PARLIAMENTARY SERVICE COMMISSION

Parliamentary Budget Office

A NEW DAWN: BUDGET OPTIONS FOR 2011/12 AND THE MEDIUM TERM

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Disclaimer

The Parliamentary Budget Office (PBO) is a **Non-Partisan Professional Office** of the Kenya National Assembly whose primary function is to provide timely and objective information and analysis concerning the national budget and economy.

"*Converting good prospects into sustained and decisive poverty reduction requires degree of good luck, good policy formulation, resources and a lot of good economic management*"
Christopher Adam, Paul Collier, & Njuguna Ndung`u[1]

[1] Kenya: Policies for Prosperity, 2010.

Foreword

The effects of global economic crisis as well as the post election hangover have receded. The economic conditions of the country will have a direct effect to the pace of implementation of the constitution. Thus, the debate this country most urgently needs is, about the economy. In framing this debate, we must remind ourselves where the country was over 2003- 2007 and the underpinning factors that supported the NARC era high growth trajectory.

The impact of the economic crisis of 2008-2009 has been profound and had far reaching consequences. The Government attempted to cushion the impact of the recession on our economy through expansionary fiscal policy. By and large, the fiscal deficit widened through increased social spending and investment in infrastructure. While these measures were laudable in that they prevented the economy from plunging further into recession, there are still eminent challenges with regard to attaining growth that support job creation.

Parliament Budget Office forecasts that real economic growth will rise to trend upwards to 5.6 percent in 2011/12, 5.5 percent in 2012/13 and 5.7 in 2013/14. Unless we grow much faster and more inclusively, millions of Kenyans, particularly our youth, will struggle to find employment. We need to aim higher to give our people the future that they deserve. The Asian tigers have broken their binding constraints on economic growth and are now leading the global recovery, with sustainable growth averaging 10 per cent. Kenya should aspire to join this dynamic group of emerging economies. To do this, we must urgently and honestly identify the salient features of our economy that has stifled economic development.

The new constitution has brought to forefront key opportunities for jumpstarting the economy to higher growth prospects. Indeed, the fiscal architecture has substantially been altered. The government faces eminent challenges in terms of functional transformation and cultural change.

Lastly, as mentioned earlier, we must draw on the experience of the Asian tigers and work to transform this economy into one that can grow fast enough to create the jobs that we need. To move forward, we need to develop a national consensus, and the sense of urgency required to propel Kenya onto a new growth trajectory. In doing so, we will give hope to all our people and help to usher a dynamic new era of economic development.

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List of Acronyms and Abbreviations

ARI	Acute Respiratory Infection
ARVs	Anti-Retroviral drugs
BEC	Broad Economic Category
BOP	Balance of Payment
CBK	Central Bank of Kenya
CDM	Clean Development Mechanism
CFS	Container Freight Station
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EAC	East African Community
ECDE	Early Childhood Development Education
EFA	Education for All
EU	European Union
FPE	Free Primary Education
FY	Financial Year
GDP	Gross Domestic Product
IBP	International Budget Partnership
ICT	Information and Communication Technology
IMF	International Monetary Fund
ISP	Internet Service Provider
ITN	Insecticide Treated Nets
KESSP	Kenya Education Secondary Schools Support Programme
K-JAS	Kenya Joint Assistance Strategy
KKV	Kazi Kwa Vijana
KNBS	Kenya National of Statistics
KRA	Kenya Revenue Authority
LATF	Local Authorities Transfer Fund
LTO	Large Taxpayers Office
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NER	Net Employment Rate
NPV	Net Present Value
NSE	Nairobi Stock Exchange
PBO	Parliament Budget Office
PMTCT	Prevention of Mother to Child Transmission
R&D	Research and Development
REDD	Reducing Emissions from Deforestation and Degradation
SAI	Supreme Audit Institution
SID	Society for International Development
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TIVET	Technical and Vocational Education and Training
VAT	Value Added Tax
VCT	Voluntary Counseling and Testing
WEO	World Economic Outlook

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EXECUTIVE SUMMARY

Kenya's economically active population is continuously expanding but unemployment rates remain high and the dependent population has significantly expanded. This has led to lack of hope among the youth eventually leading to increase in crime rate and other antisocial behavior. It therefore important that sustainable employment driven policies be adopted so that we can create enough jobs especially for the youth and ensure a sustained economic growth path is achieved. Job creation makes economic growth more inclusive and important for fostering poverty reduction and income redistribution. The government's *Kazi Kwa Vijana* Initiative has enabled the youth to earn income through engaging in manual jobs in their various communities. However, it is not a long term solution as it offers little in terms of economic advancement and will hardly facilitate a 10 percent economic growth as envisioned in vision 2030. Not unless we tackle the problem of unemployment it will always be difficult to sustain economic growth as the issue will always be the distribution of the growth.

Kenya has made considerable progress towards the achievement of the Millennium Development Goals but is unlikely to accomplish all eight goals by 2015 largely due to inadequacy of resources. The 2010 MDGs status report indicates that quite a number of targets are not achievable under the current circumstances. Goal 2-Achieve Universal Primary Education, Goal 3-promote gender equality and empowerment of women, Goal 4- Reduce child mortality, Goal 6- Combat HIV/AIDS, malaria and other diseases and Goal 8-Develop a global partnership for development are all on track. However, it is highly unlikely that Goal 1- Reduce extreme poverty and hunger, Goal 5- Improve maternal health and goal 7- ensure environmental sustainability will be achieved as progress in these goals has been extremely slow. It is worth noting that, the MDG progress has been uneven from region to region. There is a need to develop a well enabled resource environment and ensure that the government maintains adequate levels of public spending especially in the environment, education and health sectors in order to ensure MDG goals are met. Most importantly, achieving goal 7 on environmental sustainability is critical and more resources ought to be directed towards regaining the forest cover.

No country has ever been able to transform from low income status to high income one without having to contain the population growth rate. According to the 2009 Census Report, the population growth rate currently stands at three percent per year. USAID projections indicate that the number of Kenyans will increase to 82 million by 2040. More people means more pressure on the environment, as demands for food, land, clean water and energy resources escalate. With reduced resources, there is a real danger of civil strife arising as people squabble for the scarce resources. A quick review of the expenditure patterns indicates that currently, the sector is drawing a lot of resources to meet the aforementioned needs. The expenditure has stifled resources for other sectors that could steer the economy to a higher growth trajectory. Overall, family planning should take a central role in the government's policy agenda to reduce poverty and transform the country into a middle-level income country with a high quality of life and secure environment, as the country's Vision 2030 policy envisions.

Kenya is progressing well in terms of enhancing accountability in the budget process compared to its peers. However, it is yet to meet the international transparency and accountability standards, having been ranked poorly (43rd among 94 countries) in the International Budget Partnership (IBP)'s 2010 Open Budget Survey. The African Parliamentary Index (API) also rates Kenya poorly in terms of transparency and integrity. The poor ranking is because citizens are unable to access complete information concerning the budget process. Thus government must ensure more comprehensive budget documentation is readily available to all the citizens so they can competently take part in budget process and hold government accountable in its management of public money.

Serious internal and external challenges lie ahead for Kenya's economy. In 2010, output growth accelerated at above 4 percent through all quarters mainly due to stability and resurgence of activities in the tourism sector, resilience in the construction industry and the government intervention through the economic stimulus package. In the medium term, real GDP is expected to grow at 5.5 percent in 2011, 5.6 percent in 2012 and 5.4 percent in 2013. The global economy is also progressing better than expected, projected to expand by 4 ½ percent in 2011. This improved growth will impact positively on Kenya's horticultural sector in terms of increased demand. However internal and external risks remain.

Internal challenges include election related risks whereby past trends reveal a cyclical nature of suppressed growth in anticipation of an election year arising from a wait-and-see approach by investors. **External challenges** mainly arise from the uncertainty of global economic prospects and more specifically, the outlook of Kenya's key trading partners. Europe's bumpy and moderate recovery as well as huge debt levels is not good for Kenya's horticultural exports due to an inevitable reduction in European demand for Kenyan goods. Egypt's lower savings and investment, lower FDI and an uncertain political environment especially with the recent political unrest together with Pakistan's July/August flooding does not augur well for Kenya's tea exports and demand declines have already been reported. Sub-Saharan Africa's uncertain economic outlook will also adversely affect Kenya. The pace of implementation of East Africa's Common Market Protocol will determine Kenya's export growth.

Kenya's sectoral performance and prospects for 2011/12 and the medium term are also not very promising. Predicted lower than normal rainfall is expected to worsen Kenya's food security situation, a higher inflation environment is expected to push down domestic expenditure including the demand for imports, high energy costs have led to a difficult operating environment especially for the manufacturing sector. Cheap imports as well as high cost of doing business have also contributed to low growth of this sector. However, the construction, tourism and telecommunication sectors are performing impressively and have been instrumental in supporting economic growth in the country.

Other challenges include high inflation and weakening shilling: the level of inflation is likely to increase significantly in the medium term due to election fever and a likely increase in money supply driven inflation tendencies. The Kenyan shilling has appreciated against the Euro, the Japanese Yen, the Ugandan and the Tanzanian shilling at the end of December 2010 but depreciated against the U.S dollar, the Sterling pound and the South African Rand. The weakening of the Kenya shilling against the dollar largely due to speculative tendencies in the forex market is worrying.

Policy Options

In light of the above challenges, the 2011/12 budget and the medium term, the following options should be considered:

i.) **Public sector expenditure should contract. Indeed, the traditional focus on additional resources to finance expenditure requirements should revert to expenditure switching policies such as:**

- Finding savings through reduced spending on non-core functions and activities such as catering, cleaning, maintenance & other welfare services and shifting resources from administrative components to frontline services. Non-core functions can be outsourced as opposed to hiring additional staff.
- Rationalizing public entities and agencies to save money and enhance accountability. This entails making public entities operate with a private sector culture and reduce overreliance on the exchequer for their daily operations.
- Increasing efficiency through delivery of services with fewer resources i.e. doing more with little. Consequently, all agencies and ministries recurrent budget should be retained at the 2010/11 level except for changes in the wages.
- Reforming procurement systems to reduce resource leakage and obtain value for money.
- Leveraging IT to reduce administrative costs and leakage in resources. In line with this, all ministries and agencies could consider cutting the budget on paper use by 30% and embrace IT based mode of communication in their day to day operations.
- Tightening fiscal policy to avoid pushing up interest rates and crowding out private sector investment. The ESP should gradually be phased out but not in a big bang manner.

ii.) **Enhancing revenue**: The government should consider reducing compliance requirements such as number of forms and returns in order to enhance voluntary compliance while at the same time establishing a strong enforcement presence. Other considerations include designing specific tax programmes for the small and medium enterprises while reducing the number of taxes and levies they have to administer and giving incentives to those meeting certain bookkeeping standards, harmonizing and re-designing taxes for greater performance, streamlining and simplifying tax laws, addressing transfer pricing manipulation and turning several Appropriations-in-Aid with high turnover to revenue.

iii.) **On debt management**, any additional resources should be channeled towards reducing of debt which is slowly ballooning.

iv.) **To improve the quality of health care and health infrastructure**, the government should shift the emphasis and resources to promotive care from curative care, address specific social needs of vulnerable and disadvantaged communities especially those at risk of environment related health challenges, increase public education programmes aimed at promoting behavior change and encourage hygiene standards and a shift in policy to partnering with the private sector in provision of health care. Other policy shifts include staff rationalization and deployment to primary health facilities, integrating ICT in preventive and promotive health care management and restructuring health system to provide similar services under one roof. Strategic rural health infrastructure development.

v.) **On enhancing quality of basic education and skills development**, there is need to sustain investment in skills training at post primary level, invest in areas with probable high returns like ICT and research and improve affordability of education through development of public private partnerships, community participation especially in the provision of school infrastructure and empowerment and competitive funding.

vi.) **To improve agriculture**, government should invest in a strong irrigation infrastructure to reduce dependence on rainfall, invest in rural road infrastructure and institutionalize input-cost reduction by supporting establishment of farmer led and owned input supply and distribution facility. Bulk of the areas that experience constant food shortage is because the seeds are recycled instead of planting certified seeds. Hence the need to adopt the Malawi strategy providing certified seeds and fertilizer/ other inputs to farmers as this will go a long way in improving productivity.

vii.) **On infrastructure**, government could invest in a mass transportation system, provide affordable housing units by linking the national pension system to the housing subsector and modernize/expand sea-port facilities.

viii.) **On energy**, there is need to focus more on geothermal and reduce dependency on hydro-power, enhance energy efficiency through legislation and eco-efficient patterns of production and consumption and generally focus on policies likely to reverse climate change. Increase more use of alternative energy sources in arid areas.

ix.) **On public order and safety**, there is need to rationalize recurrent expenditure so that more money goes into development, speed up enhancement of law enforcers' welfare and enhance border security to deter aliens, proliferation of small arms and weapons and protect border towns from external attacks.

I. INTRODUCTION

A. OVERVIEW

1. **This is the second budget options paper prepared by the Parliamentary Budget Office to provide alternative insights and policy options on what the government should do in order to achieve the various objectives of the vision 2030 of transforming Kenya into a newly industrialized,** "middle-income country" providing a high quality life to all its citizens by the year 2030.

2. The analysis attempts to gauge the progress made with regard to the Governments effort in addressing the current economic challenges and extent to which the various mitigation measures have been put in place amid post election violence hangover and the global economic crisis. The report will provide a critical analysis on the progress made on the Government's commitment of aligning public resources with national strategic objectives under the Medium Term Expenditure Framework (MTEF) and Vision 2030.

3. The focus of this year's budget options paper is to give alternative insights for sustainable economic growth, which seeks to address the issue of unemployment, which is almost reaching crisis level. Indeed, creating jobs for the millions of currently unemployed Kenyans especially the youth is most urgent than any other time in the economic history. The key issues the paper seeks to discuss are highlighted below:
   a) **The provisions of the Chapter 12 of the New Constitution have significantly altered the Public Financial Management (PFM) landscape.** In particular, management of public resources is now based on key principles of transparency or openness, accountability and public participation. Equally, the constitution provides that public resources be managed to an extent that it promotes equitable resource distribution in society, in addition to fair taxation of tax burden. This therefore calls for a realignment and change of culture among all players in the Public Finance Management (PFM) institutions.
   b) **Public debate on economic and social policy options has been given greater impetus in Kenya owing to the post election violence as well as financial market crisis and the severity of the resulting downturn.** More interestingly, many economists and policy makers have had divergent views on the various policy prescriptions and the adequacy of financial regulation. Overall, questions have been posed with regard the mix between the role of Government due to market failure and the issue of over-regulation by the same government, which often stifles the growth of the financial sector. On a global front, there are unresolved imbalances in global trade and declining capital flows have had a negative effect on international financial coordination efforts. All the aforementioned have a bearing on demand management strategies on the Kenyan economy.
   c) **The policy debate extends beyond macroeconomic and financial stability issues to climate change and renewable energy and other environmental strategies have permeated economic debate.** Issues of pension reforms to cater for the huge civil service whose payments largely relies on the exchequer presents serious budgetary adjustments and therefore need for a fresh relook. In addition, the report on achievement of MDGs presents mixed results.
   d) **Policy debate in Kenya is also focused on our own specific transformation challenges amid the passage of the new constitution.** Obviously, the adoption of the new constitution has altered the public finance landscape. Specifically, it brings in new aspects of fiscal decentralization and also introduces a paradigm shift in terms of institutional arrangement within the public finance arena. More importantly, to meet Kenya's development needs, a new path has to be forged across all organs of Government (Legislature, Executive, and Judiciary). The new dispensation spells out clear roles of each of the aforementioned arms of government.

e) **It is important to note that putting clear and coherent policies is one thing; successful implementation is another. The executive must be held to account since jobs, growth and development are not abstractions: they play out every day in industries, factories, offices and permeates in all the sectors of the economy.** In addition, there is considerable complexity in the organization of public services, in the structure and regulation of markets, and in the coordination of public policy and industrial development.

B. Organization of the Report

4. The rest of this report is organized as follows: **Section Two** looks at the key economic policy issues bedeviling the country with specific reference to achieving sustainable growth premised on job creation, social policy as well as including the extent to which the country is likely to achieve the MDGs as well as holding the Government accountable. **Section Three** reviews reflect on economic policy and outlook; **Section Four** presents the options for the medium term sectoral priority areas that the Government needs to focus on. Lastly, **Section Five** gives the concluding remarks.

II. JOBS, GROWTH AND DEVELOPMENT

2.1. Towards a New Social Compact

5. **Employment has to be the focus of Kenya's new growth path.** The 2009 population and housing census determined Kenya's economically active population to be 18 million. This implies that the number of active population has increased by 15.4 percentage points compared to the 1999 census which placed the economically active population at 15.6 million. Out of the 18 million employable Kenyans, 15.8 million are employed whereas 2.2 million are not working but are available to work. The census results also noted an increase in the dependent population to 42 percent (of which the largest proportion are full time students) compared to 33.9 percent in 1999, posing an increased burden to the economy (KNBS, 2010a). With an increasing dependency ratio, an expanding labor force coupled with low employment levels (current unemployment rates are just above 40 percent), unemployment presents a serious problem and therefore becomes an immense challenge. This issue is critical even as the country seeks to achieve a sustained 10 percent annual GDP growth rate as envisioned in Vision 2030.

6. **According to the Governments Medium Term Expenditure Framework projections for both employment and growth, on average over the period 2008-2012, employment will grow by 8.2 percent whereas output will grow by 8.1 percent.** Vision 2030 also envisions that the informal sector will have largely been formalized. This is a pretty ambitious projection given that the formal sector currently comprises approximately 13 percent of the labor force. 50 percent of the labor force is in the smallholder agricultural sector and the rest constitute the informal sector (SID, 2010). The informal sector in Kenya, defined as all unregulated and semi organized small scale activities that use simple technology where workers are subjected to low earnings and long working hours, has been continuously and rapidly expanding over the years; providing employment to an estimated 8.3 million workers in 2009. On the other hand, wage employment statistics accounted for only 2 million workers in the same year (see Table 1.1).

7. The economic history of Kenya is one in which the formal sector has consistently and drastically contracted as a proportion of employment (SID, 2010). **If a sustained growth path is to be achieved, the government must adopt sustainable employment driven policies which will create enough jobs within the formal sector** to absorb the surplus labour force including the large, underemployed/underutilized population within the other sectors.

Table 1: Total Recorded Employment[2], 2005-2009 (In Million of Kshs.)

	2006	2007	2008	2009
Wage Employees	1,857.6	1,909.8	1,943.9	1,999.3
Self Employed and unpaid family workers	67.2	67.5	67.4	67.5
Informal Sector(estimated)	7,068.6	7,501.6	7,942.3	8,332.7
Total	8,993.4	9,478.9	9,953.6	10,399.5

Source: Economic Survey 2010, Kenya National Bureau of Statistics

8. **As the economy continues to recover from recession, it is imperative that central focus of Kenya's growth should focus on employment creation for large population of the youth.** Indeed,

[2] Figures refer to employment stock as at 30th June 2009 and excludes small scale farming and pastoralist activities

job creation makes economic growth more inclusive, and is key to fastering poverty reduction and income redistribution.

9. In recent years, the government has made conscious efforts to generate employment. Kenya's Economic Recovery Strategy for Wealth and Employment Creation 2003-2007, aimed at creating 500,000 jobs annually, the bulk of which would be in small enterprises. The *Kazi Kwa Vijana* Initiative launched in 2009, was also targeted at generating employment by engaging the youth in manual based jobs in their own communities such as building water dams and irrigation, repairing boreholes and access roads, clearing bushes, sowing organic fertilizers and seeds and planting trees in rural areas. In urban areas, it was envisioned that the KKV workers will build and operate water kiosks, develop and implement waste management systems and repair and maintain access roads (KKV, 2011).

10. However, employment strategy targeting the youth should be geared towards sustainable employment. While the *Kazi Kwa Vijana* initiative has facilitated access to labor intensive jobs thereby ensuring the youth earn income, it offers little in terms of economic advancement. These jobs are temporary, offer no growth opportunities with the depressed wages, the KKV workers can barely subsist and are still trapped in the poverty cycle, hardly the circumstances under which a 10 percent economic growth will be achieved; this is not a long term solution.

2.2. Millennium Development Goals: Achievable or a Mirage?

11. Kenya is among the 189 UN member states who adopted the Millennium Declaration in September 2000, committing themselves to the achievement of a set of eight development goals, known as the Millennium Development Goals (MDGs) by 2015. Since then, Kenya with the support of development partners, has been working towards the achievement of these objectives. But with only three years to the target year and with the 2010 MDGs status report indicating that quite a number of targets are not achievable under the current circumstances, a lot remains to be done. The following section presents highlights of the key findings[3]:

(i) ***Goal 1- Reduce extreme poverty and hunger:*** The incidence of poverty has considerably declined in Kenya from 52.6 percent in 1997 to 45.9 percent as at 2005/06. However, major setbacks to the achievement of this goal such as multiple domestic and international crises, post election crisis, the drought situation and the global financial crisis mean that the goal may not be achieved by 2015.

