basis excl grants)		-9.2%	-8.3%	-7.4%	-7.0%	-5.7%	-4.8%
	Balance(Cash basis incl grants)		-8.4%	-7.5%	-6.9%	-6.4%	-5.0%	-4.0%
BPS 2018	Balance(Commitment basis excl grants)			-8.2%	-9.3%	-7.9%	-6.5%	-4.8%
	Balance(Cash basis incl grants)			-7.4%	-9.1%	-7.2%	-6.0%	-4.3%
BPS 2019	Balance(Commitment basis excl grants)				-9.0%	-7.1%	-6.8%	-5.6%
	Balance(Cash basis incl grants)				-8.8%	-6.8%	-6.3%	-5.1%

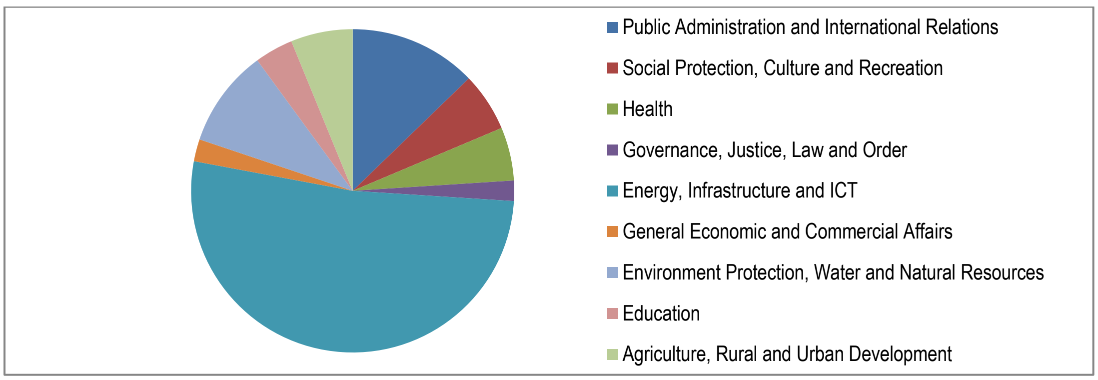
28) Already, the 2019/2020 budget is higher than the BPS approved ceiling by Ksh. 78 billion indicating the government's propensity to spend despite the need for austerity. The higher expenditure levels have been accommodated through upward adjustments in the revenue projections from the BPS level by approximately Ksh. 35 billion. Total revenue in 2019/20 is projected at KSh. 2,115.9 billion (19.7% of the GDP) from the BPS 2019 projection ofKSh. 2,080.9

billion (18.3% of the GDP). This masks the true deficit by seemingly maintaining it at the BPS level despite the higher expenditure adjustments. Should the economy not perform as expected, there will be need to drastically reduce the budget through a supplementary. This undermines the credibility of the budget and is the main reason behind pending bills and stalling of projects.

Effectiveness of the Development Budget

29) Public investment projects are a critical part of the country's economic growth narrative. Ongoing public infrastructure investments as well as strategic investment projects under the Big Four plan have been identified as a key component that will drive economic growth in 2019. Critical projects are being implemented across the Agriculture, manufacturing, Health and Housing sectors; as well as Energy and Transport Infrastructure sector, as a key enabler of the Big four agenda.

Figure 1: share of Projects Budget (value terms) per Sector in 2019/20



Data Source: List of Projects for Year ending 2019/2020

30) The budget for investment projects in 2019/20 is estimated at Ksh. 684.073 billion, of which Ksh. 399.188 billion is GoK and Ksh. 284.885 billion is foreign financed. As has been the case in previous budgets, the largest share of the 2019/2020 projects budget (52%) is accounted for by the Energy, Infrastructure and ICT sector. This is largely due to ongoing construction/rehabilitation of roads, bridges, port and rail infrastructure; LAPSSET; construction of housing units for the national police, Kenya prisons and the public; the national housing development fund, Nairobi Metropolitan Services Improvement project; as well as geothermal development among other nationwide electrification projects. Other notable expenditures in the projects budget include CDF, Equalization and Contingency fund transfers. A detailed highlight of key projects currently being implemented by the government is provided in Annex 1. A review of the project implementation process reveals a number of critical concerns:

