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Macro - Fiscal Analytic Snapshot Kenya

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Macro Fiscal Analytic Snapshot[1]

Kenya

Prepared by the Institute of Public Finance[2]

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List of Abbreviations

ASAL - Arid and Semi-Arid Lands
BIRR - Budget Implementation Review Report
BROP - Budget Review and Outlook Paper
CAADP - Comprehensive African Agricultural Developed Programme
CBIRR - County Budgets Implementation Review Report
CPAC - County Public Accounts Committee
CPI - Consumer Price Index
CRA - Commission on Revenue Allocation
CRS - Creditor Reporting System
EACC - Ethics and Anti-Corruption Commission
FLLoCA - Financing Locally Led Climate Action
GBV - Gender Based Violence
GDP - Gross Domestic Product
GFSM - Government Finance Statistics Manual
GGE - General Government Expenditure
GHE - General Health Expenditure
GN - Global Nutrition
MDAs - Ministries Departments and Agencies
MDB - Multilateral Development Banks
MIYCN - Maternal, Infant and Young Child Nutrition
MOH - Ministry of Health
MTEF - Medium Term Expenditure Framework
MTP - Medium Term Plan
MPO - Macro Poverty Outlook
MSMEs - Micro Small and Medium Enterprises
MTRS - Medium-Term Revenue Strategy
NCD - Non-Communicable Diseases
NHIF - National Health Insurance Fund
ODA - Official Development Assistance
OOP - Out-Of-Pocket
OSR - Own Source Revenue
OVC - Orphans and Vulnerable Children
PBB - Program Based Budget
PEFA - Public Expenditure and Financial Accountability
PEPFAR - Presidents Emergency Plan for AIDS Relief
PFM - Public Finance Management
PHC - Primary Health Care
PIC - Public Investments Committee
PPP - Purchasing Power Parity
PPPs - Public Private Partnerships
QEBR - Quarterly Economic and Budget Review
RMNCAH - Reproductive Maternal Newborn and Child and Adolescent Health
SHIF - Social Health Insurance Fund
SOE - State Owned Enterprises
THE - Total Health Expenditure
UHC - Universal Health Coverage
UNICEF - United Nations Children's Fund
VAT - Value Added Tax
WASH - Water, Sanitation, and Hygiene
WHO - World Health Organization

Introduction

The Macro-Fiscal Analytic Snapshot (MFAS) is produced annually by the Institute of Public Finance (IPF) in partnership with Oxford Policy Management (OPM) and with funding from the Bill & Melinda Gates Foundation. Its overall objective is to facilitate an active and informed public discourse on the economy and the allocation and use of public finances as an effective way of policy making. The preparation of MFAS is undertaken through an in-depth analysis, scrutiny, interpretation, and dissemination of publicly available information on Kenya's economy and public finances. The 2023/24 MFAS is the fifth edition.

Key Messages

1) **Growth has been resilient.** Like other countries, Kenya has experienced many adverse shocks in the last years – perhaps not as severe in impact as for some, and without conflict or massive natural disasters compounding other shocks – nevertheless growth has been close to a steady 5% allowing for steady improvements in income per capita.

2) **Poverty has clearly been affected.** Best estimates suggest that poverty increased sharply during the lockdowns of 2020 and has been slow to come back down again, with the reduction in poverty being slower in rural relative to urban areas. Data beyond 2021 is not available, but it is reasonable to think that poverty in 2023/24 is now back at 2019 levels.

3) **Inflation is a policy challenge and a political issue in Kenya but has not been as high as in the worst affected countries.** Inflation peaked below 10% and has been falling in recent months. High inflation hurts consumers and also affects both creditors and debtors, including the government which must pay high nominal interest on new borrowing.

4) **Kenya's debt position is risky but not (yet) in crisis.** Kenya is at high risk of debt distress according to all the key ratios (debt-to-GDP; debt service-to-revenue; and external debt service-to-exports). There is currently concern about a US$2 billion Eurobond repayment due in June 2024. Although Kenya has not completely lost market access, it is likely to face interest rates of 15-18% if it were to raise new external commercial borrowing to roll over the Eurobond. The authorities are certainly exploring other possibilities and have secured an additional US$1 billion from the IMF under its existing programme which should help to resolve the problem.

5) **Kenya has had little choice but to implement fiscal consolidation – partly because of this debt situation.** Growth has been resilient but there was an unsustainable fiscal deficit in 2019, before the series of setbacks and shocks, therefore deficit reduction is imperative. Revenue is steady, but not yet growing, and so to reduce the deficit, spending growth has been very constrained. Debt interest is accounting for an ever-growing share of expenditure.

6) **The government's Medium-Term Revenue Strategy (MTRS) aims to generate additional revenue worth 5% of GDP by 2026/27, but fails to explain how, making it difficult to track progress.** In particular, the strategy does not indicate the contribution of each revenue measure, impeding the assessment of the effectiveness of the measures.

7) **Non-interest spending per capita and health spending per capita have fallen since 2019/20.** High debt, high interest rates, and a depreciating shilling has resulted in debt interest eating into discretionary fiscal space. Health spending has fallen partly because county budgets (which cover most of the recurrent spending) have been cut – but also because national government health spending has declined. The first supplementary budget for 2023/24 cut the national health budget by 2%.

8) **Donor financing of health care is declining.** Cuts in on-budget donor spending is one reason why development spending and overall spending has reduced.

Key Issues to Monitor

- **Settlement of the Eurobond:** Kenya must settle its $2 billion Eurobond, a decision that will shape its fiscal future. It is necessary to observe the approach to be adopted by the government to achieve this, and its fiscal implications.

- **Fiscal Deficit Management:** Kenya's ability to keep the fiscal deficit in line with the planned levels remains uncertain. The question remains whether there will be an increase in public investment, and what the subsequent impacts on future expenditure and borrowing will be.

- **Privatization of State-Owned Enterprises** poses potential risks of inefficiency and corruption. Key concerns involve the extent of public participation, transparency, accountability, and proactive oversight by parliament in the privatization process.

- **Implementation of the Medium Term-Revenue Strategy:** The government has unveiled a draft Medium Term-Revenue Strategy, which warrants monitoring of the actual implementation of proposed tax measures and their effectiveness in yielding tangible revenue gains.

- **Implementation of the UHC laws:** The enactment of Universal Health Coverage (UHC) laws will have a notable effect on public health expenditure. It is crucial to closely observe the execution of these reforms, especially the abolishment of the National Social Insurance Fund (NHIF) and the establishment of the Social Health Insurance Authority.

Economic Forecast Table[+]

(% GDP except where indicated)	Estimate	Forecast			Extended Forecast
Economy	2022	2023	2024	2025	2026
GDP (US$bn, 2022 prices)	113.4	119.1	125.3	131.9	138.9
Change in GDP	4.8%	5.0%	5.2%	5.3%	5.3%
Change in Agriculture	-1.6%	3.8%	4.2%	4.2%	4.2%
Change in Industry	3.9%	4.9%	5.1%	5.3%	5.3%
Change in Services	6.7%	5.3%	5.5%	5.7%	5.7%
Change in gross investment	-1.1%	7.7%	9.1%	9.5%	9.5%
Change in gross exports	10.7%	8.1%	7.8%	7.6%	7.6%
Current Account Balance	-5.1%	-5.0%	-5.5%	-5.5%	-5.5%
Fiscal	2021/22	2022/23	2023/24	2024/25	2025/26
Gross Revenue	16.7%	17.2%	18.1%	17.9%	17.9%
Gross Public Expenditure	22.5%	22.3%	22.5%	21.7%	21.7%
Public Investment	6.6%	6.5%	7.0%	6.5%	6.8%
Recurrent expenditure (excl. interest)	11.2%	11.0%	10.8%	10.5%	10.4%
Debt Interest	4.7%	4.9%	4.8%	4.6%	4.5%
Fiscal Balance	-5.8%	-5.1%	-4.4%	-3.8%	-3.8%
Public Debt*	68.4%	70.6%	68.5%	66.9%	65.2%
Memo Items					
Headcount Poverty ($2.15 in 2017 PPP)	35.8%	35.2%	34.4%	33.6%	

[+] Figures drawn from World Bank Macro-Poverty Outlook (October 2023) unless otherwise stated.
* IMF Debt Sustainability Analysis (June 2023)

1 Macroeconomic Context & Outlook

This section sets out how well the economy is contributing to poverty reduction and improved well-being in Kenya. The analysis considers the impact of the volatile global macro-economic context (for instance, the war in Ukraine, the energy crisis, inflationary pressures and rising interest rates) and the possibility of further adverse shocks in the future. It considers Kenya's economic performance in the post COVID-19 recovery period, forward-looking implications for fiscal space and high-level budgetary challenges in the short- to medium-term, including debt management and vulnerability to future shocks.

1.1 The Economy – Growth, Investment, and Inflation

Kenya's economy has been resilient in the face of multiple shocks over recent years, with growth and investment recovering quickly from pandemic lows and inflation being kept under control. After a robust recovery in 2021, the economy grew by a respectable 4.8% in 2022, despite the impact of the Russia-Ukraine war, the tightening of domestic and global monetary policies and drought. Growth is projected to remain at around 5% per annum for the foreseeable future, which should allow for steady rises in real per capita income and reductions in poverty, after the significant disruption caused by the pandemic. Investment is projected to rise again in 2023 following weak performance in 2022, which may be attributable to investors delaying their investment decisions until after the general election (Figure 2). Headline inflation breached the target ceiling (7.5 per cent) for several months starting in mid-2022, with high food and fuel prices disproportionately impacting the poor (Figure 3). However, Kenya has managed to avoid the very high price increases experienced in other counties (e.g. Ethiopia, Nigeria) with year-on-year inflation at 9 percent in December 2022, before falling back down to 6.6 percent by December 2023, driven by the decline in food inflation following improved harvests in 2023 and easing global conditions.

Sources: World Bank MPOs and Central Bank of Kenya.