(ii) ***Goal 2-Achieve Universal Primary Education:*** There's a registered increase in Net Enrolment Rates from 67.8 percent in 2000 to 92.9 percent in 2009 as well as primary to secondary schools transition rates from 46.5 percent in 2003 to 66.9 percent in 2009. With sustained effort, this target is likely to be achieved.

(iii) ***Goal 3-Promote gender equality and empowerment of women:*** Female representation has increased from 4.1 percent in 2002 to 9.9 percent in 2009, gender parity stands at 0.958, gross enrolment ratio for girls in secondary schools rose from 26.4 percent in 2002 to 41.3 percent in 2009, and enrolment of females in universities and tertiary institutions rose from **65,542 in 2002 to 116,344** in 2009. With the new constitution, the proportion of women in the public service is expected to increase to at least 30 percent making this goal achievable.

(iv) Goal 4-Reduce child mortality: The infant mortality rate was 77 deaths per 1000 live births, under-5 mortality rate was 115 deaths per 1000 live births and immunization coverage was 57 percent in 2003. In 2008, the infant mortality rate was 52 deaths per 1000 live births; under-5 mortality rate was 74 deaths per 1000 live births and immunization coverage stood at 77 percent. With increased effort, this target is achievable.

[3] Refer to Annex 7 : Report on progress towards achievement of MDGs

(v) ***Goal 5-Improve maternal health:*** Births attended to by skilled personnel stood at 42 percent, maternal mortality rate was 414 deaths per 100,000 live births and contraceptive use among married women was 39.3 percent in 2003. In 2008/09, 43.8 percent of births were attended to by skilled personnel, maternal mortality rate had increased to 488 deaths per 100,000 live births and contraceptive use among married women had increased to 45.5 percent. With such slow progress, it is highly unlikely that this goal will be achieved by 2015.

(vi) ***Goal 6-Combat HIV/AIDS, malaria and other diseases:*** National HIV prevalence and youth HIV prevalence stood at 7.4 percent and 3.8 percent respectively in 2007. Accessibility to ARVs and incidence of malaria in the same year was 40.5 percent and 30.8 percent respectively. In 2009, national HIV prevalence, youth HIV prevalence and incidence of malaria stood at 6.3 percent, 3.0 percent and 31 percent respectively. The incidence of malaria has increased and the government has implemented a new malaria treatment policy using Artemisin Combination Therapy (ACT). The above progress indicates the high likelihood of this goal being achieved by 2015.

(vii) ***Goal 7-Ensure environmental sustainability:*** Access to clean drinking water was 49.4 percent in 2003 and 63.4 percent in 2008/09 denoting an improvement. However, more still remains to be done. Kenya's forest cover currently stands at 1.2 percent against the MDGs target of 10 percent. There remains a huge task ahead and achievement of this goal is unlikely.

(viii) ***Goal 8-Develop a global partnership for development:*** Kenya development assistance framework is already operational with 17 main donors. In ICT arena, the number of mobile phone subscribers, ISPs and internet users has increased significantly. Thus, this target is on track.

12. **The main constraint** hampering **the achievement of MDGs is the inadequacy of resources.** Many developed countries pledged a substantial amount of resources that would go into financing MDGs in developing countries but most are yet to fulfil their commitments. Though Kenya has received significant support from donors especially from the Republic of Finland, funding shortfalls is still persist. Other challenges include lack of enabling policy atmosphere due to poor governance issues and inadequate human capacity in some sectors.

13. It is worth noting that the MDG progress has been uneven. **There exist regional disparities in crucial MDG areas such as women empowerment, gender equality, school enrolment and access to health services. If the current trends prevail, it is highly unlikely that Kenya will achieve the Millennium Development Goals.** The country therefore has a huge task ahead. There is need to develop a well enabled resource environment. Planning should reach district level in order to be more comprehensive and address issue of regional disparities. New constitution has placed additional responsibilities on the state (section 42 and 43) to guarantee environment, education, health, economic and social rights to citizens. Government should maintain adequate levels of public spending in these sectors in order to ensure MDG goals are met (GOK/UNDP, 2010).

2.3. Holding Government Accountable

14. Given that the budget is a crucial tool for economic policy, it should be subjected to scrutiny and debate in light of its wide-ranging implications for a country's people and economic development. The accountability of the Kenyan government in the budget process can be enhanced by promoting public participation and making information readily available to the citizens. In view of this, this section gives insights into the assessment with regard to the extent of involving the parliament in the budget process. In addition, the assessment also provides the comprehensiveness of the various budget documents. The key assessment tools of holding the Government accountable are the Open Budget Survey (OBP) spearheaded by the International Budget Partnership and the African Parliamentary Index (API). Specifically, the **OBP measures the degree to which governments provide sufficient budget documentation to allow for both public participation and oversight in national budget decision-making.** On the other hand, the **API assesses the level of engagement in**

budget making process of selected African Parliaments with the budget process. Overall, the surveys show that, despite the challenges, **Kenya has made significant progress in enhancing accountability, rating impressively in parliament's budget oversight compared to its peers**. This has been amplified by the Fiscal Management Act of 2009. It is important to note that the new constitutional dispensation has opened wider window for greater involvement of the legislature. The salient features of the aforementioned survey are highlighted below.

2.3.1. International Budget Partnership (IBP)

15. Kenya performed dismally in the international recognition for meeting stringent transparency and accountability standards **ranking 43rd among the 94 countries in the IBPs 2010 Open Budget Survey.** The IBP concludes that the government provides the public with only some information on the central government's budget and financial activities during the course of the budget year. This makes it challenging for citizens to hold the government accountable for its management of the public's money. Table 1 gives the details of the assessment and the corresponding scores.

Table 2: Adequacy & Availability of Eight Key Budget Documents[4]

Document	Level of Information Grade	Publication Status
Pre-Budget Statement	A	Published
Executive's Budget Proposal	C	Published
Enacted Budget	B	Published
Citizen's Budget	E	Not Produced
In-Year Reports	B	Published
Mid-Year Review	E	Produced, Not Published
Year-End Report	E	Produced, Not Published
Audit Report	C	Published

16. The report highlights key weaknesses in the way the Government provides documentation; the following are the key observations:

a) Executive's Budget Proposal: This is the government's most important policy instrument. It presents the ways the government plans to raise revenues and where these funds are allocated, thus transforming policy goals into action. The following are the major gaps:

- The budget proposal lacks information that can help explain the relationship between the government's revenue and expenditure plans and its policy and macroeconomic goals. In particular, it lacks a sensitivity analysis and an assessment of how new policies affect the revenue side. The envisaged revenue loss or gain borne out of the tax measures is ad hoc and in most cases, it is lacking. This information is important if the executive wishes to facilitate a broader debate about planned expenditures.
- It does not have sufficient information on certain fiscal activities that can have a major impact on the government's ability to meet its fiscal and policy goals, including information on quasi-fiscal activities, financial and other assets, arrears, and contingent and future liabilities. Without this information, the public does not know the government's complete fiscal position.
- It also lacks adequate information on outputs and outcomes. This information is important for those who are interested in monitoring the budget's impact.

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[4] Grades for the comprehensiveness and accessibility of the information provided in each document are calculated from the average scores received on a subset of questions from the Open Budget Survey. An average score between 0-20 (scant information) is graded as E; 21-40 (minimal) is graded as D; 41-60 (some) is graded as C; 61-80 (significant) is graded as B; and 81- 100 (extensive) is graded as A.

The table shows the various documents that are key for public participation and the extent to which the Government shares them with the public or not.

Table 3: Key Documents for Effective Budget Process

Key document	The purpose of the document	Remarks
Pre-Budget Statement	Sets forth the broad parameters that will define the government's forthcoming budget.	Kenya publishes a comprehensive Pre-Budget Statement.
Enacted Budget	Becomes a country's law and provides the baseline information for all budget analyses conducted during the budget year. In general terms, the Enacted Budget should provide data the public can use to assess the government's stated policy priorities and hold it to account.	Kenya publishes a fairly comprehensive Enacted Budget.
Citizens Budget	This is a nontechnical presentation of a government's budget that is intended to enable the public — including those who are not familiar with public finance — to understand a government's plans.	Kenya does not produce a Citizens Budget.
In-Year Reports	It provides a snapshot of the budget's effects during the budget year. They allow for comparisons with the Enacted Budget figures and thus can facilitate adjustments.	Kenya publishes fairly comprehensive In-Year Reports
Mid-Year Review of the Budget	It provides a comprehensive overview of the budget's effects at the midpoint of a budget year and discusses any changes in economic assumptions that affect approved budget policies. Information in this report allows the government, legislature, and the public to identify whether or not adjustments related to revenues, expenditures, or borrowing should be made for the remainder of the budget year.	Kenya produces a Mid-Year Review for internal purposes but does not make it public.
Audit Report	This is an evaluation of the government's accounts by the country's supreme audit institution (SAI). It reports whether the government has raised revenues and spent national revenue in line with the authorized budget, whether the government's bookkeeping is balanced and accurate, and whether there were problems in the management of public funds.	Kenya publishes an Audit Report, but it is not sufficiently comprehensive. For example, it does not present audits of extra-budgetary funds.

17. The IBP concludes **that the comprehensiveness and quality of Kenya's budget documentation "makes it impossible for citizens to hold the government accountable for its management of the public's money".**

2.3.2. The African Parliamentary Index (API)

18. The Index is a set of indicators that assess the level of engagement of selected African Parliaments with the budget process. The API also measures performance of Parliaments in budget oversight. It is a core component of Africa Parliamentary Strengthening Program (APSP). The index score ranges from 1 – 4 with the score of 4 being the highest.

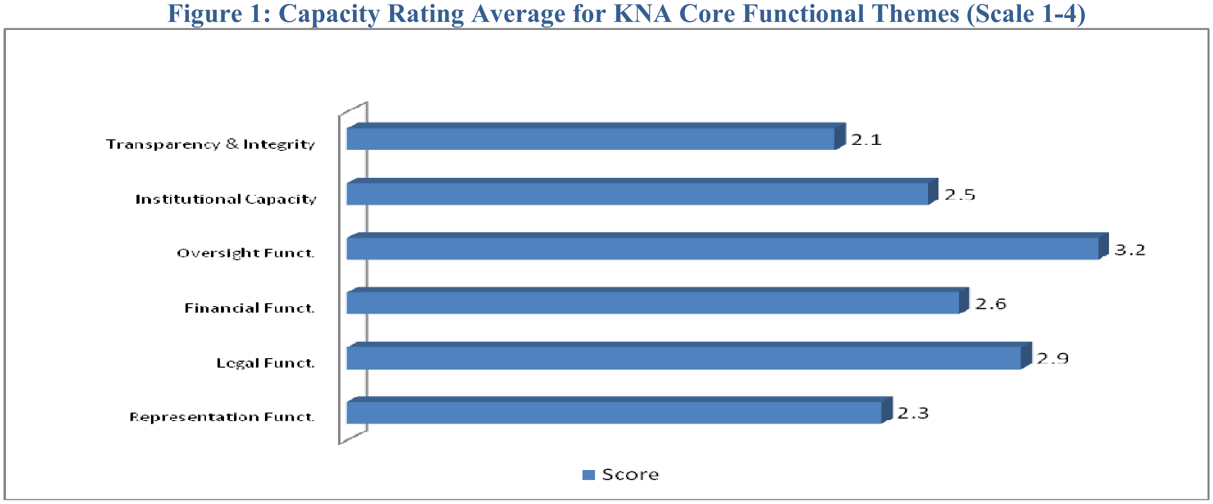
19. The purpose of the index is threefold:

- **(i)** To provide an opportunity for Parliamentarians (and informed stakeholders) to assess themselves against international best practice for budget oversight.
- **(ii)** Provide a standard and simplified system for assessment that can be commonly applied to selected partner Parliaments.

(iii) To identify priorities (and means) for strengthening partner Parliaments as well as stimulating Parliament's own progress towards achieving their goals as well as the goals of the program

20. The global trend has seen numerous efforts across many parliaments to engage more effectively with the public and to improve the way they work to become more genuinely representative of their electorates, more accessible and accountable to them, more open and transparent in their procedures and more effective in their key tasks of legislation and oversight of government. The situation in Kenya shows mixed results as shown in figure 1. The results of the self assessment indicated high rating with regard to budget oversight (3.2), on the contrary, transparency & integrity received the lowest rating (2.1). The results corroborate with the earlier findings on the Open Budget Survey in that, timely publication, access of budget information has a bearing on transparency and integrity of the budget process.

Figure 1: Capacity Rating Average for KNA Core Functional Themes (Scale 1-4)



III. ECONOMIC POLICY AND OUTLOOK

2.1. State of Kenya's Economy in 2010 and the Medium Term

21. The return and accelerated growth by the Kenyan Economy at above 4 percent through all quarters of 2010. To this end, **it is projected that the economy will grow at the rate of 4.8 percent in 2010.** According to the World Bank the year 2010 experienced stability in economic growth unlike previous years when it was volatile and negatively impacted by both internal and external shocks. Such phenomenal growth was last experienced during the pre crisis periods of 2003-2007 and is expected to persist in the Medium Term, particularly if key risks to the 2011-12 forecast are addressed.

22. **Clearly, Kenya's economy is at a point where the gains made by certain key contributors to the growth spurt, majorly the Information and Communication Technology (ICT) sector, Agriculture and manufacturing** and which provided the necessary impetus for growth in 2010 are expected to reinforce Economic outlook in the Medium Term (World Bank, 2010).

23. **The strong growth of above 4 percent was mainly driven by the resurgence of activities in the tourism sector, resilience in the construction industry, and the government intervention through the economic stimulus package**. On the other hand, a mixture of unfavorable weather, slowdown in household borrowing dampened domestic demand while on a global front, due to economic recession external demand was subdued. The global economic recession was felt mainly through depressed demand for horticulture produce abroad and inadequate recovery of tourism. However, according to the World Economic Outlook update of January 2011, the global economy is progressing better than expected even though the downside risks remain high. During the third quarter of 2010, global output growth expanded at an annual rate of just above 3 ½ percent.

24. **In the medium term, real GDP is expected to grow at 5.5 percent in 2011, 5.6 percent in 2012 and 5.4 percent in 2013.** The main reason for the pessimistic view of growth in 2012 is the uncertainty underpinning the election year. In nominal terms, GDP is poised to increase from 13 percent in 2004 to 16.6 percent in 2012. Figure 2 shows the trend in real GDP while table indicates the components of GDP. The key assumptions underpinning the growth for 2011 and the medium include the following:

a) **Past trends:** The economic and political history indicates that whenever there are elections the country gets into fever which leads to suppressed growth. In addition, it has been observed over time that if the previous political regime continues, then there is a time lag before the economy picks up. On the other hand, if there is a change in political regime, most investors devise a wait and see attitude which also slows growth.

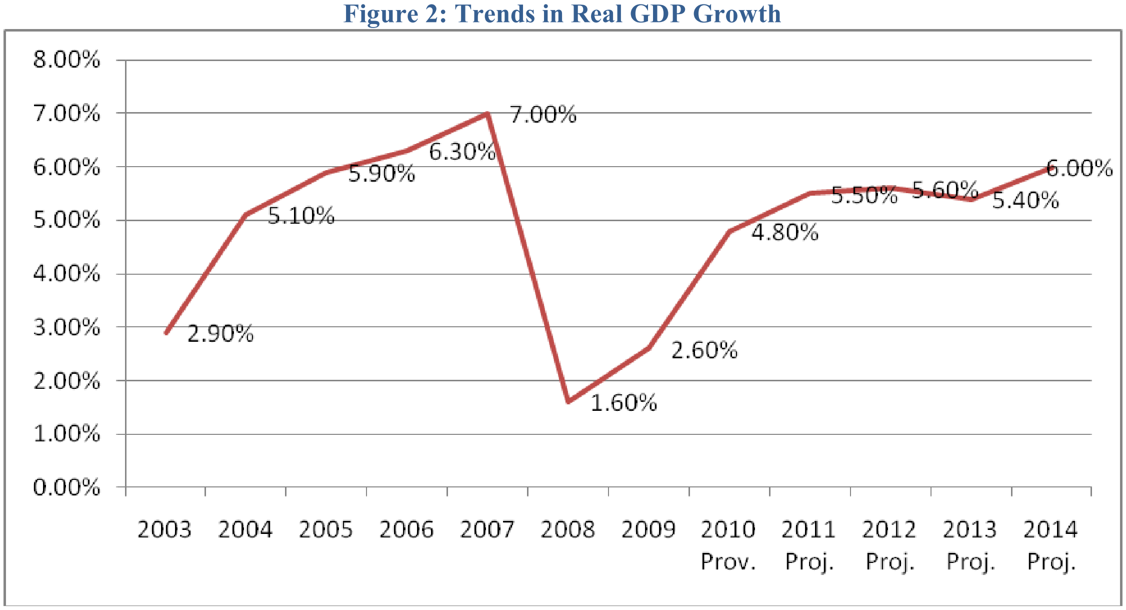
b) **Election related risks:** This is due to the cyclical nature of suppressed growth in anticipation of an election year resulting from a wait-and- see approach adopted by investors.

c) **Unpredictable external environment:** Uncertainty continues to bedevil the global economic prospects, specifically, the Tsunami in Japan as well as the huge debt levels in Europe.

25. On a global front it is projected that in 2011, this growth will expand by 4½ percent; higher by about ¼ percent compared to IMF October 2010 projections. This improved growth will impact positively on Kenya's horticultural sector in terms of increased demand. However, a look at Kenya's key trading partners paints a grim picture. **In Europe, a key Kenyan trading partner, recovery has been quite uneven and is generally expected to be bumpy and moderate which is not good for Kenya's horticultural exports given that the bulk of SSA exports to Europ**e are mostly from Kenya. The European Union's GDP is expected to grow at 1.7 and 1.5 percent in both 2010 and 2011, respectively. A poor European economic outlook is likely to lead to a reduction in European demand for Kenyan goods.

26. On the other hand, the economic outlook of Egypt and Pakistan in the MENA region is also crucial due to Kenya's trade relations with the two countries. Both countries are key buyers of Kenya's tea. Egypt accounts for 3.45% of Kenya's total exports while Pakistan accounts for 4.40% of Kenya's total exports. The challenges to Egypt's economic outlook are lower savings and investment, lower FDI, enhancing health and education but perhaps more crucial, an uncertain political environment with regard to the upcoming elections and the recent political unrest. The long term effects of this crisis especially with regard to local production and fuel prices are still unclear but the short term effects are already apparent with reported declines in the amount of tea and cut flowers exported to Egypt. Tea sales for January 2011 recorded a 3 percent decline with Egypt importing less at 4.7 million kilos due to the ongoing crisis. Depending on how long it takes for the market to normalize, Kenya may continue to suffer demand side shocks.

Figure 2: Trends in Real GDP Growth



Source: Parliamentary Budget Office Staff Estimates

27. Sub-Saharan Africa is bouncing back from the 2009 slowdown to 2.6 percent. The region's output is forecasted to increase to 5 percent in 2010 and 5.5 percent in 2011 due to recovery in exports and commodity prices as well as strong domestic demand from several economies. Low-Income countries are expected to grow by 6½ percent in 2011. However, the SSA economic outlook remains uncertain due to the risk of reduced aid and private and financial flows to the region, rising food prices and Europe's pace of recovery. Domestic demand in the region has been enhanced by automatic stabilizers, public investment expansion, social support programs and increasing trade ties with Asia primarily through commodity prices. The aforementioned factors will adversely affect Kenya's growth prospects.

28. Closer home in East Africa, the IMF puts Tanzania's growth prospects at 6.5 percent in 2010 and 6.7 percent in 2011. According to the African Development Bank, Tanzania's economy will experience the most rapid economy in the East African Community in 2010 as its agricultural strategy as well as its minerals is attractive to investors. Uganda's economy is projected to grow by 6.1 percent in 2011 followed by Rwanda at 5.9 percent. The accelerated growth will be driven mainly by the increased market base which has been necessitated by the ratification of the Common Market Protocol which allows the free movement of persons, labor, services and capital. Kenya, which is the region's largest economy stands to benefit greatly from the increased market base and the high growth of other East African economies which is likely to be boost demand for Kenya's products. However, any bottlenecks in the implementation of the protocol will affect Kenya in a negative way.

29. **Available evidence shows that over the period 1997-2003 growth was slow but job creation was high with most of the opportunities being created in the informal sector as opposed to the formal sector**. This means that the informal sector employs majority of the potential working population with the formal sector requiring greater incentives to absorb the ever increasing number of graduates from institutions of higher learning. Moreover, the growth witnessed over the period 2003 – 2007 has not been creating enough jobs. Efforts will be needed to ensure the expected sustained growth in 2011 is in tandem with the opportunities created for investments and hence jobs.