i) **Adequacy of GoK funding/ counterpart funding:** Many projects are either inadequately funded or subjected to budget cuts in the course of the year. In the 2018/2019 budget, projects under the Ministry of Energy – Last mile connectivity, street lighting, electrification of public facilities, installation of transformers in constituencies underwent significant budgetary cuts amounting to Ksh. 2.6 billion. This is despite the projects being reportedly underfunded. A review of the Exchequer releases as at end of March 2019 indicates that three months to the end of the financial year, only slightly more than half of the GoK development funds (54%) have been released. It is possible therefore that the second supplementary budget will quote a much lower development budget figure. This jeopardizes the credibility of the 2019/2020 projects budget.

Almost half of the government projects funding is external. Most of these projects require counterpart funding from the government. This brings in challenges when the government fails to provide its part of the funding as donors may scale back on their own contribution. In the last Mile Connectivity project, the AfDB had pledged to double funding in 2018 but with the reduction of GoK funds during the supplementary 2018/19, it is unlikely that this pledge was adhered to. Foreign funded Thiba dam also experienced some delays.

ii) **Delays in completion of projects:** Many of the ongoing projects have experienced delays in implementation and completion. In the Ministry of Energy, the Olkaria Lessos Kisumu power lines construction project; Olkaria I and IV, Nanyuki Isiolo Meru, Nairobi 220 KV ring have all surpassed their targeted dates of completion but are yet to be finalized. Housing units for police, KIRDI laboratory among others have all faced significant delays in implementation. Many of the key ongoing projects were implemented years before and should be either complete or nearing completion but some are not even halfway there. These delays increase the overall costs of projects and also lead to further accrued costs arising from penalties due to breach of conduct. As such, there are many projects with tied up capital that are not yet to be completed despite being in implementation for a long time thereby denying the country returns on investments.

iii) **Quality of Public investments:** Some of the development projects tend to focus only on one component of the overall objective while failing to give weight to other components which would have led to better delivery of the overall objective. Examples include the Free Maternity programme, the Universal Health coverage, MES equipment, various irrigation projects among others. Though critical and have made great strides in implementation, challenges arise for instance under the Ministry of Health, with regard to whether the hospitals are fully equipped with drugs, equipment, requisite personnel, requisite facilities. Under the MES equipment, it has emerged that while the project has greatly benefited some hospitals, in others, there are operational challenges such as lack of requisite personnel, electricity, water among others. Many irrigation projects suffer from inadequate water supply. Projects should be looked at holistically in order to achieve maximum yield.

iv) **Coordination between National and County governments on key projects:** It is noted that two of the big four related pillars, that is, Agriculture and Health, are actually devolved functions. Thus the National government should come up with a clear collaborative framework for implementation of projects under these two functions otherwise the expected output may not be achieved.

v) **Weak monitoring and evaluation framework:** There is no clear framework for monitoring and evaluation of government projects.

IV. FINANCING OF THE 2019/20 BUDGET

Deficit Financing of the FY 2019/20 Budget

31) The financing deficit for the FY 2019/20 will be Kshs. 607.8 billion (5.6% in GDP). External financing is expected to play a greater role in deficit financing(Kshs. 324.3 billion in net external financing), while net domestic borrowing will amount to Ksh. 289.2 billion. This is 53% and 47% of the budget deficit, respectively. In comparison to 2018/19 financing, the framework increases external borrowing by 13% and reduces domestic borrowing by (12%). Foreign financing is higher due toincreased project loans by Ksh 4.8 billion. On the other hand, commercial financing has reduced by Kshs. (85.8) billion.

