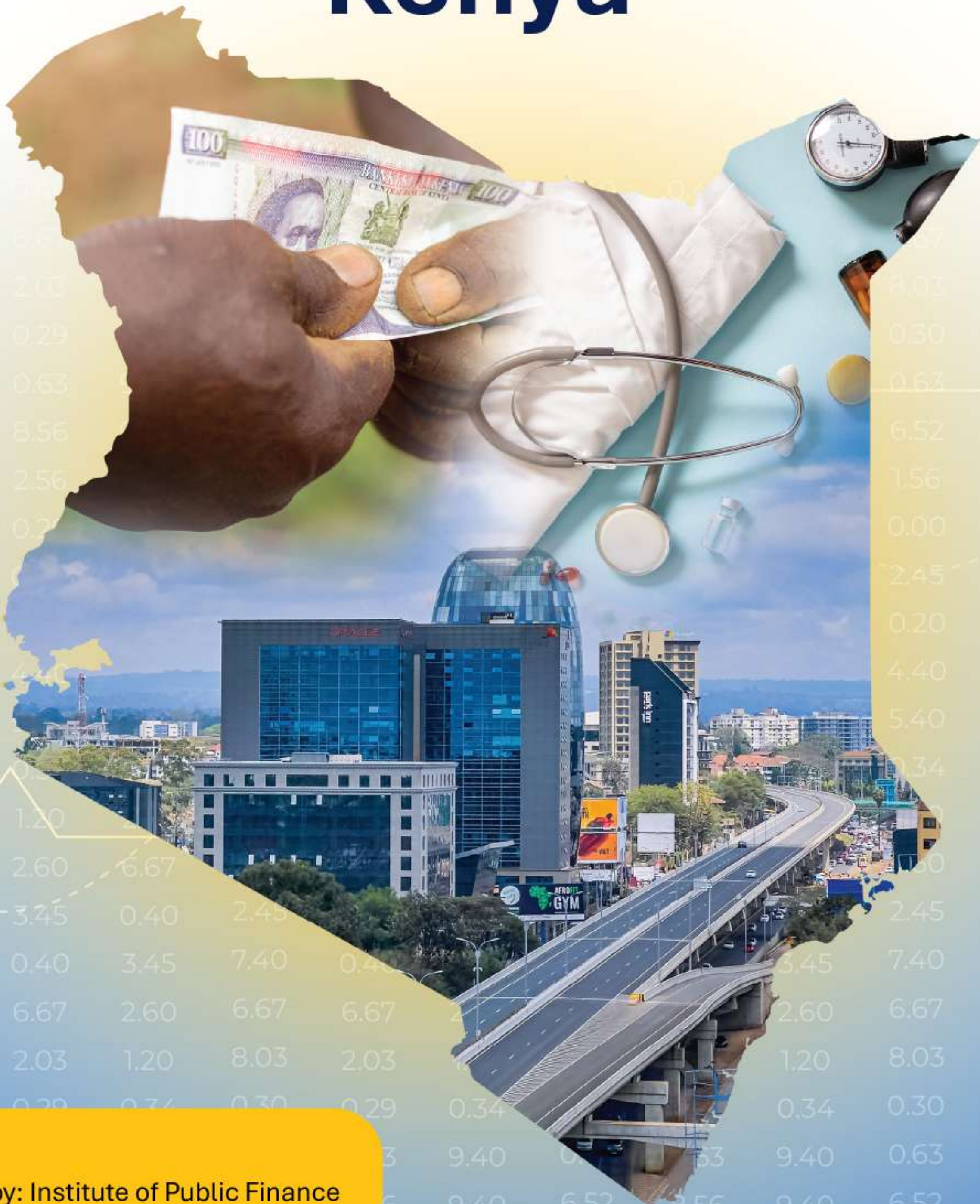
IPF
INSTITUTE OF PUBLIC FINANCE

Oxford Policy Management

Macro Fiscal Analytic Snapshot Kenya



2025

Prepared by: Institute of Public Finance

© 2025 Institute Of Public Finance (IPF)

Fourth floor, Rosami Court,
Muringa road, Kilimani.
Email: info@ipfglobal.or.ke
P.O. Box 21753-00100, Nairobi, Kenya
Tel:+254 758 728 882

Rights and Permissions

@COPYRIGHT RESERVED
Extracts may be published if source is duly acknowledged.

Design and Layout: Isaiah Muthui

Acknowledgements

The preparation of the Kenya Macro-Fiscal Analytical Snapshot 2024 was a consultative and collaborative effort between the Institute of Public Finance (IPF) teams led by Bernard Njiri, under the guidance of James Muraguri-CEO, Daniel Ndirangu-Kenya Country lead, and the Oxford Policy Management team led by Nick Travis. Immense gratitude goes to the IPF research team- Bernard Njiri, Veronicah Ndegwa, Silas Kiprono, Gladys Wachira, Daniel Murakaru, Vivian Ng'ang'a, Martin Kabaya, Charles Gichu, Davis Wachira, John Kiplagat, Bonita Wanjiru, Vincent Kipkemoi, Diana Lenoi, Osborn Sifuna and Collins Nzuya. Special recognition goes to IPF's Data and Measurement team- Edna Kijogi, Jacob Mulandi, Hillary Liech and Hope Mutia, and our communication's team- Rozalia Karanja, Ruth Ikaru and Dorothy Muriu. Sincere appreciation to our colleagues in the Programs Department, the Finance and Administration Department, and the Human Resouce Department for their support during the preparation of this edition. Special thanks to the reviewers from Oxford Policy Management including Nicholas Travis, Stevan Lee, Alex Murray-Zmijewski, William Smith, Goufrane Mansour, Terry Roopnaraine and Sonya Rabeneck for their invaluable comments and guidance in developing this MFAS. Gratitude to our Senior Technical Advisor, Jason Lakin, PhD. Special appreciation to the Gates Foundation for resources to undertake this research.

Ruth Kendagor
Head of Research and Capacity Strengthening
Institute of Public Finance

Contents

List of Abbreviations		v
Introduction		1
1	Macroeconomic Context & Outlook	4
2	Revenue and Expenditure	9
3	Aid Update	16
4	Health Update	17
5	Institutional Update	21

List of Abbreviations

BETA	-	Bottom-Up Economic Transformation Agenda
BIRR	-	Budget Implementation Review Reports
BPS	-	Budget Policy Statement
BROP	-	Budget Review and Outlook Paper
CHPs	-	Community Health Promoters
EAC	-	East African Community
ECCIF	-	Emergency Chronic and Critical Illness Fund
ECF	-	Extended Credit Facility
EFF	-	Extended Fund Facility
FY	-	Financial Year
GDP	-	Gross Domestic Product
GGE	-	General Government Expenditures
GHE	-	Government Health Expenditures
GN	-	Global Nutrition
GoK	-	Government of Kenya
IFMIS	-	Integrated Financial Management Information System
IMF	-	International Monetary Fund
JKIA	-	Jomo Kenyatta International Airport
KES	-	Kenyan Shilling
MDAs	-	Ministries Departments and Agencies
MFAS	-	Macro Fiscal Analytic Snapshot
MIYCN	-	Maternal Infant and Young Child Nutrition
MOH	-	Ministry of Health
MPO	-	Macro Poverty Outlook
NCD	-	Non-Communicable Diseases
NG-CDF	-	National Government Constituencies Development Fund
NHA	-	National Health Accounts
NHIF	-	National Health Insurance Fund
ODA	-	Official Development Assistance
OECD	-	Organization for Economic Cooperation and Development
OOP	-	Out-of-Pocket
OPM	-	Oxford Policy Management
PFM	-	Public Finance Management

PPPs	-	Public-Private Partnerships
PEFA	-	Public Expenditure and Financial Accountability
PHC	-	Primary Health Care
PHCF	-	Primary Health Care Fund
QEBR	-	Quarterly Economic and Budget Review
RMNCAH	-	Reproductive Maternal Newborn Child Adolescent Health
SDG	-	Sustainable Development Goals
SHIF	-	Social Health Insurance Fund
THE	-	Total Health Expenditure
TSA	-	Treasury Single Account
UNICEF	-	United Nations International Children's Emergency Fund
USD	-	United States Dollar
UHC	-	Universal Health Coverage
VAT	-	Value Added Tax
WASH	-	Water Sanitation and Hygiene
WHO	-	World Health Organization

Introduction

The Macro-Fiscal Analytic Snapshot (MFAS) is prepared annually by the Institute of Public Finance in partnership with Oxford Policy Management and with funding from the Gates Foundation. Its overall objective is to facilitate active and informed public discourse on the Kenyan economy, the effective and efficient use of public resources, and citizen-responsive policy-making. The preparation of the MFAS is undertaken through a high-level analysis of publicly available information, interpretation and dissemination. The 2024/25 MFAS is the sixth edition.

Key Messages

1) **Growth has remained resilient in the face of numerous shocks, although investment and exports are not keeping up with GDP.** Though the severity may differ, Kenya, like other countries, has faced several adverse shocks in recent years. Despite this, there have been consistent improvements in income per capita since the growth rate is steady at nearly 5%. Currently, the falling investment rates are no cause for worry because the falling domestic interest rates are likely to stimulate the demand for credit and spur investment. Slow growth in exports is a continuing concern, as it has become a commonality to many countries since 2015.
2) **The poverty rate is back to a downward trend but reducing slowly from a high level.** After the pandemic-related setbacks, poverty has resumed its downward path, but this is a path of slow reduction and Kenya's poverty rate remains high for its level of income: Ghana, at a similar GDP/capita has a much lower poverty, for example. This is partly because of the historical starting point, not just in terms of poverty level but also in terms of institutions that keep poverty high – for example, a dual labour market that generates a small number of well-paid jobs in the formal sector.
3) **Inflation is under control after peaking at 10% towards the end of 2022.** Price increases in Kenya have not been as worrisome as in other countries, and inflation is now declining to more manageable levels. This has allowed reduced interest rates reduce which should, in effect, stimulate the demand for credit and spur investment.