2.2. Sectoral Performance and Prospects

30. **Agriculture:** The share of agriculture to GDP declined consistently and the sectors production has been declining since 2005 attributed to a combination of causes among them poor weather, international un-competitiveness, and depressed demand of horticultural produce in the international market, especially the European Union (EU). In addition, the sector also suffered a major setback on account of the decrease in the value of market cereals as well as a decline in the quantity of coffee auctioned and tea processed. **Over the 2011 and the medium term, there is a risk of deteriorating food security conditions in Kenya due to poor short rains 4th Quarter of 2010 and lower than normal long rain in 2011 (predicted by the Department of meteorology).** A slowdown in the growth of the agricultural sector is thus projected for 2011.

31. **International Trade:** The sector saw the increased export of coffee and tea with decreased exports in horticulture. Domestic exports by Broad Economic Category (BEC) indicate that food and beverages were the main export category in November 2010 with a share of 44.17 percent, while Non-food industrial supplies and consumer goods indicated a share of 26.57 percent and 23.22 percent, respectively. All the other economic categories recorded less than 5 percent shares in total export. Imports by Broad Economic Category (BEC) indicate that imports shares of transport equipment and goods increased in November 2010 compared to the month of October, 2010. Food and beverages, Industrial supplies (Non-food), Fuel and lubricants, Machinery and other capital equipments, and Consumer goods registered declines during the same period. Industrial supplies (non-food), Transport equipment, Machinery and other Capital equipment, Fuel and lubricants, indicated import shares of 28.83, 21.72, 19.13, and 16.66 percent, respectively. Food and Beverages, consumer goods and other goods had shares of 6.46, 6.95 and 0.25 percent of the import bill respectively. **In 2011/12, higher real incomes, on the back of a higher inflation environment, are expected to push down domestic expenditure, including the demand for imports.**

32. Despite the growing market within the EAC, the Country's direction of trade remained at the 2008 levels with exports to the European Union declining by 1.3 percent from 25.9 percent to 25.5 percent in 2009. Exports to the African region marginally increased by 0.1 percent compared to a 31.1 percent growth in 2008 and accounted for 47.2 percent of all exports during the review period. Exports to COMESA increased by 1.5 percent to 69.5 percent but remained the main export destination for Kenyan exports to the African region. Exports to the EAC rose by 7.8 percent accounting for 55.6 percent of all exports to the African countries in 2009. Overall, Kenya's share of export to COMESA countries increased slightly to 33.3 percent in 2010 from 32.3percent. African countries and EAC in particular accounted for 47 percent and 25 percent of total exports in 2010. The pace of implementation of EAC common market protocol will be a key factor in determining the rate of growth in exports.

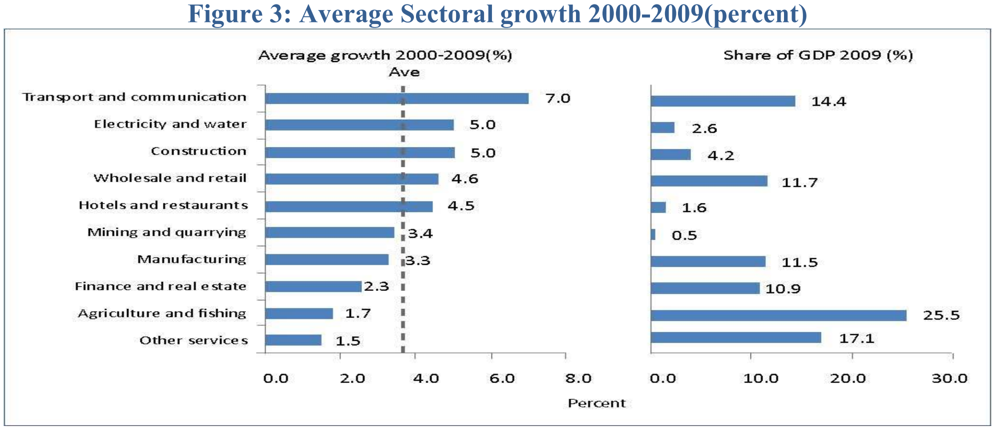
33. Energy: Overdependence of hydroelectric power has posed challenges due drought. Water catchments that fed into Masinga dam, the main reservoir for the Seven Forks Hydropower Project, have been faced by persistent drought since 2007. The drought peeked in 2009/10 and coupled with high oil prices and the growing demand for electricity led to one of the most difficult operating environment. If the prediction of the department of meteorology is anything to go by, then the manufacturing growth sector will be heavily affected.

34. Manufacturing, Building and Construction: A number of challenges continue to restrain the expansion of the manufacturing sector. In the past, manufacturing has been supported by a vibrant domestic demand as well a regional market. **Cheap imports as well as high cost of doing business have contributed to the low growth of the sector.** However, the construction sector has persistently maintained robust growth since 2003 and has been instrumental in supporting economic growth in the country. The expansion has mainly been bolstered by investment in road, energy, residential and non residential buildings and communication which in turn have been a major boost in the labor market.

35. Tourism, Transport and communication: After suffering a massive shock from post election violence in 2008, the tourism sector's performance indicators point to an impressive recovery. The volume of international arrivals rose considerably from 1,490 in 2009 to 101,464 in August 2010. The sectors turnaround is primarily attributed to improved security coupled with successful tourism promotion and political stability. By the end of 2010, tourism arrivals increased beyond the psychological 1 million mark. This in turn boosted export earnings. This expectation is premised on a recovering global economy and a weak shilling. The recovery in tourism revenue (net) has lagged that of arrivals due to a decline in the share of high-end tourists from the EU. However, a continued improvement in EU tourist traffic, coupled with increasing traffic from new markets, is expected to support an improvement in tourism receipts in 2011 and beyond

36. Telecommunication has maintained a strong expansion throughout 2010 with mobile telephony emerging as the main drivers for the growth in 2010. In 2011, it is expected that this trend is likely to continue given the fact that mobile phone is becoming part and parcel of the financial sector. With this in mind, credit expansion to private sector is likelihood to be amplified.

Figure 3: Average Sectoral growth 2000-2009(percent)



Source: World Bank

2.3. Other Key Macro-Economic Indicators

37. Inflation: During the year, the new Kenya Consumer Price Index (CPI) increased by 1.4 percent from 107.86 points in November 2010 to109.38 points in December 2010, while annual average inflation rate decreased from 4.36 percent in November 2010 to 4.08 percent in December 2010.

38. **The level of inflation is likely to increase significantly in the medium term on account of a likely increase in money supply driven inflation tendencies owing to election fever in 2012**. This is in line with past trends seen in previous elections. Inflation is on the rise and is impacting negatively on the livelihood of Kenyans. Not unless something is done, the menace will continue to affect the citizen. High oil prices coupled with poor weather conditions are putting an upward pressure on food prices. Inflation is expected to be above 6 percent in 2011 and trend upwards to about 7 percent in 2012. It is important to note that despite the fact that the Government has targeted to maintain inflation below 5 percent, the food aspect of inflation which is outside the realm of CBK remains a threat. **To prevent resurgence in inflation that could put further upward pressure on the real exchange rate, monetary policy needs to remain focused on anchoring inflation expectations and supporting financial stability to promote growth and employment.**

39. **Exchange Rate:** The Kenyan Shilling appreciated against the Euro, the Japanese Yen, the Ugandan and the Tanzanian Shilling at the end of December 2010 to exchange at an average of Kshs.107.628, Kshs. 99.123, Kshs. 28.569 and Kshs. 18.514 respectively while depreciating against the other currencies in the same period by various margins. However, the Shilling depreciated against the US dollar, the Sterling pound, and the South African Rand to trade at an average of Kshs. 80.752, Kshs.124.767, and 12.201 in the same period compared to a trading of Kshs. 80.974, Kshs. 125.992, and Kshs. 21.591 as at the end of November 2010, respectively.

40. **The current weakening of the Kenya shilling against the dollar presents a worrisome trend.** There are indications that the bullish pressure on the shillings is being occasioned by speculative tendencies. The current exchange rate pressures whereby the shilling has hit an all time high of Kshs.86/dollar presents a worrisome trend. One of the prime movers of the depreciation of the exchange rate is the large import bill occasioned by huge import of inputs in the manufacturing sector. However, this is not the case; therefore we can argue that the current depreciation is largely driven by speculative tendencies in the forex market. Going forward a competitive exchange rate will largely be dependent on the economic prospects, weather pattern, politics of the day, and global economic dynamics, especially the effects of the Tsunami in Japan among other factors. **To this end, the exchange rate to the dollar is expected to remain broadly between Kshs.82-86 over the period 2011- 2012.** However, the predictability and stability of the shillings will largely depend on other factors such as the conduct of monetary policy by the CBK, economic prospects, weather pattern, political environment, effect of oil prices and global economic dynamics, especially the effects of the Tsunami in Japan. We expect that the CBK will take remedial measures as and when it is required.

41. The average yield rate for the 91-day Treasury bills, which is a benchmark for the general trend of interest rates, rose from 2.21 percent in November 2010 to 2.276 percent in December 2010. The weighted average lending rate by Commercial banks for loans and advances declined from 13.95 percent in November 2010 to 13.87 percent in December 2010. Savings rate increased from 1.02 percent in November 2010 to 1.45 percent in December 2010.

42. The Nairobi Stock Exchange share index (NSE 20) increased by 0.9 percent from 4395.2 points in November 2010 to 4432.6 points in December 2010. Total value of shares traded decreased substantially by 36.8 percent from Kshs.9.30 billion in November 2010 to Kshs.5.88 billion in December 2010. Total number of shares traded declined by 28.3 percent from 498.78 million shares to 357.610 million shares over the same period. Going forward the performance of the stock exchange will largely depend on the political climate as well as friendly investor climate coupled a development of a deep bond market. The current issuance of the 30 year savings bond by the Central Bank is

pointer in the right direction since it will set the benchmark yield for pricing of corporate of an equal tenor. Indeed, the success of the corporate bond market largely depends on the development on the Government market front.

43. Broad Money Supply (M3), a key indicator for monetary policy formulation, expanded from Kshs.1,258.8 billion in November 2010 to Kshs.1,272.6 billion in December 2010. Money and quasi-money (M2) expanded by 1.1 percent from Kshs. 1088.79 billion to Kshs.1100.30 billion over the same period. Gross Foreign Exchange Reserves declined by 1.7 percent in November 2010 from Kshs.427.8 billion in October 2010 to stand at Kshs.420.7 billion, while Net Foreign Exchange Reserves expanded by 1.2 percent over the same period to stand at Kshs. 279.38 billion in November 2010. Money supply is forecast to stand at 16.3%, 15.6%, and 13.2%, respective in 2011/12, 2012/13, and 2013/14. On the other hand due to a lower growth prospects through to 2013, credit to private sector is expected to shrink from 19.3% in 2011/12 to 14.4% in 2013/14.

44. **Balance of payments: Kenya's perennial current account deficit explains the propensity for the shilling to depreciate.** Rising imports against a backdrop strengthened internal demand and increasing capital expenditure by the government imply a widening current account deficit in 2011 and the medium term. The foreign reserves position improved to about four months of import cover in 2010 since the 2008-2009 drought, when it dipped just under the critical floor of three months (when an economy is considered vulnerable to an exogenous shock). As the oil price is expected to trend higher in 2011 and food prices are shooting up, Kenya's statutory import cover of 4 months is unlikely to be achieved, and the shilling is likely to come under pressure to depreciate. On the other hand, with the slight increase in Kenya's major export products, the value of exports is expected to increase from 6.8 percent in 2010/11 to 9.6 percent of GDP in 2013/14 while the value of imports is also expected to trend upwards from to 3.4 percent from 9.6 percent. The current account balance including official transfers is expected to narrow slightly from 3.8 percent of GDP in 2010/11 to 3.6 percent of GDP in 2013/14.

2.4. Public Debt

45. Sustainability – a core principle of fiscal policy – refers to the ability of government to finance its expenditure over a long period of time. A key indicator of sustainability is debt-service costs. If such costs are expected to rise as a percentage of GDP over the long term, the position is not sustainable. An unsustainable fiscal position can be financed in the short term through higher borrowing. However, **pursuing an unsustainable fiscal stance for too long will result in spiraling debt costs – and eventually a costly adjustment through lower spending on service delivery and/or increases in tax rates.**

46. Given the rule of Thumb of sustainable debt to GDP ratio being below 42 percent, overall level of public debt should really be maintained below this level. **The overall fiscal balance (excluding grants) is expected to reduce from 8.6 percent in 2011/12 to 5.3 percent in 2012/13.** As mentioned in last year's budget options, *"taking all public debt into account, however, the DSA shows greater risk of unfavorable debt developments, especially under a shock to GDP growth. Even temporarily lower GDP growth would set the NPV of public debt-to-GDP, the NPV of debt to revenue, and the ratio of debt service-to-revenue on a sharply increasing trend. Potentially large but unreported contingent liabilities also pose additional risks to the sustainability of public debt" (IMF, 2009).*

47. It is important to note that extreme dependence on grants distorts the fiscal framework in times of sour relationship with the donor countries. To this end, **we maintain that donor grants and loans be retained at below 4 percent of GDP over the medium term.** One of the key issues surrounding donor funds in general is the lack of Government policy on the key priorities the funds are supposed to finance. Often, external financing is supply driven rather than demand driven. There is therefore need to identify key areas that external financing needs to go. Overall, all modes of external financing should be based on our needs.

48. On the other hand, interest payments are expected to remain at 3.0 percent of GDP over the period 2011/12 – 2012/13. In the near term, economic policies need to encourage a recovery in the domestic economy without burdening future generations with large public debts, high inflation and interest rates, and low growth. Thus, net domestic borrowing is expected to remain below 2 percent of GDP over a similar period. On the domestic front, net domestic borrowing is expected to be curtailed from 5.1 percent of GDP in 2009/10 to 1.6 percent of GDP in 2011/2012.

2.5. Summary of Opportunities / Risks to the 2011 Economic Growth and Medium Term

The matrix below presents Kenya's opportunities and risks for economic prospects in the medium term

Table 4: Kenya's Opportunities and Risks for Economic Prospects in the Medium Term

Factor	Opportunities	Risk
Manufacturing sector	Vision 2030 identifies trade as one of the key drivers towards industrialization and growth in the economy and although Kenya's value of exports has been increasing over time, the country has remained predominantly an exporter of agricultural products making Kenya's exports non-competitive in the world market. **For Kenya to maintain the growth momentum and take advantage of the huge market through export led growth in 2011, there will need to embrace technological innovations in a bid to add value to its exports and diversify into more export products and markets.** As such, coordinated policy action is needed to shift the export structure towards export of manufactured products as opposed to raw materials.	-Lack of coordinated policy action for a diversified manufacturing sector and lack of ownership and political will in implementing the EAC protocol. -The EAC is expected to provide new impetus for growth with its huge market. **However, the spirit and intention of the Customs Protocol has not been fully adhered to by the aforementioned partner states.** There has been limited progress in addressing trade restrictive particularly the non tariff barriers meaning that there are likely to be very few "quick wins" in the medium term.
Constitutional Implementation	**With regard to the new constitution, if properly implemented, it will go a long way in** addressing governance concerns and improve Kenya's business environment is also expected to offer future stability for investment. **Sustained economic growth in 2011 will benefit on implementation of the new Constitution provisions since it will go a long way in minimizing risks to Kenya's economic outlook.**	Slower and or scuttling the implementation may lead to low growth prospects for the economy
The role ICT	**The fast growing ICT innovation have revolutionized service delivery in other sectors like agriculture for price discovery and dissemination in commodity markets; public information and awareness; healthcare where diseases are tracked and hence easily managed; Civil Society and Governance among others.** These tenets are key cornerstone to human capital and development around which sustained growth in the 2011 will rely on.	-Unsolved issues and price wars among market players may dampen the sectors support for growth over the medium.
Deficit Financing	**The Government monetary policy and the fiscal stimulus albeit with its own challenges contributed to Kenya's strong growth performance in 2010.** Public investment increased to its highest in a decade while at the same time	-Loose demand management strategy, especially fiscal policy may plunge the economy into a debt trap.

Factor	Opportunities	Risk
	government borrowing and debt levels sharply increased over the last 2 years from 40 percent of GDP to an estimated 47 percent by the end of 2010. **Concerns are rife that Kenya may need to revert back to tighter fiscal policies in 2011 so as to cap debt at a much lower ratio to GDP preferably not more than 42 percent.**	
Credit Expansion to the Agricultural sector	One important observation to make is that credit to the agriculture sector which the cornerstone of the Kenya's economy continues to dwindle. Indeed, in 2010, credit to this sector recorded a dismal performance at 3.0 percent. Deliberate shift from rain fed to irrigatable agriculture among other reforms, will attract the necessary credit for expansion.	-Eminent risk associated with unpredictable weather conditions that might cause crop failure. -Weather related risks take back years of development thus posing a major challenge to the achievement of sustainable growth reflected in the Millennium Development Goals. The cyclic nature of natural disasters in Kenya has constantly eroded recovery capacity hence affecting economic development. The economic cost of the impact of floods, drought and landslides in the past has been estimated in millions of shillings. The expected La Nina droughts that have been affecting the Agriculture sector, Kenya's leading GDP contributor (up to 25 percent) will further retard Kenya's economic recovery and affects its global prospects of 2011/2012.
Political Environment	Given the shock experienced after flawed elections at the end of 2008, a good and accountable political environment will bolster Kenya's economic outlook.	-While passage of the constitution is broadly positive, signaling widespread support for devolution of power from the centre to more powerful regions, many of the tenets of the new constitution still require legislative changes to become operational. The process is not devoid of political risk.

2.6. Conclusion

49. As the economy continues its gradual recovery, supported by countercyclical fiscal and monetary policies, it is important to remain focused on Kenya's larger economic challenge of reducing poverty through achieving more rapid growth and creating more jobs, particularly for low-skilled and young workers. Higher growth is needed to improve the living standards of all Kenyans.

50. A World Bank Publication[5] **ranks Kenya at position 95 of the 183 other economies in terms of ease of doing business compared to its other EAC partners like Rwanda and Tanzania which are ranked 67 and 131 respectively**. Kenya was sampled to have rigid procedures of starting a business that are likely to take 30 days and with huge implications and therefore ranked 124 after Rwanda and Tanzania who were ranked 11 and 120 respectively. This was a drop from its original 110th position in 2009, meaning that it risks losing investors owing to cumbersome process.

51. Interestingly, Tanzania scored highly compared to its EAC partners Kenya and Rwanda on cross boarder trading. Kenya needs to take advantage of the growing market within East Africa particularly

[5] (2009) The international Bank for Reconstruction and Development / The World Bank; Doing Business 2010

after the signing of the Common Market Protocol by strengthening its trade regimes. It will be interesting therefore to see what measures the government will put in place to provide impetus for private investment as relates to reducing start up business procedures, encourage cross border exports and imports. These measures are likely to translate into increased number of jobs, maintain wealth creation and sustained growth in 2011.

52. To achieve this goal, the Government policies need to create a favorable environment for investment and productivity growth by removing bottlenecks to trade, reducing red tape, lowering the costs of doing business, delivering quality public services, increasing competition, removing barriers to entry, supporting innovation, expanding exports and encouraging youth employment.

IV. FISCAL POLICY AND TRENDS

3.1. Interaction between Growth, Sustainability and Fiscal Policy

53. As mentioned in the 2010 Budget Options Paper[6], economic policy must strike a delicate balance, supporting the recovery through appropriate fiscal and monetary measures while avoiding the build-up of unsustainable debt that will impose costs on future generations. Indeed, achieving this balance requires sound economic policy, better coordination of policy between departments and well-functioning economic institutions.

54. The question of whether the government involvement in the economy is vital for economic growth has continued to dominate both theoretical and empirical debate amongst economists for a long time. Despite the continued debate,+ it is widely acceptable that government involvement through different fiscal policy interventions is key for the socio-economic development of any country. The choice between neutral, expansionary and contractionary fiscal policy will largely depend on the objectives the government want to achieve in a given period of time. The Kenya government, for example, has been using more of expansionary fiscal policy to stimulate the economy as a way to sustain the growth momentum.

3.1.1. The 2011/12 Budget

55. The 2011/12 budget will, no doubt, be under scrutiny for varied reasons, among them striking a balance between containing the debt levels and meeting the ever increasing expenditure needs especially the implementation of constitutional reforms. In addition, there is dire need for more resources towards MDG related interventions as well as other compelling national priorities. At the end of the day, there is greater need to come up with a win-win resources distribution, development financing, and fair taxation regime.

