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Kenya: Poverty Reduction Strategy Paper—Progress Report

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REPUBLIC OF KENYA

KENYA VISION 2030

FIRST MEDIUM TERM PLAN UPDATE

Prepared

By

Ministry of State for Planning, National Development, & Vision 2030 and

Office of the Deputy Prime Minister and Ministry of Finance

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Contents

I. INTRODUCTION

Background

1. The first 5-year Vision 2030 Medium Term Plan (MTP 1) covering 2008 – 2012 was developed taking into account the success achieved under the Economic Recovery Strategy (ERS), 2003-2007. It, therefore, assumed continued strong broad based economic growth and development consistent with Vision 2030 objectives. However, since the implementation of the plan, the macroeconomic setting has changed significantly. This has affected achievement of MTP goals as well as progress in the implementation of policy measures.

2. Going forward, and in light of changed macroeconomic conditions and emerging challenges, there is need to update the MTP program for the remainder of the period in 2011 and 2012 as well as lay the basis for the preparation of a more comprehensive Second MTP covering 2013-2017. Therefore, this updated MTP will serve as a basis for prioritizing programmes and projects during this intervening period. It also comes at the time the Government is implementing a decentralized system following the promulgation of the new Constitution in August 2010.

Consultations Underpinning the MTP Review process

3. The MTP has been reviewed twice through the Annual Progress Reports (APRs). The third report is under preparation. The reports track the progress of the implementation of the flagship projects, as well as other key policies and programmes identified under Vision 2030. These documents are widely circulated and are also available in the website of the Ministry of State for Planning, National Development and Vision 2030.

4. In addition, the government through relevant agencies has conducted, over the last three years, several consultations with stakeholders such as private sector, civil society, members of parliament and key institutions of Government on ways to fast track the implementation of the Vision 2030 programs, especially the flagship projects. These consultations reviewed progress achieved and challenges experienced in implementing various MTP programs and agreed on broad measures to fast track implementation, including enactment of necessary legislations, availing resources and reporting progress.

5. The First MTP is currently undergoing a Mid-Term review. The process has involved the hiring of independent consultants, who have conducted interviews with

Government officials, private sector and the civil society. As part of the consultations, they have also sent questionnaires to over 150 institutions and key informants. The process will culminate with the holding of a validation workshop in which participants drawn from Government, civil society, private sector and development partners will be invited to present their views on achievements and challenges as enunciated in the document. This forum will be held before the end of 2011.

6. In producing this First Medium Term Plan update the Government has also consulted key development partners including the World Bank, IMF, the EU, JICA, UNDP and Embassy of Finland, among others. The document has also been posted in the web site of the Ministry of State for Planning, National Development and Vision 2030.

Organization of the Report

7. The rest of the Report is organized as follows: The next section presents progress on MTP implementation by 2011, including specific progress on the attainment of MDG Goals. Section III presents the Updated MTP programme for 2012–2013, including the consultations and framework underpinning its preparation. Section IV presents the macroeconomic framework and reformulation of the MTP Medium Term Expenditure Framework, while Section V outlines steps being taken to prepare the second MTP covering 2013 – 2018. Finally Section VI concludes the report.

II. PROGRESS IN MTP IMPLEMENTATION IN 2011

8. Despite Kenya’s economy being affected by the multiple adverse domestic (post-election violence and drought) and external (global financial and economic crisis and high international oil and commodity prices) shocks at the initial stages of implementation, significant progress has been achieved in implementing the MTP for 2008-2012.

9. Among the priority areas included for implementation in the initial year of the Plan were projects towards national healing and reconciliation as well as rapid reconstruction to reverse the damage and setbacks following the December 2007 post-election violence. During its initial year of implementation, most of the damaged infrastructure was repaired and the government provided assistance to affected businesses who have successfully resumed their operations. To date, the bulk of the internally displaced persons have been re-settled.

10. With respect to progress in implementing policy measures under MTP, the following have been achieved:

a. Infrastructure and Operating Environment

11. Given the important role of efficient and cost effective infrastructure in facilitating a vibrant and competitive private sector, increased investment has been made in modernization and development of the nation's infrastructure in the first 3 years of the MTP. Total installed capacity for generation of electric power increased by 18% from 1,197 MW in 2007 to 1,412 MW in 2010. A total of 16,000 institutions and 801,921 households have been connected with electricity compared to the 5 year MTP target of a million households. Increased investment has also been made in green energy projects with investment in a 300 MW wind power project and 160 MW in Geothermal power.

12. The MTP targets to construct a total of 1,950 km of new roads by 2012. In the three financial years of the MTP (2008/09 -2010/11), cumulative government expenditure on roads amounted to US$ 2.4 billion; US$1.8 billion on construction of new roads and US $540 million on road maintenance and rehabilitation. In 2010/2011 a total of 719.4 km of roads were constructed and 1,002 km of roads rehabilitated.

13. The laying of the undersea Fiber Optic Cable from Mombasa to Fujairah in UAE linking Kenya to the global fiber optic submarine system was completed in 2009. The project has provided the country with a reliable and affordable high-capacity bandwidth. The laying of 5,500 km of terrestrial fiber optic cables covering most parts of the country has also been completed and linked to the undersea fiber optic network resulting in considerable efficiency and reduction in ICT costs. For instance, a 5-fold reduction has been achieved in the cost of transmission of a megabyte of data between 2008/09 and 2009/2010.

14. Significant progress has also been made in the development and modernization of airports and airstrips. Work on modernization of Jomo Kenyatta International Airport (JKIA) is ongoing; construction of apron at Unit 4, taxiways and associated facilities have been completed while construction of the terminal unit 4 building and a multi-storey car park is expected to be completed by June 2013. Construction of a new terminal building and extension of the runway for Kisumu International Airport has been completed. A total of 15 airstrips have been rehabilitated and rehabilitation of 10 airstrips across the country is in progress.

15. The dredging of port of Mombasa to deepen the channel in order to enable larger post-Panamax vessels to access the port commenced in July 2011 and is

expected to be completed in early 2012. The development of a second container terminal at the port of Mombasa to handle up to 600,000 TEUS has also commenced. A feasibility study for the development of a second transport corridor (LAPSSET) for construction of a new port at Lamu with rail and road links to Ethiopia and Southern Sudan has been completed. Plans are at advanced stage to develop the Mombasa-Malaba standard gauge Railway line. Construction work is on going on development of the Nairobi Commuter Light Rail and the Phase I of the project is expected to be completed by December 2013.

16. With regard to the other enablers, a National Manpower Survey was undertaken from April to August 2011 to obtain the data and a skills inventory to guide the development of the nation's human resources. Work is also in progress in development of a National Spatial Plan to guide land use and physical development activities over the next 50 years. In the area of Science, Technology and Innovation, progress has been made in implementation of the e-government project to use state of the art technology to automate registries and records in the Judiciary, Company Registry, IFMIS and Immigration. Kenya is among the few countries in the world which have adopted the open data portal which has enhanced transparency and provides free access to government data bases on line.