4) **Kenya remains at a high risk of debt distress, but the concern over default has passed – at least for the time being.** The refinancing of the US$2bn Eurobond in the early months of 2024 has contained the threat of default – albeit at the cost of higher interest rates on the outstanding debt. Elevated debt servicing costs mean that Kenya continues to breach all the IMF's debt sustainability ratios (debt-to-GDP; debt service-to-revenue; and external debt service-to-exports). Further shocks that reduce growth or increase borrowing needs (or both) could put significant pressure on the limited fiscal buffers that remain.
5) **Fiscal consolidation has resulted in Kenya experiencing a "lost decade" in public expenditure.** Large fiscal deficits and elevated debt levels have forced Kenya to deliver fiscal consolidation in recent years. With revenue flat and the need to avoid further borrowing, per capita public spending (excluding interest) has been falling, in real terms, for several years. There may be a turning point next year, but even then, growth will be very slow, and projections suggest that in real terms, non-interest expenditure per capita will get back to 2018 levels only by 2028 partly due to the ever-increasing debt interest burden. This represents a decade of expenditure stagnation despite robust growth.
6) **Efforts to increase revenue are falling flat.** Public protests in opposition to the government's revenue-raising Finance Bill in 2024 ultimately forced its withdrawal. Forecasts suggest further stagnation in revenue generation unless alternative reforms that widen the tax base by penetrating hard-to-tax sectors are pursued by the government, which seems difficult given its unpopularity. This suggests limited scope for increases in public expenditure soon.
7) **Spending on health has declined in recent years.** Government health spending has declined by approximately 7% in real per capita terms over the past five years and falls well short of international benchmarks necessary to attain UHC. Notably, donor on-budget financing for health has gone down, accounting for much of the overall decline in government spending. While reforms to the social health insurance system are underway, it remains to be seen if they will be successful in delivering universal primary coverage.

Key Issues to Monitor

- **Revenue reforms.** The failure of the 2024 Finance Bill has forced the government to adopt a more piecemeal approach to revenue reform. It will be important to see what measures are ultimately implemented and whether these will make a significant impact in the vital task of increasing the overall tax take.
- **The fiscal deficit and debt sustainability.** The need to maintain course on fiscal consolidation is clear, but will it happen? The higher-than-planned borrowing in 2023/24 intended to offset under-performing revenues undermined consolidation, but Kenya has limited scope to continue doing this without triggering further debt problems.
- **Social Health Insurance Fund (SHIF) implementation.** This SHIF has the potential to provide health coverage to all citizens over time, ensuring equitable access to health care. However, this requires the government to overcome several implementation and legal challenges, which will come to a head in 2025.
- **Disbursements of fiscal transfers to the counties.** Fiscal consolidation and particularly unpredictable revenues at the national level have caused havoc with transfers to county governments, resulting in significant service delivery challenges. Will this trend continue in 2025, or will the government find a way to smoothen disbursements?

Economic Forecast Table

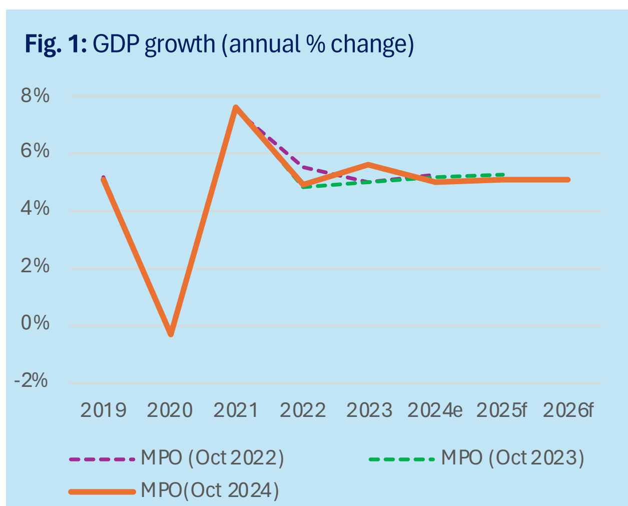
(% GDP except where indicated)	Estimate	Forecast			Extended Forecast
Economy	**2023**	**2024**	**2025**	**2026**	**2027**
GDP (US$bn, 2023 prices)	108.1	113.5	119.3	125.4	131.8
Change in GDP	5.6%	5.0%	5.1%	5.1%	5.1%
Change in Agriculture	6.5%	4.8%	5.0%	5.1%	5.1%
Change in Industry	1.9%	1.1%	2.9%	3.6%	3.6%
Change in Services	6.2%	6.1%	5.7%	5.4%	5.4%
Change in gross investment	1.9%	2.3%	6.2%	7.1%	7.1%
Change in gross exports	-4.5%	5.5%	9.8%	10.1%	10.1%
Current Account Balance	-4.0%	-4.0%	-4.1%	-4.1%	-4.1%
Fiscal	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Gross Revenue	16.8%	17.0%	18.4%	19.8%	19.8%
Gross Public Expenditure	22.4%	22.0%	22.2%	23.1%	23.1%
Public Investment	6.2%	5.8%	7.4%	8.9%	9.1%
Recurrent expenditure (excl. interest)	11.0%	10.6%	10.1%	9.7%	9.5%
Debt Interest	5.2%	5.8%	4.7%	4.5%	4.5%
Fiscal Balance	-5.6%	-5.0%	-3.8%	-3.3%	-3.3%
Public Debt	68.7%	65.1%	63.3%	60.3%	60.3%
Memo items					
Headcount Poverty ($2.15 in 2017 PPP))	34.7%	34.0%	33.2%	32.4%	

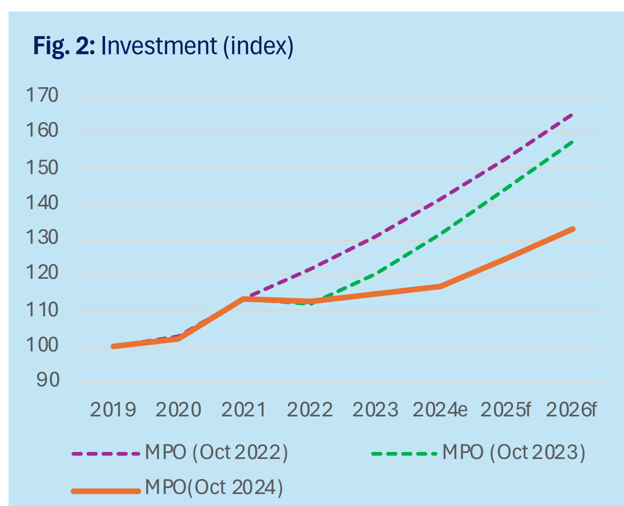
Source: World Bank (2024) Macro-Poverty Outlook

1. Macroeconomic Context & Outlook

1.1 The Economy – Growth, Investment, and Inflation

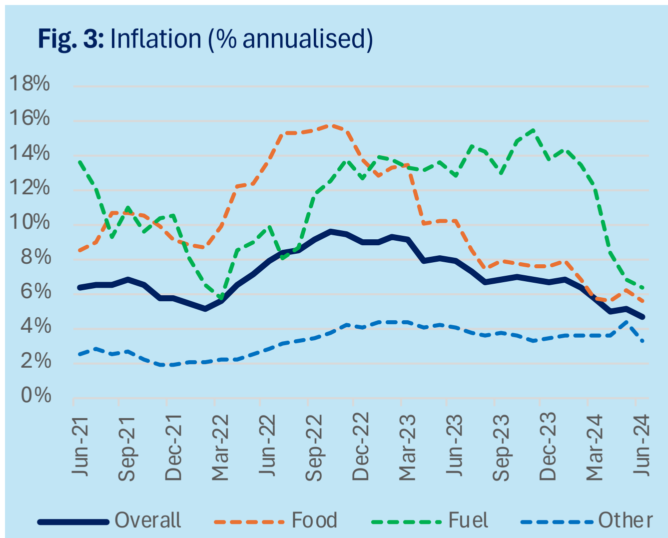
Kenya's economy has continued to show resilience in the face of several internal and external shocks over recent years, although there are concerns around the rather weak investment and export growth rates. Following a swift post-pandemic recovery in 2021, GDP growth has resumed its long-term trend rate of 5% per year, most recently driven by improvements in the agriculture and services sectors. This is above the regional average for Sub-Saharan Africa (projected at 4.2% in 2025) and comes despite tighter monetary policy, the fallout from international conflicts, and recent domestic political unrest. Growth is projected to remain at around 5% for the foreseeable future, which should allow for steady rises in real per capita income and consumption. Such growth would be enough to enable poverty reduction in some settings (albeit a slow poverty reduction in Kenya). Investment has plateaued since 2021; partly because public investment has been cut back. Exports are below 12% of GDP, whereas they were 26% in 2004 and 16.5% in 2014. Although this is by and large a global phenomenon, at least since 2008, Kenya cannot grow strongly and sustainably without a pickup in exports soon.





Source: World Bank MPO

Headline inflation has receded following spikes in food and fuel prices in 2022 and 2023 respectively and should enable a further easing in monetary policy. Kenya has managed to avoid the very high price increases witnessed in other countries over the past three years, with annual inflation never rising above 10%. However, overall inflation was above the target ceiling of 7.5% from June 2022 until June 2023, though it has been on the decline since. Food inflation has significantly declined over the past 18 months, from a peak of 15% in August 2022. Fuel inflation remained higher for longer, reaching over 15% by November 2023, partly reflecting the rise in international oil prices, but also the gradual withdrawal of the fuel subsidy from September 2022, in which VAT on fuels was revised from 8 % to 16 %, causing upward revisions to prices. Lower inflation has allowed for a reduction in interest rates from 13% to 11.25% in December 2024, which should stimulate



Source: World Bank MPO

higher investment over the medium-term if rates continue to decline. However, private banks have so far been reluctant to pass on lower rates to private sector borrowers.

Despite showing resilience, Kenya's economy continues to face significant structural challenges in generating sustainable and inclusive development. World Bank projections for growth are very similar to Kenya's long-term growth pattern going back to at least 2010, implying that its growth potential has remained largely unaltered despite a decade of debt-financed public investment aimed at spurring transformative growth. In other words, there haven't been any high returns from that public investment and there has been little to no productivity over the past decade[i]. this means that Kenya is now at high risk of debt distress. Currently, the (formal) private sector only generates approximately 100,000 jobs annually, far below the projected one million workers entering the job market annually over the next decade.[ii] The formal sector's share of employment has stagnated. This indicates an entrenched dual labour market which generates a few well-paid jobs and high costs in the formal sector, and leaves most in the informal sector on much lower wages. More inclusive growth would be more labor-intensive, and would draw more labour out of agriculture, pushing up wages for the lower paid workers, not just a few at the top.