56. This should be the budget in which the government can afford to promulgate tough fiscal measures with limited political implications and resist the temptation to present populist measures, especially granting transfers and subsidies to lower income group that are not sustainable and that are market distorting in nature. To this end, the government should focus on:

- **i.)** Finding savings through reduced spending on non-core functions and activities such as catering and cleaning and maintenance, including shifting resources from administrative components to frontline services. This will include outsourcing non core functions of the various as opposed to the current practice of hiring additional staff. Indeed, the Government has been on a hiring spree in areas that are not a priority. For instance, many government agencies have in the recent past recruited support staff such as clerks and messengers whose function could be easily outsourced and achieve optimal results.
- **ii.)** Rationalizing public entities and agencies to save money and improve accountability. This should entail making public entities operate with a private sector culture and reduce overreliance to exchequer for their day to day operations. To this end, the government should come with a deliberate policy on rationalizing all state owned agencies.
- **iii.)** Reviewing public spending to weed out poorly performing programmes, low-priority activities and ineffective policies. For 2011/12 we suggest that all agencies and ministries recurrent budget be retained at the 2010/11 level save for changes in the wages. In particular, all items under maintenance renovation, and any other facilities that is granted to state officers in the three arms of Government in kind such as recreational facilities should

[6] Looking into the future: Budget Options for 2010/11 and the Medium Term

completely be scaled down to zero until the economy is able to sustain. In the longer term, the **Government needs to come up with fiscal rules of limiting total expenditure**. This will go a long way in changing the culture of the public service to reduce waste and to prevent extravagant spending, shoddy work and corruption.

iv.) Reforming procurement systems to reduce corruption and obtain better value for money, including giving consideration to centralizing the procurement of selected goods and services.

v.) Levering IT in most of the processes which will reduce administrative costs substantially and also reduce the leakage in resource mobilization. In line with this, all ministries and agencies could consider cutting the budget on paper use by 30% and embrace IT based mode of communication in their day to day operations.

57. Kenya currently faces myriad challenges, the compelling ones being the drought ravaging parts of the country, rising unemployment, poverty, and growing domestic and international debt burden. The aforementioned issues are indeed extraordinary in nature and therefore call for targeted policy interventions to tackle current and envisioned challenges.

58. Overall, a government pursuing countercyclical policy should save revenue (run a surplus) during good times in order to spend more (run a deficit) when the economy is faltering. This approach moderates the impact of the business cycle and raises long-term growth. As the economy's growth rate increases, the rate of growth in government spending needs to slow. While the higher fiscal deficit was the appropriate countercyclical response during the downturn of 2008-2009, government will have to reduce the level of borrowing in the years ahead, hence, **as the economy recovers, government should tighten its stance to avoid pushing up interest rates and crowding out private-sector investment.**

59. The Kenya government has increased spending and put in place the ESPs to counter the economic downtown of 2008-2009 and should adopt a gradual approach in phasing out the programme. In the medium term, as the economy grows, the pace of government spending growth should moderate in a countercyclical fashion to ensure sustained growth pattern. In addition to financing current expenditure, government is obliged to ensure that the fiscus can sustainably finance future priorities over the next three years, there is need for the government to balance between short-term need for fiscal stimulus with the medium-term need to consolidate the fiscal position as economic growth recovers. Sound fiscal policy should be geared towards supporting the expansion of social and capital infrastructure programmes.

60. Secondly, creation of a supportive environment for economic growth and productivity must remain the focus of fiscal policies. Towards this, management of monetary policy and its interaction or alignment with fiscal policy is critical to maintain reasonable levels of interest rates and liquidity in the economy. Measures to stimulate domestic savings in financial assets are essential as necessary fuel for economic growth. It is essential to ensure price stability characterized by low inflation and low interest rates to facilitate access to financing at reasonable costs.

61. The fiscal framework underpinning the Vision 2030 scenario called for increased spending in critical "flagship" projects, while at the same time ensuring that the overall fiscal deficit (after grants) would progressively narrow from 6.2 percent of GDP in 2007/08 to a sustainable level of around 4 percent of GDP over the medium term. This would allow net domestic debt to decline substantially from 17.8 percent of GDP to 14.3 percent by 2012/13. The strengthened fiscal position would be supported by the implementation of revenue administration measures by the Kenya Revenue Authority (KRA), which would sustain the revenue-to-GDP ratio at around 22 percent throughout the medium-term. Based on the Budget Outlook Paper for 2010, **the Government has not managed to meet most of the vision 2030 targets save for attaining the revenue target as a percent of GDP.**

62. Under Vision 2030, public expenditure was to be restructured in favor of development spending and other priority social interventions. Improved management of public sector finances was expected to lead to a positive shift in investor and creditor confidence as well as to boost growth by providing the fiscal resources to raise public development spending from 8.2 percent of GDP in 2007/08 to 9.5 percent of GDP by 2012/13. Based on the BOPA 2010, the Government seems to be on track on this account. Despite this positive move the development has continuously lagged behind in terms of absorption capacity, especially donor related funding. A quick perusal of all Government documents shows that little progress has been made to avert this scenario.

3.1. 2.Revenue, Expenditure, the Deficit and Debt Management

3.1.2.1. Revenue

63. Tax revenue is the primary source of government revenue accounting for over 90 per cent of total revenues to the State. Kenya's budget has continued to grow tremendously and is now in the one trillion shilling range. We are likely to see even more expansion, with the passage of the new Constitution that creates more offices and levels of Government, which will require additional funding. With the rising budget comes the challenge of collecting more revenue to finance the budget. Inevitably, there is ever increasing pressure on the Kenya Revenue Authority (KRA) to increase tax collection and this translates into pressure on taxpayers to remit more funds to State coffers.

64. Since 2003/04, KRA has generally performed impressively in meeting its targets. The performance has however dwindled in the recent past with the Authority missing its exchequer targets by about Kshs. 15 billion in 2009/10. The trend of underperformance is likely to continue in 2010/11. Indeed, the half year performance to December 2010 is already behind the target by over Kshs. 11 billion. These recent results have been the case despite the fact that KRA has improved tax administrative reforms and employed various means including increased focus on tax audits, investigations and tightening the tax laws in a bid to realise the extra collections.

65. Over the medium term, tax revenue is projected to recover in line with economic growth. Given the challenges of revenue shortfall since 2008 as a result of post 2007 elections and during the subsequent economic down turn in 2008-2009, it is expected that the recovery in 2011/12, coming off a low base, will be relatively strong. This projection reflects cyclical effects, rather than a permanent or structural increase in the size of the tax base. Between 2011/12 and 2013/14, growth in tax revenue is expected to be broadly in line with projected economic growth.

Table 5: PBO Revenue Estimates for FY 2010/11 – 2012-13 (Billion Kshs.)

PERIOD IN F/Ys	2010/11	2011/12	2012/13	2012/13
TotalRevenue	**673,366**	**764,014**	**844,359**	**917,919**
Ordinary revenue	606,766	682,390	756,010	823,365
Income tax (exc. LATF)	*246,089*	*285,456*	*322,037*	*350,622*
Import duty	*46,181*	*50,280*	*55,375*	*60,797*
excise duty	*82,462*	*96,644*	*104,007*	*111,306*
VAT	*167,858*	*184,612*	*203,673*	*223,810*
Investment Revenue	*11,900*	*13,500*	*15,200*	*17,000*
Other Revenue	*52,277*	*51,897*	*55,717*	*59,831*
LATF	12,952	15,024	16,949	18,454
Ministerial and Departmental Fees*(incl uni. Fees)*	53,648	66,600	71,400	76,100

Source: PBO Estimates

66. Over the longer term tax revenue must grow to finance spending commitments. **This will require broadening of the tax base, driven by economic growth, higher employment and improved compliance.** If the current mix of tax instruments cannot provide sufficient resources, changes to tax policy, including higher taxes may need to be considered.

67. In view of the forgoing, the government seriously needs to consider the following options:

i.) **Compliance requirements:** The government should reduce compliance requirements in order to enhance voluntary compliance. For example, it could centralize taxes/levies collection to one office and make the different taxes payable at the same time. The aim should be to reduce the number of forms and returns that have to be completed in a year in addition to establishing a strong enforcement presence that should demonstrate to the public/taxpayers that non-compliance can be detected and punished.

ii.) **Strategic Tax Administration Measures:** Segregating tax payers for closer check is one strategy in tax administration. KRA has done this relatively well with large taxpayers. The small and medium enterprises (SMEs) are a very critical segment of the Kenyan economy and can contribute significantly to revenue growth if well nurtured and managed. The government should design specific tax programmes geared towards this segment is some way similar to what happened to Large Taxpayers (LTO).

iii.) **Harmonization and re-design of taxes:** Many stakeholders and even the government appreciate that Kenyan tax laws need comprehensive reforms in line with modern day best practices. Overtime the laws have been amended piecemeal many times to the extent that a lot of distortions arising therein have opened many opportunities for tax abuse. Many taxpayers have utilized the window of intended tax interventions as opportunities to evade paying taxes. The comprehensive tax reforms should provide opportunities to correct some of the existing problems towards realizing government revenue. In addition, the government should work to reduce the number of taxes and levies that SMEs have to administer. For every type of tax/levy, an additional form usually needs to be completed. By reducing the levies, one automatically reduces the number of forms as well. This in turn makes it easier to train staff to administer compliance with the tax liability, because less needs to be taught and less needs to be known. A one stop shop especially with regard to licensing is desirable and will most likely encourage taxpayers to come forward as opposed to visiting many different offices for different tax liabilities.

iv.) **Streamlining and simplification of the tax laws.** Tax laws remain very complex to many taxpayers with the effect that they become expensive to comply with. Organizations are thus faced with a big burden to employ/engage very expensive tax experts to help them. Even though turnover tax attempted to achieve this, it failed and even distorted the environment by only leaving it to individuals or business names and excluding companies, rental income and consultants. This market distortion therefore creates room for difficulty in implementation and opens fronts for continued evasion. It is worth noting that SMEs may take any legal form. Tax advantages should therefore be availed to all legal forms.

v.) **Transfer pricing:** Transfer pricing manipulation has been discovered as one way Kenya loses revenue (Unlocking Revenue Potential in Kenya, PBO 2010). The government should therefore put in place transfer pricing mechanisms to address issues of transfer pricing manipulation as well as tax incentives that are prone to abuse.

vi.) **Collaborative Assistance to SMEs:** SMEs generally face myriad of challenges ranging from bookkeeping, business management practices, among others which significantly affect their ability to contribute their fair share of revenue. The government, through KRA, can help improve bookkeeping among MSEs by offering incentives to small businesses meeting certain recordkeeping standards and educating them on the importance and details of bookkeeping. In this regard, the possibility of providing free software packages to taxpayers to calculate tax liability automatically should be considered. Although this would normally be beyond the scope of its duties, the government could consider making a free accounting package available on the KRA website. Little human effort would thus be required to compute taxes. This will assist the SMEs and other taxpayers in administering taxes.

vii.) **Conversion of Several Appropriations In Aid (AIA) into revenue:** There are a number of services whose payments are made as user charges. Consideration should be made so that a number of these with high turnovers are converted to revenue. Some of these include immigration collections pertaining to documents such as passports, Court fees and fines, among others. We propose that these kinds of charges should be collected as revenue through designated bank accounts through administrative initiatives and progressive application of law.

3.1.2.2. Expenditure Composition in 2011/12

68. This is the year to set the stage for cost containment since the next year the devolved government has to be operationalised and therefore calls for an upsurge in recurrent expenditure. Indeed the government should now make hay for the days to come are difficult and expenditure is likely to balloon. To this end:

- **(i)** Total expenditure net lending in line with the thinking of contracting expenditures in order to achieve sustainable debt levels should reduce from 32.2 percent of GDP in 2010/11 to 29.4 percent of GDP in 2011/2012. **This should be mainly driven by containment of the public sector wage bill as well as rationalizing recurrent government expenditure.**
- **(ii)** The level of recurrent therefore is forecasted to remain broadly constant at about 66 percent over the period 2011/12 to 2013/14. On the other hand, the level of development expenditure should be allowed to remain at the 35 percent level over the same period.
- **(iii)** Overall expenditures are projected to decline slightly from 32.5 percent GDP in 2010/11 to 28.8 percent in 2011/12, largely as a result of winding up the stimulus programme. In line with the above, both development and recurrent expenditure is poised to reduce by 1.5 percentage points from 20.77 percent and 11.4 percent , respectively.
- **(iv)** With the assumption that the Government policy will restrain growth in wage payments to free resources for development purposes, the wage bill is projected to decline from 7.43 percent of GDP in 2010/011 to 7.39 percent in 2011/12, equivalent to about Kshs.211 billion.

3.1.2.3. Debt Management

69. The overall balance on cash basis (including grants) is projected to narrow from 4.2 percent of GDP in 2010/11 to 3.9 percent of GDP in 2011/12. This will happen against a backdrop of improvement in tax revenues, higher project grants, and a tightening of recurrent expenditure. If the Government takes into account net foreign financing of not more than to Ksh.63.4 billion or 2.0 percent of GDP, this would leave a financing requirement of Ksh.52.0 billion (1.6 percent of GDP) to be financed through domestic borrowing. With the above containment of net domestic debt and modest foreign borrowing the fiscal framework for 2011/12 will not be fully financed (financing gap of Kshs.22.1 billion) and this therefore calls expenditure containment measures to reduce the financing gap to zero.

70. Based on indicative figures, the total financing requirements for the three-year period, 2011/12-2013/2014, is estimated at US$9.58 billion. US$5.51 billion comprises the cumulative current account deficits, which are expected to persist over the medium term as the economic gets to higher growth trajectory, imports are on average expected to grow by one and half times the pace of exports. The requirement for reserve build up is estimated at US$ 2.855 billion.

71. The main sources of funding for external requirements are expected to be project support (US$4.773 billion) and private capital inflows (US$3.898 billion). **It is proposed that any additional resources**

from development partners in the course of 2011/12 FY should be channeled towards reducing of debt which is slowly ballooning.

72. Government should maintain an appropriate level of short-term stimulus and move deliberately to reduce public debt to sustainable levels (at about 42 percent of GDP) over the medium term. The combination of targeted growth in spending and improving revenue will result in a measured decline in the borrowing requirement. Over the longer term, fiscal policy aims to rebuild fiscal space to allow government to provide stimulus during the next downturn.

73. The Treasury estimates that debt stock will stabilize at about 47.7 percent of GDP in 2011/12 (BOPA 2011) reducing gradually to 46.3 percent in 2013/14. The actual outcome will however depend largely on the pace of economic growth. But according to the Central Bank of Kenya Monthly Economic Review for November 2010, the public debt stock was 51.8% of GDP in November 2010. While this illustrates the underlying strength of the fiscus, it also highlights the constraining effects of high fiscal deficits and lower GDP growth on future expenditure.

74. Moreover, the borrowing level may be increased if the investor behavior negatively affects revenue levels in the election year 2012 and thereafter. Kenya goes to general elections in 2012 and new investors are not likely to invest starting the second half of the FY 2011/12. Existing investors are also likely to maintain their level of investments. This scenario is likely to jeopardize revenue recovery and consequently push the government further into deficit financing to meet immediate development and consumption needs.

75. The objective of Kenya's debt strategy is to meet government financing requirements at the lowest possible long term borrowing cost subject to a prudent degree of risk and to deepen the domestic market for government securities. The 2009 Medium Term Debt Strategy (MTDS) claims to address the former consideration by providing a framework for formulating and implementing a debt management strategy for the medium term.

Table 6: Kenya's Public Debt end November 2010 (Kshs. billion)

External Debt	**Kshs billions**	
Bilateral***	214.5	35.90% of Ext. debt
Multilateral	361.5	60.50% of Ext. debt
Commercial	00.0	
Export Credit	21.6	3.60% of Ext. debt
Sub-total	**597.6**	**45.65% of total debt and 23.60% of GDP**
Domestic debt		
Central bank	56.8	7.98% of Dom. Debt
Commercial banks	360.0	50.60% of Dom. Debt
Non banks	**290.6**	**40% of Dom. Debt**
Non bank financial institutions	2.6	
Other non bank sources	288.0	40.50% of Dom. Debt
Non-residents	**4.1**	
Sub-total	**711.4**	**54.35% of total debt and 28.20% of GDP**
Grand total	**1,309.0**	**51.80% of GDP**

****includes IMF loans*

Source: Monthly Economic Review, Central Bank of Kenya

The assumptions underlying the 2009 Medium Term Debt Strategy external and internal loans are as follows:

i.) **External debt:** That in the FY 2010/11, the government will tap quasi concessional sources of financing, these loans will be variable rate, effectively priced at LIBOR + 100 basis points, carrying a tenor of 20-years with a 5-years grace period and denominated in USD; that Commercial banks borrowing will be at variable rate and denominated in USD; that quasi concessional, commercial borrowing including international sovereign bond is assumed to start 2011/2012 and to remain capped at 10 percent of net financing; and that no international sovereign bond will be issued in the financial year 2009/10

ii.) **Domestic debt:** That domestic borrowing will be undertaken through issuance of T/bills and T/bonds the ratio of 30:70, ensuring that the maturity structure of existing portfolio is lengthened to minimize financing risk; that domestic borrowing is about 70 percent of total net borrowing in FYs 2009/10, 2010/11 and 2011/12 and drops to 60 percent in FY 2012/13; and that net domestic borrowing for FY 2009/10 is 4.3 percent of GDP and expected to fall to 2.2 percent of GDP in 2011/12.

76. The government however acknowledged, through the strategy, that the implementation of the 2009 debt management strategy faces numerous macro-economic risks and implications such as vulnerability of government fiscal position (uncertainty in accessing international market, decline in capital inflows, effects of rain fed agriculture, etc), BOP risks, and monetary risks. **These risks mentioned generally remain and coupled with the usual political pessimism risk as Kenya moves towards general elections in 2012 could work to make the realization of the debt strategy difficult.**

V. KEY SECTORAL PRIORITY AREAS

4.1. Improving the Quality of Health Care and Health Infrastructure

77. The Health sub-sector (comprising of Ministry of Medical services and Ministry of Public Health) is among two other Ministries that form the Human Resource Development Sector. The Sector envisions achieving economic growth through targeted, effective and efficient public spending. This is one of the most significant sub-sectors in terms of service provision and given its huge budget allocation. In the FY 2010/11, the health subsector was allocated a total of KShs.41.5 Billion, representing 6.5% of the total estimated government budget and 1.5% of the Gross Domestic Product (GDP)7. Nevertheless, the huge budgetary requirements and subsequent allocations have consistently not translated to improved quality of services. Indeed, the status of healthcare delivery in the country is said to be overwhelmed by a huge disease burden dominated by HIV/AIDS, Acute Respiratory Infections (ARIs), malaria, diarrhea, measles, malnutrition and anemia; some of which are preventable. Worth noting is that Kenya‘s performance in comparison to other developing countries like Malaysia, Indonesia and South Africa, with exception of HIV/ AIDs prevalence, where South Africa has the highest rates, Kenya is seen to lag behind.

78. The question that begs answers is whether there is need to prioritize health needs in the country given the scarce resources in a way that is likely to translate to tangible health outcomes. The sub-sector through Vision 2030 outlines plans to restructure for the Medium Term with strategic objectives summarized as follows (i) revitalizing the health care infrastructure (ii) strengthening of health care service delivery and (iii) developing of the health care financing systems.

79. The sub-sector in its MTEF reports for 2011/12 and the Medium plans to prioritize:

i. **Curative health services;** where the Ministry plans to improve the quality of these services by targeting priority areas such as provision of essential medicines and medical supplies (EMMS), including ARVs, Malaria (much of which is supported by the global funds), strengthen the provision of health services and infrastructure improvement in line with MDGs;

ii. To compliment curative services, the Ministry intends to strengthen **the referral services** to enable such institutions like Kenyatta and Moi referral perform their core mandates effectively. The above interventions are to be developed alongside the implementation of a Monitoring and Evaluation (M&E) system for monitoring the quality of health care provided and setting standards for service delivery while introducing e-health;

iii. The Ministry further is to spend Kshs 13billion on Preventive and Promotive health and specifically on (a) **Disease control Services.** This include control of communicable and non communicable diseases e.g. malaria, TB and Lung diseases; HIV/AIDS and vector borne diseases. To accomplish these, the Ministry plans to strengthen the surveillance and oversight mechanisms, coordination of epidemic preparedness and response and conduct epidemiological investigations on suspected disease outbreak; **(b)provision of family health interventions** targeting the health of mothers and children with particular focus on immunization, family planning, reproductive health and nutrition services; **(c)environmental health** where improving of environmental health and hygiene is key to lowering disease break out; **(d) Strengthening National Public Health Laboratories and laboratories at Level 3** which is intended to enhance disease diagnosis and management and lastly **(e)Primary Health Services** by constructing and equipping of rural health centers and dispensaries. This the

[7] Data sources: Budget Speech on Budget Estimates 2010/11

Ministry believes will be a key focal point in enhancing access to medical care by majority of the population in the country who reside in rural areas.