Table 6: Summarized Fiscal Framework, 2018/19 – 2020/21, - Kshs. Billions

	Fiscal Year			Share of GDP		
	2018/19*	**2019/20****	**2020/21****	**2018/19**	**2019/20**	**2020/21**
Total Expenditure	**2,509.10**	**2,762.50**	**2,869.90**	25.1%	25.7%	23.6%
Total Revenue	**1,852.50**	**2,115.90**	**2,241.50**	18.5%	19.7%	18.4%
Grants	**48.5**	**38.8**	**52.4**	0.5%	0.4%	0.4%
Deficit	**-608.1**	**-607.8**	**-576**	-6.1%	-5.6%	-4.7%
Deficit Financing	**607.9**	**607.8**	**575.7**	6.1%	5.6%	4.7%
Net Foreign Financing	**286.9**	**324.3**	**293.6**			
Commercial Financing	*298.9*	*213.1*	*200.1*	3.0%	2.0%	1.6%
Project Loans	*235.8*	*240.6*	*272.1*	2.4%	2.2%	2.2%
Program Support	*2.5*	*2*	*2*	0.0%	0.0%	0.0%
Foreign Payments	*-250.3*	*-131.4*	*-180.6*	-2.5%	-1.2%	-1.5%
Net Domestic Financing	***321***	***283.5***	***282.1***			
Domestic Financing other than Borrowing	*3.9*	*-5.7*	*-1.2*	0.0%	-0.1%	0.0%
Domestic Borrowing	*317.1*	*289.2*	*283.3*	3.2%	2.7%	2.3%

Source: Budget Summary, 2019

32) It should be noted that the provided framework does not match the borrowing framework provided in the 2019Medium Term Debt Strategy Paper. By considering tradeoffs between costs and risk outcomes, the strategy recommended domestic debt to be the main source of financing followed by external debt. Furthermore, in comparison to the framework under the 2019 Budget policy statement (which was developed on the basis of the 2019 MTDS), the budget increases both the external debt and domestic debt by Kshs.17.8 billion (6%) and Kshs.11.7 billion (4%) respectively.

33) The proposed debt financing fiscal framework could therefore carry with it fiscal risks and costs not anticipated under the MTDS. This could be exacerbated by the fact that the actual fiscal deficit is likely to be higher than the estimated amount (Table 7). Without fiscal discipline, this could warrant prolonging of the ongoing debt reorganization if it leads to an overall increase in debt servicing expenses. Thus it may take longer to achieve a lower deficit.

Table 7: Annual deviation of the fiscal deficit (estimated vs actual), - Kshs. Billions

2016/17		2017/18		2018/19	
BPS 2017	**Prel. Actual**	**Estimates**	**Prel. Actual**	**Estimates**	**Supplementary I**
516.5	697.2	535.5	631.3	608	635.5
Kshs. 180.7 Billions Deviation		Kshs. 95.8 Billions Deviation		Kshs. 27.5* Billions Deviation	

Source: Respective Annual BPS, *-Supplementary I Estimate, pending Supplementary II Estimates

34) It is important to note that the deficit financing needs for FY 2019/20 provide a rare opportunity to pursue a more feasible budget position in the medium term. Foreign repayments have reduced by 50%, from Kshs. 250.3 billion to Kshs. 131.4 billion,creating fiscal space worth Kshs. 119 billion. This reduction is due to repayment of the standard chartered syndicated loan and the debut international sovereign bond.All other factors remaining constant, the budget deficit should have fallen to Kshs. (488.8) billion in FY 2019/20.Without taking advantage of this fiscal space, it could imply lack of long term objectivity of the ongoing debt reorganization i.e. replacement of expensive loans by syndicated loans, towards minimizing budget / taxation burden of debt servicing.