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 stabilize the public finances without having to resort to drastic real cuts in expenditure. The successful refinancing of the US$2bn Eurobond in the first half of 2024 and the revaluation of the shilling has reduced fears of default for the time being. Staying on course with fiscal consolidation will be 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 and lower interest rates, 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 because of public discontent about the high cost of living and political pressures (as was seen by the public response to the tax-raising measures in the 2024 Finance Bill) which would exacerbate Kenya's debt vulnerabilities and hamper the economic outlook.

1.2 Consumption and Poverty

Private consumption has recovered from the shock of COVID-19 and has resumed its previous growth path, enabling a return to steady, yet unspectacular, reductions in poverty. Negative per capita consumption growth 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. Following a recovery in 2021, high food and fuel inflation is likely to be a key reason for the depressed rate of growth in per capita consumption observed in 2022, given these items tend to account for a high proportion of lower-income household spending. With inflation coming down, together with limited investment growth, annual per capita growth in consumption is projected to stabilise at around 4% per year over the medium-term. This is a stronger recovery

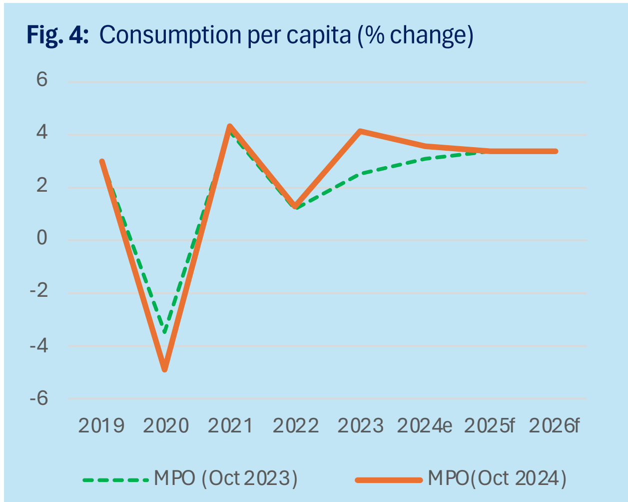


Fig. 4: Consumption per capita (% change)

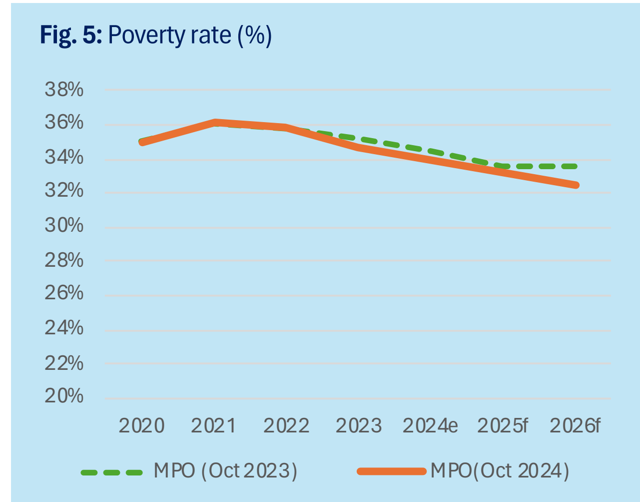


Fig. 5: Poverty rate (%)

Source: World Bank MPO

than projected in the 2023 MPO and should enable a slightly faster rate of poverty reduction than previously anticipated.

Nevertheless, poverty remains relatively high in Kenya given its income level, which is linked to the lack of inclusive growth. The link between economic growth and poverty reduction has weakened in recent years. This is illustrated by the fact that countries of a similar income level, such as Ghana, have significantly lower rates of poverty (36% in Kenya vs. 25% in Ghana). Part of the reason is that agricultural productivity is not increasing due to increasing climate shocks, especially in the arid and semi-arid counties. Another reason is that growth in the faster-growing services sector has tended to favour skilled workers, with poorer and low-skilled workers struggling to find more productive jobs. Correcting this structural problem is a critical medium-term challenge for the government.

1.3 Revenue and Expenditure

The fiscal consolidation undertaken by the government over the past two years has been driven by expenditure cuts, as revenues have stagnated. Revenue fell sharply in 2020 as a direct

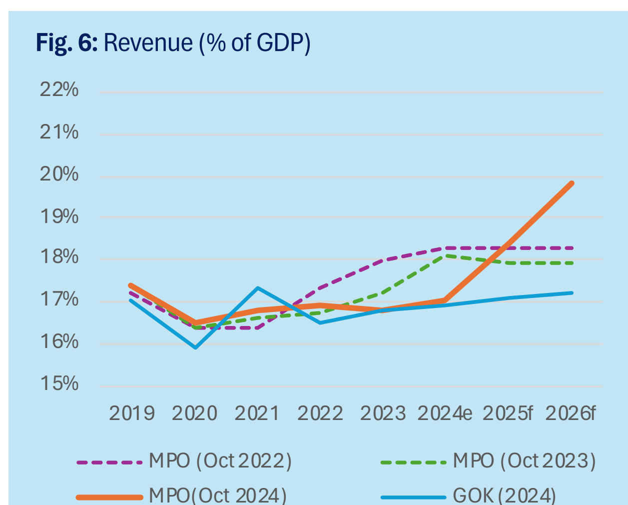


Fig. 6: Revenue (% of GDP)

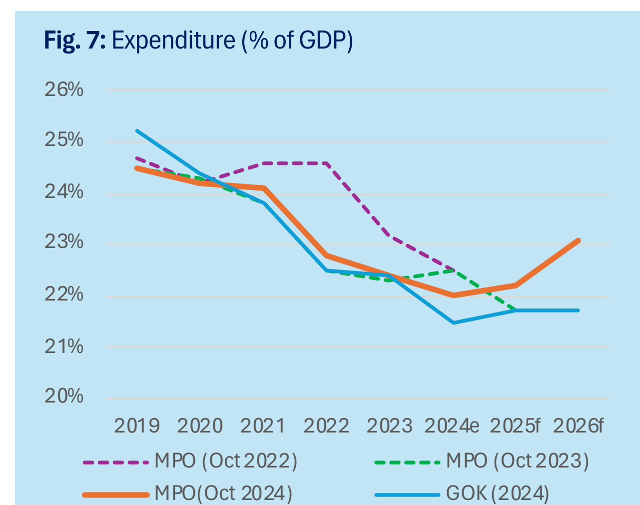


Fig. 7: Expenditure (% of GDP)

Source: World Bank MPO

consequence of the measures implemented to reduce the tax burden on households and businesses during the pandemic. Despite economic recovery and reforms since then, revenues have been slow to return to pre-pandemic levels and have lagged previous projections and targets. Revenue optimism has been a persistent problem in Kenya for several years which in the past has tended to result in higher-than-planned fiscal deficits financed by additional borrowing. More recently, with missed revenue targets and a constrained ability to borrow, expenditure as a percentage of GDP has been forced down, resulting in a notable decline in spending per capita.

Despite the historic failures, the World Bank continues to maintain a very optimistic outlook, projecting revenue to reach almost 20% of GDP by 2026. This is a level that has never been achieved in the past and is surprising given the recent withdrawal of the 2024 Finance Bill. On the other hand, the government's optimism on revenue mobilization has been severely dented, with GoK projecting a much more conservative rate of growth in revenues, just 17% of GDP by 2026 – barely any growth at all. Given the need to reduce borrowing, the outcome on revenue will be critical for calibrating expenditure and by extension, determining the overall pace of fiscal consolidation.

Expenditure appears set to stabilise following a period of relative cuts, which should allow for steady increases in real per capita expenditure over the medium term. Since 2019, expenditure has declined by around four percentage points of GDP, but further cuts of this magnitude should not be necessary. The government is projecting expenditure to remain stable at around 22% of GDP while the World Bank projects a modest increase by 2026 (presumably, dependent on its projected increase in revenue which seems unlikely to materialise). Assuming there are no interruptions to growth, this should enable a modest increase in fiscal space for expenditure on service delivery and investment.

1.4 Fiscal Balance, Debt Sustainability and Vulnerability

Lower fiscal deficits have helped to stabilise public debt but there is a long way to go until concerns over Kenya's ability to service its debts dissipate. Since 2014, Kenya has been running large fiscal deficits of between 6 and 8 per cent of GDP resulting in public debt rising quickly to 70 per cent of GDP. The rise in global interest rates starting in 2022 and the depreciation of the shilling significantly increased the cost of external debt servicing and put further pressure on Kenya's foreign exchange reserves. Although Kenya was ultimately able to avoid default by refinancing its US$2bn Eurobond in the first half of 2024, this came at the cost of a higher interest rate, meaning that debt servicing costs will remain elevated for some time. The global credit rating agencies further

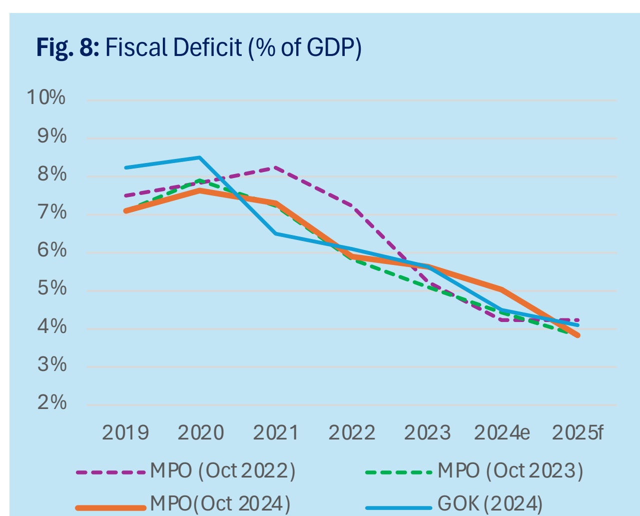


Fig. 8: Fiscal Deficit (% of GDP)

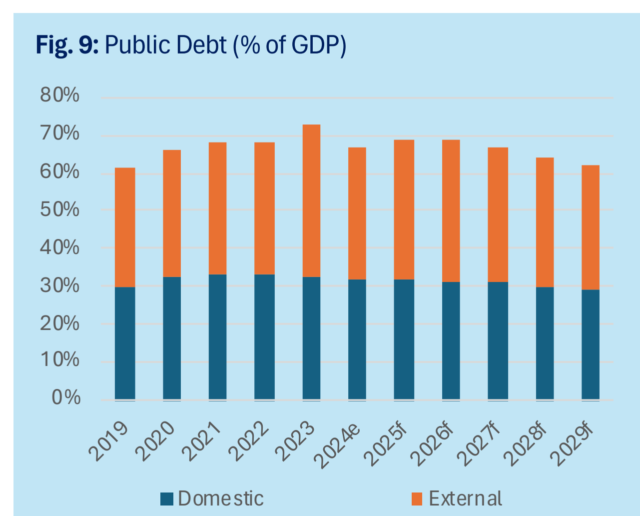


Fig. 9: Public Debt (% of GDP)

Source: World Bank MPO and IMF article IV reports

downgraded Kenya's outlook following the withdrawal of the 2024 Finance Bill, reflecting concerns over the country's continuing ability to honour its external debt obligations in the face of stagnant revenues.