Nevertheless, the economy continues to face significant challenges in generating sustainable and inclusive development. World Bank projections for growth are very similar to those provided in October 2022, and reflect a better outlook than initially thought in the immediate post-pandemic period (Figure 1). However, they also reflect Kenya's growth potential remaining largely unaltered despite a decade of debt-financed public investment aimed at spurring transformative growth. Average annual growth rates for the medium-term are forecast to be broadly the same as over the past 15 years. This means that Kenya now finds itself at high risk of debt distress, following years of high borrowing, without having fully reaped the benefits of higher growth and more productive jobs for its population. Currently, the (formal) private sector only generates around 100,000 jobs annually – far below the projected one million workers entering the job market annually over the

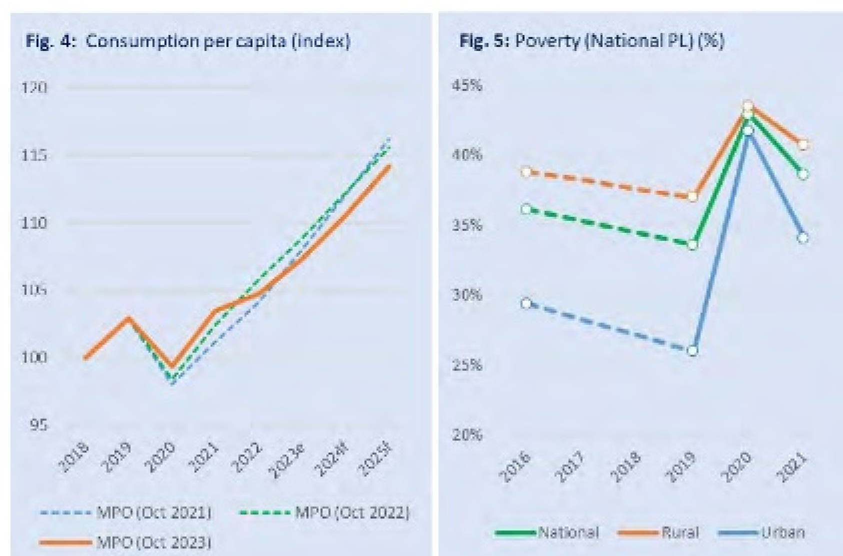
next decade.[3] Given the urgent need to control debt and increase revenues (see below) the government now has limited fiscal levers for promoting faster private-sector driven growth.

Maintaining robust growth will be critical as Kenya deals with its current fiscal challenges, but there are significant domestic and external risks ahead. The relatively strong growth performance has – so far – enabled the government to achieve fiscal consolidation without having to resort to drastic real cuts in expenditure. Continuing course on fiscal consolidation is critical for maintaining macroeconomic stability and avoiding debt distress which would be very negative for growth. This should improve investor confidence and, combined with reduced public borrowing, would open the possibility for faster growth in credit to the private sector for productive investment. The main domestic risk is the possibility of unravelling the fiscal consolidation plans as a result of public discontent about the high cost of living and political pressures (e.g if the government counters such pressure by reintroducing consumption subsidies) which would exacerbate Kenya's debt vulnerabilities and hamper the economic outlook. Other risks include Kenya's vulnerability to climate shocks (such as drought) which may derail growth over the longer term. More positively, with inflation abating in the developed economies, global financing conditions may soon ease which would improve Kenya's external balance and price pressures.

1.2 Consumption and Poverty

Private consumption has recovered more slowly than previously projected with high inflation further eroding the purchasing power of households. Reduced per capita consumption in 2020 was a direct consequence of the damage to household incomes caused by pandemic restrictions on economic activity, which particularly impacted informal sector workers in urban areas. The recovery in consumption per capita since then has been slower than the recovery in overall GDP, indicating that economic scarring caused by COVID-19 has been worse for low-income households who consume a high proportion of their incomes (Figure 2). High food and fuel inflation (Figure 3) is likely to be a key reason for the significantly depressed rate of growth in per capita consumption observed in 2022 given these items tend to account for high proportion of low-income household spending (Figure 4). The fall in consumption also reflects an adjustment towards a less debt-fueled pattern of growth and higher investment. With inflationary pressures now beginning to ease, growth in consumption may resume a higher trend level from 2023 onwards.

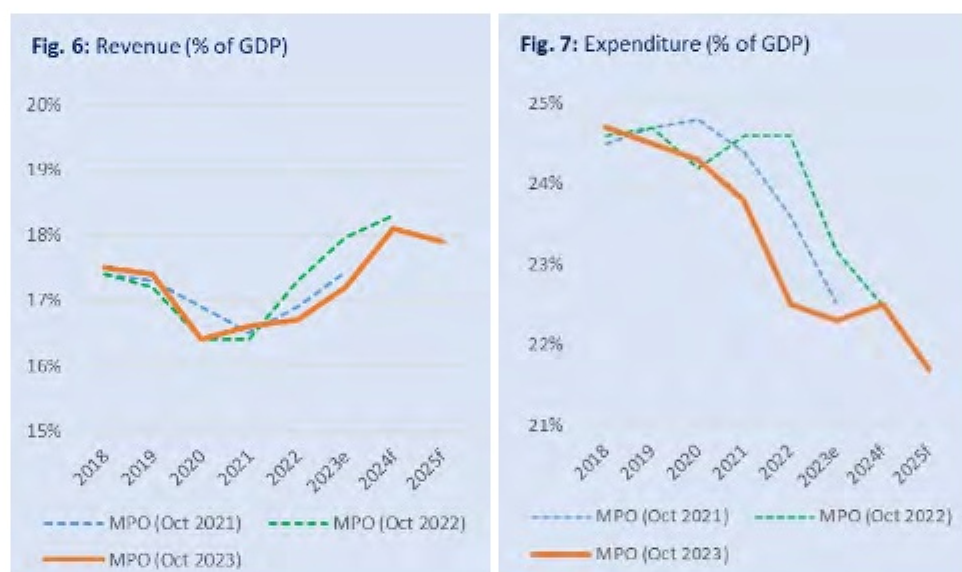
According to the latest available national data poverty has resumed its downward trend but remains several years behind its pre-pandemic level. Poverty levels peaked in 2020 with a particularly large impact on the urban poor because of pandemic lockdowns. While a resumption in growth of per capita incomes and consumption has resulted in poverty starting to come back down again, it appears that there will be at least 3 or perhaps 4 years of lost progress (Figure 5). This is broadly in line with the global trend for lower-middle income countries such as Kenya.[4] Note that Figure 5 is based on national data, not on the trend shown in the World Bank's Macro-Poverty Outlook (the level in 2021 is very similar to that in the MPO, being based on an actual survey in 2021). The MPO makes a standard assumption of constant growth-elasticity of poverty which has not held in Kenya, suggesting that the link between per capita income growth and poverty reduction is more complex. It is possible but unlikely that poverty has fallen back quite quickly in 2022 and 2023 – these are years where consumption growth has been sluggish, and inflation has hit purchasing power.



Sources: World Bank's Macro-Poverty Outlook and Kenya Poverty Report (2021)

1.3 Revenue and Expenditure

Fiscal consolidation undertaken by the government over the past two years has been driven by budget under execution, as revenues are yet to fully recover to their pre-pandemic level. Revenue mobilisation fell sharply in 2019/20 as a direct consequence of the measures implemented to reduce the tax burden on businesses during the pandemic. Despite economic recovery and a variety of reform measures undertaken since then, revenues have been slow to return to pre-pandemic levels and have lagged previous projections and targets (Figure 6). Revenue optimism has been a persistent problem in Kenya for several years (Section 2.1) which in the past has tended to result in higher-than-planned fiscal deficits financed by additional borrowing. With the missed revenue targets and with constrained ability to borrow over the past two years (Section 1.4), expenditure outturns have been lower than planned (Figure 7). This decline in expenditure (as a percentage of GDP) resulted to a moderate reduction in real spending per capita in 2021-22 (Section 2.2).



Source: World Bank MPOs

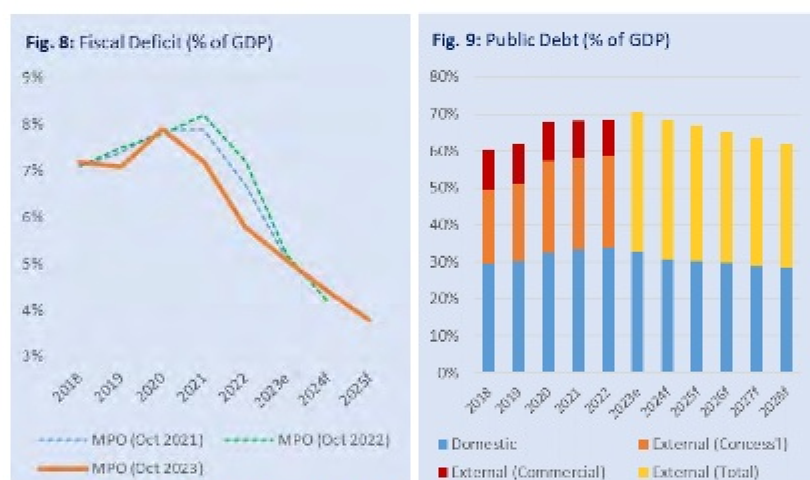
Despite historic optimism on revenue growth, the World Bank maintains a positive medium-term outlook for revenue, projecting it to reach over 18 per cent of GDP in 2023-24. This would be a level reached only once over the last decade (in 2016/17) and would therefore be a major success if it happens. This forecast does reflect the strategic ambitions of the government and its revenue strategy. Whether or not the target is achieved will depend partly on whether provisions made in the Finance Act of 2023 – particularly the rise in VAT on petroleum products from 8 to 16 per cent, the increase in MSME turnover tax from 1 to 3 per

cent, and the introduction of two additional personal income tax bands – are fully captured and generate the additional revenue envisaged. Revenue collection in the first quarter of 2023/24 was below target at 88 per cent, raising some questions over the effectiveness of the tax measures and which may threaten the government's plan to run a primary surplus in this fiscal year and beyond.