17. In the area of improving security, the MTP set a target of constructing 20,000 police staff housing units. 1,615 units for the Kenya Police and 1,478 units for the Administration Police have been completed, while construction is on-going for 1,754 units. The Community Policing Policy was also harmonized and rolled out in 271 districts. The police to population ratio improved from 1:850 in FY 2007/08 to 1:550 in FY 2010/11.

b. Main Pillars

18. Overall, progress in the policy measures under the key pillars of MTP has been satisfactory.

Economic Pillar— accelerating annual GDP growth to 10 percent on a sustained basis

19. Achieving the 10% growth by 2012 has been constrained by the multiple shocks experienced in 2008-2009 where real GDP weakened to about 2% from 7% in 2007. However, recovery is underway with real GDP growing by 5.6% in 2010 and it is expected to be about 5% in 2011. The updated macroeconomic framework presented in Section IV reflects a baseline growth scenario given the current challenges. The optimistic scenario is to assume a growth trajectory that will rise to

Vision 2030 target in the next five years, but this would require higher investment level and financing that may not be obtainable with the current circumstances.

20. The economic pillar of Vision 2030 and MTP targeted six priority sectors to raise the national GDP growth to 10% by 2012. The sectors are: Tourism, Agriculture and Livestock, Wholesale and Retail Trade, Manufacturing, Business Process Outsourcing (BPO) and Financial Services.

21. International arrivals (proxy for tourist arrivals) peaked at 1.8 million in 2007. However, the sector was severely impacted by the post election violence resulting in a steep decline in international arrivals to 1.2 million in 2008. Since then, the sector has been on a steady recovery with 1.6 million arrivals in 2010. Data for the first half of 2011 compared to a similar period in 2010 shows continued improvement in the tourism sector with arrivals data higher by 13.6%.

22. The post election violence and adverse weather conditions negatively impacted growth of the agriculture sector in the first 2 years of the MTP. The sector recorded negative growth rates of 4.1% and 2.6% in 2008 and 2009. However, the sector has recovered and recorded positive growth of 6.3% in 2010. The wholesale and Retail Trade sector has registered lower growth compared to its pre MTP growth rates. It grew by an average of 11% in 2006-2007 compared to an average growth of 5.5% in the first 3 years of the MTP (2008-2010).

23. The manufacturing sector has also grown at a lower average rate of 3.1% in the 3 years of the MTP compared to an average of 6.3% in the previous years. The deceleration in the growth of the manufacturing sectors and the wholesale and retail trade are partly explained by the poor performance of the agriculture sector. A significant part of the manufacturing is agro-based and a large part of the wholesale and retail business involves trade in agricultural produce.

24. The financial services sector was affected by the poor performance of the economy growing by 2.7% in 2008 compared to 6.6% in 2007. However, the sector has fully recovered and has grown steadily to record 8.8% growth in 2010. Progress has been achieved in development of the BPO sector 5,000 acres of land for the Konza Technology City (a key Vision 2030 Flagship Project) has been secured, the Master Plan for the city has been completed and Tender for the Master Builder and market sounding activities are on-going.

Social Pillar—achieving cohesive society enjoying equitable social development

25. In the first 3 years of the MTP notable progress has been achieved in the social sectors and development of the nation's human resources. Pupil enrollment in

Early Childhood Development Centers increased from 1,691,093 in 2007 to 2,193,071 in 2010 with the proportion of girl pupils enrolled in Early Childhood Education (ECE) increasing from 48.1% to 49.8%. Over the same period, the ECE Net Enrollment Ratio (NER) increased by 7.9 percentage points from 42.1 to 50.

26. Between 2007 and 2010, the number of pupils enrolled in primary school increased from 8.25 million to 9.38 million, thus in the first 3 years of the MTP an additional 1.13 million pupils have enrolled in primary education. Progress has also been achieved in improving the quality of education. For example, between 2007 and 2010/11, the textbook to pupil ratio in lower primary improved from 1:3 to 1:1 and that for upper primary improved from 1:2 to 1:1.

27. The MTP targets to raise the transition rate from primary to secondary education from 60% to 75% by 2012. As at FY 2010/11 the transition rate had increased to 72.5 % with that of female pupils at a higher rate of 75.3 % compared to 69.9 % for male pupils. With regard to university education, the number of students enrolled in university increased by 53 % in the first 3 years of the MTP from 118,239 in 2007/08 to 180, 978 in 2010/11.

28. The MTP also targets to improve regional disparities in school enrollment. Most of the Arid and Semi Arid Land (ASALs) are predominantly inhabited by pastoralist communities and school enrollment in these areas has been low compared to the rest of the country. Significant progress has been achieved in increasing enrollment rates in the ASALs in the first 3 years of the MTP with the Net Enrollment Ratio (NER) in the ASALs increasing from 27 in 2007 to 42.5 in 2010/11.

29. To improve the quality of education, the MTP targeted to recruit, over the 5 year period, an additional 28,000 (21,400 primary teachers and 6,600 secondary teachers) to address the acute shortage and improve the pupil teacher ratio. 18,000 teachers have so far been employed.

30. With regard to health indicators, between 2007 and 2010/11 the HIV prevalence rate declined from 7.4 % to 6.3 %; under -5 mortality rate fell from 92 per 1,000 in 2007 to 74 in 2010/11; Immunization coverage for children under 1 year increased from 73% to 83 %; and proportion of in-patients with malaria fell from 19 % in 2007/08 to 14 % in 2010/11. A total of 251 health centers and dispensaries have been rehabilitated and improvement of infrastructure for 72 hospitals is on-going. In addition, between 2007 and 2010 the following have been achieved: (i) increase in the number of health institutions in the country from 5,589 to 7,111 (ii) increase in the number of registered health personnel from 95,390 to 100,301 and (iii) increase in the number of middle level trainees in public medical training colleges from 5,932 to 6,699.

31. Significant effort and progress has been achieved in the area of preventive health care through provision of clean water and better sanitation. Over the FY 2007/2008 and FY 2010/11 the percentage of urban households with access to safe water increased from 60% to 70.5% while that for rural households increased from 40% to 49.2%.

32. Progress has also been made in the area of improving the livelihoods of households taking care of Orphans and other Vulnerable Children (OVCs). The proportion of eligible OVCs receiving cash transfers to the estimated total OVCs in the country increased from 1% in 2007 to 15.6 % in 2010/11 (above the MTP target of 12.5 % for FY 2010/11). Over the same period, the number of eligible households with vulnerable persons receiving cash transfers increased from 200 to 33,000 above the MTP target of 31,000.

Poverty Level and Progress on the Attainment of MDG Goals

33. The incidence of poverty stood at 45.9 percent in 2006 down from 52.3 percent in 1997. The survey also showed that Poverty was higher in the rural areas (49.1%) compared to urban areas (33.7%). There are plans to carry out a comprehensive household budget survey in 2013. As part of the preparatory process, the Kenya National Bureau of Statistics (KNBS) is developing a master sampling frame based on the 2009 Population and Housing Census.

34. To arrive at more current estimates of poverty, the Bureau using the Small Area Estimate is imputing consumption expenditures based on the 2005/06 KIHBS to the recently published 2009 National Population Census data. The results of this exercise are expected to be out by April 2012. Looking forward and based on the growth achieved in 2010 and the current projections to 2015 where growth is expected to average 5.8%, and assuming that population growth rate remains at the current level of 2.8-3% with significant reduction in income inequality; poverty level is expected to drop to 42% from the current estimated level of 48%. At this level the country will not be enable to meet its target of halving poverty by 2015—one of the commitments of the MDGs.