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 key debt sustainability ratios. Of particular concern is the ratio which measures the availability of foreign exchange to service external debts. 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 as a proportion of exports is significantly above the level which the IMF considers sustainable for a country such as Kenya. Furthermore, the baseline scenario (purple line) represents the IMF's most optimistic forecast and is not necessarily the most realistic – in the case of a major shock (e.g. large currency depreciation) the ratio would worsen, reflecting an increasing inability to service debts, and could potentially precipitate a crisis.

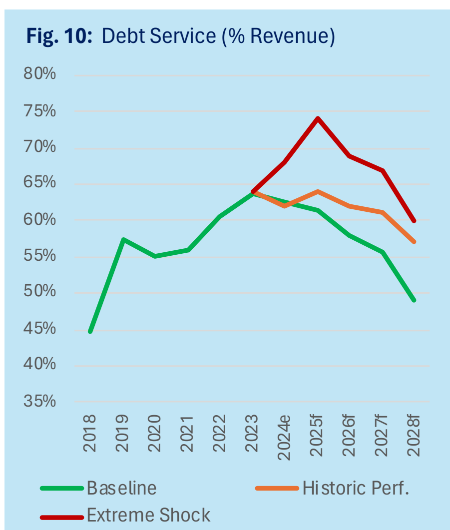


Fig. 10: Debt Service (% Revenue)

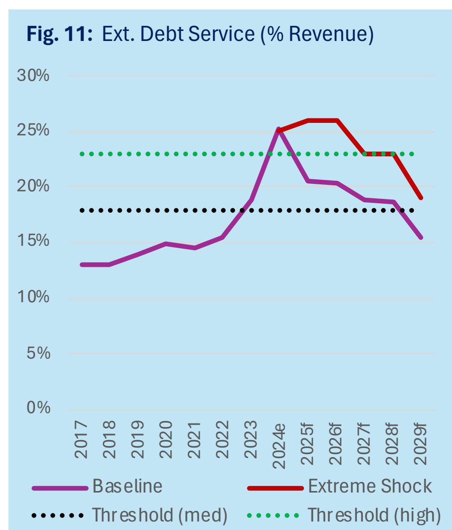


Fig. 11: Ext. Debt Service (% Revenue)

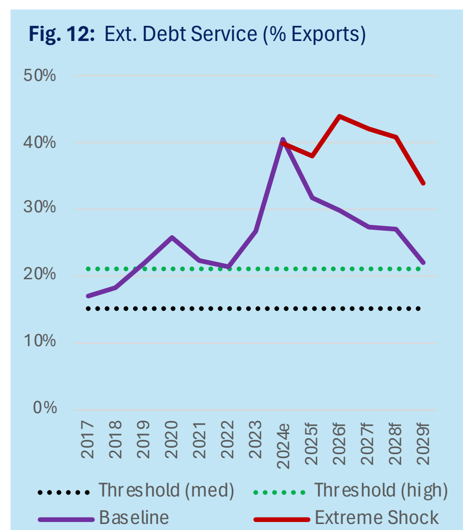


Fig. 12: Ext. Debt Service (% Exports)

Source: IMF (Nov. 2024) 7th and 8th Reviews under EFF and ECF.

Kenya's enduring debt vulnerability highlights 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 guaranteed.

2. Revenue and Expenditure

2.1 Revenue

Revenue continues to underperform against targeted levels 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. Revenue performance in 2023/24 was below target, maintaining a long-term trend of underperformance against original estimates. Overall, tax revenue performance relative to GDP remains below the East African Community (EAC) convergence criteria of 25%. Tax exemptions continue to result in substantial revenue losses (rising to over 3% of GDP in 2023) with limited evidence of their effectiveness in promoting investment and growth. Following the withdrawal of the 2024 Finance Bill, the government revised its revenue projections downwards, reflecting the rejection of revenue-raising measures. The lower projection for 2024/25 onwards may have injected a healthy dose of realism into government fiscal forecasts.

Fig. 13: Revenue Outturns & Forecast (% of GDP)

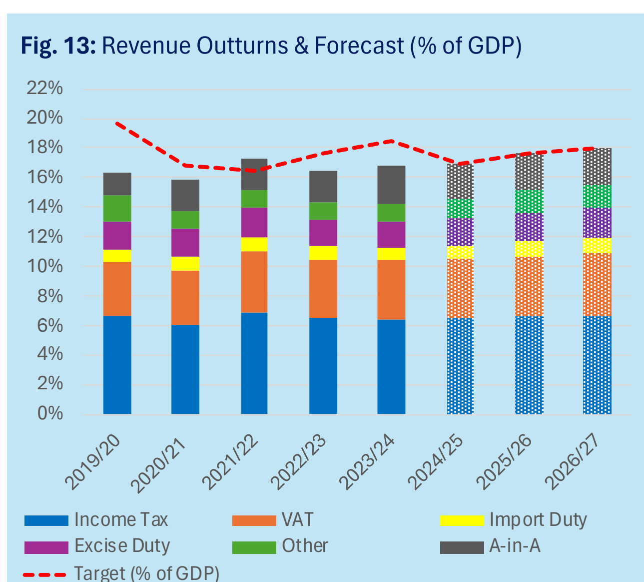
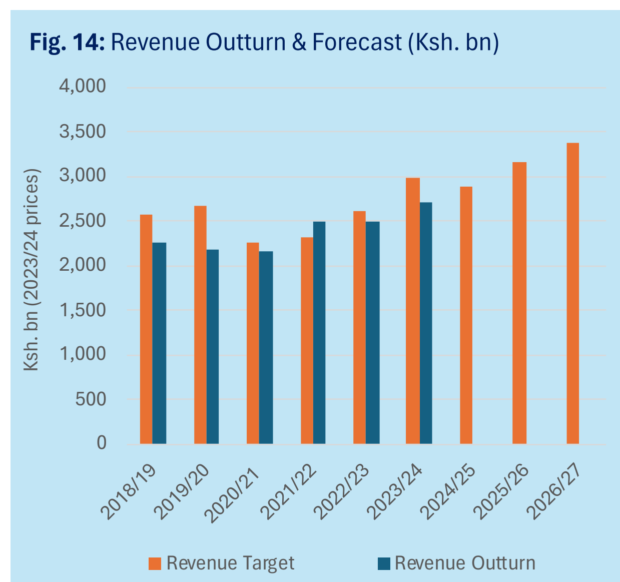


Fig. 14: Revenue Outturn & Forecast (Ksh. bn)

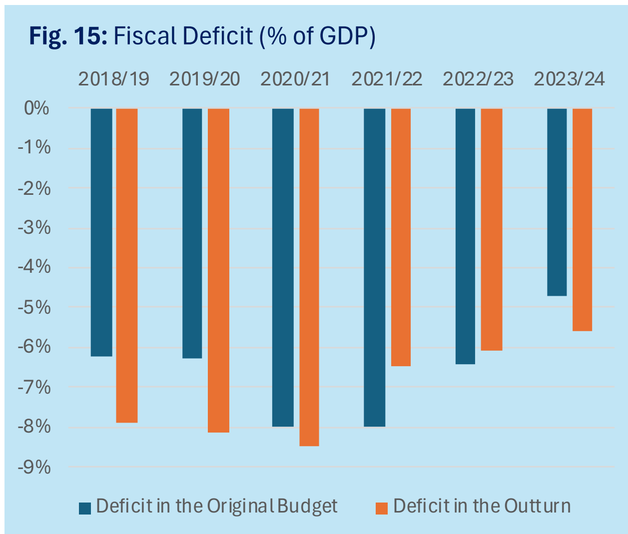


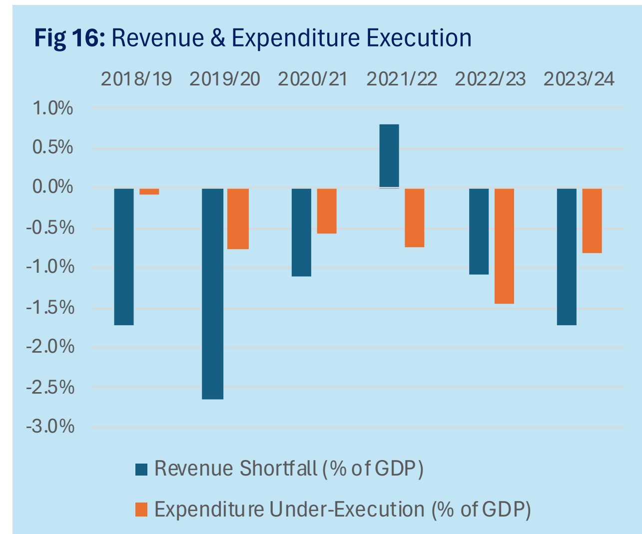
Source: BROP

The medium-term outlook for revenue is difficult to predict given the uncertainty over which of the government's proposed tax measures will be adopted. Despite the withdrawal of the 2024 Finance Bill, the government still intends to introduce a more limited set of revenue reforms, but it remains unclear which of these will be adopted. The government ostensibly intends to raise Ksh. 174 billion (roughly half that proposed in the original Finance Bill) via the introduction of the Tax Laws (Amendment) Act, 2024, and the Tax Procedures (Amendment) Act, 2024. While these measures present opportunities for increased revenue, achieving the target will require sustained efforts, realistic forecasting, and a commitment to addressing the underlying challenges in revenue administration and taxation of the digital economy and the informal sector.