Expenditure is forecast to stabilize over the medium-term which should allow for steady increases in real per capita spending – but there are significant uncertainties involved. With the most substantial spending cuts already undertaken, the World Bank projects expenditure to stabilize at around 22 per cent of GDP over the medium-term. Assuming no interruptions to growth, this should allow for modest increases in fiscal space for service delivery and public investment. However, this is far from guaranteed and there are major risks that could prevent this. First, if revenue underperforms – as it has in previous years – the government will have to cut expenditure further to achieve its deficit target and avoid additional costly borrowing that could tip the country into debt distress. Second, if the Kenyan shilling continues to depreciate, external debt interest payments will rise, eroding any increase in discretionary expenditure. Debt interest as a proportion of total revenue has already doubled over the past decade, from 14 per cent in 2012/13 to 28 per cent in 2022/23. In a higher interest rate environment, there is a real risk that Kenya's debt service burden will crowd out any additional fiscal space that could otherwise be used for productive purposes.

1.4 Fiscal Balance, Debt Sustainability and Vulnerability to Future Shocks

Recent efforts to reduce the size of the fiscal deficit has helped limit further increases in public debt but this has not prevented growing concerns over Kenya's ability to service its debts. Since 2014, Kenya has been running large fiscal deficits of between 6 and 8 per cent of GDP (Figure 8) resulting in public debt rising quickly to 70 per cent of GDP (Figure 9). More recently, rising global interest rates and a subsequent decline in inward foreign investment has caused the Kenyan shilling to depreciate by 35 per cent since the start of 2022. This has significantly increased the cost of external debt servicing and has put further pressure on Kenya's foreign exchange reserves, which reached 3.7 months of import cover in March 2023 – below the minimum statutory requirement. In July 2023, global credit rating agencies downgraded Kenya's outlook to "negative" casting doubt among investors over the country's continuing ability to honour its external debt obligations.



Sources: World Bank MPOs and IMF DSA

Kenya continues to be assessed by the IMF to be at a high risk of debt distress on account of it breaching the upper thresholds of several critical debt sustainability ratios. Of particular concern is the ratio which measures the availability of foreign exchange to service external debts. As in many African countries, growth in Kenya has been led by non-tradeable services and exports have halved as a share of GDP, whereas external debts have increased. In Figure 12 below, Kenya's external debt service (interest plus repayment of principal) as a proportion of exports is significantly above the level which the IMF considers sustainable for a country such as Kenya (which is deemed to have a "medium" level of debt-carrying capacity). Even if the IMF reclassified Kenya as a country with "high" debt-carrying capacity, it would still be in breach of the upper limit until at least 2027. Furthermore, the baseline scenario (blue line) represents the IMF's most optimistic forecast and is not

necessarily the most realistic – in the case of a major shock (e.g. further depreciation) the ratio would worsen, reflecting an increasing inability to service debts and could potentially precipitate a crisis.

Source: IMF DSA

The scheduled repayment of a US$2 billion Eurobond in June 2024 is currently providing some cause for concern – but at present Kenya appears unlikely to default. The government needs to raise foreign finance to repay the Eurobond, but with the current market yield hovering at or above 15% it is (rightly) alarmed about the implications of refinancing at such an elevated cost, which would be unprecedented. One possibility would be to refinance the Eurobond on the domestic market, but this would potentially crowd out private sector lending and lead to a further decline in foreign exchange. Better still would be to access concessional financing to alleviate future debt servicing costs. In October, the government appointed Citibank and Standard Bank to advise on potential alternative sources of financing, including multilateral and bilateral lenders and the syndicated loans market. At the time of writing, it remains unclear how Kenya will ultimately resolve the issue. However, with an approval of a total disbursement of US$2.6 billion under the Extended Fund Facility and Extended Credit Facility Arrangements under the Article IV - sixth reviews on Kenya[5], liquidity constraints are expected to ease as the IMF disbursement could be used to finance part of the Eurobond repayment. Access to other sources of finance, such as budget support from the World Bank and syndicated bank loans from regional lenders, indicate that Kenya is more likely than not to avoid default.

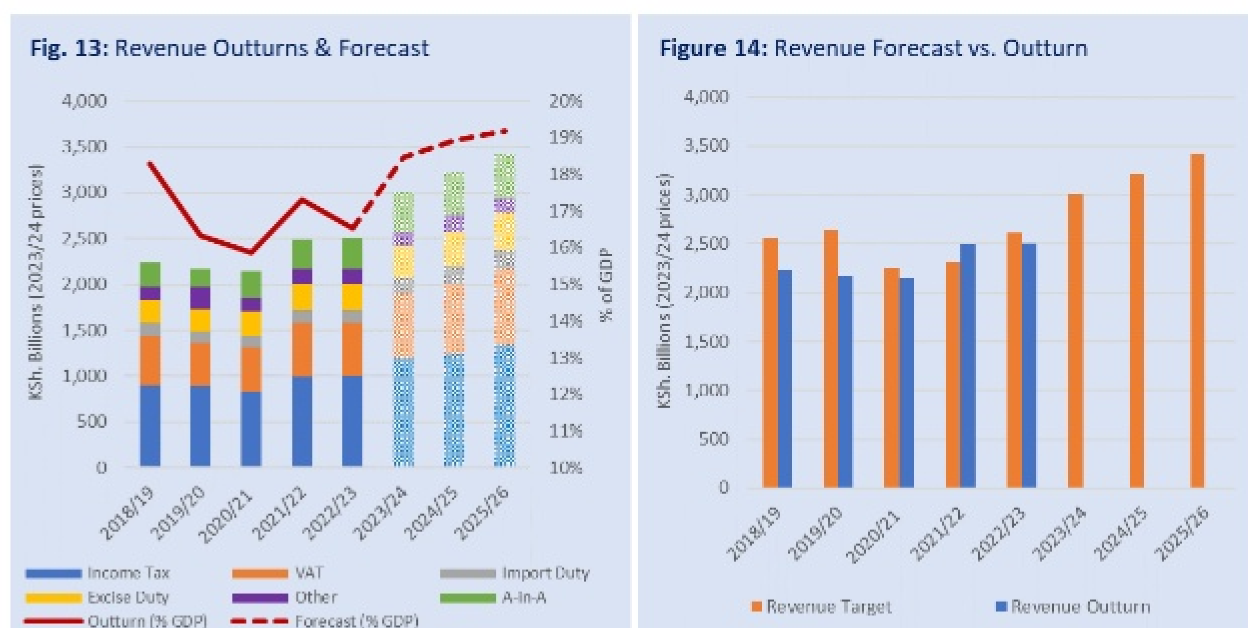
Current debt servicing challenges underscore the importance of the government staying on course with fiscal consolidation over the medium-term. Kenya's current debt difficulties reflect its lack of fiscal buffers to protect itself against any future potential shocks. With further fiscal restraint, borrowing should decline and the need for additional external financing should be minimized, which should hopefully result in the re-building of both fiscal buffers and foreign exchange (reserves) which to date have not recovered. Although the IMF continues to view Kenya's debt as sustainable overall, this assumes the government's commitment to fiscal consolidation holds, which is far from guarenteed.

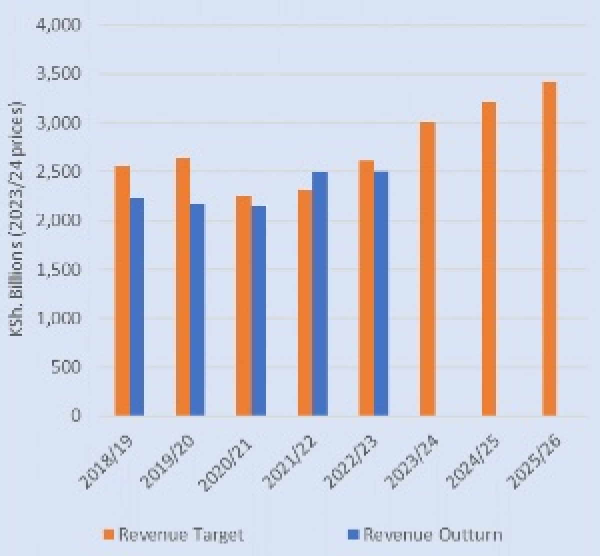
2 Revenue and Expenditure

This section provides a detailed overview of budgetary issues, including an assessment of key risks on the revenue and expenditure side which could undermine the execution of the budget and inhibit service delivery. It also considers the impact of Kenya's tight debt dynamics – highlighted above – on likely fiscal space for social spending going forward. On the revenue side, performance has been relatively flat, with revenue as a percentage of GDP still not back at its pre-pandemic level and the impact of recent reforms not immediately apparent. This is putting pressure on expenditure, since there is an urgent need to move towards a primary surplus given debt interest payments are rising quickly. Reducing the deficit, while at the same time being unable to increase revenues and having to pay higher debt interest, means that Kenya is relying heavily on uninterrupted growth to avoid further real cuts in per capita spending. Certain sectors are already feeling the impact – the national health budget was cut by 2 percent in the first supplementary budget for FY 2023/24.