35. The Government and development partners have committed substantial resources in order to achieve the MDGs. The Government with the support from the development partners undertook an assessment of Kenya's performance in meeting each of the eight goals and compiled the first MDGs Status Report for Kenya in July 2003, and subsequent ones in 2005, 2007, and 2009. Compilation of the 2011 report is on-going and is expected to be completed by June 2012. The Ministry presented the first report to Parliament on the 28th of September 2011.

36. As indicated in the recent MDGs Status Reports for Kenya, significant progress has been made towards meeting four of the eight goals, as follows:

- *Goal 1—Eradicate extreme poverty and hunger*: The achievement of this goal has been hampered by frequent droughts and changing rainfall patterns owing to climate change. The Economic Stimulus Programme in 2009/10-2010/11 helped provide resources for purchase of rice and seed maize, rehabilitation of several irrigation schemes, construction of water pans in arid and semi arid areas, as well as development of fishing ponds as alternative sources of livelihood. The government has also enhanced resources going to existing safety nets and development of the livestock sector to support livelihood in arid and semi-arid regions. Overall, the Agriculture Sector Development Strategy (ASDS) which has been launched is, key to the achievement of this MDG goal.

- *Goal 2—Achieve Universal Primary Education*: The primary school Net enrollment Ratio (NER) has increased from 73.7 % in 2000 to 91.4 % in 2010, with continued provision of adequate resources under free primary school programme. The Government has also provided more resources for free tuition in secondary schools, thus helping the transition rates.

- *Goal 3—Promote Gender Equity and Empower Women:* The girl to boy ratio in primary school is 0.95% indicating that gender parity in primary schools is likely to be achieved. The new constitution provides for a minimum of 30 percent female representation in Parliament, as well as a third in government appointments. Successful implementation of this commitment under the new constitution will help the country make great strides in gender parity.

- *Goal 4—Reduce child mortality*: Considerable progress has been made with under five mortality falling from 115 in 2003 to 74 in 2009; infant mortality from 77 in 2003 to 52 in 2009; and measles immunization rising from 74% in 2003 to 86% in 2009.

- *Goal 5—Improve maternal health:* This is one of the most challenging goals given that maternal mortality ratio has actually risen from 414 in 2003 to 488 in 2009. There is need for more attention to address challenges in this area in order to reverse this trend.

- *Goal 6—Combat HIV and AIDS, Malaria and other Diseases:* The National HIV prevalence (age 15-49 years) has declined from 7.4 % in

2007 to 6.3% in 2010 and that for youth aged (15-24 years) reduced from 3.8% in 2007 to 3.9 % in 2009. The government has issued more than 3.4 million insecticide treated nets (ITNs) for use by children and pregnant women. The proportion of Kenyan households owning at least one insecticide treated net rose from 6% in 2003 to 56 % in 2008/09. The proportion of children under five years using ITNs increased from 5% in 2003 to 47% in 2008/09, while that of pregnant women increased from 4% to 49% in 2008/09. Indoor residual spraying aimed at controlling mosquitoes which transmit malaria parasite conducted in more than 600,000 households in 16 malaria prone districts.

- *Goal 7—Ensure environmental sustainability:* forest cover in the country at 3.82% (2010) of total land area is quite low. Considerable efforts have been made to integrate the principles of sustainable development into the country policies and programmes and to reverse the loss of environmental resources, including dealing with climate change, but more needs to be done. The new constitution targets land under forest to be at least 10%. There are ongoing concerted efforts to enhance tree planting under the youth employment programme ("Kazi Kwa Vijana") and school tree planting programmes, in addition to protecting and conserving the five water towers.

- *Goal 8—Develop a Global Partnership for Development:* The Government in partnership with development partners has produced an External Resources Policy. 17 of Kenya's main development partners have signed the Kenya Joint Assistance Strategy (KJAS) to accelerate aid effectiveness in line with the Paris Declaration of 2005. The country has also made strides in the ICT arena. The number of mobile phone subscribers has increased from 180,000 in 2000 to 20.1 million in 2010 and the percentage of the population with mobile increased from 39 % in 2007/08 to 74 % in 2010/11. The number of internet users has also increased from 200,000 in 2001 to 7.8 million in 2010.

37. Overall, with respect to meeting the MDGs by 2015 there is potential of meeting others and unlikely for others. However, the supportive environment is improving as summarized in Table 1 below.

Table 1: Supportive environment for meeting MDGs

Goal	2003 Progress Report		Current Status		Remarks
	Will it be met?	Supportive environment	Will it be met?	Supportive environment	
MDG 1: Eradicate Extreme Poverty and Hunger	Unlikely	Weak	Unlikely	Strong	Increased pro-poor spending in edc, health and agric.
MDG 2: Achieve Universal Primary Education	Potentially	Fair	Potentially	Strong	Free Primary/secondary schooling
MDG 3: Promote Gender Equality and Empower Women	Potentially	Fair	Potentially	Strong	New gender sensitive constitution, Women Enterprise Fund etc
MDG 4: Reduce Child Mortality	Unlikely	Fair	Unlikely	Fair	Continued increase funding to health sector
MDG 5: Improve Maternal Health	Unlikely	Weak	Unlikely	Fair	
MDG 6: Combat HIV/AIDS, Malaria and Other Diseases	Potentially	Strong	Potentially	Strong	
MDG 7: Ensure Environmental Sustainability	Potentially	Weak	Potentially	Fair	Protection of water towers including Mau forest, tree planting, etc
MDG 8: Develop a Global Partnership for Development	Unlikely	Weak	Potentially	Strong	Youth empowerment programs with donors, increased mobile subcribers with cooperation with private sector

Political Pillar— building issues-based, accountable democratic political system

38. Notable progress has been achieved in implementing the programmes and projects outlined in Chapter Six (Political Pillar) of the MTP. During the early part of the MTP the following initiatives were to be undertaken under the political pillar: (i) the establishment of a permanent Commission on National Cohesion; (ii) establishment of the Commission on Post-Election Violence; (iii) establishment of an Independent Truth, Justice and Reconciliation Commission (TJRC); and (iv) the establishment of the Public Complaints Standing Committee. All of these have been fully implemented and the recommendations of the various commissions have been implemented. In addition, the Government has completed the second consultative review of the African Peer Review Mechanism (APRM) and the report is awaited.

39. The promulgation of the Constitution on 27th August 2010—a Flagship project under the MTP political pillar—is a significant achievement in the implementation of the political pillar of Vision 2030. Since its promulgation, a

framework of oversight committees for implementing the Constitution has been established as follows: (i) the Cabinet Committee on implementation of the Constitution (ii) a Parliamentary Committee- the Constitutional Implementation Oversight Committee, established under Clause 4 Schedule Six to oversee implementation of the constitution, and (iii) the Commission for Implementation of the Constitution established under Clause 5 of Schedule Six.

40. As provided for in the Constitution, a number of institutions and offices have been established and operationalised. These include: (i) the Commission for Implementation of the Constitution (CIC); (ii) the Judicial Service Commission; (iii) the Commission for Revenue Allocation (CRA); (iv) the Supreme Court; and (v), the Vetting of Judges and Magistrates Board.