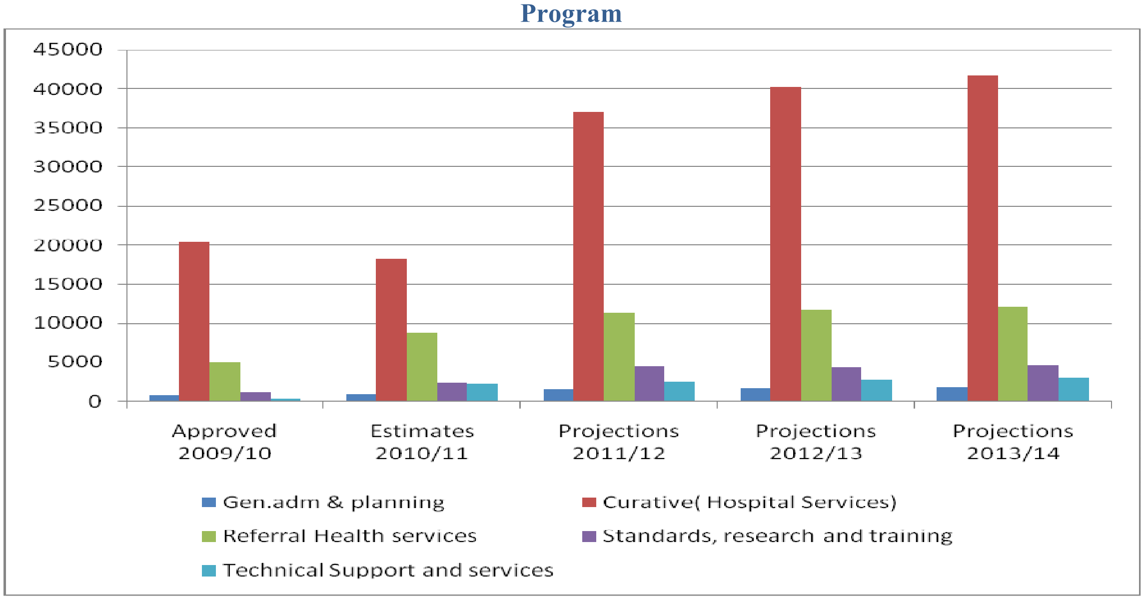
Medical services sub-sector requirements by Program and sub-programs

Table 7: Program: Curative Health Services (in Millions Kshs)

	Approved 2009/10	**Estimates 2010/11**	**Projections 2011/12**	**Projections 2012/13**	**Projections 2013/14**
Gen.adm & planning	734	884	1,583	1,670	1,751
Curative(Hospital Services)	20,408	18,212	37,038	40,160	41,698
Referral Health services	4,961	8,763	11,348	11,722	12,111
Standards, research and training	1,217	2,407	4,422	4,402	4,588
Technical Support and services	286	2,318	2,529	2,750	2,928
TOTALS	27,606	32,584	56,740	60,704	63,076

Source: Sector report 2011/12 and MTEF

Figure 4: Medical services sub-sector requirements by Program and sub-programs



Source: Sector Report 2011/12 and MTEF

Public Health sub-sector requirements by Program and sub-programs

Table 8: Program: Preventive and Promotive Healthcare Services (in Millions Kshs)

	Approved 2009/10	**Estimates 2010/11**	**Projections 2011/12**	**Projections 2012/13**	**Projections 2013/14**
Gen.adm & planning	1,442.72	5,315.97	7,872.63	8,794.38	9,562.16
Preventive medicine& promotive health	7,272.83	8,135.08	13,007.70	14,488.08	16,384.24
Disease control services	132.95	149.98	212.80	223.75	236,33
Primary Health services	10,103.45	8,823.42	14,499.04	16,398.85	18,908.78
Technical Support and services	187.45	147.19	254.01	284.49	319.23
TOTALS	**19,139.41**	**22,571.75**	**35,846.18**	**40,189.54**	**45,410.74**

Source: Sector report 2011/12 and MTEF

80. Based on the aforementioned issues, the following steps will be taken in order to achieve its policy objectives and to be able to properly address the challenges identified above.

a) Clearly, to sustain the gains derived from the above programs and sub programs while striving to increase cost efficiency in healthcare spending, the sub sector will require a shift to focus on key issues that continue to bedevil the health system. As such the programs will need to address challenges related to accessibility from both a geographical and financial perspective; equity at regional, socio-economic and gender levels; quality in terms of efficiency; capacity of health care inputs, financing, partnerships and service delivery systems; and Institutional framework in terms of addressing health care policy and collaboration.

b) The strategic direction to be taken by the sub sector given the shrinking resources against the ever increasing demand for health services is summarized as follows:

i. Shift the emphasis and resources to promotive care from curative care so as to lower the nation's disease burden;

ii. Address the environmental threats to health by applying a multi-sectoral approach. Address specific social needs of vulnerable and disadvantaged communities like those in informal settlements and those highly at risk of environmental related health challenges;

iii. Mounting public education programs aimed at promoting behavior change, especially in combating HIV/Aids, and encouraging basic hygiene standards

iv. The governments' admission to the inability to meet the needs of the population and the achievement of MDG's on health despite huge investment in health care services may require a shift in policy to partnering with the private sector in provision of health care.

c) **Other Policy shift include: Staff rationalization and deployment of staff to primary health facilities;** whilst the Ministry has plans to fund new District Ministry of Health Offices (DMOHs) aimed at enhancing access to medical care by majority of the population in the rural areas, distribution of staff continue to remain a major issue. Going by the statistics, staff distribution is skewed towards Provincial and District hospitals facilities that are less favored or accessed by the poor at the expense of health centers. Statistics derived from the 2005/06 KIHBS showed that primary facilities that is, health centers and dispensaries received the largest share of visits: 34,590,478 compared to 13,946,650 at Provincial and District hospitals and 2,640,742 at referral hospitals.

d) Equally registered and enrolled nurses are heavily distributed among districts hospitals implying challenges for the staff at primary health care facilities in terms of their ability to handle the huge numbers. Therefore, the construction and equipping of rural health centers and dispensaries should be done concurrently with the re-distribution of medics in these primary health facilities countrywide.

e) **Integrating ICT in preventive and promotive health care management;** Preventive and promotive healthcare is about surveillance and engagement in activities likely to lower diseases outbreak. ICT has revolutionized the way business in the corporate world is transacted and the quality of service delivery will be no exception. According to the Kenya Economic update 2010, investment in ICT during the last decade contributed to Kenya's growth momentum in the year.

f) With the foregoing, service delivery particularly in a key sub-sector like health will need to take leverage on ICT as way of creating efficiency. Health programs and sub programs are likely to benefit from ICT in areas including disease tracking and control, demographic information collection, knowledge dissemination to communities isolated by lack of health infrastructure, administration and monitoring of healthcare services and behavior change among others.

g) **Restructuring of the health system;** This will allow for the provision of similar services e.g. maternal health care, family planning, childcare and disease control services under one roof. Government statistics highlight the challenges faced by individual particularly women and children seeking access to different but related services. Analysts have suggested this as a key way in which to reduce costs and increase uptake and consequently improve the health status of women and children. Previous attempts by the Government to improve affordability of services at health facilities through cost sharing and waivers have turned out to be ineffective and its implementation impractical.

h) **Strategic rural health infrastructure development;** Efforts by Government to provide certain critical services at primary health care facilities to increase uptake of services cannot be underestimated. The Kshs 14.4 billion projection for 2011/12 and a systematic increment in the Medium Term to Kshs 18billion is therefore expected. However, investing in infrastructure of primary health care facilities will only make economic sense if there is a rethinking in the distribution of both the facilities and the staff while developing an incentive structure that can ensure staff retention.

i) Vision 2030 indicates plans to shift to promotive care in a bid to address environmental threats to health through the use of education programs; it will require a deliberate move by health sector stakeholders to invest in community extension workers. The country as a whole and the sub-sector in particular is likely to make savings and benefit immensely from such strategic arrangements given the accessibility and quality challenges surrounding rural health service delivery initiatives.

j) Healthcare financing; Efforts by government to increase accessibility of health services by lowering costs cannot be understated. In its MTP (2008-120, plans to develop a policy framework for institutionalizing Public-Private Partnership (PPP) were outlined. In addition, the sector planned to enact a policy to guide health sector financing that will inform debate on National Social Health Insurance Bill. However, energies need to be redirected on streamlining the already existing National Health Insurance Fund through increased sensitization and membership. Efforts to target the informal sector and those in self-employment will increase contributions and hence possibilities of diversifying products to include outpatient and other terminal diseases currently beyond the affordability of majority of Kenyans. Further, the Fund needs to strengthen its structures in readiness for any systemic transformation likely to foster accessibility of health care services, transparency and accountability.

4.2. Enhancing the Quality of Basic Education and Skills Development

81. Education sub sector has significant implications on the resource envelope including Medium Term Expenditures and is a key determinant to economic growth since it provides human capital needed by key drivers of the Kenyan economy namely agriculture, manufacturing and services among others. Kenya's education sub-sector receives the largest (and it continues to rise in subsequent years) share of public resources. Estimates show an increment from Kshs 145.2 Billion in 2010/11 (18 percent of total expenditure excluding CFS) to projected estimates of Kshs 162.3Billion in 2011/12 and a further Kshs 167.6Billion in the Medium Term. Total education expenditure as percentage of GDP rose to 6.2 per cent in 2002/03 but has with time declined to 5.0 percent in 2010/11[8].

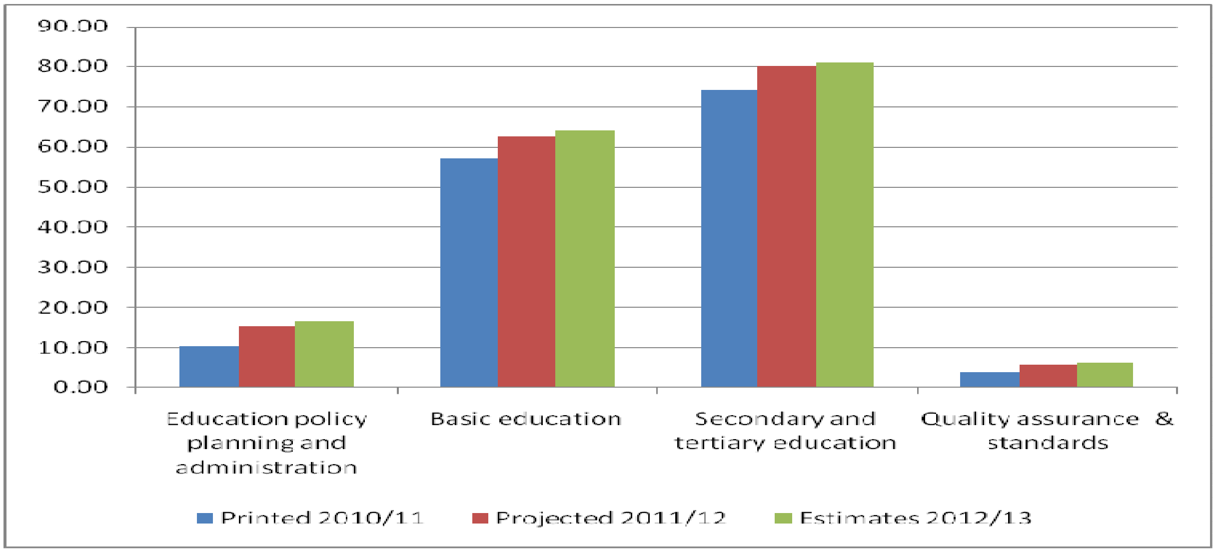
82. Reports[9] confirm that the sub-sector's resource requirements in the Medium term were guided by the sector policy commitments as broadly articulated in the Vision 2030 and more specifically in the First Medium Term Plan (2008 –2012). They are in line with the national goals of providing **"Globally Competitive Quality Education and Training for Sustainable Development", attainment of Education for All (EFA) and Millennium Development (MDGs) by 2015.**

83. The resource requirements of Kshs 162.3 billion in 2011/12 and a significant increment to Kshs 167.644 in the Medium Term is expected to finance the following key policy priorities and sub sector programs:

[8] Budget Outlook Paper, 2011
[9] Human Resource Development sector report,2011

i. Address access, quality and relevance at all levels;
ii. Focus on retention, transition at all levels and equity particularly among poor households and marginalized communities ;
iii. Improving efficiency in resource utilization;
iv. Priority areas of expenditure will be dominated by financing of free primary and secondary education programmes, as well as provision/expansion of infrastructure at all levels;
v. Early Childhood Development and Education (ECDE) to be integrated into primary education. ECDE is an area requiring urgent policy intervention by Government if transition rates to primary level and quality in skills acquisition is to be sustained and improved respectively.
vi. Key Programs and sub-programs and their proposed allocation is as shown in the figure below;

Figure 5: Analysis of resource requirement by programme 2011/12 – 2013/14 (Kshs Billion)



Source: Human Resource Development sector report 2011/12 – 2013/14

84. Emerging challenges and policy directions include the following:

(i) There is general consensus that there seems to be significant progress in basic primary education participation levels corresponding to the huge investments (see figure above). The positive performance is partly attributed to the sectoral reforms implemented within the ERS, the FPE introduced in 2003, and interventions under the KESP. These include expansion of physical infrastructure in marginalized areas and provision of teaching and learning materials. However, a decline in completion rates for secondary education and transition rate from secondary to tertiary may negate the gains so far achieved in the last seven years.

(ii) A deliberate attempt to sustain investment in skills training right after post primary level is of essence. The World Economic Forum Report 2007/2008 identified a skilled work force and advanced research institutions as key factors that determine a nation's competitiveness. Kenya's future competitiveness and sustained economic growth in 2011 and beyond will therefore depend heavily on the level and quality of skilled manpower in areas including. Science, innovation and technology (ICT), engineering, and manufacturing and construction. It also requires greater attention and funding to Research and Development (R&D). A paradigm shift is therefore needed to invest funds in areas with probable high returns like ICT, research among others and whose contribution to key drivers of the economic is measurable.

(iii) In line with MTP (2008-12) centers of specialization were funded in 2010/11 estimates through the ESP to address skills gap where Kshs 30million was allocated to each Constituency (Kshs 6 Billion in total) towards construction of centers of excellence. The efforts were laudable since it was expected that these will address challenges associated with capacity in the targeted sectors and programs; However monitoring and evaluation is of essence to ensure compliance to the initial concept and that intended benefits are being derived; a situation that should then inform further allocation of funds.

85. The sub-sector is experiencing uncoordinated service delivery between the mainstream training institutions and firms or government ministries likely to benefit from the skills. Much of the foregoing is blamed on a lack of a coherent national training policy framework. Additionally, existing legislation for technical education as taken care of in various pieces of legislation, much of it archaic, e.g. the Education Act (Cap 211 of 1968, revised in 1970 and 1980) and the Industrial Training Act (Cap 237) requires revision to address the modern trends in technological advancement.

86. Undertaking a national skills inventory based on both International and National Standards of Classification of Occupations is critical and essential. The Kenya Vision 2030 and the Medium Term Plan 2008-2012 identified National Manpower Survey as a key Flagship Project. However, the ongoing initiative by the Ministry of Labor and National Employment Bureau to profile skills of Kenyans in Diaspora should be cascaded locally so as to facilitate human resource planning, development and utilization.

87. Sustainable options for financing education capable of reducing the unit cost and improving affordability of education are urgently required. These options may include: (i) Development of a framework for public private sector partnerships; (ii) Community participation especially in the provision of school infrastructure (iii) Community empowerment and poverty mitigation (multi-sectoral approach).

88. Use of capitation based funding and incentive funding in schools and colleges where they meet or exceed targets set in consultation with government or public agencies. The provision of competitive funding in addition to basic foundation funding promotes institutional responsiveness to changing demands in the universities and tertiary institutions.

4.3. Enhancing Sustainable Environment, Water Management and Agriculture

89. Environment, Water and Agriculture forms the bedrock of the country's natural resources which in turn play a vital role in economic growth. It is estimated that 42% of GDP is derived from natural resource based on: agriculture (contributing at least 24%), forestry, wildlife tourism, mining, water and energy hence prospects for the country's long-term growth are therefore dependent on effective management of these resources.

4.3.1. Agriculture

90. Agriculture is the mainstay of Kenya's economy contributing at least 24 percent of Kenya's GDP and employing 75% of the labor-force. However, there is need to address and provide possible solutions to the cyclic nature of the various challenges and problems this sector faces year after year.

91. Based on the MTEF report for 2011/12 and the Medium plans the following are the challenges bedeviling the agriculture sector:

i. Food security issues caused by over reliance on rain fed agriculture through Crop Development and Management. It seeks to increase productivity and management by promoting competitive agriculture through improved extension advisory support services, appropriate technology transfer, management of pests & diseases while ensuring sustainable natural resource management for agricultural development.

ii. Improve Cooperative Development, Management and Marketing in order to improve governance and management of cooperative society and to enhance capacity building for value addition and market access in cooperatives.

iii. The country's **over-reliance on rain fed agriculture is one of the major causes of food insecurity** and has resulted in millions of people facing famine year after year due to changing weather patterns. Currently the country consumes 33 million bags of maize annually, and with the increased frequency and intensity of droughts and floods in the past three decades, Kenya faces serious shortage with yields predicted to drop from targeted 27 million to 20 million bags due to poor rains this year. Indeed, Kenya does not have a strong irrigation infrastructure with less than 7% of Kenya's cropped land is irrigated, while as much as 83% of land is arid or semi-arid and classed as 'low potential' and close to 60 percent of farmers do not have easy access to fresh water, which hampers agricultural development and increases risk of drought and famine.

iv. The **limited use of appropriate science technology and innovation** in agriculture is still limited and although the country has a well-developed agricultural research infrastructure there is weak research-extension-farmer linkages and demand-driven research. Many experts contend that a key method to increase agricultural value involves the transfer of technologies; food security crops, high quality seeds, use of indigenous crops, and agro-forestry allows individuals to create and manage their own farms.

v. The **high cost and low application of key inputs** such as fertilizer, agrochemical, drugs, animal and fish feeds has escalated over the last two years making them unaffordable and increasing the cost of production. This has resulted to decline in productivity of the sector.

vi. **Inadequate market and marketing infrastructure** continues to be adversely affected by lack of market information and supportive infrastructures such as roads, cold storage structures, power and a collapsed cooperative organization. The dependence on a few external market outlets makes agricultural exports very vulnerable to changes in the demand of agricultural products and unexpected nontrade barriers by foreign markets

92. The total resource requirement for the sector in the FY 2011/12 is Kshs. 41,715 million. This is a 37.5 percent increase from the allocated funds in 2010/11 of Kshs 30,336 million. The funds will be utilized on various programmes and sub-programmes in the Sector to ensure the GDP contribution of agriculture sector increases in 2011/12 financial year. However, the resource requirements for crop development and cooperative value addition and market success FY 2011/12 are 8397 and 1163 million representing only 30.87 % and 3.83 % respectively. This is dismal in comparison to the great needs of the country.

93. To solve the above problems the Government needs to address the infrastructural challenges by working closely with the Kenya Roads Board, Kenya Rural Roads Authority, Rural Electricity Authority and other institutions to invest in priority rural infrastructure projects.

94. Measures should be taken to institutionalize input-cost reduction by supporting establishment of farmer-led and owned input supply and distribution facility. An integrated approach involving various stakeholders (Ministry of Lands, Ministry of Nairobi Metropolitan Development, Ministry Local Government, relevant Counties, etc) should be taken to address rapid urbanization

4.3.2. Water and Environment

95. The recent upsurge in environmental degradation can be attributed to the 'last resort' mentality of man to sustain himself. When poverty bites man turns to destroying the natural resources. The sector faces myriad challenges among them , expanding water coverage and sewerage facilities; scaling up water storage to improve water security in the climate variability; scaling up irrigation to reduce dependence of rain fed agriculture; conserving catchment areas conservation as a source of water; mitigating and adaptation measures on climate change impacts; and enforcing of environmental laws and regulations. Overall, the overarching challenge facing the water sub-sector in Kenya is water security, which measures the country's ability to continue to function productively, both socially and economically, given its water supply and demand characteristics. Indeed, Kenya is a water-scarce country with less than 1,000m3 per capita of renewable freshwater supplies.

Table 9: Access to Water in Kenya

	Historical data		Target		
	Base Year	**Reference**	**Intermediate Monitoring**		**MDG**
Access of safe drinking water	**1990**	**2000**	**2005**	**2010**	**2015**
Urban	NA	60	89.7	93	96
Access improved Sanitation Rural	31	60	43.5	54	66
Urban	NA	95	94.8	95.2	97.5
Rural*	NA	NA	45	65	89
Population	21.4	30.2	33.4	36.5	39.7

Source: Multiple Indicator Cluster Survey, CBS (March 2003) and MDG Projections
* Rural sanitation figures (2005 & 2010) are based on Ministry of Health estimates.

96. Kenya's freshwater resources are fixed, but both population and per capita consumption of water is growing. Kenya's population stands at a whopping 38.9 million with signs of steady increase and is projected to continue increasing over-time with patterns displaying migrations from rural areas into urban areas. Fresh water per capita stands at 647 cubic meters and is projected to fall to 235 cubic meters by 2025 if supply does not keep up with population/demand increase. **At this rate, by 2025 one out of three Kenyans will experience water scarcity or water stress.**

97. In addition to the above, inadequate management of the country's watersheds has led to excessive soil erosion, increased cost of water treatment and rapid siltation of reservoirs. Catchment degradation has given rise to increased run-off, flash flooding and reduced infiltration. The First National Water Resources Management Strategy identifies the main causes of catchment degradation as poor farming methods, population pressure and deforestation. These include environmental degradation/forest loss, increased levels of pollution coupled with the declining quality of land due to poor farming practices, soil erosion resulting from deforestation, and inappropriate agricultural practices.