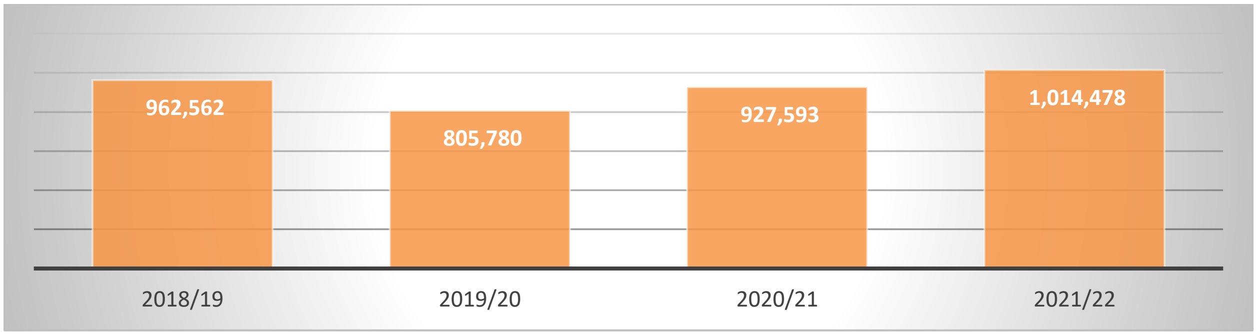
CONSOLIDATED FUND SERVICES (CFS)

35) The Consolidated Fund Services (CFS) expenses are mandatory expenses that form first charge to the Consolidated Fund. These primarily relate to public debt, pensions and salaries of constitutional offices. These expenses are of concern given that they are mandatory and form a first charge on nationally raised revenues. They therefore have an immediate impact on the revenues available for other budgetary activities and subsequently determine the fiscal flexibility of the national budget as well as sustainability of the overall national debt stock.

36) CFS expenditure is projected to fall from Kshs. 962.5 billion in FY 2018/19 to Kshs. 805 billion in FY 2019/20 and will account for 43% of FY 2019/20 Ordinary Revenue (as opposed to 58% FY 2018/19). It is important to note that these expenditures are sticky and do not recognize in year revenue movements (unless when there is a policy change), given that they are underpinned by contract law. As such, CFS effects are

37) highly detrimental when revenues are overestimated and the costs and risks of deficit financing are not captured adequately.

Figure 2: CFS Expenditures, FY 2018/19 – FY 2021/22 (KShs. Millions)



Source: FY 2019/20 Budget Estimates

i. Public debt

38) Public debt servicing costs, despite having fallen by 20% to Kshs. 696.6 billion, will account for up to 86% of total CFS Expenses. The reduction of this component of CFS is as a result of reduction of expenses to be incurred on maturing debt. Compared to FY 2018/19 both domestic and external debt redemptions will be lower by 44% and 48% respectively. However, interest rates expenses are set to increase by 10% on account of 32% increase in external debt interest rate requirements. This is indicative of the changing characteristics of Kenya's debt portfolio, primarily, the declining concessionally qualities of external debt. The highest interest payments will be due to; a) Exim Bank of China (Kshs. 37.8 billion), b) TDB Syndicated loan (Kshs. 17.1 billion), c) 2018 int. Sovereign Bond (Kshs. 16.6 billion) and d) 2019/20 New loans (Kshs. 40.4 billion, up from Kshs. 18 billion in 2018/19).

Table 8: Public Debt Servicing Expenditures (Kshs. Millions)

Public Debt Servicing	**Approved Estimates**	**Budget Estimates 2019/20**			**% Change**		
Interest Payments	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2019/20**	**2020/21**	**2021/22**
Interest - Internal Debt	285,607	290,540	313,565	312,753	*2%*	*8%*	*0%*
Interest - External Debt	114,374	150,941	162,434	170,248	*32%*	*8%*	*5%*
Sub-Total	**399,981**	**441,481**	**475,999**	**483,002**	*10%*	*8%*	*1%*
Redemptions							
Redemption - Internal Debt	220,352	123,691	140,191	156,171	*-44%*	*13%*	*11%*
Redemption - External Debt	250,283	131,382	180,619	222,287	*-48%*	*37%*	*23%*
Sub-Total	**470,635**	**255,073**	**320,810**	**378,458**	*-46%*	*26%*	*18%*
Total Interest rate and Redemption	**870,616**	**696,554**	**796,809**	**861,459**	*-20%*	*14%*	*8%*
% of CFS Expenditures	*90%*	*86%*	*86%*	*85%*			