41. Competitive recruitment and public vetting of state officers has successfully seen the appointment of the Chief Justice, Deputy Chief Justice, Supreme Court Judges and Judges of the High Court, the Director of Public Prosecutions, the Attorney General, Controller of Budget and Auditor General.

42. The seven members of the selection panel Independent Election and Boundaries Commission (IEBC) were appointed and sworn in on 8th August 2011. The IEBC Selection Panel has completed the process of selecting the Commissioners for the IEBC and the Commissioners and the Chairperson were appointed by the President in consultation with the Prime Minister on 9th November 2011. The IEBC comprise of 8 Commissioners and a Chairperson. It will be responsible for conducting and supervising referenda and elections to any elective body or constitutional office. It will oversee the preparation and conduct of the next general elections in 2012.

43. Progress has also been made in regard to all the legislations that were required under the Constitution to be enacted within a period of one year. As at 27th August 2011, all the legislations due for enactment were all enacted into law and now their operationalization and enforcement are on-going.

Box 1: Progress in Implementation of the New Constitution

With regard to progress made on developing legislation to implement the Constitution, a total 22 Acts have so far been enacted. Namely:

i. The Commission on Administrative Justice Act No. 23 of 2011 passed by Parliament
ii. The Elections Act No. 24 of 2011 passed by Parliament
iii. Industrial Court Act No. 20 of 2011 has been passed by Parliament
iv. Judicial Service Act (No 1 of 2011) - date of assent 21.3.2011 commencement 22.3.2011
v. Vetting of Judges and Magistrates Act (No of 2 of 2011) - date of assent 21.3.2011 commencement 22.3.2011
vi. Supreme Court Act (No 7 of 2011) - Date of assent 22.6.2011 commencement 23.6.2011
vii. Independent Offices Appointment Act (no of 8 of 2011 – date of assent 5.7.2011 commencement 5.7.2011
viii. Independent Electoral and Boundaries Commission Act (No 9 of 2011) – date of assent 5.7.2011 commencement 5.7.2011
ix. Salaries and Remuneration Commission Act (No 10 of 2011) - Date of assent 27.7.2011 commencement 29.7.2011
x. Political Parties Act (No 11 of 2011) - date of assent 27.8.2011 commencement to be by notice
xi. Kenya Citizenship and immigration Act (No 12 of 2011) - Date of assent 27.8.2011 commencement 30.8.2011
xii. Urban Area and Cities Act (No 13 of 2011) - Date of assent 27.8.2011 commencement (after 1st elections under this constitution and after repeal of Cap 265 Local Government Act)
xiii. Kenya National Human Rights Commission Act (no 14 of 2011) - Date of assent 27.8.2011 commencement 30.8.2011
xiv. National Gender and Equality Commission Act (No 15 of 2011) - Date of assent 27.8.2011 Commencement 30.8.2011
xv. Commission on Revenue Allocation Act (no 16 of 2011) - Date of assent 27.8.2011 commencement 30.8.2011
xvi. Contingencies Fund and County Emergency Funds Act (No 17 of 2011) - Date of assent 27.8.2011 commencement 30.8.2011
xvii. National Government Loans Guarantee Act (No 18 of 2011) Date of assent 27.8.2011 commencement 30.8.2011
xviii. Environment and Land Court Act (No 19 of 2011) - Date of assent 27.8.2011 commencement 30.8.2011
xix. Power of Mercy Act (No 21 of 2011) - Date of assent 27.8.2011 commencement 5.9.2011
xx. The Independent Ethics and Anti-Corruption Commission Act (No 22 of 2011) - Date of assent 27.8.2011 Commencement 5.9.2011.
xxi. National Police Service Commission Act (No 30 of 2011) - Date of assent 30.9.2011 date of commencement 4.10.2011
xxii. Kenya Citizens and Foreign Nationals Management Service Act (No 31 of 2011) - Date of assent 30.9.2011 date of commencement 4.10.2011
xxiii. In addition to the above, 19 additional Bills are currently undergoing internal review by the Commission for the Implementation of the Constitution (CIC).

c. MTP Institutional Framework and Monitoring

44. The launch of Kenya Vision 2030 and its First MTP (2008-12) in June 2008 was followed by the creation of the Vision 2030 Delivery Secretariat (VDS) to spearhead the implementation of Vision 2030 flagship projects. In this process, it was expected that sector wide approaches would be used to implement programmes selected as priority areas in the first MTP. Twenty Sector Plans were then developed as part of the process of deepening the selected programmes. A total of 98 flagship projects covering the three pillars (Economic, Social and Political) were isolated as the projects to focus within the first five years. Lead Ministries have also been selected to steer each sectoral area. The sectors are also linked to the Budget Sector Working Groups to facilitate allocation of resources to key programmes and projects within Kenya Vision 2030.

45. The national monitoring framework has also evolved to reflect the key outcomes of the medium term plan, tracking of flagship projects as well as indicators for sub-national level (district and constituencies) and gender. The handbook of National Reporting lists 48 indicators for the Vision 2030 first MTP. The tracking of these indicators forms the source of data for the Annual Progress Reports (APRs). There are also indicators selected for flagship projects; district and constituency monitoring; and, 30 indicators for gender monitoring. Key targets for the period 2008-2013 are also given, with 2007 as the base year.

III. UPDATED MTP PROGRAM FOR 2012-2013 (THE INTERVENING PERIOD)

a. Consultative Process Underpinning the Preparation of Updated MTP

46. This MTP update was developed through a participatory, consultative and inclusive stake holder process involving the citizens, government, private sector, civil society and development partners.

47. The Parliamentary Committee responsible for budget held a series of consultations with the public through budget public hearing carried out in eight towns (Nyeri, Mombasa, Garissa, Embu, Kakamega, Nakuru, Kisumu, and Nairobi) before submitting their report to Parliament on the 2011 MTEF budget. The priority areas identified by the public included: (i) need to ensure food security through investment in agriculture; (ii) need to tackle youth unemployment through training and upgrading job skills; (iii) need to increase provision of basic social services through recruitment of additional health and education personnel and efficiency

infrastructural facilities in the health and education sector; (iv) need for increased access to affordable electricity in rural areas; and (v) need to beef up security by providing additional resources.

48. In addition, the Government has updated the Sector Working Groups (SWGs) to reflect a new system of classification of functions of government that is considered best practice. As before, the budget preparation process has benefited from consultations through involvement of stakeholders culminating in public hearing that is open to all citizenry, the civil society, parliamentarians and government officials. However, involvement at lower levels of government has been weak due to lack of a framework for coordinating consultations at district level.

49. Under the new constitution, public participation in budget making has become essential. In response, the new SWGs were involved in countrywide consultation covering all the forty seven counties in the new devolved system as indicated in Table 2 below.