Missed revenue targets have typically led to higher-than-planned fiscal deficits which limit the pace of consolidation efforts. Fiscal deficits since 2017/18 have typically been higher than originally planned driven by lower revenues than estimated. These gaps have been funded by

additional borrowing. This has been a major factor explaining the rapid rise in Kenya's public debt level. However, by 2022/23 plugging the gap through more borrowing had become much more challenging, forcing the government to cut expenditure by a similar amount as the revenue shortfall (Figure 15 & Figure 16). Then, in 2023/24, the fiscal deficit again surpassed planned levels, with additional domestic borrowing filling the gap between revenue and spending. Given the more realistic targets now adopted by the government, it remains to be seen whether revenue continues to act as a drag on Kenya's overall fiscal consolidation effort.





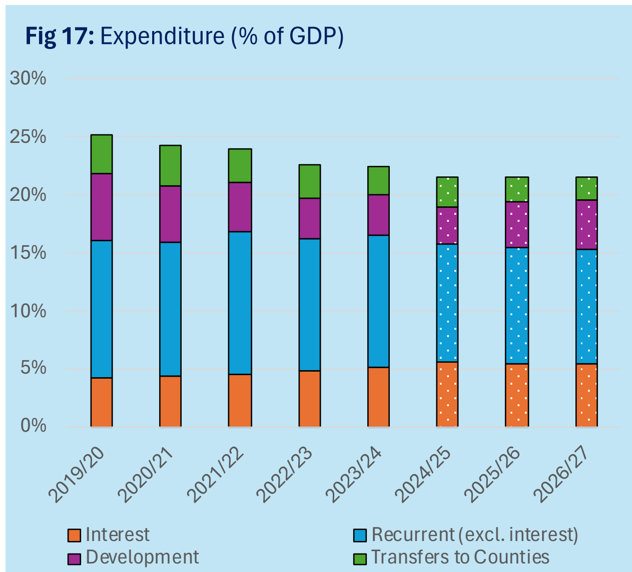
Source: BROP

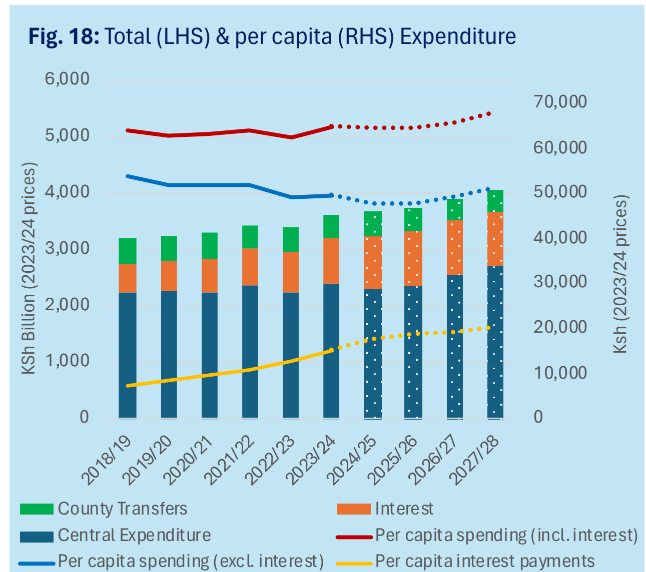
Subnational governments rely heavily on fiscal transfers from the national government and are increasingly vulnerable to revenue shortfalls. In 2023/24, fiscal transfers constituted 92% of county funding. Overall, counties collected just 73% of their targeted revenue, with only a handful meeting their targets. This dependence on national transfers has left counties vulnerable to disruptions in fiscal management. The withdrawal of the Finance Bill resulted in delays in the disbursement of transfers, nearly bringing county operations to a standstill and underscoring their fiscal vulnerability. Moreover, the draft Division of Revenue Amendment Bill proposes to share the burden of revenue shortfalls between the national and county governments by reducing fiscal transfers to counties in proportion to the shortfall, thereby exposing the counties to forecasting errors made by national government. To address these challenges, it is crucial for county governments to enhance their revenue raising efforts and strengthen fiscal management to reduce reliance on the national government.

2.2 Expenditure

Public expenditure as a percentage of GDP has been in decline for the past five years, with notable reductions in development expenditure and transfers to the counties. The requirement to bring down the deficit to limit debt vulnerabilities has meant that the brunt of fiscal consolidation has been felt on the expenditure side, which declined from over 26% of GDP in 2018/19 to under 23% in 2023/24 (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 real per capita spending (excluding interest) has been unavoidable (Figure 18). This is partly due to the rising proportion of debt interest in overall expenditure, which rose to over 23% of total expenditure in 2023/24 (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 been squeezed, with the latter declining by 20% in real terms since 2018/19. This seems likely to have had an impact on service delivery. In 2023/24, interest payments amounted to Ksh. 841 billion, exceeding spending on the health and education sectors combined (Ksh. 760 billion).

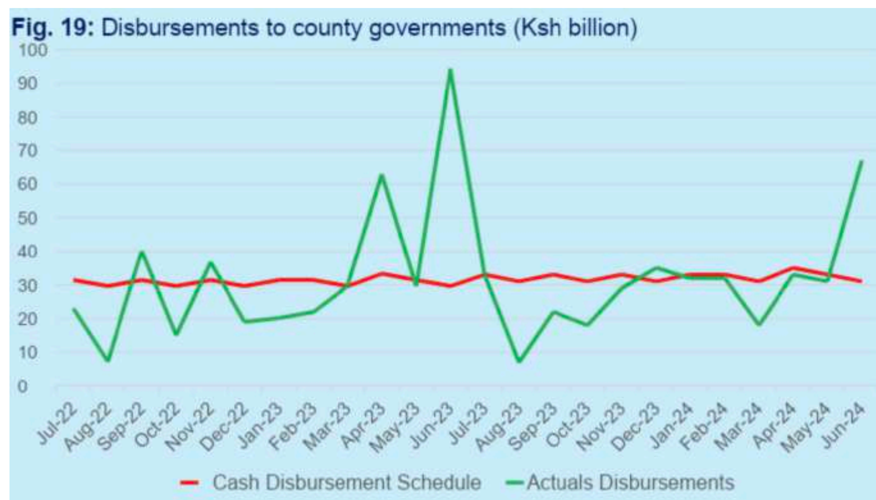
The government expects expenditure to remain at around 21-22% of GDP over the coming three years, reflecting subdued revenue performance and the intention to maintain fiscal discipline. Higher interest rates are expected to shift debt interest up to 5.6% of GDP in 2024/25 (over Ksh.1 billion – equivalent to 26% of total spending) before gradually declining. Development spending is projected to rise at the cost of cuts to recurrent spending and transfers to counties – although evidence from previous years suggests that recurrent spending is likely to be cut much less than development spending. Combined, current projections imply a further moderate decline in per capita real spending (excluding interest) until at least 2026/27, with 2018/19 levels not being achieved until after 2027/28. This represents something of a "lost decade" for public expenditure in Kenya.





Source: QEBR; BROP

At the sub-national level, delays in disbursement to the counties over the past two years have disrupted county operations and are directly linked to revenue shortfalls. As illustrated in Figure 19 below, actual fund disbursements to counties (green line) are highly erratic and do not follow the planned disbursement schedule (red line). Particularly noticeable are the peaks of June of 2023 and 2024 (the last month of the fiscal year) when large disbursements were made after several



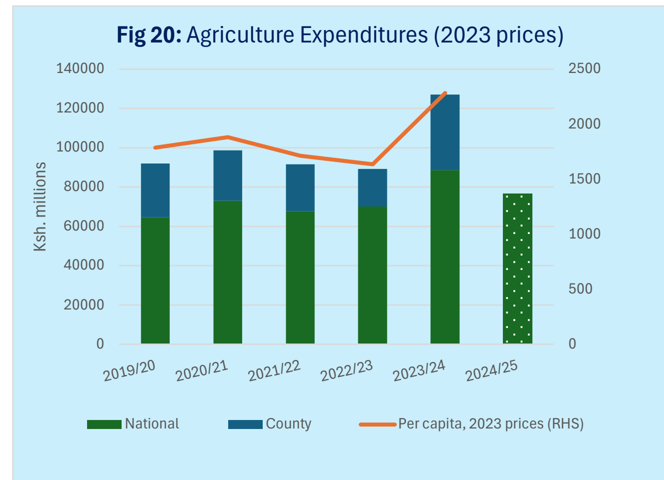
Source: National Treasury

months of lower-than-planned disbursement. Such delays in disbursement were due to the national government withholding funds subject to national revenue performance. However, transferring such large payments in June of each year meant that counties were unable to fully spend the funds prior to the end of the fiscal year. At the same time, the delay in transferring funds led to delayed salaries for county employees, most importantly for health and agriculture, as well as the accumulation of pending bills throughout the year. [iii]

2.3 Sector Zooms

Agriculture

After two years of contraction due to drought in 2021 and 2022, the agricultural sector rebounded in 2023 with growth of 6.5%. This was largely due to favourable rains. In 2024, growth has continued, though serious flooding impacted negatively in some regions.[iv]