98. The following are the key challenges facing the sector:

i.) With regard to climate change, Kenya is faced with the challenge of addressing the consequences arising from the climate change. Unpredictable weather patterns coupled with recurrence of droughts/floods further retards Kenya's economic growth with immediate effects felt in nationwide water and electricity rationing. The mitigation and adaptation of climate change is costly and requires specialized training and capacity building. **A potential avenue that demands particular attention is exploiting the opportunities brought about by the global carbon trade through Clean Development Mechanisms (CDM), voluntary markets and the strategy to Reducing Emissions from Deforestation and Degradation (REDD).** For the Sector to achieve its objectives, it requires Kshs.99.6 billion in the 2011/12 FY. This is increase of 88.6% increase from FY 2010/11 budget or Kshs.46.7 billion.

ii.) **Water Supply and Sewerage/Sanitation:** The Ministry has been funding rehabilitation and augmentation of urban/rural water supplies and sewerage schemes throughout the country. The government has also been executing major urban water and sewerage projects with assistance from donor funding. The Water Services Trust Fund has also been instrumental in assisting rural communities and communities in informal urban settlement with implementation of various schemes. However, additional Water Supply to informal settlements, rural areas and ASAL areas needs to be adequately funded.

iii.) **Water Resources Management and Water Storage:** One of the goals under Vision 2030 is the expansion of Kenya's per capita water storage from 5,300 litres to 16,000 litres per capita by 2012. This goal translates into expansion of the national storage capacity from the current 0.18 trillion litres to 0.56 trillion litres by 2012.

iv.) **Provision of Irrigation and Drainage Infrastructure:** Additional resources are required for this programme to meet the MTP annual target of 40,000 Ha to be established annually and comply with the Parliament resolution of developing 2000 acres of irrigation in each constituency with irrigation potential.

99. In terms of budgetary allocation, under environment Management and Protection, the Programme will require Kshs. 11.5 Billion in the FY 2011/12. This is an increase of Kshs. 6.5 Billion or by 133%. Some of the funds will be used to upscale Nairobi river rehabilitation activities which include clean-up and compensation. Others will be used for Climate change, awareness creation, domestication of MEAs and solid waste management. Wetlands are increasing becoming important ecosystems due to their unique biodiversity and their role water cycle. The Ministry will focus on these areas with a few of taking their stock status and eventually rehabilitating them. New donor funded programmes for example Natural Resources Management Programme and Africa Adaptation Programme have come on board. While the former will be dealing with natural resources management issues, the later will focus on climate change adaptation and mitigation measures. The Ministry will also advocate for green economy where it will try to sensitize and mainstream environmental issues into all spheres of the economy.

100. **Forestry Management and Protection:** Kshs.17.7 billion will be required for the supporting government efforts of increasing national tree cover in support of the provisions for the New Constitution which provides that efforts be made to raise tree cover to 10% but which currently stands at 1.7 percent Specific forestry flagship projects with a key focus to the five water towers will be implemented. This will be achieved through protection and management of the 1.2 million Hectares of state forests, establishment and development of 6,000 ha of industrial forest plantations for the supply of industrial wood; implementation of farm and dry land forestry activities in the farmlands and the dry lands.

101. In order for the sector to realize its goals the following are the key interventions

i.) The environment and water goals for 2012 is to **increase both access of safe water** and sanitation in both rural and urban areas beyond present levels, to promote agricultural productivity by **increasing the area under irrigation from 140,000 ha to 300,000ha** with flagship projects and increasing **forest cover to 4%** by promoting environmental conservation and flagship projects include rehabilitating the 5 water towers. There have been great gains in improving access to water and sanitation, However irrigation land prospects have only amounted to 5000ha subject to **budget constraints.** In addition climate mitigation methods are a pipe dream due to the **non**

implementation of formulated climate change policies for example the education for sustainable development (ESD).

ii.) Based on the aforementioned issues, the following steps will be taken by the respective sectors in order to achieve its policy objectives and to be able to properly address the challenges identified above.

iii.) Fast tracking implementation of approved sector policies that include:-

a) A policy on expanding forest cover to recommended 10%;
b) Water Harvesting and Storage Policy that intends to double the national storage per capita from $4m^3$ to $8m^3$ as per MTP;
c) Enhance the management and conservation of the catchment areas which has been the cause of destruction of catchment areas thus necessitating urgent measures to rehabilitate all catchment areas especially the five water towers (Mau, Mt.Kenya, Mt.Elgon, Cherangany and Aberdares);
d) Given the enormous funds requirement for rehabilitation of the catchment areas for environmental sustainability there is also need to encourage development partners to provide financial assistance in protection, afforestation and promotion of forestry, wildlife, environmental conservation and water provision;
e) There is urgent need to finalize policies within the sector in line with the new constitution dispensation. These policies include, mineral policy, irrigation and drainage policy, forest policy, and land reclamation policy.

4.4. Infrastructure: The Economic Engine

102. Infrastructure is considered critical to lowering of costs of doing business, allowing government to deliver services and increasing the competitiveness of a country's products in the international markets. Infrastructure that does not work efficiently leads to slowing down of the other sectors of the economy. As such, the Vision 2030 has prioritized the sector.

103. The Vision 2030 in deploying world class infrastructure facilities and services envisions a country interconnected through a network of roads, railways, ports, water and sanitation facilities, and telecommunications. The physical infrastructure sector over time has been receiving a quite considerable amount of national resources. For example, in the financial year 2010/11 the sector was allocated Kshs. 183,700.19 million with estimated allocation of Kshs. 199,953.04 for the coming financial year of 2011/12. This made the sector to have the highest amount of national resources.

104. Despite receiving huge amounts of resources, the sector still experiences a number of challenges that include poor urban transport system that is roads in major cities like Nairobi, Kisumu, and Mombasa among other urban centers. In addition, the poor state of other roads in agricultural areas acts as an impediment to access to markets for the farm produce. Poor railway transport system puts strain on the roads due to large cargo transported by roads. Weak enforcement of rules and regulations in the transport sub sector has contributed to high number of accidents experienced in the country. Lastly, inadequate port facilities, poor disaster management preparedness and poor solid waste management are among other challenges bedeviling the sector.

105. The Medium Term Plan 2008-2012 Vision 2030 identified the following as the flagship projects for the physical infrastructure sector. These are:-

- To set up a Nairobi metropolitan region bus rapid transit/System
- Development of light rail for Nairobi and its suburbs.
- Dredging of Mombasa Port so as to deepen the channel to 14.5 meters for access by larger post-Panamax vessels.

- Computerized information maintenance management systems programme to manage our roads, bridges and pavements.
- Meteorological systems modernization programme that would improve Kenya's disaster preparedness and mitigation and promote public education and awareness among vulnerable communities and decision makers.
- Air facilities modernization for JKIA and Moi International Airport among others.
- Road network expansion and Maintenance of existing road network and airstrips in the country.
- Development of a new transport corridor to Southern Sudan and Ethiopia.
- To produce 200,000 housing units annually by 2012.

106. Resource requirements by subsectors for the financial year 2011/2012

Based on the MTEF sector report for the financial year 2011/12-2013/14 the following programmes were prioritized:

- Generally the sub-sector prioritized the programme Road development, maintenance and management in the financial year 2011/12 and the medium term with focus on construction, rehabilitation and maintenance of roads and bridges.
- The transport sub sector appears to put much emphasis on transport infrastructure development targeting air transport infrastructure.
- The Housing sub sector is prioritizing on housing development and human settlement programme with much of its resources set for housing development.
- For Local Authority management and development programme reform in local government, urban county development and market development are estimated to take up much of the Local authority sub sector resources.

Table 10: Resource requirements by subsectors

MTEF Sector 2011/12-2013/14				
Sub sector	Estimates 2010/11	Resources required 2011/12	Proposed allocation for 2011/12 by Sector	Variance
Roads	104,742	118,316	106,945	11,371
Transport	11,643	19,735	13,071	6,664
Public works	6,521	11,388	7,571	3,817
Housing	3,959	13,215	4,484	8,731
Energy	36,355	68,130	47,261	20,869
Local Government	19,000	33,000	18,729	14,271
Nairobi Metropolitan	1,477	9,712	1,892	7,820
Total	**183,697**	**273,496**	**199,953**	**73,543**

Source: Sector Reports for 2011/12-1013/14

107. Moreover, inadequate port facilities have led to delays and congestion of imports in Mombasa. This has led to high cost of imported raw materials increasing the production costs hence discouraging investments. Upon observation of the MTEF sector report, it is evident that development and expansion of the port of Mombasa port in line with Vision 2030 has not been prioritized owing to decrease in projected estimates for financial year 2011/12 and the medium term.

108. **The linkage between the MTEF sector reports and the MTP 2008-2012 vision 2030:** Currently, Kenya and especially urban centers experience a poor public transport system making congestion the norm of the day. Use of low capacity vehicles, Kenyans walking, use of bicycles and motor bikes has increased. On the contrary, there is decreased use of high capacity vehicles that would be handy in solving congestion and improving the quality of transport in Nairobi. This in itself creates the urgency for a Nairobi Metropolitan region bus rapid transit System and the light rail for Nairobi and its environs. A cross examination of the MTEF sector report for 2011/12 indicates little attention to the Metropolitan mobility and transport which is mandated to institute the Nairobi

Metropolitan region bus rapid transit system. The light rail for Nairobi and its environs as envisaged in the MTP 2008-2012 Vision 2030 is not likely to be achieved owing to lack of prioritization by the Physical infrastructure sector.

109. **Policy options:** In order for Kenya to achieve its infrastructure needs that include congestion and poor transport services, rail and road infrastructure in line with the Vision 2030, the following policy options would be viable:-

i. **Mass transportation system**

- The government may fast track the Nairobi Metropolitan region bus transit system by provision of administrative services while sourcing for resources through the private sector in a Public Private Partnership.
- Investing in Light Rail and the transport corridor to Southern Sudan and Ethiopia through Venture Capital since the projects are capital intensive this would provide the resources for their construction.

ii. **Housing System**

- The provision of affordable housing units can be achieved through the linking of the National pension system to the housing sub sector. The provision of public housing is done by setting income ceiling at an appropriate level. The eligibility income ceiling has to be reviewed in line with the economic growth and the needs of the citizens. In this case this will free resources within the sector to other sub sectors.

iii. **Sea Port Facilities**

- To modernize and expand sea port facilities, the use of capital indexed bond will provide the much needed resources.

4.4.1. The Energy Sub-Sector

110. Investment in the energy sub sector is a key incentive for private sector activities in the country because of its facilitative role in enhancing business operations. Such is an avenue through which the sector can create employment while generating the much needed wealth for the economy.

111. The challenges facing the energy sub-sector in Kenya cannot be understated given the relationship between energy consumption and economic growth. Commercial energy in the country is dominated by petroleum and electricity as the prime movers of the economy while wood fuel provides energy needs of the traditional sector including rural communities and urban poor. Of these, hydro power constitutes 70 – 80% of the total electrical power production, an indication of overreliance on hydropower generation. Given the current demographic trends in the country, Kenya is expected to be predominately urban by 2030. Equally, development projects recommended under Vision 2030 and rapid growing manufacturing sector is putting pressure on Kenya's energy supply. According to the development blue print, the country requires 15,000MW by 2030 to achieve a mid-income economy statue. This therefore means that the county's energy demands are expected to rise in the coming decades. This begs the question as to whether Kenya is indeed prepared for this projected rise given the existing infrastructure and available resources.

112. Over reliance on hydropower generation has no doubt exposed the country to high energy costs. Interestingly, these high costs of power has painfully slumped industrial growth by blurring competitiveness and retarding economic growth. This explains why major industrialists are moving towards Egypt and South Africa and lately Uganda given the recent oil discoveries. The impact of climate change cannot be underestimated in relation the hydropower generation hence the need to invest in alternative energies. The question is whether it is critical to explore other renewable, clean and more reliable sources of energy for example exploitation of geothermal power, coal at a lower cost.

113. The Medium Term Plan (MTP) 2008-12, a five year plan to implement Kenya's long term development blueprint, Kenya Vision 2030 attempts to address the above risks and challenges through Expansion of geothermal energy projects, and initiatives to tap power from solar and wind energy sources. The specific programs and projects include:

- Rural Electrification and Energy access scale–up Programme to public rural facilities Geothermal development – with particular attention to Olkaria IV Wind Power Generation by IPPs at various sites: with a total power installion of about 150MW.
- The Energy Sector Recovery Project (ESRP): which has a component of "Distribution Reinforcement and Upgrade" necessary to provide for additional source of power.
- National Electricity Supply Master Plan: geared towards enhancing national power.
- Public Facilities Improvement Programme.

114. It is clear that stakeholders in the energy sector are making attempts to address the need to equalize energy demands to supply; however, with the continued shrinking of the resource envelope, prudent prioritization of program is required.

115. The energy sub-sector forms a key subsector in the Infrastructure sector alongside l roads, and commands huge allocations from the exchequer. In 2010/11, it was allocated Kshs.36 billion of the Kshs.186,13 billion allocated to the Sector, a paltry 4% of the national budget (excluding CFS) and commanding 1% of the GDP.10 The projected ceilings for 2011/12 are constant at Kshs.186.4 billion with the energy sub-sector resource requirement expected to almost double to Kshs.68.1 billion. This clearly signifies a huge challenge to stakeholders and hence calls for prioritization of its programs in a way likely to have greatest returns to the economy.

116. In 2011/12 and the Medium Term, the subsector projects to prioritize National Electrification Program as its Key program. The program which consist subprograms like the development of national grid system, geothermal and local coal exploration and rural electrification has a projected allocation of 90% of the expenditure needs (See table below).

Table 11: Resource Requirements by Programme and Sub-Programme ((Kshs. Millions)

ENERGY	**Estimates 2010/11**	**Estimates 2011/12**	**Projected Estimates 2012/13**	**Projected Estimates 2013/14**
Program 1: National Electrification program				
National grid system	16,076.34	22,765.47	24,656.83	20,215.21
Geothermal & coal exploration	12,362.25	27,817.23	26,785.24	19,443.03
Rural Electrification	6,133	14,440	14,917.80	15,934.85
Subtotal: Program 1	**34,571.6**	**65,022.70**	**66,359.87**	**55,593.09**
Program 2: Renewable energy Resource Program				
Wood fuel Resources Development	294.06	326.37	375.13	394.6
Renewable energy technology	605.46	592.29	745.38	849.41
Subtotal: Program 2	**899.52**	**918.66**	**1,120,51**	**1,244.01**
Program 3: Petroleum exploration & distribution Program				
Petroleum , exploration and distribution	404.46	866.05	947.89	999.38
Subtotal: Program 3	**404.46**	**866.05**	**947.89**	**999.38**
Program 4: Centralized support program				
Administrative services	439.26	1,253.78	1,191.11	1,080.96
Planning & Project monitoring	15.41	38.27	39.88	15.97

[10] Physical infrastructure sector MTEF report 2011/12 – 2013/14

ENERGY	Estimates 2010/11	Estimates 2011/12	Projected Estimates 2012/13	Projected Estimates 2013/14
Financial Services	25.9	31.8	31.45	33.14
Subtotal: Program 4	**480.57**	**1,323.85**	**1,262.44**	**1,130.07**
TOTALS	**36,356.14**	**68,131.26**	**69,690.71**	**58,966.55**

Source: 2011/12 Sector Reports

117. From the above, there are clear plans to diversify energy sources from the traditional overreliance on hydro to geothermal and coal exploration. But again, how should the sector respond to the new energy challenges? How can they guarantee infrastructure development, encourage industries and consumers to use energy more efficiently, and do so in ways that sustain both economic and human development while protecting the environment? The following policy options are feasible:

118. **Energy resource diversification;** Kenya could consider energy diversification to renewable to reduce dependency on hydro power. Special focus could be on geothermal whose potential in Kenya is enormous and remains untapped. Why prioritize on geothermal? As earlier mentioned, the country requires 15,000MW by 2030 to achieve a mid-income economy status, out of which, geothermal will supply 5,000MW.11 The shift of policy to geothermal energy therefore is likely to be economical in the long haul given its huge potential and maximized benefits. The geothermal sites in the Rift Valley system and North of the country e.g the Baringo/Korosi/Paka/ Silali blocks among others have for a long time remained untapped and undeveloped; hence the need to turn them into a huge geothermal driven economies. Aside from the potential green energy likely to be generated in these areas, in a region beset by runaway poverty, stagnant rural economy like the Rift Valley system and North of the country, direct uses of geothermal energy will increase economic activities. The region can employ geothermal energy into green houses, recreational facilities, aquaculture and poultry farming, drying of grains, refrigeration, milk pasteurization and even as a source of water thereby opening these areas to increased economic activities.

119. **End-use energy management;** Kenya like other developing countries continues to grapple with huge budget deficits meaning that increased allocations are highly unlikely in the short-term. This calls for reduction in energy intensity through more eco-efficient patterns of production and consumption, infrastructure, and electric appliances. Policies and measures in end-use energy could include legislation; set mandatory target for energy efficiency; provide subsidies for energy efficient technologies, levy higher taxes on high consumption appliances among others.

120. **Focus on policies likely to reverse climate change;** Since energy is linked to climate change, measures to reduce carbon intensity are critical. Geothermal energy is one of the safest and most environmentally friendly forms of renewable energy. This means cleaner environment and financial benefits derived from carbon credits. In addition to the above policy on clean technologies, other measures could be through regulation especially for energy intensive industries; providing incentives for more energy efficient less polluting and low carbon economic activities that are likely to increase access to modern energy services.

4.5. Public Order and Safety

121. Public order and safety is a prerogative of the Governance, Justice, Law and Order Sector (GJLOS) whose vision is to achieve a secure, just, democratic, accountable, transparent and conducive environment for a globally competitive and prosperous Kenya as envisioned in the political pillar of the Vision 2030. The sector's total resource ceiling for financial year 2011/12 is Kshs.

[11] Vision 2030

89.002 billion. This is a 2.572 billion (2.97%) increase from the 2010/11 total resource ceiling which was 86.43 billion. Overall, the sector's total approved allocation has been increasing significantly over the last three years, from 62, 892 million in 2007/08 to 86,120 million in 2009/10 which represents a 37 percent increase. However, the sector still cites inadequate budgetary provisions as one of its key challenges which hamper achievement of some of its targets. In the face of increasing sophistication and prevalence of some types of crime and instability with serious repercussions to investor confidence, it is imperative for the sector to ensure its public order and safety targets are fully realized in order to create a conducive business environment in Kenya.

122. Until the 2007/08 post election crisis, Kenya had acquired the reputation of being one of the most stable African states. However, the country is facing serious threats to its national security and stability which are increasingly becoming sophisticated and more complex. The Kenya annual crime report for the year 2010 documents a 5% reduction in overall national crime trends compared to the same period in 2009. Overall, the country experienced decreased incidences of theft of stock, vehicle and other thefts, breaking, stealing, robbery, dangerous drugs, homicides, criminal damage, theft by servant and other offenses against persons. However, the improvement is quite minimal and a lot still needs to be done to ensure public order and safety in Kenya. Forceful disarmament operations started in April 2009 and resulted in the recovery of illegal firearms and ammunitions. Notably, there was an increase in offences against morality and economic crimes.

123. On regional crime trends, Nairobi province and North Eastern province both recorded an increase in reported crime by 28% and 15% respectively. On the other hand, Nyanza province recorded security improvement with 14% reduction in reported crime followed a 10% reduction in Eastern, 9% reduction in Central, 7% reduction in Western, 6% reduction in Coast and 6% reduction in rift valley.

124. The causes of increase in crime have been attributed to, among other things, organised criminal groups/outlawed groups, proliferation of small arms and light weapons due to insecurity in neighbouring countries and the porosity of our borders which also leads to influx of aliens, alcohol, drug and substance abuse which lays the groundwork for an undisciplined, violent, disorganized and unfocused society and development issues such as high illiteracy levels, high unemployment rates and poverty/inequitable distribution of resources with the resultant idleness and frustration especially among the youth all of which present a significant public order challenge. Public safety challenges also arise from cattle rustling and inter-clan/ inter-ethnic fighting especially in North Eastern and Rift Valley regions mostly due to resource conflict, security threats from terrorist groups such as Al-Qaeda and Al-Shabaab militia and spontaneous unrest due to rising political temperatures. Organized crimes and kidnapping for ransom are also serious crimes that Kenya is grappling with. All these insecurities increase cost of doing business with Kenya and erode investor confidence which does not augur well for our economy.

125. Under the first Medium Term Plan (MTP) 2008-2012, the first in a series of successive 5 year medium term plans which will implement the Kenya Vision 2030, the strategy for improving governance and the rule of law will focus on rebuilding confidence among Kenyans especially in light of the 2007 post election violence. To enhance safety and security of Kenyans in urban areas, the MTP strategy is to enhance peace building and conflict resolution programmes, increase police presence through recruitment of additional police officers and building of more police stations, and constructing Administration Police (AP) camps and intensified intelligence gathering to pre-empt crime. These will be complemented by political efforts to build inter-communal trust and harmony and to promote better relations between security forces and the communities they work with. More specifically, the Government seeks to put in place a national CCTV/Camera surveillance project; put up additional 20,000 housing units to be developed for police staff housing; establish and operationalize of National Security Data Centre among other things.