2.1 Revenue

Revenue has not yet fully recovered to its pre-pandemic level and continues to come in below target despite the introduction of new tax policy and administration reforms. While increasing in real (absolute) terms, revenues have lingered for several years at under 18% of GDP – a level last achieved in 2018/19 prior to the onset of the pandemic (Figure 13). Revenue performance in 2022/23 was below target, resuming a long-term trend of under-performance against original estimates (Figure 14). In 2022/23 this may be partly attributable to election-related factors (e.g. the scaling down of business activity and/or weaker enforcement). Income tax and value-added tax (VAT) remain the most significant sources of revenue, accounting for 6.6% and 3.9% of GDP respectively. However, tax revenue performance continues to be well below the potential revenue of 25% of GDP estimated by the IMF, resulting in an overall tax gap of 11.5% of GDP in 2022/23.[6]



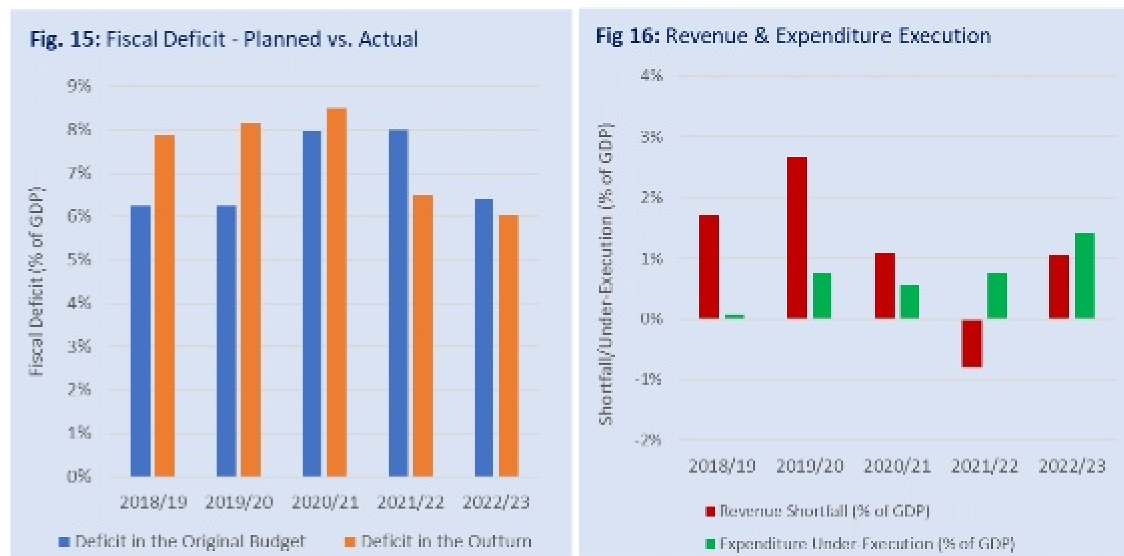


Source: BROP Reports (2020-23)

Nevertheless, the government remains optimistic that revenues will grow over the medium term, projecting them to rise significantly in 2023/24 and beyond. Government expects revenue to reach 19% of GDP by 2025/26 – a level not achieved since 2014/15 – which is significantly more optimistic than the World Bank forecasts (Section 1.3). This appears to be grounded in the additional tax measures and reforms the government is currently implementing. These include the increase in VAT on petroleum products (from 8% to 16%), the introduction of two additional personal income tax bands, the increase in the turnover tax rate from 1% to 3%, the increase in excise duty for certain goods, and the introduction of the export and investment

promotion levy on some imports. Another significant revenue measure is the introduction of a housing levy (earmarked for the construction of affordable houses) payable by employees and employers.

In the past, revenue optimism has typically led to higher fiscal deficits, but elevated debt levels now mean that expenditure must urgently follow suit. Until 2020/21, fiscal deficits were regularly higher than originally planned – the result of revenue optimism – and were financed by additional borrowing rather than corresponding cuts to expenditure. However, from 2021/22 onwards this has changed, as Kenya's debt dynamics started to bite (Figure 15). In 2022/23, the revenue shortfall and unfavorable borrowing conditions resulted to a comparable reduction in expenditure forcing the government to ensure the deficit remained similar as planned (Figure 16). Given the limited room for borrowing to address revenue shortfalls for the foreseeable future, it is likely that revenue and expenditure will be more closely linked over the coming period. This presents risks on the expenditure side should the projected increases in revenue fail to materialize.



Source: BROP Reports (2020-23)

In September 2023, the government released its maiden Medium-Term Revenue Strategy (MTRS) which aims to generate an additional 5% of GDP in revenue by 2026/27. The proposed measures target policy, administrative and legal components of the tax system, but the strategy does not include a breakdown of revenue impact of each of the proposed measures, making it difficult to track progress in their implementation. Proposed measures include a reduction in the rate of corporate income tax from 30% to 25% – in line with international benchmarks – and a reduction in the VAT standard rate from 16% to 14% by 2026/27. The government also proposes to introduce VAT on education and insurance services, an increase in excise duty on fuel products and a motor vehicle circulation tax. The MTRS further sets out ideas for addressing 'hard-to-tax' sectors of the economy that act as a drag on revenue growth, such as the informal sector (which accounts for a large proportion of growth), the digital economy, and the agriculture sector.

At the same time, tax exemptions continue to result in substantial revenue loss, with limited evidence of their effectiveness in promoting investment and growth. The MTRS reiterates the importance of reviewing the variety of tax incentives that continue to erode Kenya's tax base. However, according to the 2023 Tax Expenditures report, revenue foregone increased from 2.4% of GDP in 2021 to 2.9% in 2022, despite commitments to reduce such exemptions.[7] Given the current fiscal challenges and the need to increase revenue, reducing the number and scope of tax exemptions should be a high priority for government.

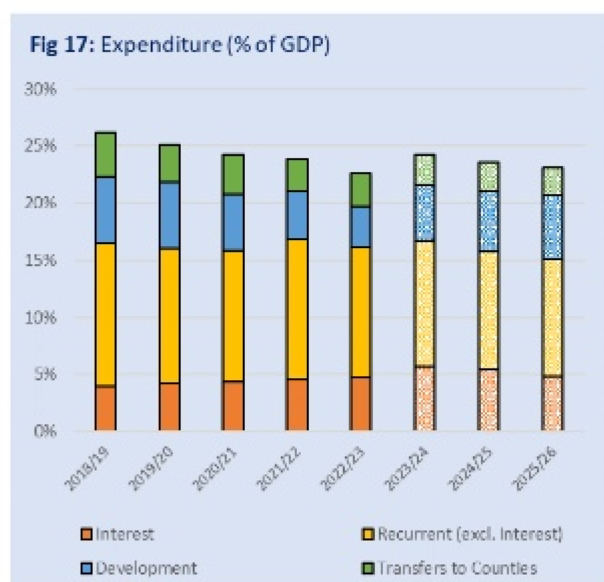
At the subnational level, counties continue to rely heavily on fiscal grants from the national government and generate relatively little in the way of own-source revenue (OSR). Grants accounted for 91% of expenditures at subnational level – with OSR financing just 9% – in FY 2022/23. Counties collected just 66% of targeted revenue in 2022/23 and only three counties (Kirinyaga, Lamu and Kitui) achieved above-target revenue performance. Overreliance on fiscal grants results in counties being susceptible to revenue problems at the national level. In 2022/23, services in counties almost came to a halt following delays in disbursements

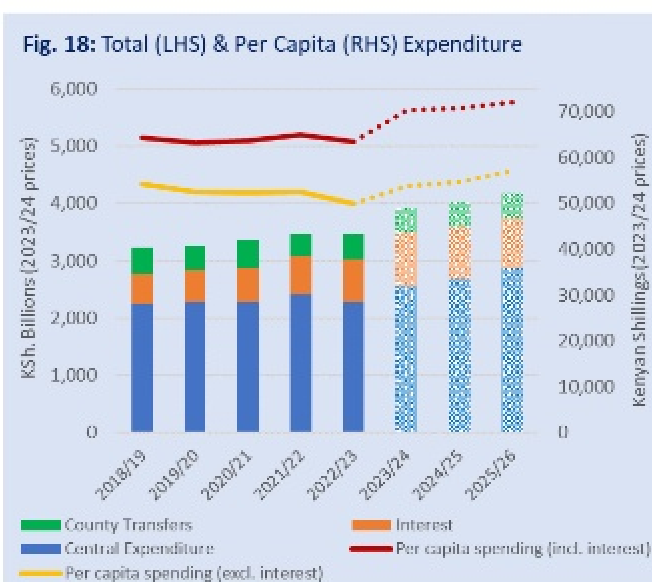
of grants. While this seems to have been a temporary issue, it remains crucial for counties to step up their revenue mobilization efforts. The National Government through the County Governments (Revenue Raising Process) Bill hopes to harmonize the imposition of taxes, levies, fees, and charges by counties.

2.2 Expenditure

Fiscal consolidation over the past two years has put a firm break on expenditure increases resulting in a fall in real per capita spending. The need to quickly bring down the fiscal deficit due to debt vulnerabilities has meant that the brunt of consolidation has been felt on the expenditure side, which declined from over 26% of GDP in 2018/19 to under 23% in 2022/23 (Figure 17). Thanks to relatively robust economic growth, this has been achieved without cutting real expenditure in absolute terms, although a fall of 8% in non-interest real per capita spending has been unavoidable (Figure 18). This is partly due to the rising proportion of debt interest in overall expenditure, which rose to over 20% of total expenditure in 2022/23 (per capita spending including interest has remained flat – as illustrated by the red line in Figure 18). Development expenditure and fiscal transfers to county governments have felt the brunt of the cuts, falling as a proportion of total spending by 6 and 2 percentage points respectively, which have likely had a negative impact on service delivery. A case in point is the national level budget for the health sector that was cut by 2% in the first supplementary budget.

The government expects expenditure to rise over the coming three years driven by increases in debt interest and development spending – but much will depend on revenue performance. The continued depreciation of the shilling and higher interest rates are expected to shift debt interest up to 5.7% of GDP in 2023/34 (equivalent to 23% of total spending) before gradually declining. Development spending is also projected to rise, up from 3.5% of GDP in 2022/23 to nearly 5% of GDP in 2023/24. If achieved, this would allow for a moderate increase in real per capita non-interest spending, reaching pre-pandemic levels by 2024/25. However, the need to keep the deficit down during a period of heightened debt vulnerability means that if revenue comes in below target, the projected increases in expenditure may not be possible, with development spending likely to be the main casualty. This would mean per capita spending (excluding interest) stagnating rather than rising – or possibly even declining if revenues are significantly below target. Given the requirement to pay debt interest, this would mean a greater divergence between the red and yellow lines in Figure 18.