Table 2: SCHEDULE OF THE COUNTRY -WIDE BUDGET CONSULTATION FOR 2012/13 MTEF BUDGET

DATES		TEAM 1	TEAM 2	TEAM 3	TEAM 4	TEAM 5	TEAM 6	TEAM 7	TEAM 8	TEAM 9
Team Leader (SWG)		Public Administration	Social Protection, culture and Recreation.	General Economic, Commercial and Labour Affairs.	Environment, Protection, water & Housing	Agric. & Rural Dev.	Governance Justice, Law & Order (GJLOs)	Energy Infrastructure &ICT	Health	Education
Sunday	30/10/2011									
Monday	31/10/2011		Lamu	Kitui	Marsabit		Homa Bay	Busia	Nandi	
Tuesday	01/11/2011	Samburu		Makueni		Mandera	Migori	Siaya	Uasin Gishu	Turkana
Wednesday	02/11/2011		Kilifi	Machakos	Isiolo		Kisii	Kisumu	Bungoma	
Thursday	03/11/2011	Laikipia	Mombasa	Kajiado	Meru	Wajir	Nyamira	Kericho	Kakamega	West Pokot
Friday	04/11/2011	Nyandarua	Kwale	Kiambu	T/Nithi		Bomet	Nakuru	Vihiga	Trans Nzoia
Saturday	05/11/2011	REPORT WRITING								
Sunday	06/11/2011									
Monday	07/11/2011	Nyeri	Taita Taveta	Nairobi	Embu	Garissa	Narok			Elgeyo Marakwet
Tuesday	08/11/2011	Kirinyaga								Baringo
Wednesday	09/11/2011	Muranga				Tana River				

50. The launching of the budget making process was done in September 2011. Consultations were held at county level that brought on board the key stakeholders with organized breakout sessions of key sectors and thematic groups (i.e. youth, pastoralists, and physically challenged persons among others). Each county submitted a validated report on county sector issues and priorities. This together with the national budget proposal prepared by the SWGs is to be validated during

the Public Sector Hearings in mid-December 2011 where key stakeholders drawn from both the National and County levels will participate. The output of the public hearing will be a set of agreed sector policy priorities and budget proposals that will be used to inform the MTEF Budget for 2012.

51. Overall, based on the preliminary reports from the consultative process the strategic objectives in the MTP and the current MTEF budget are still relevant but require some re-orientation to meet the needs at the grassroots level. Highlights of the issues and priorities emerging from the consultations include the following:

- Increased funding to the road sector with more emphasis on feeder/strategic rural roads to facilitate movement of goods and persons;
- Additional staffing of health personnel in district and provincial hospitals, especially to improve maternal health care, as well as purchases of health equipments such as cancer screening machines in most hospitals and provision of mortuaries;
- Hiring of additional teachers to man expanding education facilities in rural areas, and additional resources for early childhood;
- Establish rehabilitation centers for the youth to make them more productive in the rural areas and disengage them from drugs and alcohol abuse;
- Increase access of clear water through improved pipe distribution system both in urban and rural areas;
- Improve planning of towns that are mushrooming at a faster pace, as well as slum upgrading programmes;
- Improve security in urban and rural areas, especially dealing with inter-communal and ethnic conflicts in resources use;
- Increased funding on sustainable livelihood programmes to reduce vulnerability to droughts and food shortages
- Increase funding for livestock development including building abattoirs or slaughter houses;
- Address uncertainties in land ownership among pastoralist communist; and
- Support for value addition in agriculture and improved marketing of produce.

b. Updated MTP Policy Framework

52. The Government's focus over the next two years will be on policies to remove binding constraints to faster growth while creating an enabling environment for strong private sector activity. This will enable the Government achieve faster

growth as well as help ensure that an increasing segment of the Kenyan population benefit from economic development as a basis of reducing poverty.

53. Based on the progress so far, and arising from consultation process, the Government will re-align the allocation of public resources to achieve the national development objectives. The key elements in each pillar are summarised as follows:

Accelerating and Sustaining Economic Growth

54. The Government will continue to maintain macroeconomic stability, deepen structural reforms, and strengthen institutions in order to help deliver high and stable levels of growth and employment. In addition, the Government will continue to implement a number of cross-cutting policies that are critical to generating broad-based growth and creating an enabling environment for business to thrive, as outlined in Box 2 below.

Box 2: Cross-Cutting Issues

Infrastructure – The Government will continue to increase investments in road network 9both rural and urban), water, sanitation services, rail, and air transport and energy supply services in order to improve services and reduce the cost of doing business. Increase funding to infrastructure will be facilitated by the implementation of a new Public Private Partnership (PPP) framework and access to new sources of funding such as issuance of sovereign bonds and continued flotation of domestic long-term infrastructure bonds.

Information Communication Technology (ICTs) – The Government will implement policies aimed at attracting investors in the ICT sector in recognition of its importance in accelerating productivity of all sectors of economy and empowerment of people to meet the challenges of the 21st Century. In particular, the development of ICT Parks and Digital Villages will lead to low cost of ICT goods and services and facilitate growth and establishment of BPOs. In addition, development of scientific and technological infrastructure, enhanced research and development as well as technical and entrepreneurial skills will be pursued over the medium term.

Land Reforms – With the new Land Bill following the new Constitution, the Government will undertake land reforms to address issues concerning land ownership and administration, security of tenure, land use and development, and environmental conservation.

Public Sector Reforms – With the new public financial management legislation and revamped PFMR strategy, the Government will deepen public service reforms guided by principles of values and ethics entrenched in the new Constitution, as well as strengthening expenditure control in both national and county government under the devolved system.

55. Meanwhile, the Government will continue to create an enabling environment for the private sector to invest in the six key sectors identified to achieve higher economic growth over the medium-term (Box 3).

Box 3: Key Sectors in the Economic Pillar

Tourism – The Government is committed to increasing tourist revenue yield in the country's premium safari parks; supporting the establishment of three resort cities and strategic niche products.

Agriculture – The Government is committed to deepening the reforms in the agricultural sector and continuing to increase resources to implement the agricultural and livestock sector strategies. In addition, the Government will support innovative measures that would make agriculture commercially-oriented, modernised and transformed to benefit from the incentives offered by the high commodity prices; continue rehabilitating and expanding irrigation schemes to militate against drought and reduce dependence on rain-fed agriculture so as to assure food security; strengthen land management and tenure systems for better utilization of high and medium potential lands; increase market access to small holder farmers; and support fisheries, forestry and mining, and protect the environment and natural resources.

Manufacturing – The Government is committed to facilitating the development of a robust, diversified and competitive manufacturing sector through establishment of special economic clusters and small and medium size industrial parks. In addition, the Government will facilitate the exploitation of value addition in agro-based business, among others.

Wholesale and retail trade – The Government is committed to creating an organised market outlet for small scale operators and reduce the number of players in the supply chain of marketed agricultural products.

Business processing outsourcing (BPO) – The Government is committed to create more jobs for the youth; facilitating the establishment of a BPO park with the aim of attracting leading BPO players while developing the local capacity in the sector.

Financial services – The Government is committed to developing a vibrant and globally competitive financial sector through reforming the banking sector to facilitate consolidation, improving coverage in pensions sector and deepening capital markets by accessing international capital, among others.

56. As part of improving the business environment, the Government will continue to streamline regulations and licensing, with a view to furthering improvement on the World Bank's Ease of Doing Business Survey. In particular, the Government will continue deepening and broadening the scope of business regulatory reforms, undertaking additional measures in the private sector development strategy to improve the investment climate and completing the remaining licensing reforms including enacting the Business Regulatory law, making operational the e-Registry, simplifying taxation for SMEs, and enactment of the new Companies Bill to streamline business registration. In addition, the government will develop and make operational a single window Port Community Based System (PCBS) which will facilitate faster, efficient and competitive clearance of cargo at the Port of Mombasa. The Government will work closely with the private sector and development partners in all these efforts.