Source: FY 2019/20 Budget Estimates

39) The fall in redemption expenditures are as a result of complete repayment of the standard chartered syndicated loan, the debut international sovereign bond, and debt owed to the United Kingdom and

Canada. However in the medium term, Italian, French and China debt will be the largest influencers of public debt financing expenses. In particular, maturing Chinese debt will reach Kshs. 70.8 billion in FY 2021/22 and be the main factor behind the rise of CFS expenditures to Kshs. 1 trillion.

Table 9: Bilateral and multilateral debt issuers that will influence CFS expenditures in the medium term (Kshs. Millions)

Institution / Country	2018/19	2019/20	2020/21	2021/22
Italy	1,847	6,355	14,280	19,307
France	*7,615*	*9,048*	*10,931*	*11,581*
Spain	1,575	2,068	2,099	1,994
Exim Bank china	*8,386*	*33,570*	*44,883*	*70,882*
China Development Bank	1,683	17,561	17,876	17,876
ADB/ADF	2,084	4,626	7,098	8,330
EIB	306	1,965	2,047	2,539
Standard Chartered - SDY	78,738	-	-	-
Debut Int. SVRNG Bond (USD 2.75 Bn)	78,303	-	-	-
United Kingdom	243	62	-	-
Canada	182	11	-	-
Switzerland	94	-	-	-
Austria	702	-	53	85

Source: FY 2019/20 Budget Estimates

ii. Pensions Expenses

40) The pensions expenses is dominated by Ordinary and Commuted Pensions (gratuities) and will amount to Kshs. 104.5 billion, accounting for 13% of CFS expenses in FY 2019/20. This implies that these expenses increased by 20% in FY 2019/20 and mark a 100% increase point fromKshs. 57.2 billion in FY 2015/16. Pensions and gratuities to civil servants and dependents have the highest impact on pension expenses, accounting to 70% of total pension costs. This is followed by benefits to the military and dependents that account for 20%.

41) In FY 2018/19,Kshs. 16.7 Billion was allocated to the Pensions Department of the National Treasury for administering pension schemes for civil servants, teachers, the police, the military, parliamentarians and retired presidents etc.A progress report should on these be provided. It isnoted that in the past, pension payments have often taken too long after retirement and difficulty in accessing pension savings leads to uncertainty and lower living standards among pensioners.

42) The difficulty of review of the pensions section of CFS is that there are no explanatory notes and the amounts are in gross value termsmaking it difficult to determine benefits per beneficiary. For example, as from FY 2019/20, the retired presidents will receive Kshs. 1.5 billion which will rise to Kshs. 2 billion over the medium term. There are no explanatory notes as towhy gratuities, a onetime payment usually given at end of service, are hereby charged years after service, then spread out in the medium term. In addition, the period calculations of these gratuity amounts are not provided and it is unknown whether the maximum constitutional term of presidency i.e. 10 years, was applied.

Table 10: Pension expenses FY 2017/18 to FY 2020/21 (Kshs. Millions)