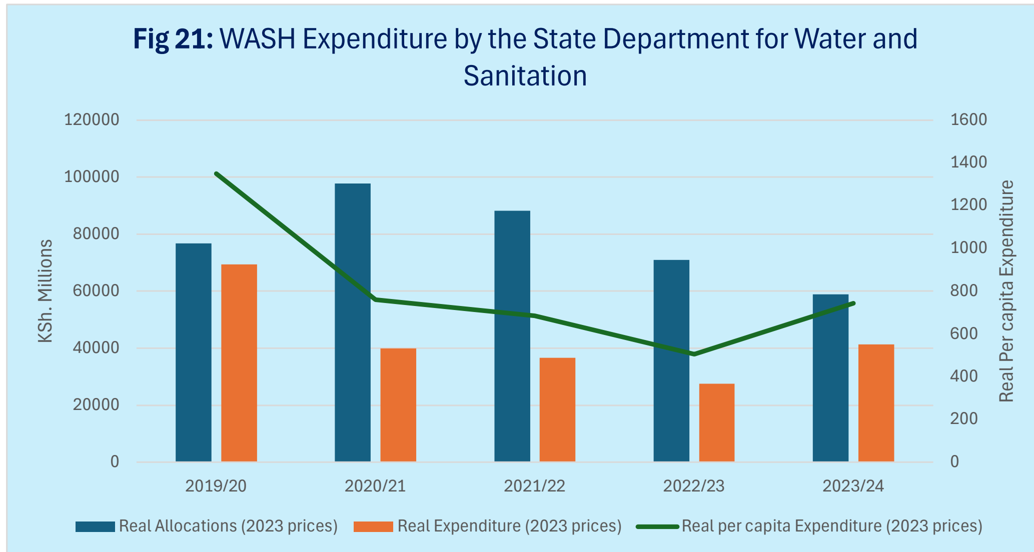
Source: Agriculture Rural And Urban Development (ARUD) sector reports

Expenditure on agriculture was flat up to 2023/24, which saw a marked increase. The increase in spending reflects the introduction of a new fertilizer subsidy in 2023, although current evidence casts doubt on its effectiveness.[v] Nevertheless, it signifies the commitment of the government to agricultural development, which is one of the flagship projects in the government's so-called Bottom-Up Economic Transformation Agenda (BETA).[vi] In 2023/24, the allocation for agriculture represented 3.1% of the total national budget, which still significantly lags the 10% benchmark recommended by the African Union under the Maputo Declaration.[vii]

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, access to safe drinking water increased from 59% in 2021 to 62.9% 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 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 informal urban settlements, wastewater treatment and faecal sludge transport and treatment services are inefficient or absent[viii]. This is a clear indication that the country will continue to struggle to meet the basic demands of urbanization.

Allocations and expenditure for WASH has been declining. Spending reached a bottom in 2022/23, when spending per capita was just Ksh. 504 (equivalent to US$ 3.9 at a rate of 1 USD = 130 KES). The sector's overall spending is far short of the amount required to deliver the ambitious target of universal access to WASH by 2030. A USAID report indicates that about $12.9 billion in WASH investments are needed by 2030. However, the projected government budget for water and sanitation is $5.6 billion, leaving a $7 billion gap[ix]. Budget execution rates at the national level have often been low in the WASH sector – often barely reaching 50% of allocations – which represents a lost opportunity for increased investment in the sector.

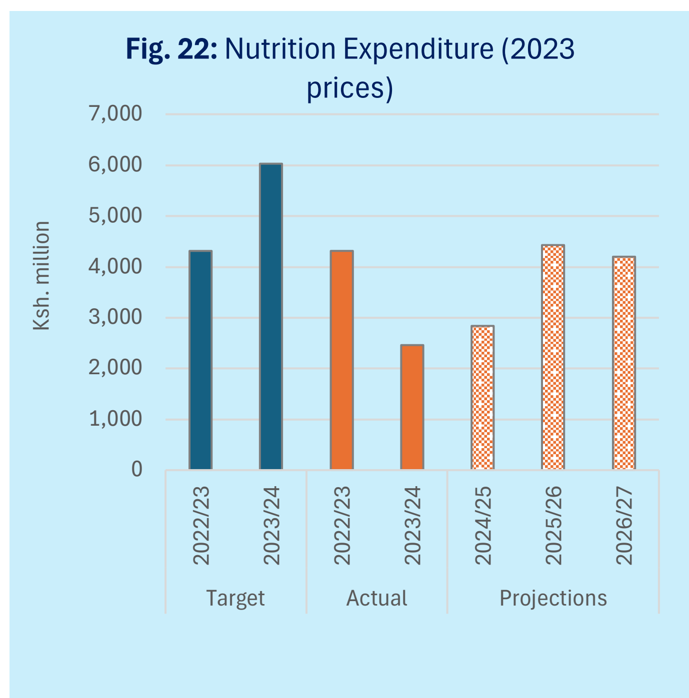


Source: Office Of The Controller Of Budget (OCOB) reports

Nutrition

Kenya continues to shoulder the burden of the challenges of undernutrition, obesity, and micronutrient deficiency. These problems are estimated to cause economic losses estimated at KES 374 billion annually, which is higher than the annual budget for the Ministry of Health. Just under a fifth of children under the age of five have stunted growth, while 11% are underweight and 4% wasted. Key drivers of childhood under-nutrition include disease and poor diets, due to food insecurity and poor access to water and sanitation causing frequent illnesses. 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. However, there has been limited progress towards achieving diet-related non-communicable disease (NCD) targets. The GN Report indicates 13% of adult women and 4% per cent of adult men are living with obesity. At the same time, diabetes is estimated to affect 7% per cent of adults. NCDs in Kenya are estimated to be responsible for more than half of hospital admissions and deaths and on current trends will exceed combined deaths from communicable disease, as well as maternal and perinatal deaths, by 2030.

There are significant challenges in data reporting for nutrition and the information that is available is fragmented. Nutrition programs are administered under the Ministry of Health and Ministry of Education, while the 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. However, the government has recently introduced reporting on spending under the Social



Source: Programme Based Budget (PBB) & OCOB reports

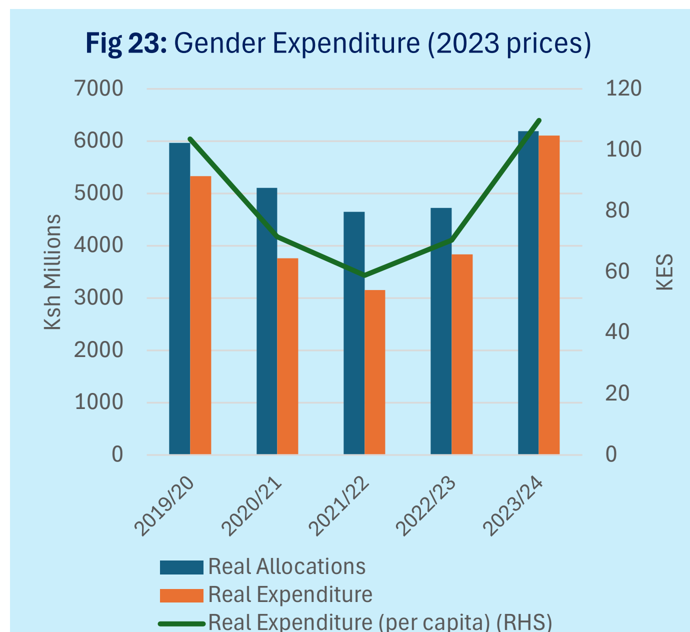
Health, Nutrition and Meals programme under the State Department for Basic Education. While the introduction of this reporting is significant, its scope is limited to school-aged children. This presents a critical gap, as the most vulnerable group of pre-school children remains excluded. To effectively address malnutrition, it is essential to publish details of the nutrition budget for children under the age of five

There has been a notable under-utilization of the budget allocated to the Social Health, Nutrition and Meals programme. During 2023/24, the government set a target of spending Ksh. 6 billion but spent just Ksh. 2.4 billion, representing an under-execution of approximately 60%. This significant shortfall highlights inefficiencies in fund utilization which impede the achievement of essential nutrition objectives. This is especially problematic in an environment of constrained budgets for nutrition. An inability to spend available budgets appears to be reflected in medium-term allocations for the programme. In addition, ODA for nutrition has steadily dropped in recent years, compounding the challenges in addressing malnutrition.[x]

Gender

Kenya rose two places to 75 out of 146 countries assessed in the 2024 Global Gender Gap Index. This improvement was driven by a rise in the educational attainment index and the political empowerment index, with the health and survival index remaining stable.[xi] Kenya has nearly achieved gender parity in education at all levels, ensuring inclusive, quality education for all by 2030 in line with SDG-4.[xii] However, there has been a slight drop in the economic participation index in 2024. On the political front, there are currently 8 women out of 23 cabinet-level appointments, meeting the two-thirds constitutional gender rule – albeit lower than the 10 reported in the 2023/24 MFAS.[xiii]

Fig 23: Gender Expenditure (2023 prices)



Source: OCOB reports

Expenditure on gender has recovered from 2021/22 lows and is now on an upward trend. The allocation for gender-responsive and gender-sensitive programmes rose by 32% in real terms between 2021/22 and 2023/24. This has been at least partly due to effective advocacy for gender equality which has pressured the government to align its budgetary allocations with global standards.[xiv] In addition, the execution rate of gender budgets improved from 68% in 2021/22 to 75% in 2023/24. This shows an improvement in the government's commitment to gender equality, recognizing its critical role in promoting sustainable development by empowering women and addressing gender disparities. Significant progress has been made in the implementation of gender-responsive budgeting, especially around ensuring better coordination and transparency in budget allocations. This may eventually enable a more systematic assessment of how budget allocations[xv] impact women and girls if government can report the number of beneficiaries each financial year and disaggregate the targeted interventions by programmes and sub-programmes.

2.4 PFM Systems

Fiscal transparency remains a significant challenge for Kenya's PFM system. In the most recent evaluation (2023), Kenya's Open Budget Index score of 55% fell below the "sufficient" score of 61%.[xvi] These highlights persistent issues such as delayed audit reports and limited public access to budget information. According to the 2022 Public Expenditure and Financial Accountability (PEFA) framework, while some indicators of fiscal transparency have shown improvement, the overall lack of timely and accessible information hampers stakeholders' ability to assess the effectiveness of PFM and budget outcomes. This deficit adversely affects government accountability and public trust, aligning with Section 3 of the PFM Act, which emphasizes the importance of transparency and accountability in public financial management.

Delayed audit reports continue to raise concerns, including for county governments whose transfers are calculated with reference to the latest set of accounts. The most recent set of audited accounts is for FY 2020/21 – more than three years ago. Of concern is the delay by Parliament in approving audit reports, revealing weaknesses in PFM oversight processes. Aside from the implications for overall transparency, this may also be disadvantaging county governments, whose fiscal transfers must be at least 15% of national revenues in the "most recently audited" set of accounts.[xvii] In addition, should the government's revenue target fail to be met, the burden of the shortfall may be partially borne by county governments.