57. In addition, the Government will continue to implement reforms in the parastatal sector including organizational and financial restructuring and

privatization. Further, in order to untie mature investments and mobilize resources for priority government investment areas and inject efficient and professional management systems for effective service delivery, the commercialization and modernization programmes for the identified public entities will be concluded speedily.

Equity and Poverty Reduction as a Basis for Equitable Social Development

58. Given the progress in reducing poverty, the Government will continue to focus on providing a significant share of budgetary resources to six key social sectors, while ensuring efficiency in the utilization of those resources (Box 4).

Box 4: Key Sectors in the Social Pillar

Education and training – in addition to funding free primary and secondary education, the Government will continue providing bursaries to bright students from poor families/background. It will also provide resources to support technical training, as well as research and technology to enhance the competitiveness of our economy. Other initiatives under the sector will include: rationalization of teacher utilization in both primary and secondary schools with a view to improve the efficiency of education spending; integrating early childhood into primary education; reforming secondary school curricula; modernizing teacher training; strengthening partnership with the private sector; developing key programs for learners with special needs; and revising the curriculum for university and technical institutes to include science and technology, among others.

Health – Government will continue to shift focus from curative to preventive care, help to expand immunization coverage, improve reproductive health needs and allocate additional resources to facilitate an effective multi-sectoral response to epidemics such as HIV/AIDS and malaria. Under the devolved system, the Government will aim to provide a health services through a robust infrastructure network as well as expand medical insurance coverage to increase access to health services. With the sector already receiving adequate budgetary resources, the Government will focus on streamlining the financial and other logistical management systems to improve disbursement of funds to health facilities.

Water and sanitation -- The Government will aim to conserve water and enhance ways of harvesting rain and underground water. Specifically, it will aim to rehabilitate hydro-meteorological data gathering network, construct multi-purpose dams and construct water and sanitation facilities to support a growing urban and industrial production.

Environment – the Government will continue to promote environmental conservation, improve pollution and waste management through public-private partnerships initiatives, and enhance disaster preparedness as well as capacity to adopt global climatic changes.

Housing and urbanization – the Government will support the development of affordable housing, enhance access to adequate finance for developers and buyers, provide physical and social infrastructure in slums and develop the city of Nairobi as an all round globally competitive city in business and tourism.

Gender, youth and vulnerable groups – the Government will aim to increase training for women entrepreneurs, establish a consolidated social protection fund for cash transfer to orphans, vulnerable children and elderly, and support sporting as well as music and performing art talents.

Building an Accountable Democratic Political System

59. Building on the progress so far, the Government will aim at setting up the essential frameworks and enabling legislations for implementing the new Constitution, and continue with judicial, security and policing reforms as a basis of building an accountable democratic political system based on the rule of law. In addition, the Government will deepen governance reforms to reduce corruption, improve efficiency and ensure effective service delivery in public sector (Box 5).

Box 5: Key areas for Reform in Political Pillar

Rule of law and Judicial Reforms – With the new legal and institutional framework, the Government will promote and sustaining fair, affordable and equitable access to justice as well as undertake legislative reforms that support market-based economy and human and gender rights.

Electoral and political process – The new Independent Electoral and Boundaries Commission will spearhead reforms covering the electoral process, hold transparent and credible elections. In addition, operationalisation of the Political Parties Act will enhance accountability by political parties, and promote civil education programmes to widen the knowledge and participation among citizen as well as strengthen the laws on non-discrimination to promote inclusion of women and disadvantaged in the electoral and political process.

Transparency and accountability – The Government will implement the new legal and institutional framework for anti-corruption, ethics and integrity, as well as promote results-based management within the public service. In addition, it will encourage public access to information, introduce civilian oversight around the key legal, justice and security institutions per the new Constitution, and strengthen Parliament's legislative oversight capacity.

Security and peace building – Building on work of the National Cohesion and Integration Commission, the Government will continue to promote community involvement in security, promote harmony among ethnics, and other interest groups, as well as promote peace building and reconciliation within the country.

IV. MACROECONOMIC FRAMEWORK

a. MTP macro targets

60. The Macro-Fiscal Framework underpinning the MTP was based on attainment of a target of 10 percent real GDP growth by 2012/13 (Table 3). It assumed high growth in investment and savings over the medium term period with the investment to GDP ratio targeted to increase from 21.9 percent in 2008/09 to 32.6 percent in 2012/13 and savings to GDP ratio rising from 15.1 percent to 27.5 percent. The framework also assumed continued maintenance of macroeconomic

stability with inflation easing from 7.5 percent in the initial year to stabilize at around the 5 percent target over the rest of the MTP period.

61. Out of the 12 percentage points of increase in overall investment to GDP level in the MTP period, 5 percentage points was expected to come from the public sector in the form of infrastructure developments (roads, transport, energy, ICT, science, technology and innovation and water and sanitation), while the balance was expected to be financed by the private sector, including direct foreign investments. The increase in private sector investments would benefit from conducive macroeconomic environment, deepened structural reforms to further increase economic efficiency and effectiveness in public service delivery, and crowding in through increased public infrastructure development.

62. Meanwhile, gross national savings necessary to finance the envisaged investment levels was expected to rise steadily with reforms in the financial sector to improve intermediation. It was assumed that financing of many investment projects would be undertaken through Public Private Partnership (PPP) arrangements.

Table 3: Main Macroeconomic Indicators Underpinning the MTP, 2008/09-2012/13

	2008/09		2009/10		2010/11		2011/12	2012/13
	Target/1	Prov.	Target/1	Prov.	Target/1	Est.	Target/1	Target/1
	Annual percentage change							
National account and prices								
Real GDP	6.2	2.1	8.3	4.1	9.1	5.3	9.7	10.0
GDP deflator	11.0	11.3	5.2	5.7	5.6	7.2	5.8	5.9
CPI Index (eop)	7.5	8.6	5.0	3.5	5.0	14.5	5.0	5.0
CPI Index (avg)	16.9	12.8	6.5	5.5	5.0	6.8	5.0	5.0
Terms of trade (-deterioration)	-7.0	8.0	-0.9	5.8	0.4	-4.9	0.2	0.1
	In percentage of GDP							
Investment and saving								
Investment	23.2	19.3	24.6	19.5	27.0	22.0	29.7	32.6
Gross National Saving	16.2	12.7	18.5	12.1	21.4	12.4	24.4	27.7
Central government budget								
Total revenue	20.9	21.8	21.3	22.3	21.5	24.0	21.5	21.7
Total expenditure and net lending	26.2	26.6	25.7	29.5	25.8	29.2	27.0	27.3
Overall balance (commitment basis) excl. grants	-7.1	-4.8	-7.1	-7.2	-7.3	-5.2	-5.9	-6.1
Overall balance (commitment basis) incl. grants	-3.9	-3.6	-2.9	-6.4	-3.7	-4.5	-3.6	-3.6
Nominal public debt, net	43.0	42.3	40.2	45.0	41.3	48.8	38.0	38.9
External sector								
Current external balance, including official transfers	-7.0	-6.6	-6.1	-7.4	-5.6	-9.6	-5.3	-5.0
Gross international reserve coverage in months of imports	3.5	3.1	3.7	3.1	3.9	3.1	4.2	4.5

1/ Vision 2030 First Medium-Term Plan Target

b. Recent Developments and Challenges

63. However, before the implementation of the MTP took off, the country was buffeted by multiple shocks including post-election violence, drought, global financial and economic crisis, and rising commodity prices. These shocks impacted the economy negatively by reducing inflow of remittances, lower demand for exports of horticulture, and reduced tourism earnings. The global crisis also caused a slowdown in the growth of the sub region that constitutes the main market for Kenya's exports. At the same time, the drought adversely affected agriculture and resulted in reduced production as well as increased use of expensive generation of electricity from thermal sources.