CLASS	ITEM	2017/18	2018/19	2019/20	2020/21
Ordinary Pension	Monthly Pension - Civil Servants	23,725	26,725	30,725	40,636
	Monthly Pension - Members of Parliament	247	1,747	1,947	2,717
	Monthly Pension - Military	6,345	7,345	10,345	14,570
	Monthly Pension - Retired Presidents	74	74	74	74
	Pensions - Dependents	1,619	2,119	2,669	3,428
	Quarterly Injury - Military	38	38	38	38
	Refund Exgratia and Other Service Gratuities	0.12	0.12	0.12	0.12
	Widows and Children - Military	472	852	1,402	2,419
	Widows and Children's Pensions -Civil Servants	1,350	1,970	2,970	4,478
	Total Ordinary Pensions	**33,871**	**40,871**	**50,170**	**68,360**
Commuted Pension	Gratuity - Civil Servants	28,906	34,558	39,495	41,839
	Gratuity - Members of Parliament	2,856	1,300	1,300	1,300
	Gratuity - Military	6,000	9,261	11,761	12,728
	Gratuity - Retired Presidents	-	-	1,500	2,000
	Total Commuted Pensions	**37,762**	**45,119**	**54,056**	**57,867**
Other Pension Schemes	Refund of Pension to UK Government	150	150	150	150
	Refund of Contributions to WCPS and other Ex-Gratia	112	112	112	112
	Sub-Total other Pension Schemes	**262**	**262**	**262**	**262**
	TOTAL PENSIONS	**71,895**	**86,252**	**104,489**	**126,490**

Source: Budget Estimates, FY 2018/19

iii. Salaries Allowances & Others

43) The salaries and allowances of constitutional offices will decline from Kshs. 4.2 billion to Kshs. 3.9 billion on account of reduction of salaries to the Kenya National Audit Office and the Independent Electoral and Boundaries Commission while others such as public service commission, offices of the Attorney General, President, former presidents' retirement benefits, and the Salaries & Remuneration Commission, will increase. Guaranteed debt is set to decline to Kshs. 631.7 million from Kshs. 1.3 billion, with nil expenditure in the medium term. This is as a result of debt write off by the national government in May, 2018.

Table 11: Other CFS Expenditures, (Kshs. Millions)

Item	2018/19	2019/20	2020/21	2021/22
Salaries and Allowances	4,192.7	3,964.6	4,166.1	4,399.8
Miscellaneous services	128.0	128.0	128.0	128.0
Guaranteed Debt	1,373.1	643.6	-	-
Total	**5,694**	**4,736**	**4,294**	**4,528**

Source: Budget Estimates, FY 2018/19

V. POLICY OPTIONS

- In terms of policy direction, the 2019/20 budget is presumed to continue with implementation of projects contained in the Medium-Term Plan III of the Vision 2030. It is important therefore to prioritize investments under the Big Four agenda as well as creation of a conducive business environment under all the enablers of the big four plan. In this regard, the budget should prioritize supporting food security related activities as well as manufacturing activities; enhancing universal health coverage and improvement of living conditions through affordable housing.

- Adhere to BPS ceilings where adjustments are not justifiable

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
1. FOOD SECURITY	Improving access, affordability and suitability of fertilizers	place an additional 700,000 acres through PPP under maize, potato, rice and feeds production	Provide sufficient and effective support services.	Develop 85,000 acres of irrigation area under National Expanded Irrigation programme	15,000 acres of irrigation under National Expanded Irrigation programme
	Strengthen adoption of agricultural mechanism	expand irrigation schemes and secure water towers and river ecosystems	Land and crops development.	increase area under smallholder irrigation by 1,617 acres	Targeting 500 acres only under small scale irrigation
	Boost food and nutrition security by supporting enhanced large-scale production, small holder productivity and agro-processing and reduction in food prices.	transform the Strategic Food Reserve (SFR) by promoting investments in post-harvest handling through PPP	Improve food security	increase water storage for irrigation by 125 million cubic metres through development of water pans under household irrigation water harvesting project so as to bridge the gap between production and consumption	24 Cubic metres of completed water pans/small dams
	Increasing major food production i.e. maize, rice and Irish potatoes.	leasing idle agricultural land owned by the Government	Quality assurance and monitoring of outreach services.	Expand the Mwea Irrigation Scheme by 10,000 acres through constructing dams, and improving roads and other infrastructure in the area.	15,000 acres Increased acreage under Mwea irrigation Scheme
	Developing four livestock breeding research farms.	Increasing access to credit or input for farmers through warehouse receipt system.	Promote agribusiness and develop markets.	produce 60 million doses of assorted vaccines annually and expand livestock vaccination coverage;	