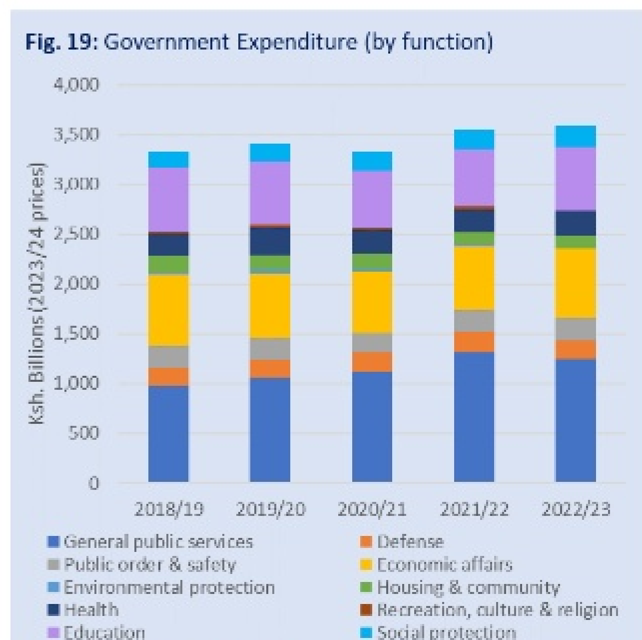


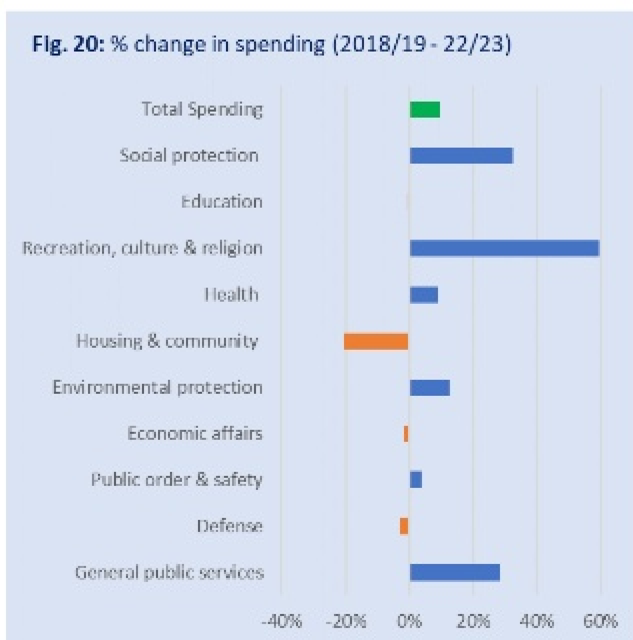


Source: BROP Reports (2020-23)

Since 2018/19 the sectoral composition of government expenditure has not radically changed but certain sectors have grown more than others, with debt interest accounting for an ever-higher share. The proportion of government expenditure under the category of general public services has grown from 31% to 34% of the total – largely on account of rising debt interest – and is by far the largest of all the categories (Figure 19). Taken alone, debt interest as a proportion of government expenditure on health and education combined has risen from 57% in 2018/19 to 82% in 2022/23. Health spending has grown broadly in line with

overall spending but is still far below the goal of the Abuja Declaration which envisages governments committing at least 15% of the budget to the health sector. In contrast, social protection has grown more substantially and now accounts for 6% of total spending (compared to 4.5% in 2018/19) while education's share has declined (from 20% to 18% over the same period).





Source: Kenya Economic Survey (2021-23). Note: Figure 20 measures change in real terms

At the subnational level, the application of a revised revenue sharing formula has yet to make a serious impact on allocations to counties. Disaggregated analysis of per capita expenditure at the sub-national level reveals that the allocation outcomes under the current revenue sharing formula (third basis)[8] are not substantially different from those seen under the previous formula (second basis) that was used up to and including 2019/20 (Figure 21).[9] The key reason for this is the gradual phase-in of the new formula, which is applied only to the additional county allocations (that is, the amount over and above the 2019/20 allocation). Given that fiscal transfers to counties have been relatively stagnant (Figure 18) this has meant that little has changed in terms of the per capita amounts received by counties. As can be seen in Figure 21, there are large differences in per capita expenditures across counties, with the more populous counties (e.g. Nairobi City, Nakuru and Kiambu) spending less per capita and the less populous counties (e.g. Lamu, Samburu and Isiolo) spending more. This is partly due to population size having a relatively low weighting in both the old and new formulae for allocating the equitable share grant which makes up the bulk of resources for most counties. This points towards a potential need to review and improve the formula and its use going forward.

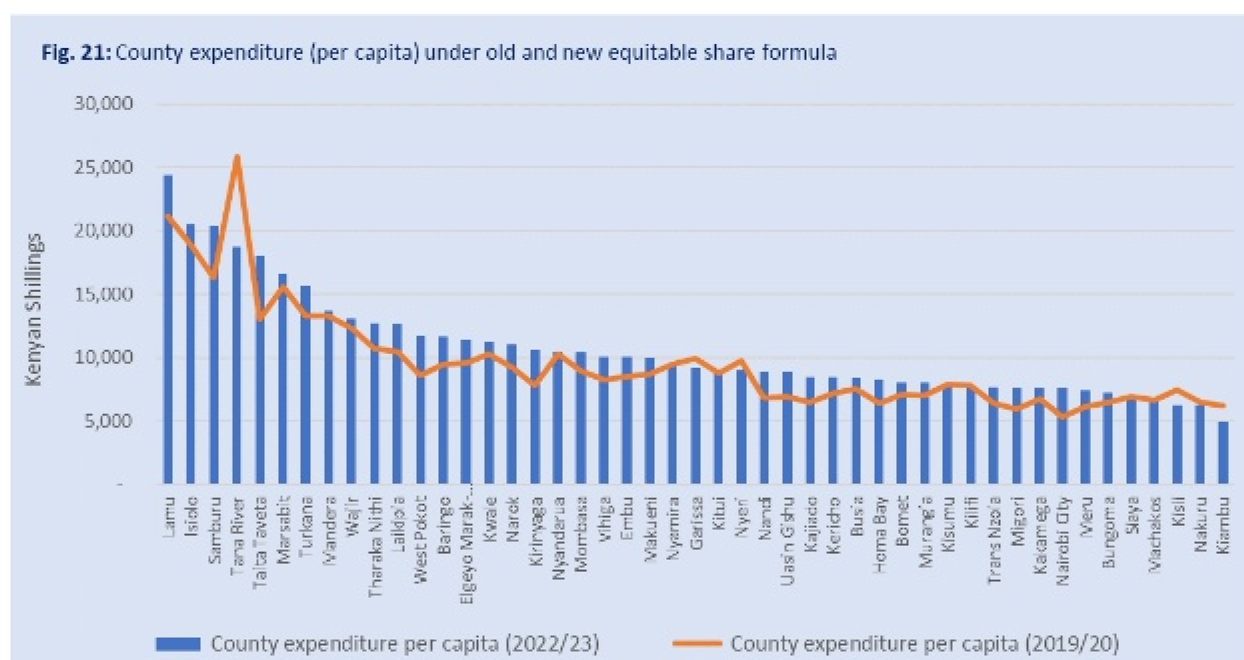


Fig. 21: County expenditure (per capita) under old and new equitable share formula

Source: County Budgets Implementation Review Report (CBIRR) (2023)

Note: Bar graph shows spending under the new formula while the line graph shows spending under the old formula.

2.3 Sector Zooms

Agriculture

Expenditure on agriculture has remained flat over the past five years in both aggregate and per capita terms. As shown in Figure 22, spending has risen in line with the price level but has not risen substantially in real terms, despite the government emphasizing the importance of agricultural transformation and the need to counter food insecurity. At around 5% of total spending, agriculture spending falls far short of achieving the African Union target of 10% of total the budget as established under the Maputo Declaration. The national government continues to be the main funder of agriculture spending, as it clings to resources and functions that ideally should be devolved. The sector has experienced difficult conditions in recent years, with drought and other climate shocks resulting in negative growth in 2021 (-0.4%) and 2022 (-16%) but this is set to improve in 2023 (forecast +3.8%) on account of improved rainfall. The full impact of the introduction of a new fertilizer subsidy in 2023 remains to be seen.[10]

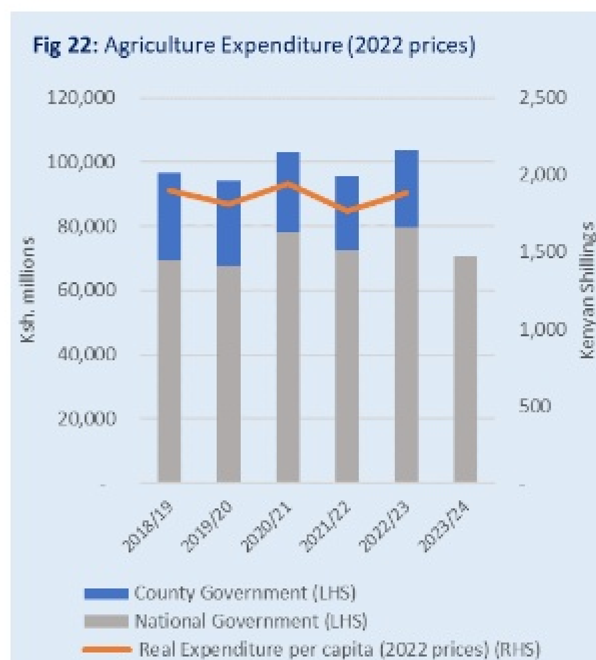


Fig 22: Agriculture Expenditure (2022 prices)

Source: Controller of Budget: National and County Reports

Water, Sanitation and Hygiene (WASH)

Access to five basic WASH services (water, sanitation, hygiene, waste management, and environmental cleaning) in Kenya has been improving in most respects over time. According to the WHO/UNICEF joint monitoring report[11] access to safe drinking water for Kenyans increased from 59% in 2021 to 62.9 percent in 2022. However, the report also indicates that 38% of Kenyans in rural areas did not have access to proper hygiene handling facilities compared to 24% in the urban areas. Further, 6% of Kenyans in urban areas of still

depend on surface water for drinking which exposes them to serious exposure to health risks. A third of Kenyan households share one latrine with more than 10 people; and Nairobi has the highest proportion of more than 10 people sharing one latrine (at 6%). In most urban informal settlements, wastewater treatment and faecal sludge transport and treatment services are inefficient or absent. This is a clear indication that the country will continue to struggle to meet the basic demands of urbanization yet estimates indicate that about half of all Kenyans will live in cities in 2030.[12]

Source: Controller of Budget

Expenditure on WASH has been erratic in recent years. Spending in 2022/23 reached a historic low – partly driven by a decline in budget allocation and under-execution as measures that were adopted during the Covid-19 pandemic have been abandoned (Figure 23). Spending is far short of attaining the threshold required. A recent assessment indicates that $12.9 billion in WASH investments are needed to deliver the ambitious target of universal access to water, sanitation, and hygiene services (WASH) by 2030.[13] However, the projected government budget for water and sanitation is $5.6 billion, leaving a $7 billion gap. It is difficult to estimate spending on WASH due to due to the aggregation of data in government reports. Both levels of government should disaggregate data to improve reporting and to make it easier to track the execution of WASH budgets against key performance indicators.