64. Following these developments, growth weakened from about 7 percent in 2007 to average about 3 percent in 2008/09-2009/10. As the economy recovered in 2010, it was again hit by drought that started towards the end of that year. This happened at the time the international oil and food prices were rising due to external factors including the political crisis in MENA, and at the time the global economy was recovering at a slower-than-expected pace. Domestically, rising inflation and the weakening of the shilling exchange rate that started in 2011 posed macroeconomic challenges.

65. As a result of these developments, the Kenyan economy has registered lower than targeted growth during the past three years of the MTP implementation. While public investment was stepped up with increased infrastructure spending and economic stimulus programme, private investment has not picked to levels envisaged in the MTP. This follows slower implementation of structural reforms and privatization programme, inadequate framework for PPP arrangements, and weak investor confidence. More recently, the macroeconomic environment has faced a number of challenges with high inflation and Shilling pressures, necessitating a revision of the programme.

c. Revised macroeconomic setting

66. Against this backdrop, the updated macroeconomic framework is cautious with expected weaker-than-expected recovery in global output and tighter domestic macroeconomic conditions. Nonetheless, with the improved weather conditions and completion of key infrastructure projects in roads and energy, the economic prospects remain favorable, albeit with risks.

67. ***Real GDP***: Real GDP is expected to remain at around 5 percent in 2011/12 before picking to about 6 percent in the outer years (Table 4). Growth will be bolstered by continued expansion in agriculture (barring any adverse weather),

tourism, and exports with continued growth in the sub region and favourable exchange rate. This is expected to compensate for weakened public and private demand resulting from a tighter macroeconomic environment. These measures will be complemented by further structural reforms, especially those targeted toward improving competitiveness of the private sector and promoting overall productivity in the economy. Successful general elections and implementation of the devolved system of governance is also expected to boost investor confidence and increased private investment.

68. ***Inflation and exchange rate:*** We anticipate that the current supply-side driven pressures on prices and the exchange rate will subside in line with the reduction in oil prices, and ample supply of food with normal weather conditions. This should reduce demand pressure on imports and the current account.

69. Meanwhile, appropriate macroeconomic policies should bring down inflation to single digit levels in a year's time and stabilize at the 5 percent target over the medium term. Stability in interest rates and exchange rates are expected to be restored and thereafter sustained over the medium-term.

Table 4: Updated Macroeconomic Framework, 2010/11-2013/14

	2010/11	2011/12	2012/13	2013/14
	Est.	Proj.	Proj.	Proj.
	Annual percentage change			
National account and prices				
Real GDP	5.3	5.3	5.8	6.2
GDP deflator	7.2	12.2	9.9	6.5
CPI Index (eop)	14.5	8.9	7.9	5.6
CPI Index (avg)	6.8	15.1	9.5	6.3
Terms of trade (-deterioration)	-4.9	-1.1	-0.3	-0.2
	In percentage of GDP			
Investment and saving				
Investment	22.0	22.9	23.5	24.7
Gross National Saving	12.4	13.0	15.2	18.0
Central government budget				
Total revenue	24.0	24.5	24.7	24.9
Total expenditure and net lending	29.2	30.6	31.0	30.3
Overall balance (commitment basis) excl. grants	-5.2	-6.1	-6.3	-5.5
Overall balance (commitment basis) incl. grants	-4.5	-4.8	-5.0	-4.0
Nominal public debt, net	48.8	46.1	45.5	44.6
External sector				
Current external balance, including official transfers	-9.6	-9.9	-8.2	-6.8
Gross international reserve coverage in months of imports	3.1	2.8	3.2	3.6

Source: Ministry of Finance

70. ***Balance of payments***: The easing of public and private demand should put less pressure on the current account, which is expected to decline gradually from about 10 percent of GDP in 2011/12 to 6.8 percent of GDP in 2013/14, and thereafter to about 5 percent of GDP in the outer years. The decline in the current account is not expected to occur faster with tighter macroeconomic policies because of the protracted worsening of the terms of trade. The relatively higher interest rates and improved increased investor confidence with expected successful elections should enable the capital and financial account to be in surplus. This will allow the Central Bank of Kenya to build up foreign exchange reserves gradually.

71. ***Fiscal outlook***: The Government will maintain a strong revenue effort with measures to simplify the tax code in line with best practices, in order to help improve tax compliance, minimize delays, and raise revenue. In addition, we will rationalize existing tax incentives, expanding the income tax base and removing tax exemptions as envisaged in the constitution. Overall, fiscal policy will continue to support economic activity while allowing for implementation of the new constitution within a context of sustainable public financing. As such, we are committed to gradually reduce the overall fiscal deficit to below 5 percent of GDP over the medium term. This will help to bring down the debt-to-GDP ratio to a sustainable level and contribute to reducing the external imbalance.

72. ***Financing policy***: The medium-term fiscal stance envisages continued borrowing from domestic and external sources with the latter being largely on concessional terms. The Government will ensure that the level of domestic borrowing does not crowd out the private sector to allow the expected increase in private investment to pick up. In this regard, the Government will maintain its intentions to float a sovereign bond in the international capital markets if and when the global financial conditions permit. This is expected to ease further domestic pressure on interest rates with tight monetary policy conditions.

73. The ***risks to the outlook*** for 2012 and medium-term include further weakening in global economic growth and unfavorable weather conditions should there be another round of drought in 2012. Also, reversal in the current easing of international oil prices may fuel inflation and weaken growth. Finally, unsuccessful transition to a decentralized system of government could weaken investor confidence and slow down growth. Should these risks materialize the government will undertake appropriate measures to safeguard macroeconomic stability and critical development spending.

74. ***Alternative scenario***: Whereas the revised projected growth is still below the target envisioned in Vision 2030 needed to increase labor absorption, the Government recognizes that further up scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value-

added and more efficient production structure. Under this optimistic scenario, and taking into account limited public resources, the government must rely on the private sector to meet the economy's resource requirements while developing the appropriate market environment to promote efficiency. This calls for faster implementation of the privatization program; provide for private sector participation in infrastructure development; promote fair market competition and appropriate regulation of private sector activity; increase labor market mobility; and provide for greater private sector access to finance. All this will require implementation of a robust private sector development strategy, deeper structural reforms, and enabling legislations.