126. Under the MTP, the following six internal challenges will be addressed:

- **i.** Early warning and response mechanism: government has put in place conflict and disaster early warning and response mechanisms. In particular, existing mechanisms need to graduate from incident based response to an approach based on trend monitoring (banditry, cattle rustling, ethnic friction, food or water shortages);
- **ii.** Outdated institutional policies such as police act, administration police act and public order act;
- **iii.** Inadequate human capacity- Improve remuneration and living conditions with regard to police and prisons staff housing; and
- **iv.** Aging infrastructure and need for ICT based systems.

127. There is a significant gap between recurrent expenditure funding requirement (Kshs. 122.77 billion) and development expenditure (Kshs. 19.44 billion). For the last three years, the sector's recurrent expenditure increased by 42 percent while development expenditure increased by 22 percent. On average, recurrent expenditure accounted for 92 percent of the sector's total expenditure whereas development expenditure accounted for only 8 percent. The trend of rising recurrent expenditure is a situation that needs to be urgently curtailed as it is crowding out development expenditure and making it difficult to enhance resources for promotion of public safety. In the GJLO sector, a lot of funds are being channelled to administrative issues such as government printing services, policy management and support services to the office of the vice president, administration and field issues and less is going to governance justice law and order and national campaign against drug and substance abuse among other high priority areas. In light of hard budget constraints and in order to address the issue of aging and inadequate infrastructure, operationalize crucial institutions and invest in crime research as highlighted in the Medium Term Plan, there is need to rationalize recurrent expenditure so that more money goes into development expenditure.

128. Overall, some strides have been made towards the achievement of the Medium Term Plan goals and the enhancement of public order and safety. Some 3000 permanent housing units have been put up, one hospital constructed and an insurance scheme started for uniformed officers. Some additional police staff equipment has also been acquired such as vehicles, fuel tankers and assorted modern security and communication equipment. From the MTEF GJLOS sector report 2011/12-2013/14, security services have been given the highest priority and have the largest resource requirement. Under this programme, it will be prudent for even more resources to go towards speeding up the enhancement of law enforcers' welfare. Only 3,000 housing units have been constructed against an MTP target of 20,000. Many police officers still live in squalid conditions and earn a meagre salary. This contributes to low morale in the police force and is fertile ground for corruption.

129. Border security has to take priority to deter aliens and proliferation of small arms and weapons and also protect our border towns from external attacks. The resource requirement for border management is 410 million for 2011/12, 422.35 million for 2012/13 and 485.71 million for 2013/14. Refugees' management also requires 252.78 million for 2011/12, 269.50 million for 2012/13 and 309.93 million for 2013/14 which may not be adequate given the rising challenges. There is need for more police border offices which are well equipped and more police staff to be deployed to these regions on a routine basis. Inter-ethnic/inter-clan conflicts have also been going on for a long time therefore need for more police posts and more police officers to be deployed to these violence prone areas. While most of these conflicts are resource driven, efforts to enhance ethnic relations in such areas may go a long way towards deterring incidences of such crimes. There is no mention of funds which have gone into programmes for enhancing ethnic relations and national integration.

130. Significant programmes such as human rights, legal education and policy formulation and coordination have not been given priority and are the bottom three in rank under prioritization of programmes, overtaken even by programmes such as government printing services. Of all programmes, the three are the least funded. Under resource requirements, the human rights programme requires 283 million for financial year 2011/12, 330 million for financial year 2012/13 and 352 million for financial year 2013/14. Legal education and policy programme require 480 million in Financial Year 2011/12, 385 million 2012/13, and 330 million in Financial Year 2013/14. The impact of these programmes has not really helped to enhance access to justice for the poor.

131. In the GJLOS sector report for MTEF period 2011/12-2013/14, it has been pointed out that funds for Capacity building which were acquired from donors could not be utilized because of administrative reasons. It is not clear which reasons these are, how this impacted on the programme and what happened/will happen to the funds.

132. The regional crime trends should be taken into account in distribution of security resources. Statistics place Nairobi as the most crime prone area yet it is the Country's capital and business hub. It is important therefore for the sector to develop a comprehensive strategy and allocate more resources towards combating crime in Nairobi in order to create a conducive environment for business and foreign investment. There is also need to address the question of why offences against morality and economic crimes are on the increase and develop a strategy of how to deal with them.

VI. BUDGET MONITORING AND CONTROL

133. The government provision of public goods and services is one of key elements of its existence. Each year parliaments approves expenditures to the executive and other arms of government for their operations. The New Constitution offer new opportunities for ensuring accountability is upheld and presents an opportune time and of works

4.2.1. Overview of Instruments to Enhance Broad Accountability

134. Framework for Supervision and Monitoring**,** there in need to institutionalize and promote government framework on the supervision of all government public expenditures on regular basis. This should be besides the annual and other quarterly performance indicators which should cost the programmes and the expected outcomes to enable value for money audits. The efficiency monitoring unit may need to be strengthened to carry out these monitoring activities on regular basis. The following matrix gives the details:

Table 12: Performance indicators for Budget Accountability

Instrument	Explanation
Performance contracts	The government instituted performance contracts in 2008 and this way should assure merit and advantages of set targets with public officers. However, enforcement and adherence to set strategic objectives and outcomes have not borne fruits adequately. Performance contracting as presently practiced lacks mechanism of Reward and punishment as well as laid down guidance on incentives and the link between the resources allocation and expected outcomes.
Use of third-party audits	The Kenya National Audit Office (KENAO) has reported audit queries year in year out most of these stemming from non-compliance with laid down accounting standards hence the need to do projects and programme audits. Being conversant with day to day management queries that arise time and again KENAO should carry out in-depth audits that should inform future planning and resource allocations.
Annual Reports	Time and time again, the ministry Conducts public expenditure reviews and has become ritualistic with identifying the underlying problems. However, there seems to be least lessons learnt from the outcomes as these are hardly taken into account to prevent occurrences of such challenges and addressing them adequately. Whereas the public expenditure reviews should inform preparation of succeeding budgets to address inherent bottlenecks. Clear reporting on the achievements of the resources allocated previously should be indicative of the resource requirements and the quality of annual reports should increase considerably during recent years.
Benchmarking	Comparison of performance by organizations themselves, aimed at learning and improvement.
External reviews	Review or inspection by a third party which can involve different aspects of performing. If made public, the review can contribute to enhancing public accountability.
Certification	Whereas the Kenya Bureau of Standards ensures that products are of quality and conform to standards, a similar body/ creation of authority/ commission responsible to guarantee service delivery and Evaluation that should provide confirmation of the quality of a product or service.
Stakeholders' dialogue	The publication of net exchequer issues in Kenya gazette has given an opportunity to stakeholders to analyze monthly releases and revenue collection and keeps informing public of the trends that expenditure and revenue collections are taking. More or less formal ways of communicating with stakeholders, for example through "client councils".
Leveraging the Information, Communication Technology (ICT)	With modern use of information technology and other software can ensure public access to information and data at real time. The use of Internet sites to create advanced forms of interaction between the organization and its stakeholders.

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Annexes

Annex 1: Main macroeconomic indicators underpinning the Medium-Term Fiscal Framework, 2007/08-2012/13

						Medium Term		
	2007/08	**2008/9**	**2008/9**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
	Act	Budget	Prov.	Rev. Budget	Est.	Proj.	Proj.	Proj.
Annual percentage change, unless otherwise indicated								
National account and prices								
Real GDP	4.3	2.5	2.1	3.7	5.2	5.6	5.5	5.7
Real GDP per capita	1.3	-0.4	-0.8	0.8	2.2	2.6	2.6	2.8
GDP deflator	8.6	11.5	9.3	10.3	8.4	7.9	7.4	3.4
CPI Index (eop)	29.3	18.0	8.6	6.1	5.5	6.0	5.5	5.0
CPI Index (avg)	18.5	22.2	12.7	7.1	5.0	6.0	6.0	5.0
Terms of trade (-deterioration)	-3.7	-0.2	4.4	6.8	3.9	3.0	-0.7	-0.8
Money and credit (end of period)								
Net domestic assets	14.0	21.4	24.9	11.4	16.1	13.3	10.9	8.4
Net domestic credit to the Government	-15.1	20.4	25.8	22.5	**16.9**	**11.9**	**9.6**	10.7
Credit to the rest of the economy	26.0	21.6	23.4	17.1	**23.5**	**19.3**	**17.1**	14.4
Broad Money, M3 (percent change)	18.7	13.0	13.0	15.7	16.2	16.3	15.6	13.2
Reserve money (percent change)	18.2	6.9	4.7	15.2	13.9	14.5	13.9	11.5
In percentage of GDP, unless otherwise indicated								
Investment and saving								
Investment	19.6	18.1	19.9	21.2	**20.9**	**19.4**	**18.8**	19.7
Central Government	6.6	7.6	7.5	9.2	**9.9**	**8.7**	**8.5**	8.7
Other	13.0	10.5	12.4	12.1	**11.0**	**10.7**	**10.3**	11.1
Gross National Saving	13.5	11.9	12.9	14.5	**15.6**	**15.6**	**15.2**	16.1
Central Government	1.7	1.7	2.4	2.0	**6.5**	**5.6**	**5.5**	6.3
Other	11.9	10.1	10.5	12.5	**9.1**	**10.0**	**9.7**	9.8
Central government budget								
Total revenue	22.1	22.6	22.4	23.5	24.1	23.8	23.6	23.8
Total expenditure and net lending	27.4	28.5	27.7	31.7	32.3	29.9	28.3	29.3
of which : wages and salaries	7.5	7.1	7.1	7.0	6.7	6.5	6.5	6.7
Interest payments	2.5	2.4	2.4	2.6	2.6	3.0	3.0	2.6
Development expenditures	6.7	7.7	7.6	10.2	11.4	9.9	9.3	9.2
Overall balance (commitment basis) excl. grants	-5.3	-6.0	-5.2	-8.2	**-8.1**	**-6.1**	**-4.7**	**-5.4**
Overall balance (commitment basis) incl. grants	-3.5	-4.9	-4.4	-7.0	**-6.8**	**-4.7**	**-3.3**	**-4.0**
Net external borrowing	0.3	1.1	0.6	1.9	**3.0**	**2.0**	1.8	1.6
Infrastructure bonds	0.0	0.8	0.9	1.5	1.1	0.5	0.9	1.2
Net domestic borrowing	-0.7	3.7	3.2	5.1	**3.7**	**1.6**	1.5	2.4
Total external support (grant & loans)	2.5	2.9	2.4	3.9	5.0	4.1	3.4	3.5
External sector								
Exports value, goods and services	26.8	27.2	26.4	24.9	24.6	23.8	23.6	24.2
Imports value, goods and services	39.7	39.8	40.1	37.2	34.4	31.6	31.1	31.5
Current external balance, including official transfers	-6.0	-6.2	-7.0	-6.7	-5.3	-3.8	-3.6	-3.6
Current external balance, excluding official transfers	-6.2	-6.2	-6.9	-6.6	-5.3	-3.7	-3.6	-3.6
Gross international reserve coverage in months of next year imports (end of period)	3.5	2.8	2.8	3.0	3.3	3.6	4.0	4.5
Public debt								
Nominal central government debt (eop), gross	44.6	47.0	47.7	49.9	48.8	47.1	45.8	46.2
Nominal central government debt (eop), net	39.5	42.6	42.3	45.2	44.7	42.4	41.0	41.7
Domestic (gross)	22.0	22.9	23.8	25.8	26.4	25.8	25.0	25.2
Domestic (net)	17.0	18.5	18.5	21.2	22.3	21.1	20.1	20.8
External	22.5	24.1	23.9	24.1	22.5	21.3	20.9	20.9
Memorandum items:								
Nominal GDP (in Ksh billions)	1,953	2,241	2,176	2,494	2,842	3,238	3,668	4,007
Per capita income (Ksh)	51,750	57,732	56,019	62,419	69,171	76,644	84,436	89,753
Nominal GDP (in US$ millions)	28,618	30,384	29,695	32,418	37,187	41,919	46,680	50,373
Source: PBO, Historical Figures (QEBR)								

Annex 2: Central Government Operations 2009/010 - 2013/14 (in billions of Kenya Shillings)						
	2009/10	2009/10	2010/11	2011/12	2012/13	2013/14
	Budget	Rev. Bgt	Est.	Proj.	Proj.	Proj.
TOTAL REVENUE	**568.9**	**586.4**	**673.4**	**764.0**	**844.4**	**917.9**
Ordinary Revenue (excl. LATF)	522.8	538.8	606.8	682.4	756.0	823.4
Income tax	209.3	216.8	246.1	285.5	322.0	350.6
Import duty (net)	40.6	41.4	46.2	50.3	55.4	60.8
Excise duty	78.1	74.6	82.5	96.6	104.0	111.3
Value Added Tax	148.4	146.8	167.9	184.6	203.7	223.8
Investment income	9.0	14.5	11.9	13.5	15.2	17.0
Other	37.5	44.8	52.3	51.9	55.7	59.8
LATF	10.4	10.4	13.0	15.0	16.9	18.5
Ministerial and Departmental fees (AiA)	35.7	37.1	53.6	66.6	71.4	76.1
EXPENDITURE AND NET LENDING	**772.4**	**791.8**	**916.9**	**946.4**	**1,038.9**	**1,172.8**
Recurrent expenditure	507.1	535.3	590.3	623.2	694.0	801.7
Interest payments	64.3	64.8	74.8	97.8	108.8	105.4
Domestic interest	58.0	58.4	67.9	88.7	96.8	93.8
Foreign interest	6.3	6.3	6.9	9.2	12.1	11.6
Wages and benefits(civil service)	173.5	173.5	191.7	211.1	238.4	267.3
Contribution to civil service pension fund	0.0	0.0	0.0	12.7	14.8	16.5
Civil service reform	0.1	0.1	0.1	0.2	0.2	0.2
Pensions etc	25.6	28.4	28.6	31.5	34.6	38.1
Other	189.6	210.6	238.4	213.6	239.9	316.4
Defense and NSIS	54.0	58.0	56.7	56.2	57.2	57.8
Pending bills change	0.0	0.0	0.0	0.0	0.0	0.0
Development and Net lending	261.3	255.4	323.6	320.2	341.9	367.8
Domestically financed	155.1	155.4	178.1	185.6	195.6	205.2
Domestically financed Ministerial	132.8	131.6	139.1	149.6	169.6	
Domestically FinancedSpecial interventions	22.3	23.8	39.1	36.0	26.0	
Foreign financed	103.8	97.7	143.1	132.1	143.8	159.9
Net lending	2.4	2.4	2.3	2.4	2.6	2.7
Drought Expenditures	2.0	1.0	1.0	1.0	1.0	1.0
Contingencies	2.0	0.0	2.0	2.0	2.0	2.3
Balance *(commitment basis excl. grants)*	**-203.5**	**-205.4**	**-243.5**	**-182.4**	**-194.6**	**-254.9**
Adjustment to cash basis	0.0	0.0	-1.1	0.0	0.0	0.0
Project grants	35.3	31.2	38.9	44.8	52.1	59.7
Balance *(cash basis including grants)*	**-168.2**	**-174.2**	**-205.7**	**-137.5**	**-142.5**	**-195.1**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	-36.7
FINANCING	**168.2**	**174.2**	**189.5**	**115.4**	**101.7**	**158.4**
Net foreign financing	50.2	48.2	84.2	63.4	48.0	62.6
Project loans	68.5	66.5	104.2	87.3	73.4	80.1
Commercial Fin./Sovereign bond	0.0	0.0	0.0	0.0	0.0	20.0
Repayments due	-18.7	-18.7	-20.5	-23.8	-25.4	-37.6
Change in arears	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling/Debt swap	0.5	0.5	0.5	0.0	0.0	0.0
Privatization proceeds	6.0	0.0	0.0	0.0	0.0	0.0
Refinancing - Telkom	2.5	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing	109.5	126.0	105.3	52.0	53.6	95.8
Financing gap	0.0	0.0	-16.2	-22.1	-40.8	-36.7
Memo items						
Domestic Debt (gross)	616.6	644.3	749.6	836.7	915.4	1,011.2
Domestic Debt (net)	524.0	527.5	632.8	684.7	738.4	834.2
Infrastructure bonds	32.9	37.8	31.6	15.6	16.1	48.8
Nominal GDP	2,546.6	2,493.8	2,842.3	3,238.4	3,667.7	4,006.9
Source: PBO						

Annex 3: Central Government Financial Operations, 2008/09 - 2012/13

(in percent of GDP)

				Medium Term		
	2009/10		**2010/11**	**2011/12**	**2012/13**	**2013/14**
	Budget	Rev. Bgt				
TOTAL REVENUE	22.3%	**23.5%**	**24.1%**	**23.8%**	**23.6%**	**23.8%**
Ordinary Revenue (excl. LATF)	20.5%	21.6%	21.3%	21.2%	21.2%	21.4%
Income tax	8.2%	8.7%	8.7%	8.7%	8.8%	8.8%
Import duty (net)	1.6%	1.7%	1.6%	1.6%	1.5%	1.6%
Excise duty	3.1%	3.0%	2.9%	2.8%	2.8%	2.9%
Value Added Tax	5.8%	5.9%	5.9%	5.8%	5.8%	5.9%
Investment income	0.4%	0.6%	0.4%	0.4%	0.4%	0.4%
Other	1.5%	1.8%	1.8%	1.8%	1.8%	1.8%
LATF	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%
Ministerial and Departmental fees (AiA)	1.4%	1.5%	2.3%	2.0%	1.9%	2.0%
EXPENDITURE AND NET LENDING	30.3%	**31.7%**	**32.3%**	**29.2%**	**28.3%**	**29.3%**
Recurrent expenditure	19.9%	21.5%	20.8%	19.2%	18.9%	20.0%
Interest payments	2.5%	2.6%	2.6%	3.0%	3.0%	2.6%
Domestic interest	2.3%	2.3%	2.4%	2.7%	2.6%	2.3%
Foreign interest	0.2%	0.3%	0.2%	0.3%	0.3%	0.3%
Wages and benefits(civil service)	6.8%	7.0%	6.7%	6.5%	6.5%	6.7%
Civil service reform	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
Pensions etc	1.0%	1.1%	1.0%	1.0%	0.9%	7.9%
Other	7.4%	8.4%	8.4%	6.6%	6.5%	0.0%
Defense and NSIS	2.1%	2.3%	2.0%	1.7%	1.6%	0.0%
Pending bills change	0.0%	0.0%	0.0%	0.0%	0.0%	9.2%
Development and Net lending	10.3%	10.2%	11.4%	9.9%	9.3%	5.1%
Domestically financed	6.1%	6.2%	6.3%	5.7%	5.3%	0.7%
Domestically financed Ministerial	5.2%	5.3%	4.9%	4.6%	4.6%	
Domestically FinancedSpecial interventions	0.9%	1.0%	1.4%	1.1%	0.7%	
Foreign financed	4.1%	3.9%	5.0%	4.1%	3.9%	4.0%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Pending bills (change)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Drought Expenditures	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Balance *(commitment basis excl. grants)*	-8.0%	**-8.2%**	**-8.1%**	**-5.5%**	**-4.7%**	**-5.4%**
Adjustment to cash basis	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	1.4%	1.3%	1.4%	1.4%	1.4%	1.5%
Balance *(cash basis including grants)*	-6.6%	**-7.0%**	**-6.8%**	**-4.1%**	**-3.3%**	**-4.0%**
Statistical discrepancy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	6.6%	**7.0%**	**6.7%**	**3.6%**	**2.8%**	**4.0%**
Net foreign financing	2.0%	1.9%	3.0%	2.0%	1.3%	1.6%
Project loans	2.7%	2.7%	3.7%	2.7%	2.0%	2.0%
Programme loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repayments due	-0.7%	-0.8%	-0.7%	-0.7%	-0.7%	-0.9%
Change in arears	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rescheduling/Debt swap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Privatization proceeds	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Net domestic borrowing	4.3%	5.1%	3.7%	1.6%	1.5%	2.4%
Financing gap	0.0%	0.0%	-0.1%	-0.5%	-0.5%	0.0%
Memo items						
Domestic Debt (gross)	24.2%	25.8%	26.4%	25.8%	25.0%	25.2%
Domestic Debt (net)	20.6%	21.2%	22.3%	21.1%	20.1%	20.8%
Infrastructure bonds	1.3%	1.5%	1.1%	0.5%	0.4%	1.2%
Nominal GDP	100.0%	100.0%	100%	100.0%	100.0%	100.0%