Gender

Kenya dropped 20 positions to number 77 out of 146 countries assessed in the 2023 Global Gender Gap Index. The decline was largely driven by a drop in the economic participation of women that led to the index falling from 0.8 in 2022 to 0.7 in 2023. However, within the political scene, there have been significant improvements. Currently, there are 10 women out of 26 cabinet level appointments which meets the gender balance rule set out in the constitution. The 2022 general election witnessed a positive shift in political participation and representation by women, with female candidates making up an estimated 11% of the total candidates gazetted by the electoral body, which resulted in an increased number of women successfully elected. For instance, the number of female gubernatorial candidates increased from nine in 2017 to 22 in 2022. Out of these, seven women were elected as County Governors, representing a 32% success rate.

Real per capita spending on gender has sharply declined since at least 2018/19 according to available data. This is illustrated in Figure 24 and unless reverted, may thwart the efforts made to close gender equality gaps and cure gender related social ills such us GBV. This has been exacerbated by a decline in ODA disbursements over the period targeted towards women's empowerment programmes in Kenya, according to the Credit Reporting System. Moreover, the 2023 PEFA assessment report reveals weaknesses in gender responsive PFM due to the failure to undertake gendered analysis of budgets. While the budget circular forms a key entry point for gender responsive budgeting, it does not give any specific guidance to MDAs on how to mainstream gender in their budget documents. The inability to monitor progress due to a lack of relevant and accessible information makes it impossible to hold the government to account.

Source: Controller of Budget

Nutrition

There are significant challenges in data reporting for nutrition and the information that is available is fragmented. Nutrition programs are administered under the Ministries of Health and Education while a bulk of nutrition enhancement initiatives related to food access are targeted via spending on agricultural production by the Ministry of Agriculture. There is currently no tagging of nutrition spending in the budget, which would be useful given its importance for addressing the socioeconomic losses associated with malnutrition. In this regard, this report heavily relied on the Kenya Household Demographic Reports and reports from other global partners in the nutrition space.

Kenya continues to shoulder the burden of the triple challenge of malnutrition – undernutrition, obesity, and micronutrient deficiency. These problems are estimated to caused economic losses estimated at KES 374 billion annually, which is equivalent to two and half times the annual budget for the Ministry of Health. Yet, according to the 2016 Kenya Nutrition Investment Framework, every dollar invested in nutrition would yield 22 dollars in returns. Thus, scaling up nutrition-specific interventions in Kenya would be an excellent investment with knock on externalities including improved productivity of labour and a boost in economic growth. In Kenya, about a fifth of children (18 per cent) under the age of five have stunted growth. This is a serious challenge that if not addressed, has devastating long-term effects, including diminished mental and physical development. In addition, 11 per cent of children are underweight, with four per cent wasted. Wasting and severe wasting are linked to increased and preventable deaths among young children. The distribution of child under-nutrition across counties in Kenya varies across regions with the prevalence being as high as 46 per cent in Kitui and West Pokot counties. Wasting ranges from one per cent in some areas of Kenya, to over 20 per cent in many arid and semi-arid lands (ASAL) counties. Key drivers of childhood under-nutrition include disease and poor diets, especially between six and 23 months. This, in turn, is due to food insecurity, poor access to water and sanitation causing frequent illness episodes, inappropriate care practices and harmful social norms that inhibit access to proper medical care.

According to the 2022 Global Nutrition (GN) Report, Kenya is 'on course' to meet four targets for maternal, infant and young child nutrition (MIYCN). These four targets cover low birthweight, exclusive breastfeeding, stunting and wasting. There has been some progress towards achieving the low-birth-weight target with 11.5 per cent of infants having a low weight at birth. Kenya is 'on course' for the exclusive breastfeeding target, with 61.4 per cent of infants aged 0 to 5 months exclusively breastfed. Similarly, Kenya is 'on course' to meet the target for stunting, with 26.2 per cent of children under 5 years of age affected, which is lower than the average for the Africa region (30.7 percent). Kenya is also 'on course' for the target for wasting, with 4.2 per cent of children under 5 years of age affected – lower than the average for the Africa region (6 per cent). The prevalence of overweight children under 5 years of age is 4.1 per cent and Kenya is 'on course' to prevent the figure from increasing. But there has been no progress towards achieving the target of reducing anaemia among women of reproductive age, with 28.7 per cent of women aged 15 to 49 years now affected.

However, there has been limited progress towards achieving diet-related non-communicable disease (NCD) targets. The (GN) Report indicates 13.4 per cent of adult women and 3.6 per cent of adult men are living with obesity. It is noteworthy that while Kenya's obesity prevalence is concerning, it is lower than the regional average of 20.8 per cent for women and 9.2 per cent for men. At the same time, diabetes is estimated to affect 7.3 per cent of adult women and 7 per cent of adult men. This imposes crippling financial outlays for families due to the large costs of diabetes treatment. NCDs in Kenya are estimated to be responsible for more than half of hospital admissions and deaths. At current rates of progress, NCD deaths in Kenya will exceed combined deaths from communicable disease, as well as maternal and perinatal deaths, by 2030.

2.4 PFM Systems

Kenya's PFM systems have improved overall according to the latest Public Expenditure and Financial Accountability (PEFA) assessment.[14] The report notes that Kenya received more 'high' scores than the previous assessment in 2017 and fewer 'low' scores, reflecting an improvement in overall performance. Areas of strength include comprehensive PFM laws and regulations; an improved budget classification system

conforming to GFSM 2014 standards; strong internal controls on non-salary expenditure; proper segregation of duties with payments complying with government rules and procedures; and the relatively low levels of in-year budget adjustment. A notable improvement has been the quantification and publication of contingent liabilities and other fiscal risks – including PPPs – which was previously absent.

However, the PEFA assessment also highlighted areas of persistent weakness and deterioration. In particular, fiscal discipline has deteriorated due to the unreliability of aggregate revenue outturn, caused by overly optimistic targets and unreliable aggregate expenditure outturn. Relatively high levels of 'off-budget' revenue and expenditure and the relatively high level of variance in expenditure composition compared to the original budget are also areas of concern. Two areas of significant deterioration since the previous assessment have been procurement management and the tracking of in-kind resources to service delivery units.

To reduce the burden of public sector liabilities, privatization is now on the government's agenda in response to persistent SOE financial and governance challenges.[15] SOEs currently account for a large share of 'pending bills' (arrears) reflecting delayed payments to contractors and project suppliers, which undermine the credibility of reported fiscal deficits.[16] While privatization will generate revenue for the government, there are concerns that the Privatization Act (2023) is not explicit on the requirement for Parliament to approve any privatization proposal before the Privatization Authority implements each transaction. Also, it remains to be seen if the National Treasury will adhere to the commitment of monthly reporting of proceeds from privatization, which should be availed within 20 days after month end.

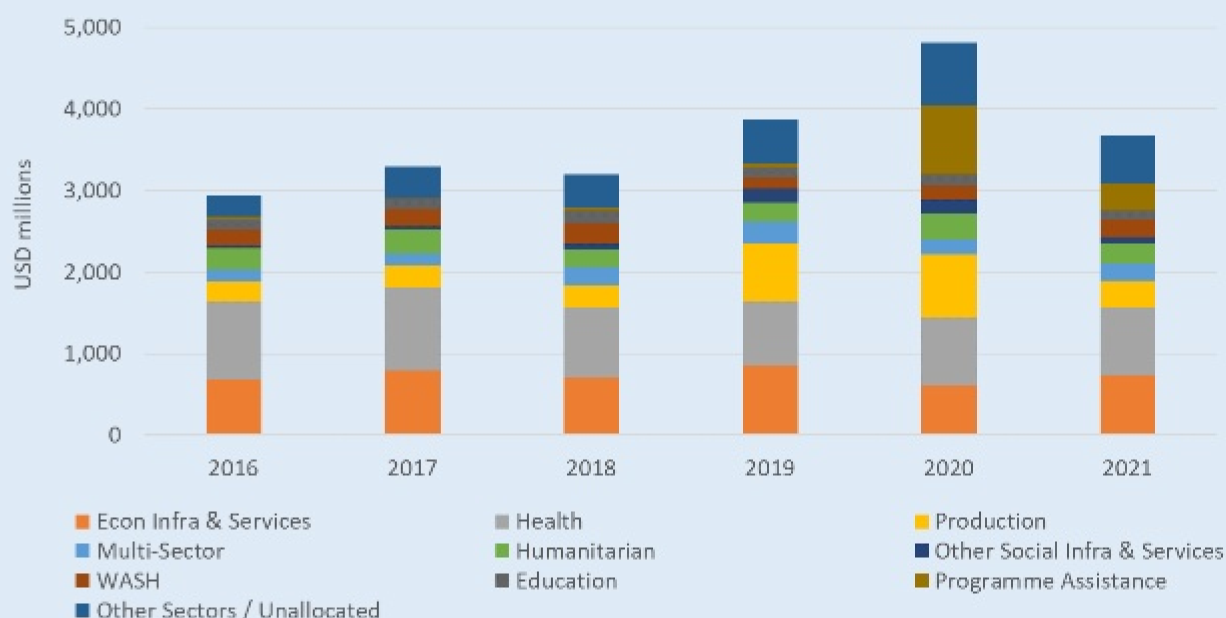
A decade since the inception of devolution, challenges with the disbursement of funds to counties remain leading to low budget absorption and accumulation of pending bills. It is worth noting that although county governments (eventually) received the full fiscal transfer amounts in 2022/23, the timing was significantly delayed and as a result they could not spend the funds in time prior to the end of the fiscal year. These delays have contributed to the accumulation of over KES 164 billion worth of 'pending bills' (arrears) as of June 2023, the late payment of civil servant salaries, and the use of overdrafts from commercial banks that ultimately come at the cost of taxpayers.