The national government has been failing to disburse the required proportion of audited national revenue to the Equalization Fund. The Equalization Fund was established to address historic marginalization and unequal development in Kenya. The fund's purpose is to provide basic services to marginalized areas so that they are similar to the quality of services enjoyed by the rest of the country. However, the government has not been meeting the constitutional requirement of disbursing 0.5% on national revenues into the fund, with accumulated arrears amounting to Ksh. 49 billion as of the close of FY 2023/24.[xviii]

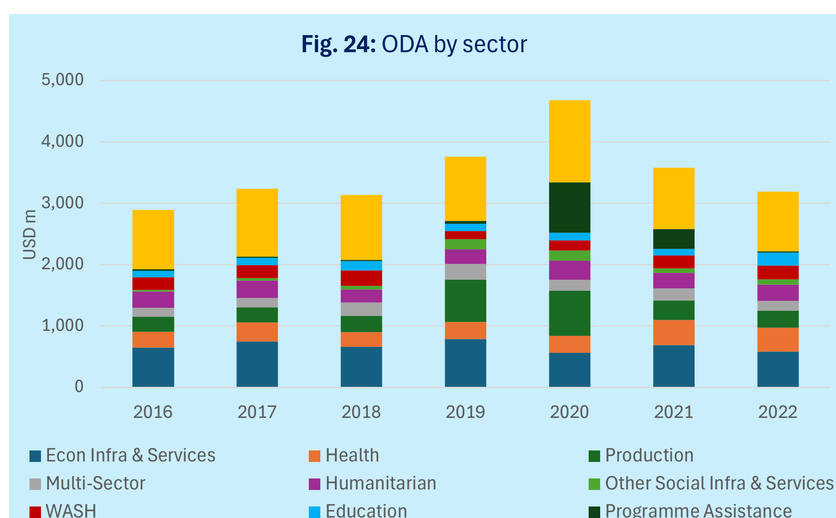
There are ongoing discussions regarding expenditure and revenue reforms that are essential for enhancing Kenya's PFM framework.[xix] The National Treasury is actively exploring strategies to improve revenue administration and boost public spending efficiency. Key donors, including the World Bank and the IMF, are providing substantial investments and technical assistance to support the implementation of the government's new PFM Reform Strategy outlined in the Medium-Term Plan. These efforts aim to bolster institutional capacity, enhance transparency, and improve the overall efficiency of public financial management, aligning with the objectives set forth in Section 8 of the PFM Act, which advocates for a framework that promotes prudent financial management and accountability.

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 its position as a lower-middle economy and becomes less eligible for concessional aid (this is one of the reasons that have driven Kenya to issue external debt on commercial terms over recent years).

ODA remains a significant source of external financing and foreign exchange 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. 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 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. This will be critical for the successful implementation of key programmes, 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 dipped since 2019 – reaching USD 584 million in 2022 – but this still remains the largest ODA recipient sector. In contrast, health sector assistance increased although this appears to have been a temporary increase due to COVID-19 response measures. Observing this trend some years post-Covid is necessary to assess commitment to healthcare initiatives. However, ODA to the production sector (which includes the agriculture, fisheries, mining and tourism sectors) has fluctuated significantly, reaching its peak in 2020 at USD 736 million before declining again to USD 275 million in 2022. The WASH sector has tended to attract a relatively consistent USD 200 million allocation each year over the period, while education appears less of a priority for donors.



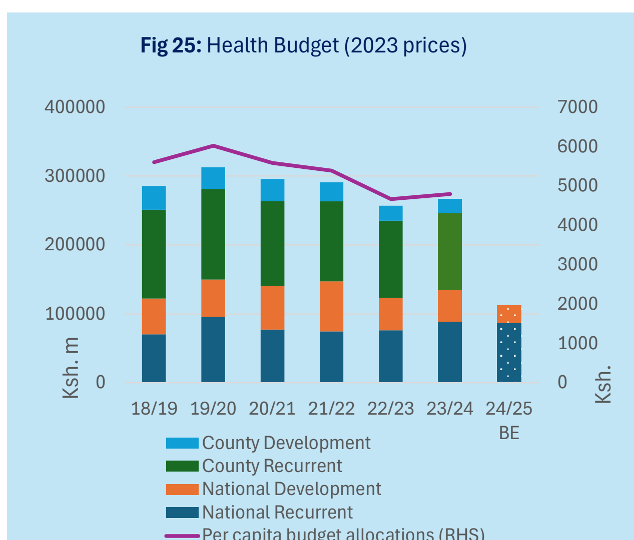
Source: OECD Creditor Reporting System.

4. Health Update

4.1 Health Budget

Health budget allocations have declined in real per capita terms over the past five years. Between 2018/19 and 2022/23, the consolidated health budget declined by 7% in real terms (Figure 25). This constitutes a reduction in the health budget as a share of GDP from 2.1% to 1.6% and a fall in real per capita terms from Ksh. 5,597 to Ksh. 4,791 (2023 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 in real terms, the national budget for 2024/25 was cut back again.

Budget allocations for health from county governments have continued to decline. Between 2018/19 and 2023/24 recurrent allocations at county level declined by 13%, and the much smaller development allocations fell by 41%. The value of fiscal transfers to counties from national government has been eroded by inflation.

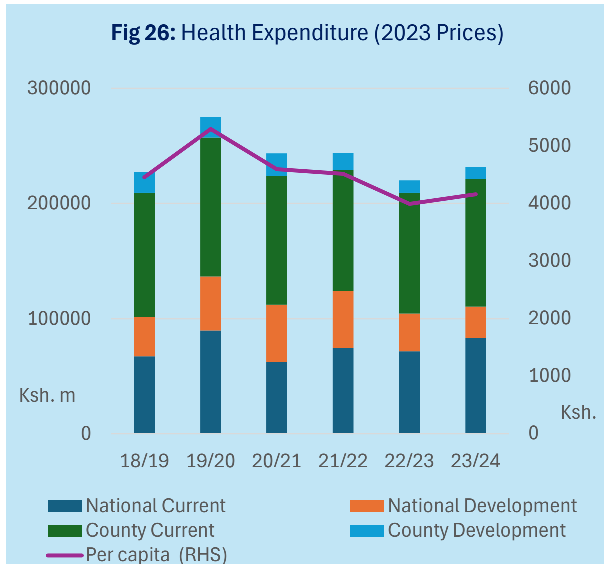


Source: BROP; BIRR; QEBR; Health Sector Report

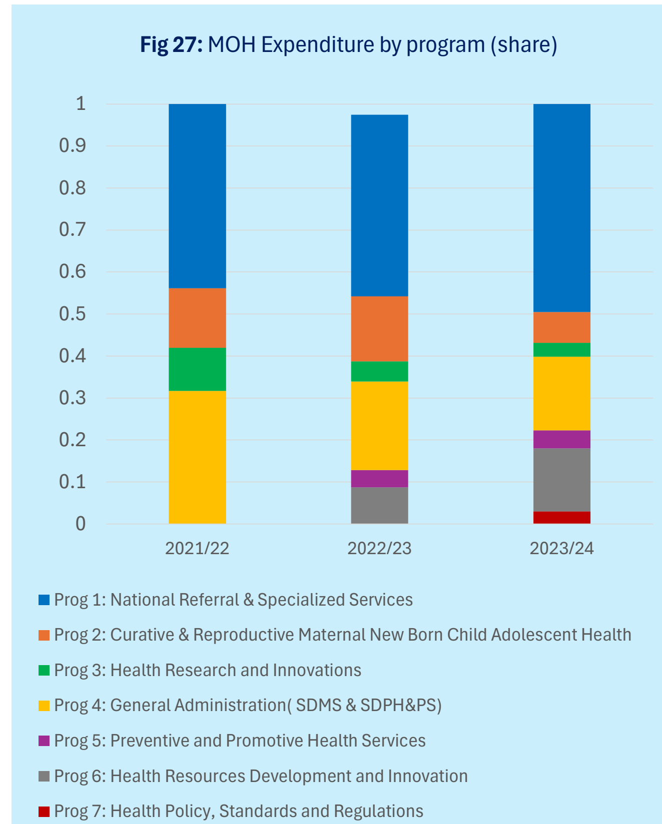
The sharpest fall in health budgets came in 2022/23 and was driven by cuts in national development spending, in turn driven by foreign aid reductions that year. The national government usually allocates around 40-50% of its health budget to development, but this has declined in recent years, to under 35% of the budget in 2023/24. Since 2021/22, the national development budget has been cut by 37% in real terms. Given their limited revenues and declining transfers, counties have insufficient fiscal space to make up the shortfall to address urgent infrastructure needs. But, as described below, what mainly has been cut is donor-supported projects.

4.2 Health Expenditure

Health spending has fallen in real per capita terms between 2018/19 and 2023/24, but not as fast as health budget allocations and in-fact slightly slower than overall non-interest expenditures. Aside from 2019/20 (which saw additional spending due to the pandemic response), expenditure on health has remained relatively flat in real terms. However, due to GDP and population growth, health expenditure fell from 1.7% of GDP to 1.4% over the five-year period, which translates into a per capita decline from Ksh. 4,455 to Ksh. 4,157 over the same period (a decline of 7% in real terms). This represents a similar decline as overall non-interest recurrent spending per capita – as discussed earlier (see Figure 18). Nevertheless, recurrent spending at both national and county level increased marginally in the last fiscal year. A significant contributor to this rise was the government's new commitment to remunerating Community Health Promoters (CHPs).[xx] However, this appears to have been partially offset by a reduction in development spending, illustrating the trade-off between new wage obligations and infrastructure development.



Source: Health Sector Reports



Source: Health Sector Reports

There is greater focus on secondary and tertiary care at the national level. This is partly due to the sector's structure, with the national government overseeing higher levels of care and policy development, while primary health care services are largely under the purview of county governments. The National Referral & Specialized Services Program accounted for the highest share of national spending at 49%. National Referral & Specialised Services also had the highest execution rate at 91% while Curative & Reproductive Maternal Newborn Child Adolescent Health (RMNCAH) had the lowest at 48% and Preventive and Promotive Health execution rate was 77%. The lagging execution rate for Primary HealthCare (PHC) programmes is important to note, especially considering that Universal Health Coverage (UHC) is intended to be focused on PHC.