Annex 4: Monetary Survey 2007/08 - 2011/12
(end of period; in billions of KSh)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
	Act.	*Act.*	*Prov.*	*Prov.*	*Medium term projection*		
Central Bank of Kenya (CBK)							
Net Foreign Assets 1/	202.6	208.3	262.5	244.6	303.4	390.5	490.0
Net Domestic Assets	-49.6	-48.2	-78.1	-34.5	-62.8	-116.5	-184.4
Net credit extended	-23.1	-83.1	9.9	69.7	63.0	34.9	-4.1
Net claims on Government	-27.7	-18.2	-11.9	-6.6	-2.3	1.7	6.4
Claims on banks	4.5	-64.9	21.8	76.4	65.3	33.2	-10.6
Other assets, net	-28.9	-69.1	-87.9	-104.2	-125.8	-151.4	-180.3
Reserve money (RM)	152.9	160.2	184.4	210.1	240.6	274.0	305.6
Monetary Survey							
Net Foreign Assets (NFA) 1/	291.3	276.8	349.2	406.2	497.6	621.1	756.3
Central Bank (CBK)	202.6	208.3	262.5	244.6	303.4	390.5	490.0
Banks	88.7	68.5	86.7	161.6	194.2	230.6	266.3
Net Domestic Assets (NDA)	539.3	673.4	749.9	870.8	987.0	1,094.7	1,186.2
Domestic Credit	691.7	850.2	1,023.2	1,236.8	1,458.2	1,687.8	1,920.0
Claims on Government (net)	133.4	167.9	205.8	240.5	269.2	295.2	326.8
Central Bank	-27.7	-16.6	-20.3	-6.6	-2.3	1.7	6.4
Banks	161.1	184.6	226.0	247.1	271.5	293.5	320.4
Claims on Private Sector	558.3	689.0	807.0	996.3	1,188.9	1,392.6	1,593.2
Other items (net)	-152.4	-176.8	-273.3	-366.0	-471.1	-593.1	-733.9
Broad Money (M3)	840.7	950.2	1,099.1	1,277.0	1,484.7	1,715.8	1,942.5
of which:							
Residents' foreign-currency de	124.7	138.2	175.9	204.3	237.5	274.5	310.8
(ratio of FX deposits/M3)	*14.8%*	*14.5%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Memorandum items:							
Reserve money annual percentage cha	18.2	4.7	15.2	13.9	14.5	13.9	11.5
M3 Annual percentage change	18.7	13.0	15.7	16.2	16.3	15.6	13.2
Velocity (GDP/M3eop)	2.3	2.3	2.3	2.2	2.2	2.1	2.1
Velocity (GDP/M3avg)	2.5	2.4	2.4	2.4	2.3	2.3	2.2
Multiplier (M3/RM)	5.5	5.8	6.0	6.1	6.2	6.3	6.4
Credit to private sector	26.0	23.4	17.1	23.5	19.3	17.1	14.4
Resident FX deposits (billions of US$	1.9	1.8	2.3	2.7	3.0	3.5	3.9
Net Government borrowing	335.3	395.7	511.7	617.0	704.1	782.7	878.5
Banking sector	133.4	167.9	205.8	240.5	269.2	295.2	326.8
Non-banking sector	201.8	227.7	306.0	376.5	434.8	487.5	551.7

1/ At current exchange rate

Annex 5: Balance of Payments, 2007/08-2011/12							
In millions of US dollars, unless otherwise indicated							
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
	Act.	*Act.*	*Prov.*	*Est.*	*Proj.*	*Proj.*	*Proj.*
Trade balance	**-5,011**	**-5,321**	**-5,213**	**-5,126**	**-4,990**	**-5,419**	**-5,836**
Exports, f.o.b.	4,586	4,771	4,999	5,709	6,211	6,861	7,584
Imports, fob	9,597	10,091	10,213	10,835	11,201	12,281	13,420
Services (net)	1,320	1,265	1,226	1,459	1,721	1,933	2,169
Credits	3,091	3,081	3,076	3,422	3,785	4,169	4,593
Freight and other transport	1,207	1,169	1,170	1,336	1,454	1,606	1,775
Travel	834	721	706	813	971	1,106	1,250
Other credits	1,049	1,191	1,200	1,273	1,360	1,457	1,568
Debits	1,771	1,816	1,850	1,963	2,064	2,235	2,424
Freight and other transport	818	850	904	960	992	1,088	1,188
Travel	265	250	241	255	273	292	314
Other credits	687	715	705	748	799	856	921
Net investment income	-95	-55	-119	-264	-327	-313	-346
Credits	168	175	110	14	38	104	224
Debits	263	231	229	278	365	417	570
of which: official interest payments	87	86	93	102	110	120	141
Unrequited transfers (net)	2,057	2,038	1,936	1,948	2,020	2,098	2,188
Private (net)	2,023	2,058	1,956	1,968	2,040	2,118	2,208
Official (net)	34	-20	-20	-20	-20	-20	-20
Credits	58	0	0	0	0	0	0
Debits	-24	-20	-20	-20	-20	-20	-20
Current Account	**-1,729**	**-2,073**	**-2,170**	**-1,983**	**-1,575**	**-1,700**	**-1,826**
Excluding official transfers	*-1,787*	*-2,073*	*-2,170*	*-1,983*	*-1,575*	*-1,700*	*-1,826*
Capital Account	**512**	**178**	**372**	**514**	**583**	**664**	**737**
Financial Account, net	**1,891**	**1,071**	**2,259**	**1,903**	**1,703**	**2,081**	**2,268**
Direct investment	372	73	156	229	263	294	320
Portfolio investment (equity)	-25	-23	77	232	364	502	592
Other Long-Term Capital	466	960	1,751	1,147	303	291	28
Government	93	327	705	476	530	844	787
Inflows	335	566	948	744	838	1,167	1,259
Program loans	20	0	0	0	0	0	0
Project loans	315	566	948	744	838	934	1,007
Commercial financing	0	0	0	0	0	233	252
Amortization	242	239	244	268	308	323	472
Private (net)	373	633	1,047	671	-227	-553	-759
Inflows	442	711	1,147	896	209	232	250
Amortization	69	78	101	225	436	785	1,009
Other deposiory corporations	-385	88	-453	-365	-390	-424	-409
Short-term capital (net) and NEO	1,464	-26	727	659	1,164	1,418	1,737
Overall Balance	**675**	**-824**	**461**	**435**	**711**	**1,045**	**1,180**
Financing	-675	824	-461	-435	-711	-1,045	-1,180
Change in gross reserves (- = increase)	-722	650	-439	-410	-685	-1,013	-1,149
Use of Fund credit, net	47	194	-22	-24	-26	-32	-31
Change in arrears	0	-20	0	0	0	0	0
Resheduling	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Gross official reserves (end period)	3,445	2,795	3,234	3,644	4,330	5,343	6,492
(in months of next year's imports of G&S)	3.5	2.8	3.0	3.3	3.6	4.0	4.5
(in months of this year's imports of G&S)	3.6	2.8	3.2	3.4	3.9	4.4	4.9
Export of goods and services	7,677	7,852	8,076	9,132	9,996	11,030	12,176
Imports of goods and services	11,368	11,907	12,063	12,798	13,265	14,516	15,844
In percent of GDP							
Current account incl. official transfers	-6.0	-7.0	-6.7	-5.3	-3.8	-3.6	-3.6
Current account excl. official transfers	-6.0	-7.0	-6.7	-5.3	-3.8	-3.6	-3.6
Import volume growth, goods (percent)	7.7	2.5	1.5	2.2	5.4	8.0	7.7
Import value growth, goods (percent)	23.9	5.3	1.9	5.3	3.4	9.6	9.3
Export volume growth, goods (percent)	7.9	-0.7	0.2	6.8	7.7	9.6	9.8
Export value growth, goods (percent)	19.9	4.0	4.8	14.2	8.8	10.5	10.5

Annex 6: External Financing Requirements and Resources								
(In millions of U. S. dollars)								
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2011/12 - 2013/14
	Act.	*Act.*	*Est.*	*Est.*	***Medium term projection***			
External financing requirements	**-2,762**	**-1,677**	**-2,855**	**-2,665**	**-2,575**	**-3,048**	**-3,458**	**-9,082**
Current account (excl.official transfers)	-1,787	-2,053	-2,150	-1,963	-1,555	-1,680	-1,806	**-5,041**
Scheduled amortization (official)	-242	-239	-244	-268	-308	-323	-472	**-1,104**
IMF payment	-11	-15	-22	-24	-26	-32	-31	**-89**
Reduction in arrears	0	-20	0	0	0	0	0	**0**
Build-up of gross official reserves	-722	650	-439	-410	-685	-1,013	-1,149	**-2,848**
								0
Resources	**2,762**	**1,697**	**2,875**	**2,685**	**2,595**	**3,068**	**3,478**	**9,142**
Official external support	963	952	1,321	1,258	1,422	1,598	1,745	**4,764**
IMF	58	209	0	0	0	0	0	**0**
Program loans	20	0	0	0	0	0	0	**0**
AfDB	0	0	0	0	0	0	0	**0**
IDA	20	0	0	0	0	0	0	**0**
ERSSC	0	0	0	0	0	0	0	**0**
FINSRC	0	0	0	0	0	0	0	**0**
Other	20	0	0	0	0	0	0	**0**
Other (Bilateral)	0	0	0	0	0	0	0	**0**
Program grants	58	0	0	0	0	0	0	**0**
UK	0	0	0	0	0	0	0	**0**
EU	58	0	0	0	0	0	0	**0**
Other	0	0	0	0	0	0	0	**0**
Project Support	827	743	1,321	1,258	1,422	1,598	1,745	**4,764**
Project loans	315	566	948	744	838	934	1,007	**2,779**
Project grants	512	178	372	514	583	664	737	**1,985**
Commercial financing	0	0	0	0	0	233	252	**485**
Private financing, net	1,799	744	1,554	1,427	1,174	1,237	1,482	**3,892**
Accumulation of arrears	0	0	0	0	0	0	0	**0**
Rescheduling of debt	0	0	0	0	0	0	0	**0**
								0
Financing Gap	**0**	**20**	**20**	**20**	**20**	**20**	**20**	**60**
								0

Annex 7: Progress made on various MDG Goals

Quantifiable indicators	Progress			
	Baseline	**Current status**	**Target for 2015**	**Target Achievability**
1.Reduce extreme poverty and hunger ▪ Population living below poverty line (percent)	52.6 percent (1997)	45.9 percent (2005/06) **Explanation:** The report indicates that Kenya has managed to significantly reduce the proportion of its population living below the poverty line. By 2007, the incidence of poverty had significantly declined. However, multiple domestic and international crises; the post election crisis in 2007/08, the drought situation in 2009 and the global financial crisis in 2009/09 were a major setback to the achievement of this goal. There is therefore need for increased effort by the government over the next five years to create wealth and reduce poverty levels.	Halve proportion of people whose income is less than a $1 a day; achieve full, productive employment and decent work for all, incl. women and youth; and halve the proportion of people who suffer from hunger	Unlikely
2.Achieve universal primary education ▪ Net Enrolment Rates (NER) ▪ Primary to Secondary transition rates	NER was 67.8 percent in 2000 Transition rate stood at 46.5 percent in 2003.	NER and Transition rate stood at 92.9 percent and 66.9 percent in 2009, respectively. **Explanation:** Kenya has registered a steady increase in enrolment in primary schools since the implementation of the Free Primary Education programme. Also, more pupils are now transitioning to secondary schools especially with the government's decision to waive tuition fees in secondary schools.	Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	Likely
3.Promote gender equality and empowerment of women ▪ Female representation in parliament ▪ Gender parity in primary education ▪ Gross enrolment ratio for girls in secondary schools ▪ Enrolment of females in universities and tertiary institutions	Female representation, Gender parity, enrolment of girls, and females in universities and tertiary institutions stood at 4.1 percent 26.4 percent , and 65,542, respectively in 2002	Female representation, Gender parity, enrolment of girls, and females in universities and tertiary institutions stood at 9.9 percent, 0.958, 41.3 percent, and 116,344, respectively in 2009. **Explanation:** The number of female Members of Parliament has increased significantly as has the gender parity in primary education. Enrolment of girls in secondary schools, universities and tertiary institutions has also increased significantly since 2000. With the implementation of the new Constitution, it is expected that the proportion of women in the public service will increase to at least 30 percent. The Constitution also stipulates that the composition of a single gender does not exceed two thirds in Parliament as well as County Assemblies.	Eliminate gender disparity in primary and secondary education preferably by 2005, and in all levels of education no later than 2015	Gender parity in primary and secondary schools likely to be achieved

Quantifiable indicators	Progress			
	Baseline	**Current status**	**Target for 2015**	**Target Achievability**
4.Reduce child mortality ▪ Infant mortality rate ▪ Under-5 mortality rate ▪ Immunization coverage	Infant mortality rate, Under-5 mortality rate, and immunization coverage was 77/1000, 115/1000 and 57 percent, respectively in 2003.	Infant mortality rate, Under-5 mortality rate, and immunization coverage stood at 52/1000, 74/1000, and 77 percent, in that order in 2008. **Explanation:** Extra resources for child survival were set aside towards this goal. Immunization coverage thus increased and PMTCT drugs were also made available in almost all government health facilities. This had the effect of significantly reducing the infant mortality rates as well as the under-five mortality. With enhanced effort towards increasing uptake of both pre and post natal services to 100 percent, the goal is likely to be achieved by 2015.	Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	Target can be met with increased effort
5.Improve maternal health ▪ Births attended to by skilled personnel ▪ Maternal mortality rate ▪ Contraceptive use among married women	Births attended to by skilled personnel, Maternal mortality rate, and Contraceptive use among married women stood at 42 percent 414/100,000 and 39.3 percent, respectively in 2003.	Births attended to by skilled personnel, Maternal mortality rate, and Contraceptive use among married women was 43.8 percent, 488/100,000, and 45.5 percent in that order in 2008/09. **Explanation:** Progress on this goal has been extremely slow and maternal mortality rates are in fact on the increase rather than decrease. Many births are still taking place away from health facilities. However, there is an increase in contraceptive use among married women.	Reduce by three quarters the maternal mortality ratio	Unlikely if current trends prevail
6.Combat HIV/AIDS, malaria and other **diseases** ▪ National HIV prevalence (15-49 years) ▪ Youth HIV prevalence (15-24 years) ▪ Accessibility to ARVs ▪ Incidence of malaria	National HIV prevalence (15-49 years) and Youth HIV prevalence (15-24 years) was 7.4 percent and 3.8 percent in 2007. On the other hand, Accessibility to ARVs and Incidence of malaria 40.5 percent and 30.8 percent in 2007.	National HIV prevalence (15-49 years) and Youth HIV prevalence (15-24 years) and Accessibility to ARVs stood at 6.3 percent, 3.0 percent, and 31 percent, respectively in 2009. **Explanation:** There has been a significant improvement in access to ARVs and VCT services. A higher number of Kenyans living with HIV are now on Anti-Retroviral Therapy and PMTCT services are now available countrywide. For the control of malaria, the government has distributed more than 3.4 million Insecticide Treated Nets (ITNs) to be used by children and pregnant women. Thus the proportion of Kenyan households including under-five children and pregnant women using ITNs has increased significantly. Indoor residual spraying to control malaria transmitting mosquitoes has also been carried out in more than 60,000 households in 16 malaria prone districts.	Have halted by 2015 and begun to reverse the spread of HIV/AIDS; achieve by 2010, universal access to treatment for HIV/AIDS for all who need it; and have halted it by 2015.	Target can be met with increased effort

Quantifiable indicators	Progress			
	Baseline	**Current status**	**Target for 2015**	**Target Achievability**
7.Ensure environmental sustainability ▪ Access to clean drinking water ▪ Forest cover	Access to clean drinking water was 49.4 percent in 2003.	Access to clean drinking water and Forest cover stood at 63.4 percent and 1.7 percent, respectively, in 2008/09. **Explanation:** More Kenyans now have access to clean drinking water and improved sanitation. However, there remains an urgent need to enhance access to water and sanitation as a means of reducing poverty. The country still has a huge task ahead towards achievement of this goal such as increasing forest cover to the MDGs target of 10 percent.	Integrate principles of sustainable development into country policies and reverse loss of environmental resources, reduce biodiversity loss, and halve the proportion of population without sustainable access to safe drinking water and basic sanitation	Unlikely
8.Develop a global partnership for Development		Kenya Development Assistance framework (K-JAS) agreed upon and is operational with 17 main donors. In the ICT arena, the number of mobile phone subscribers, ISPs and internet users has increased significantly. The number of internet users is expected to be higher due to the introduction of mobile phone internet access and the deployment of fibre optic cabling which will result in reduced cost of connectivity.	Enhance an open, rule-based, predictable, non-discriminatory trading and financial system, and make available benefits of new technologies for development	ICT related targets are on track

Source: Authors' compilation based on the Status report on the progress towards achievement of MDGs, Ministry of State for Planning, National Development and Vision 2030

Annex 8: Macroeconomic Outlook of Kenya's Key Trading Partners

	Regional bloc	**2008**	**2009**	**2010**	**2011**
Real GDP growth(Percent)	**EAC-5**	5.7	4.8	5.4	6.2
	COMESA	6.7	5.2	5.2	6.3
	SSA	5.6	2.5	4.9	5.5
Real per capita GDP growth (Percent)	**EAC-5**	3.4	2.5	3.0	3.8
	COMESA	3.9	2.8	2.9	4.0
	SSA	3.2	0.3	2.8	3.3
Consumer Prices(Annual average, percent change)	**EAC-5**	12.3	11.4	6.5	5.3
	COMESA	16.3	19.6	6.7	7.3
	SSA	11.7	10.4	7.5	7.0
Government debt	**EAC-5**	31.8	35.8	-	-

	Regional bloc	2008	2009	2010	2011
(percent of GDP)	**COMESA**	24.0	27.0	-	-
	SSA	30.8	33.3	-	-

Data Source: IMF Regional Economic Outlook, Sub-Saharan Africa, October 2010

Annex 9: Economic Indicators for MENA region

		Average 2000-05	2006	2007	2008	2009	Proj. 2010	Proj. 2011
Real GDP growth(annual change, percent)	Egypt	4.0	6.8	7.1	7.2	4.7	5.3	5.5
	Pakistan	4.9	6.1	5.6	1.6	3.4	4.8	2.8
Consumer price inflation(year average, percent)	Egypt	4.7	7.6	9.5	18.3	11.7	10.9	9.5
	Pakistan	5.0	7.9	7.6	20.3	13.6	13.8	10.2
General government fiscal balance (% of GDP)	Egypt	-6.4	-9.2	-7.5	-7.8	-7.0	-8.2	-7.6
	Pakistan	-2.7	-3.7	-4.0	-7.3	-5.2	-6.0	-3.6
Current account balance (% of GDP)	Egypt	1.6	1.6	1.9	0.5	-2.4	-2.0	-1.6
	Pakistan	1.6	-3.9	-4.8	-8.5	-5.7	-2.0	-3.1

Source: Regional Economic Outlook: Middle East and Central Asia, Oct 2010

Annex 10: Macroeconomic projections, 2007 – 2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Act.	Act.	Act.	Act.	Act.	Act.	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Prices												
Nominal Gross Domestic Product (GDP)	20.7%	23.4%	26.0%	29.7%	33.5%	38.1%	41.7%	49.8%	54.0%	64.4%	69.1%	76.9%
Consumption	19.8%	21.8%	24.1%	27.6%	31.4%	35.1%	40.2%	44.5%	47.7%	57.0%	61.3%	66.4%
General Government	3.8%	4.2%	4.5%	5.2%	6.0%	6.4%	6.8%	8.3%	8.9%	9.3%	10.8%	12.6%
Non-government	16.0%	17.6%	19.6%	22.4%	25.4%	28.7%	33.5%	36.2%	38.9%	47.6%	50.5%	53.8%
Gross fixed investment	3.3%	3.8%	4.9%	5.7%	6.5%	7.5%	8.4%	11.0%	10.7%	12.3%	13.0%	16.0%
General Government	0.7%	0.8%	1.0%	1.3%	2.3%	2.7%	3.6%	4.7%	5.2%	5.5%	6.1%	6.7%
Non-government	2.6%	3.0%	3.8%	4.3%	4.2%	4.8%	4.8%	6.4%	5.6%	6.8%	7.0%	9.3%
Change in stocks (non-government)	0.1%	0.2%	-0.5%	-0.3%	-0.1%	0.2%	0.3%					
Export of goods and services	5.0%	6.2%	7.2%	8.1%	9.0%	10.7%	10.5%	12.3%	13.3%	15.0%	16.8%	18.7%
Imports of goods and services	6.2%	8.0%	9.6%	11.3%	12.7%	16.1%	15.8%	18.1%	17.8%	19.8%	22.1%	24.2%
Statistical discrepancy	-1.2%	-0.6%	-0.2%	0.0%	-0.6%	0.7%	-2.0%					
Net income and transfers	1.1%	1.3%	1.6%	2.3%	2.4%	2.6%	3.2%	2.4%	2.3%	2.5%	2.6%	2.7%
Gross National Disposable Income	21.9%	24.7%	27.6%	32.0%	36.0%	41.0%	44.8%	52.2%	56.3%	67.0%	71.7%	79.6%

Source: Various Publications and Parliamentary Budget Office Staff Estimates