3 Aid Update

The volume of ODA has fluctuated a little in recent years – most noticeably in 2020 in response to the pandemic – but has trended at around the USD 3 billion mark. This is equivalent to approximately 2.5% of GDP or 15% of revenues (although only a small proportion of ODA is channelled into the budget with most of it being spent through project support). ODA is therefore a useful source of financing (especially in particular sectors such as health) but is declining in importance over time as Kenya solidifies itself as a lower-middle economy and become less eligible for concessional aid (note – this is one of the reasons which have driven Kenya to issue external debt on commercial terms over recent years). As a source of foreign exchange ODA remains a significant source of external financing although for the first time in 2021 it was outstripped by remittances which are growing in importance (in 2016-17, remittances represented just 60% of total ODA). In 2020, there was a significant increase in ODA to Kenya in response to the pandemic – mostly in the form of budget support (categorized as "programme assistance" by OECD) – which has since come back down again as the health emergency eased (Figure 25). The United States and the World Bank are by far the two largest donors to Kenya, together accounting for around half of total ODA disbursements since at least 2016. Over the medium term, ODA to Kenya is expected to decline – in real terms if not nominal and as a percentage of total expenditure – as development partners reorientate their efforts on low-income and fragile countries. This serves to reemphasize the importance of the government achieving sustainable increases in domestic revenues to finance its development plans, rather than expecting to mobilize additional foreign assistance. This will be critical for the successful implementation of key programs, such as the new UHC programme.

For many years the health, infrastructure and production sectors have been the top sectors attracting development partner support in Kenya. ODA to the economic infrastructure & services sector has recovered from a slight dip in 2020 (possibly caused by donors reallocating their funds to support the pandemic response) reaching USD 735 million in 2021. Health sector assistance has remained relatively stable throughout the period indicating a consistent commitment to healthcare initiatives (note that it is likely that a significant proportion of "programme assistance" – the brown segment in Figure 25 below – was allocated to health as these grants and loans were disbursed as part of MDB pandemic support initiatives). In contrast, ODA to the production sector (which includes the agriculture, fisheries, mining and tourism sectors) has fluctuated significantly, reaching its peak in 2020 at USD 769 million before declining again to USD 331 million in 2021. Notably, the education sector does not seem to be a particular priority for external funding in Kenya.

Fig. 25: ODA by sector



Source: OECD Creditor Reporting System

4 Health Drill Down

4.1 Government Health Budget and Expenditures

Government Budget

Health budget allocations have declined in real terms over the past five years – in monetary terms, as a percentage of GDP and in per capita terms. Between 2019/20 and 2022/23, the consolidated health budget declined by 15% in real terms (Figure 26). This constitutes a reduction in the health budget as a share of GDP from 2.3% in 2018/19 to 1.7% in 2022/23 and a fall in real per capita health spending from KES 5,276 to KES 4,511 (2022 prices) over the same period. This is despite additional allocations of up to 0.2% of GDP in 2019/20 through 2021/22 for COVID-19 mitigation measures such as the vaccine roll-out and access to affordable medical care. While allocations for 2023/24 increased slightly (before being trimmed back by 2% in the supplementary budget) national budget projections for 2024/25 suggest that there will be no substantial rise in allocations in the near term.

Source: BROPs (2017–23); Economic Survey (2023); BIRR (2022/23); QEBR (2022/23); PBB (2022/23 & 2023/24).
Note: 2024/25 are national budget estimates. County budgets for 2024-25 are not available.

The decline in health budgets comes at the same time as renewed commitment for Universal Health Coverage (UHC).[17] Whether this will reverse the recent decline in health budgets remains to be seen, but without a steady increase in per capita health spending for primary health services, UHC will remain an aspiration.

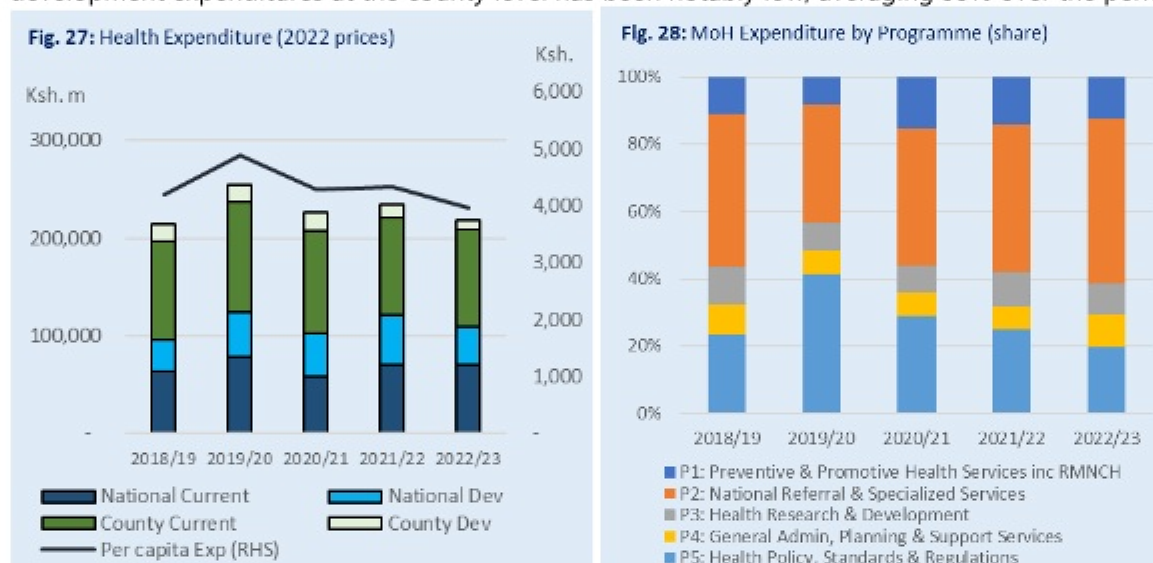
Historically, over half of the health budget was at county level – however its share has been in decline. In 2018/19 counties accounted for 57% of the total health budget. By 2022/23 this share had declined to less than 50% possibly reflecting the stagnation in the value of fiscal transfers to counties (Section 2.2). Most country resources are allocated to the recurrent budget.

Budget allocations for development are concentrated at the central government level. While the national government usually allocates around 40% of its budget to development, counties allocate only 20% on average. Whilst this is partially due to the distribution of roles within the health sector (counties are responsible for delivering services with a particular focus on primary health care, whereas the national Ministry of Health is responsible for policy but also tertiary health care which is more capital intensive) the counties do suffer from insufficient funding to adequately invest in development expenditures.

Government Expenditure

Per capita expenditure fell in real terms between 2018/19 and 2022/23 and total spending fell from 1.8% to 1.5% of GDP. This is a similar trend to budgets. As a share of total government spending health increased from 8.7% in 2018/19 to 9.5% in 2022/23, but this remains below the levels required to achieve UHC (15% GGE). Execution rates have been improving over the past five years with the overall rate averaging 85%. Execution of the national budget is higher than counties, but counties have improved and are only

slightly lower than national rate (from a low of 77% in 2018/19 to 86% in 2022/23). The execution of development expenditures at the county level has been notably low, averaging 55% over the period.



Source: As per Chart 26 plus Health Sector Report MTEF 2024/25-2026/27
Note: RMNCH = Reproductive, Maternal, Neonatal and Child Health

Ministry of Health spending at central level is allocated across five programmes with the largest portion assigned to secondary and tertiary care rather than PHC. Although preventive and promotive health services including RMNCH (i.e. PHC) received an average of 18% of the total budget over the past five years, actual expenditure has consistently fallen short, averaging only 12%. This contrasts sharply with secondary and tertiary care, which accounts for 43% of the budget. Furthermore, the PHC budget execution rate lags, averaging 61% compared to the MoH's overall rate of 87%, and secondary and tertiary care records the highest average budget execution rate at 94%.

Despite the government's strong commitment to UHC and PHC as its cornerstone budget allocations and execution remain significantly below expectations. Kenya's commitment to UHC is exemplified by the Bottom-up Economic Transformation Agenda, the Kenya Health Financing Strategy (2020-2023) and the recent signing of four UHC-focused laws. However, this is not borne out in practice. For instance, the initial budget allocation in 2022/23 was KES 123 billion, reduced to KES 119 billion in the first "supplementary" budget and further down to KES 116 billion in the second revision. This downward trend continues, with the first revision of the 2023/24 budget revealing a cut of 2.5% mostly on the development side of the budget.