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Empower women and youth to get involved in modern agriculture.	redesign of the subsidy model by focusing on specific farmers	Manage agricultural information		
	Support farmers to access agriculture insurance, credit and higher yielding technology and support transition from subsistence to commercially-oriented farming.	establishment of 1,000 SMEs focused on food processing to improve value addition	Food safety and animal products development.	• Procure and install 120 milk coolers across the country, • modernize new KCC, • completion of EwasoNgiro Camel Milk factory as well as Northern Kenya Integrated Meat Processing factory	Acquisition of equipment and machinery New KCC .
2. UNIVERSAL HEALTH CARE	Expand social health protection by implementing schemes to cover harmonized benefit package to the targeted population.	Legislative-amendment to the NHIF Act digitization of the health information management-online registration	Prevent and control Non-communicable diseases.	promote early diagnosis of non-communicable diseases	425,000 women of reproductive (WRA) screened forcervical cancer

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Market Kenya as a hub for specialized healthcare, support training and retain specialized health expertise. As well as make healthcare a vibrant socio-economic sub-sector in Kenya.	Legislative- amendment to relevant laws	Reproductive maternal neo-natal child & adolescent health.	through the Managed Equipment Service Program, the Government will equip 21 additional hospitals with surgical theatres, radiology and dialysis equipment.	
	Develop key health infrastructure.	Incentives to private investors in the health sector	Enhancing radiation safety.		
	Partner with stakeholders and implement high impact health interventions in line with the existing community health strategy.	scale up the provision of specialized medical equipment	Controlling communicable diseases	4 comprehensive regional cancer treatment centres in Kisumu,Mombasa, Nakuru and Nyeri established.	cancer centre established, 1
	Digitize services and adopt advanced technologies.	increase the number of health facilities- expansion of the "Linda Mama" programme (free maternity programme) to mission and private hospitals	Strengthening environmental health.	Scaling up universal health initiatives including the Linda Mama, subsidies for the poor, elderly and vulnerable groups, persons with mental illness, secondary school children and the informal Sector.	190,000No. of households for vulnerable persons accessing subsidized health insurance 533,333 No. of elderly persons accessing subsided health insurance)

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Address the capacity gaps within specialized and sub-specialized areas in the sector and also reduce shortages in the workforce especially in ASAL areas.	enlisting 100,000 Community Health Volunteers	Ensure quality specialized health services.	Increase of community health workers.	
	Ensure provision of quality health care services and safety of the environment in which these services are been provided.		Strengthening management mechanism in the health sector	Expansion of health infrastructure including: expanding specialized medical equipment and establish centers of excellence in health, health commodity storage centers, new specialized health facilities and laboratories throughout the country	
	Management of malaria, HIV and TB.		Strengthen health policy, standards and regulations.	public health facilitiesto be equipped with diagnostics machines	
	Expand immunization program.			Increased immunization,	90 % target of children immunized with the relevant vaccines

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Building capacity and utilizing natural product research, innovation and development				
3. MANUFACTURING		cut the cost of off-peak power to heavy industry by half	business financing & incubation for MSMEs	Scaling up reforms in the following areas: textile industries and leather parks; agro-processing; the blue economy; the automotive sector and manufacture of pharmaceutical products.	12 Agro-processing projects undertake Completion level of 60 percent of maritime - spatial plan
	Improve ease of doing business to attract foreign and direct domestic investments.	review work permit regime and encourage expatriates whose skills support manufacturing sector	Industrial research, development and innovation.		
	Increasing investments in textile and apparel industries.	protect local manufacturers from counterfeits goods	Standardization, metrology and conformity assessment.	a target of 129,600 acreage for cotton in 2019/20 under the cotton industry revitalization project in addition to 12,000 acreage targets for cotton production under Rivatex.	Modernization of the Rivatex machinery and factory to increase textile production 129600 acreage under rain-fed and irrigated cotton