75. ***Inclusive growth***: The Government also recognizes the importance of achieving durable broad-based growth and the need to ensure that the gains from growth are widely distributed through sustainable employment in order to guarantee a lasting reduction in poverty and progress towards achieving the MDGs. In addition, measures to address socio-economic inequities, improving the country's human capital, and inculcating national cohesion are vital for long-term stability and prosperity. To this end, the Government will continue to implement the socio-economic priority programmes articulated in this updated Vision 2030's first MTP, while ensuring increased devolution of resources to county government levels in line with the new Constitution.

d. Reformulating the MTP's Medium-Term Expenditure Framework

76. The updated medium-term fiscal framework described in this section sets out the broad fiscal parameter for the medium-term budget. The Government will prioritize resource allocation to cater for priority areas identified in the consultation process and the need to achieve MTP reprogrammed priority goals, including interventions required to achieve the MDGs. Given limited resources, MTEF budgeting will entail adjusting non-priority expenditures to cater for the above prioritization.

77. Specifically, it is expected that:

- The share of total resources going to priority social sectors, education and health, will stabilize at 31%-32% of total expenditure by 2014/15. Both sectors (education and health) are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate strategic interventions in their sectors including funding HIV/AIDS interventions, healthcare infrastructure, affordable drugs, and recruitment and training of staff as identified during the budget consultations. In particular, it is expected that the health sector will strengthen its infrastructure and administrative control, while the education sub-sector will revisit its staffing norms in order to create fiscal space for key interventions.

- The share of resources allocated to priority economic sectors is expected to increase from 27.1% in FY 2010/11 to about 29% by 2014/15. Specifically, agriculture and livestock is expected to receive increasing share of resources at about 6% to boost agricultural productivity with a view to deal with the recurrent food security problems in the country.

- With the Government committed to improve infrastructure in the country, the share of resources going to priority physical infrastructure sector, roads, energy and water and irrigation, is expected to rise from 20.2% in 2010/11 to about 22% by 2014/15. These resources allocated to energy and water and irrigation will help the sector provide reliable and affordable energy, as well as increased access to water and development of irrigation projects.

- Other priority sectors including internal security, rule of law, youth and development of arid regions, which has received a significant boost in resources in FY 2010/11 will be maintained at about 11.5% over the medium-term to enable these sector to implement governance reforms as well as deal with youth unemployment and provide opportunities for the vulnerable members of our society in the arid and semi arid regions. The MTEF budget of the judiciary, which was significantly enhanced in FY 2011/12 budget, will be maintained at that level to enable speedy implementation of judicial services in line with the new Constitution. In order to be more prepared for future droughts and enhance food security, the Government will continue allocating adequate resources for water programmes in the arid and semi-arid areas.

78. Taken together, the combined share of resources to the above priority sectors is expected to rise from 68.6% in FY 2010/11 to 72.1% by FY 2014/15, while that for other expenditure (non-priority) will decline from about 31.4% to 27.9% over the same period (Table 5).

Table 5: Spending on Priority Sectors (in percent of total expenditure)					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
PRIORITY SECTORS	**68.6**	**70.1**	**71.2**	**70.9**	**72.1**
Social Sectors	**30.9**	**30.4**	**30.9**	**31.3**	**31.7**
Health	7.1	6.9	7.0	7.0	7.0
Education	23.8	23.5	23.9	24.4	24.7
Basic	17.7	17.4	17.7	17.6	17.9
Tertiary	6.2	6.0	6.2	6.8	6.9
Economic Sectors	**27.1**	**29.2**	**27.9**	**28.2**	**28.9**
Agriculture & Livestock	5.8	5.4	5.6	5.8	5.9
Tourism	0.3	0.4	0.4	0.4	0.4
Physical Infrastructure	20.2	22.6	21.3	21.3	21.9
Roads	11.1	13.0	12.2	12.1	12.3
Energy	4.3	5.0	5.2	5.3	5.6
Water & Irrigation	4.8	4.6	3.9	3.9	4.0
ICT	0.7	0.7	0.6	0.7	0.7
Other Priority Areas	**10.5**	**10.5**	**12.4**	**11.3**	**11.5**
Internal Security	6.5	6.3	6.4	6.3	5.9
Rule of Law & Democracy	2.0	1.6	2.6	1.6	2.5
Judiciary	0.5	1.1	1.2	1.2	1.1
Youth	1.3	1.3	1.2	1.3	1.2
Dev't of N/Kenya and Other Arid Lands	0.4	0.3	0.9	1.0	0.9
NON-PRIORITY SECTORS	**31.4**	**29.9**	**28.8**	**29.1**	**27.9**
TOTAL EXPENDITURE	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance (Estimates)

79. During the finalization of the annual budgets, line ministries/department budgets are scrutinized to conform to the prioritized programmes and the resource envelope firmed up. It is therefore likely that additional resources may become available. Should this happen, the Government will utilize these resources to accommodate emerging strategic priorities with sound business plans including:

- Implementation of the new Constitution covering proposals not accommodated within the baseline ceilings;

- Strategic intervention in the area of education, health, infrastructure (especially rural roads), tourism, internal security and agriculture (especially irrigation programmes and other food security enhancing programmes), as well as policy interventions covering the entire nation to enhance regional integration and social equity; and

- Specific consideration to job creation for the youth based on sound initiatives submitted outside the normal budget preparation.

V. PREPARATION OF THE SECOND MTP, 2013-2017

80. The successor to the MTP, the second Kenya Vision 2030 medium term plan will cover the years 2013-2017. The constitution has created a devolved structure of government through creation of counties and county governments. The consultative process for the preparation of the MTP 2013-2017 will thus take into account the new structures created under the devolved system of government including matters related to the roles and relations between county governments and national (central) government.

81. The consultative process for preparation of the MTP 2013-2017 will take on board views of all stakeholders at National and County Government levels on key issues and priorities to be addressed by the Plan.

82. With regard to the Timetable and key activities in preparation of the Plan, the Ministry of State for Planning National Development will prepare a Concept Note to be submitted to Cabinet and relevant Committees of Parliament for approval before the end of FY 2011/12. The Concept Note will , among other things, (i) review the progress made in implementing the MTP 2008-2012 (ii) identify and propose the key issues to be addressed by the MTP 2013-2017 (iii) propose the composition and structure of the committees and sector working groups for preparation of the Plan (iv) take in to account the new devolved structures arising out of the new constitution and (v) propose a Timetable for the Plan's preparation. The second Vision 2030 MTP is expected to be launched by June 2013.

VI. CONCLUSION

83. Overall, since the launching of the Vision 2030 first MTP the operating macroeconomic environment has been challenging. Nonetheless, significant progress has been made in meeting the MTP indicators and goals, although challenges remain in reducing poverty and meeting other MDGs.

84. The updated macroeconomic framework is achievable but cautions in light of the current difficult domestic and external environment. However, there are downside risks in view of the fragile recovery in developed economies and frequent droughts. This notwithstanding, the Government is committed to meeting the objectives under the MTP and staying on course towards achieving the MDGs. To this end, the recalibrated MTP policy priorities presented in Section VI, and which

broadly reflect the consultation process, should help guide the budgetary framework over the next two years, as we implement a decentralized structure of government. In the meantime, the Government will prepare a comprehensive Second MTP (the successor of the first MTP) that will guide budgetary priorities and programmes from 2013 onwards.