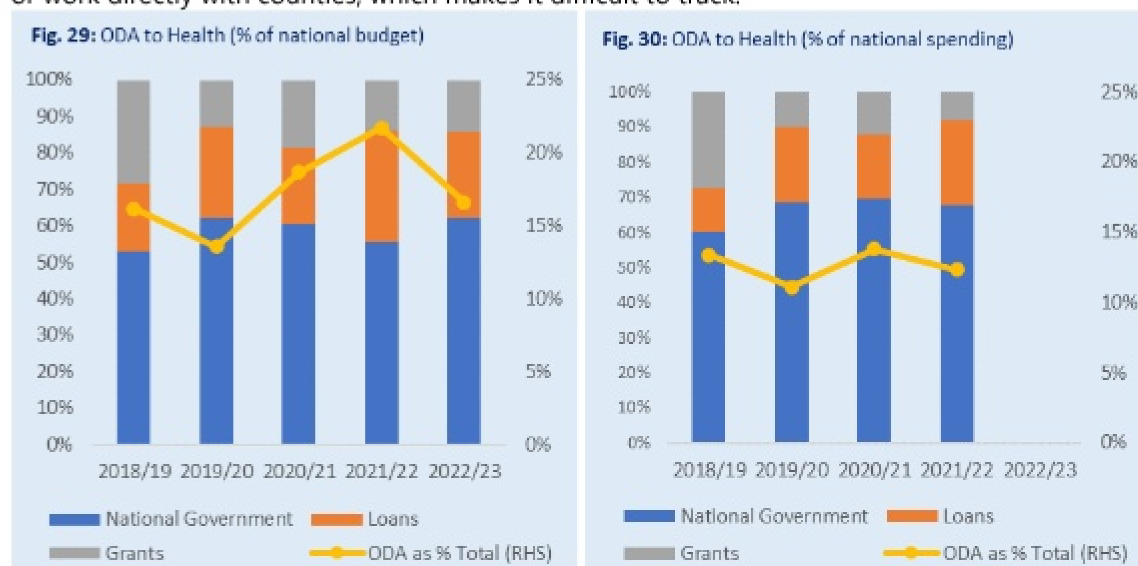
4.2 Foreign Aid for Health

Donor financing for health has been stable over the past five years buoyed temporarily by COVID disbursements within a longer-term overall decline which is posing a challenge for a sector that has relied heavily on external funding for a long time. External on-budget support to the sector declined from 13% of the total national health budget in 2018/19 to 12% in 2021/22. This was after a brief increase to 14% in 2020/21, due to the increased resource requirements for response to the COVID-19 pandemic.

On-budget ODA is channelled to the development budget. There is typically a mix of loans and grants with no clear trends in either direction. Together loans and grants contribute 34% to all national development expenditures in health, as compared to a budgeted 41% over the past five years.

Off-budget ODA is estimated to account for a larger proportion of external funding. This is because donors have chosen to provide project support rather than channelling resources through the government's

PFM systems ostensibly due to weaknesses in expenditure management.[18] Unfortunately, accurate and recent data on off-budget ODA in health is scarce, as the government often does not report or track it. Furthermore, there is fragmentation of donor support as donors tend to prefer to finance individual projects or work directly with counties, which makes it difficult to track.



Source: Sector Working Group Report (2023)
Note: The three separate funding modes: National government; Loans; and Grants are shown as a percentage of national government development expenditure. The ODA is shown as a proportion of total national expenditure (recurrent and development).

Indications from both donors and government suggest that the decline in ODA for Health is likely to continue over the medium to long term. Examples are set out below:

- **PEPFAR, a major donor for HIV/AIDS, plans to work with the government on a transition plan for HIV financing, including moving PEPFAR-supported Human Resources for Health (HRH) to the government payroll at both national and county level.**[19] PEPFAR has already phased out some of its support towards counties for different projects. In 2020/21, 14 of 39 counties were transitioned from its Orphans and Vulnerable Children (OVC) program. The MOH, in the Medium-Term Expenditure Framework (MTEF) for the period 2023/24 – 2025/26, has also called for a scale-up of domestic resource mobilization, mainly for HIV, TB, Malaria, Vaccines, Nutrition, Reproductive, Maternal Neonatal, Child and Adolescent Health (RMNCAH) and Blood Transfusion Services, to bridge the gap due to shrinking donor funding.

- **Kenya is expected to transition out of Gavi support for the immunization program by 2030.**[20] Over the years, the Kenyan government's contribution to the expenditures incurred in the program declined from 0.15% in 2012 to 0.07% in 2017. It is estimated that for every dollar spent by the government, donors spend more than three times as much on immunization.[21] This level of donor dependency poses a significant risk for the sustainability and effectiveness of the program, which will require a resource allocation of approximately 4% of the total government's expenditure for health. Without adequate funding, the program may lose the gains it has made as was the case in 2013/14, when the national government failed to allocate funds for vaccines, resulting in a 7-percentage point decrease in vaccine coverage in Kenya from 94% in 2012 to 87% in 2013[22].

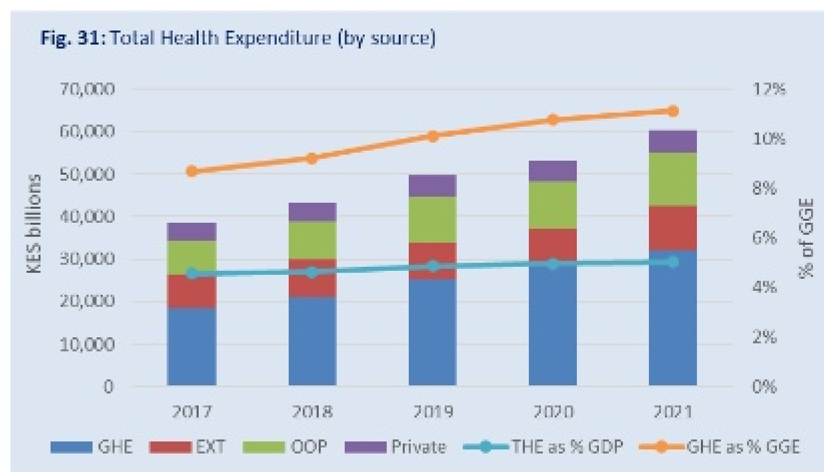
The health sector has faced persistent delays in donor funding disbursement, resulting in low execution rates and stalled projects.[23] This is particularly for development projects that rely, either wholly or partially, on on-budget donor support. In 2021/22 only half of the loans and grants were spent, a significant decline from an execution rate of 61% in 2020/21. This was due to delayed disbursement of the funds by development partners, which affected some projects. For example, the construction of the Kenyatta National Hospital Burns and Paediatrics Centre, had an execution rate of only 4.3% by the end of 2021/22, as donor funds were delayed. Consequently, the contractor withdrew from the site and the project

stalled. In some cases, loans were withheld by donors when the MoH failed to meet its loan requirements, as is the case of the cancer centre at Kisii Level 5 Hospital.

4.3 Total Health Expenditures (National Health Accounts)

Total Health Expenditure (THE) – the sum of government, external, households' Out of Pocket (OOP) expenses, and private spending – has risen in nominal terms but only slightly as a share of GDP over the past five years. In per capita terms it has risen from an estimated KES 8,000 in 2017 (82 USD) to 12,000 KES in 2021 (111 USD). As a share of GDP, it has risen slightly from 4.6% to 5.0% over this period.

Government Health Expenditure (GHE) has risen as a share of THE but has been insufficient to offset a rise in OOP spending. External funding has declined from 20% of THE to 17% with GHE taking on a growing share from 48% to 53% in 2021. As a share of General Government Expenditure (GGE) GHE has risen from 8.7% to 11.1% over the period. However, this rise in GHE has been insufficient to offset a rise in Households' OOP spending which is at 21%. This is a concern given that the WHO finds that OOP financing of more than 20% can lead to catastrophic health expenditures and impoverishment.[24]



In sum, whilst there have been some improvements in THE, OOP remains too high to ensure UHC. It has been estimated that government should spend at least 5% of GDP on health to achieve Universal Primary Care Services.[25] Kenyan GHE is only 2.2% of GDP.

Source: WHO NHA Global Health Expenditures Database

Note: WHO NHA's includes Government Health Expenditures (GHE), External spending on health, Households Out of Pocket (OOP) expenditures and private sector health spending to create Total Health Expenditure (THE). It is carried out under international methodology that makes these statistics internationally comparable.

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5 Institutional Update

There have been notable improvements from the National Treasury in complying with the PFM Act (2012) but critical reporting gaps remain. In particular, there are challenges with the transparent reporting of public debt information. For example, when tabling public debt reports to the Parliament, the National Treasury fails to provide an economic impact assessment of each loan procured, information on loan balances brought forward, drawings and amortizations, its overdraft facility from the Central Bank and the implementation status of each loan-funded project.

Outstanding Auditor General's reports for the County Governments continue to pile up, but there seem to be efforts in the recently launched plan by the Senate's County Public Accounts Committee (CPAC) to end this backlog.[26] The backlog dates back five financial years – the committee wants to clear the backlog and ensure future reports are delivered on schedule. To achieve this, the committee plans to increase the frequency of its meetings to expedite the process.

The transition from the National Health Insurance Fund (NHIF) to social health insurance fund (SHIF) is a significant milestone, but the goal might not be achieved if implementation is done without first addressing the inefficiencies that faced NHIF. The creation of SHIF represents a big change in the Kenya health financing landscape, but failure to enact reforms that address inefficiencies, cases of fraud and mismanagement currently experienced under NHIF will greatly impede the realization of the plans outlined in SHIF. With the proposed contribution of 2.75 percent of gross monthly income for the salaried workers, the government need to step up to match high public expectation in the improvement in the delivery of affordable and high standard of health services.

Section 25 of the Climate Change Act, 2016 provides for the establishment of a Climate Change Fund but there is a lag in the operationalization of the fund and formation a National Climate Change Council. This lag has led to fragmentation of funds and programmes such as Green Climate Fund, green bonds, and Financing Locally Led Climate Action (FLLoCA).

So far, the government's flagship initiative for supporting small businesses – the Hustler Fund – is failing to live up to expectations and lacks transparency. The current administration came into power with a narrative of uplifting the lives of ordinary 'hustlers' by providing affordable credit to workers and MSMEs. However, the funding source of loans is opaque, with no published reports on the Fund's website that show even basic information on the consolidated value of credit issued to date.[27] There has been no disclosure of agreements made between the government and commercial banks which advance the loans and there is concern regarding the volume of public resources that have been committed to match private financing. Furthermore, the Fund has not met the constitutional threshold of public participation as enshrined in the Constitution per Articles 201 and 10(2) and the PFM Regulations (2015) on public finance management.

Endnotes

[1] This brief provides an analytical snapshot of the economy of, and public finances in, Kenya. It is based on publicly available data produced by GoK, and a range of secondary analyses. It is part of a package of five country briefs commissioned by the Bill & Melinda Gates Foundation and is intended to provide a common analytical backdrop to foundation programming in the country

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The findings and conclusions contained within are those of the authors and do not necessarily reflect the positions or policies of the Bill & Melinda Gates Foundation.

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