‘BIG FOUR’PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Adding value to agricultural, fisheries and livestock and train agro-processing entrepreneurs and expanding to 7 international markets.	Support value addition to agricultural produce across the value chain. -processing tea, coffee, meat, sugar, dairy, fruits and vegetables locally	Promoting industrial training.	the upgrading of research laboratory infrastructure	Training and Capacity building through provision of commonmanufacturing facilities at Kariokor by KLDC
	Acquiring the Special Economic Zones (SEZ), provide infrastructure, simplifying business regulations, promote value integration and clustering, expand market access for SEZ goods and services and reduce taxation.	set up of cottage industries	Promoting industrial development and investments.	modernize 6 cotton cooperative ginneries in 2019/20	Development of Athi River Textile Hub. EPZA
	Collaborate with the county governments and private sector to identify land, infrastructure development and manage SMEs and industrial parks. Also, establish 290 SMEs support programmes and roll-out 47 SME centers of excellence.	all hides and skins are fully processed locally	General administration planning and support services.		Provision of Finances to SMEs in the manufacturing sector Kenya Industrial Estate

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Micro, Small and Medium Enterprises (MSMEs) Development.	complete Machakos Leather Park and identify three more leather parks,	Marine spatial planning and coastal zone management	construction of basic infrastructure facilities including the road network as well as training and capacity building through provision of common manufacturing facilities at Kariokor by the Kenya Leather Development Council.	Development of Leather Industrial Park - Kenanie
4. AFFORDABLE HOUSING		Incentives to lower cost of construction- reduction of corporate tax rate for developers who construct at least 400 units per year.	Increase affordable and social housing delivery.	400,000 Housing units developed	120,000 affordable housing units developed and 30,000 social housing units
	Work together with various stakeholders and players to deliver affordable houses.	Mortgage affordability- alternative financing strategies to finance low cost housing	Regulating and developing buildings and the construction industry.	operationalization of the Kenya Mortgage Refinance Company	Establishment of Housing Mortgage Schemes
	Carry out a collaborative research and develop Appropriate Building Materials and Technologies (ABMT)	Amendment to the National Construction Authority Act, Built Environment Bill	Development of appropriate building materials &tech (rural housing)	To operationalize 92 appropriate building technology (ABT) centres	5 ABMT centres established and 1000 New trainees on ABMT

'BIG FOUR'PLAN	TARGETS IN THE MEDIUM-TERM PLAN 3(III)	TARGETS IN THE 2018 BUDGET POLICY STATEMENT	TARGETS IN THE 2018/19 ESTIMATES	TARGETS IN THE 2019 BUDGET POLICY STATEMENT	TARGETS IN THE 2019/20 ESTIMATES
	Upgrading the social and physical infrastructure in slums and informal settlements in selected urban areas.	Establish a National Social Housing Development Fund	Slum upgrading and housing development.	upgrading slums and informal settlements through low cost housing.	Redevelopment of Soweto East at Kibera Nairobi zone A completed and National Slum Upgrading and Policy
	Continue with the Kenya Informal Settlement Improvement Project. This will be KISIP phase II and will cover 33 counties that did not benefit from phase I.	Taskforce on Expanding Affordable Housing Finance to establish Kenya Homes Refinance Company (KHRC)as a PPP	Kenya informal settlement improvement project.	provision of clean water and sanitation, health centres, access roads, schools, and income generating activities in slum areas.	100 % completion of Social and physical infrastructure in slums and informal settlements (access roads, security lights,water supply, sewer lines and sanitation facility)
	Ensure all buildings are safe and comply with building requirements and regulations.	Provision of clean water and sanitation, access roads, schools, health centres and income generating activities.	Policy formulation		
	Establishment of National Housing Database.				
	Implementing and reporting on National and international on housing and Human Settlement.				