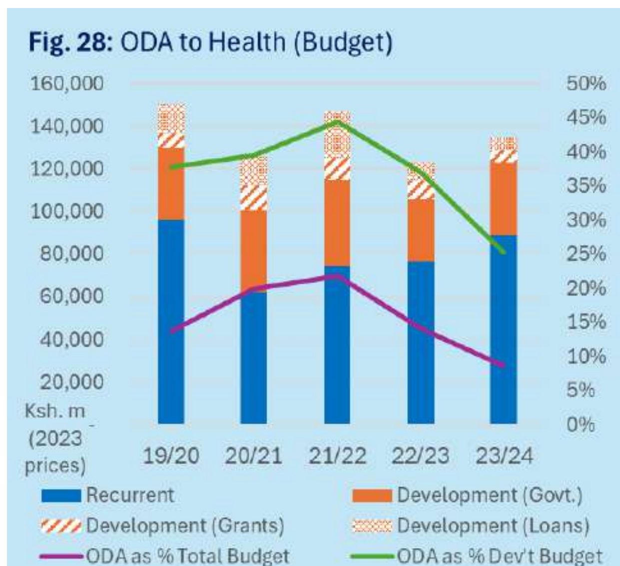
While there have been improvements over the years, the government continues to face challenges in effectively utilizing available resources. Budget execution (national and county) has averaged 85% between 2019/20 and 2023/24 and has been increasing from 82% in 2020/21 to 87% in 2023/24. Historically, national government has outperformed counties in execution, averaging at 84% compared to the counties' 70% over the past five financial years. However, the national government execution rate decreased from 85% in 2022/23 to 82% in 2023/24. This decrease is attributed to the significant decline in the development budget execution rate from 70% in 2022/23 to 59% percent in 2023/24. This is partly due to slow execution of donor disbursements (33% execution) on infrastructure projects.[xxi] Contrary to the national level performance, total county budget execution increased from 86% to 91% in 2023/24. This is entirely attributed to the increase in the recurrent execution rate from 94% to 99% in 2023/24. The execution rate of the development budget remained unchanged at 49%.

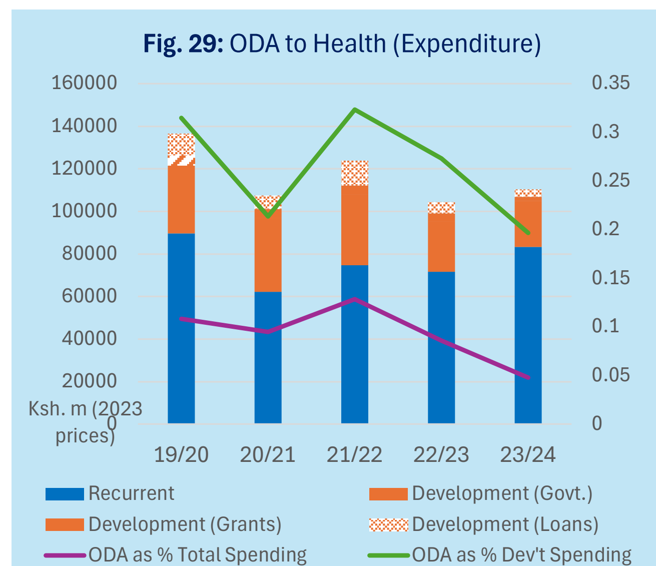
Despite the government's strong commitment to UHC and PHC as its cornerstone, budget allocations and execution remain significantly below expectations. Kenya's commitment to UHC is exemplified by the Bottom-up Economic Transformation Agenda, the Kenya Health Financing Strategy (2020-2030) and the recent signing of four UHC-focused laws. However, this is not borne out in practice. Despite a halt to reductions in spending in 2023/24, further declines are expected in 2024/25 and potentially beyond. In addition, Kenya has suffered from numerous operational challenges in health service delivery in recent months. Notably, in 2023/24, medical personnel went

on a 56-day strike over salary arrears, low pay and lack of comprehensive health insurance.[xxii] This was resolved upon the signing of a return-to-work agreement where the government committed to better compensate the health workers.[xxiii] It is anticipated that the recurrent spending will increase in 2024/25 as the government clears the outstanding salary arrears and sustains the payment of newly agreed salaries for doctors.

4.3 Foreign Aid for Health

Donor financing for health has declined significantly in recent years and accounts for almost 100% of the overall decline in government health spending. External on-budget support to the sector declined from 22% of the total national health budget in 2021/22 to just 9% in 2023/24. This is lower than the pre-pandemic level of around 15% indicating a structural decline in ODA to the sector over time. Of at least equal concern is the low execution rate of ODA financed activity. In 2023/24 on-budget ODA accounted for just 4% of total spending and 20% of the development budget (down from 11% and 31% in 2019-20 before the onset of COVID-19). This is concerning, given that declines in ODA are coinciding with halting growth in government financing, which will surely threaten the quality of services. While off-budget ODA for health is believed to be larger than on-budget support, there is no accurate or recent data to verify this as the government does not report or track it.





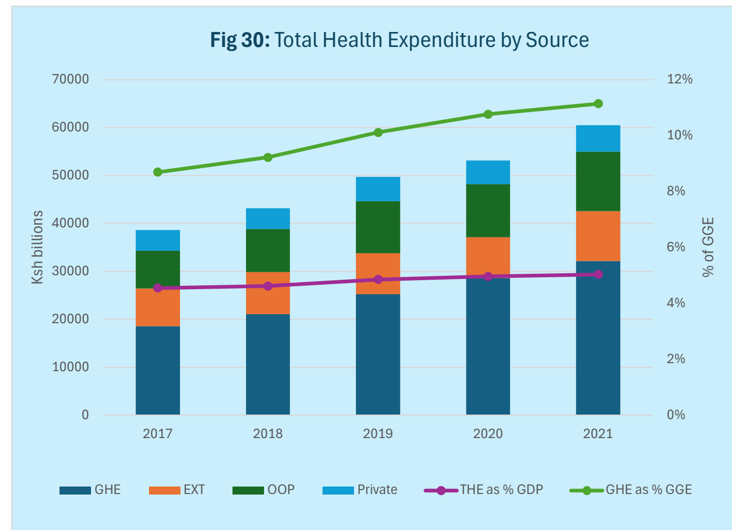
Source: Health Sector Report (MTEF) for the period 2025/26-2027/28

4.4 National Health Accounts

According to the National Health Accounts data, government is the single largest source of finance for the health sector providing 47 percent of Total Health Expenditures (THE). [xxiv] According to NHA data, government funding has been rising as a share of THE from 2018 to 2022, meaning private sources were in relative decline for that period. Health was a rising share of General Government Expenditures (GGE), even as real spending per capita reduced. External funding reduced from 22% to 18% of THE over the 2018-2022 period (including off-budget ODA).

Even as overall private spending has fallen as a share of THE, out-of-pocket (OOP) expenditures have been rising and now account for a quarter of THE. OOP expenditures at this level shows that individuals are bearing significant risks associated with healthcare costs. This is not helpful to

the government aim of UHC. The WHO suggest an OOP rate of no more than 20 percent of THE to reduce the chance of catastrophic health expenditures, whereby spending on health care can push households into poverty. [xxv] In sum, whilst there have been some improvements in THE, OOP remains too high to ensure UHC. Per capita spending in FY 2023/24 was Ksh 4,157 (approx. US$32) which is far below the international official health funding benchmark of US$ 86 per capita (2012 prices) that is required to achieve UHC as recommended by McIntyre and Meheus (2014).



Source: National Health Accounts.

4.5 UHC Reforms

The government, in its pursuit of UHC, has recently introduced several reforms to the public health system. A key change is the introduction of the Social Health Insurance Fund (SHIF) scheme which aims to improve access and coverage. The SHIF replaces the National Health Insurance Fund (NHIF), which faced significant criticism for failing in its mandate.

The Social Health Insurance Act introduces three distinct funds. These are the Primary Health Care Fund (PHCF), the Social Health Insurance Fund (SHIF), and the Emergency, Chronic and Critical Illness Fund (ECCF). The PHCF and ECCF are financed through government appropriations while SHIF is a contributory scheme. Thesefunds are designed to finance the health services provided by empaneled health facilities for patients whereas health budgets described earlier finance ongoing recurrent costs – such as salaries – and major infrastructure upgrades.

The new structure prioritizes improved access to primary healthcare through the dedicated Primary Health Care Fund. The fund guarantees free access to primary care in Level 2 and Level 3 facilities (PHC facilities) for all registered citizens regardless of their contribution history to SHIF. [xxvi] This indicates a commitment to ensuring primary care is accessible to everyone, even those who cannot afford the monthly SHIF premiums.

The first allocation to the PHC fund, amounting to Ksh. 4.1 billion was made in 2024/25. Funding projections for the next two financial years remain unchanged at Ksh. 4.1 billion. In contrast, allocations to the Emergency, Chronic and Illness Fund (ECCIF) are expected to decline significantly. After an initial allocation of Ksh. 2 billion in 2024/25, the fund is projected to receive only Ksh. 500 million annually in 2025/26 and 2026/27.[xxvii]

While the establishment of SHIF represents a significant milestone, there are concerns about whether it will deliver in practice. Numerous implementation challenges are currently slowing down UHC reforms. First, individual registrations to the SHIF outside the formal sector have been underwhelming. The fund requires individuals to enrol and contribute (to provide funding as well asensure risk-pooling); however, the preference of individuals to pay OOP as and when needed rather than paying an additional levy upfront is concerning. The response to the UHC reforms from health facilities has also been lukewarm, with many still waiting for debts amounting to Ksh. 30bn under the previous NHIF scheme to be paid by the government before accepting SHIF payments. In addition, a legal challenge to the SHIF reforms is currently pending in the Court of Appeals, after a public litigant declared the legislation as unconstitutional (see Section 5 below for further details).

5. Institutional Update

5.1 Budget Process

Table 1 below sets out the timetable for the preparation of the upcoming 2025/26 budget. This schedule captures only the expenditure side, as revenue estimates are tabled in the National Assembly at least two months before the end of previous financial year, as per Article 221(1) of the constitution. The Cabinet Secretary responsible for finance submits estimates of the revenue and expenditure of the national government to the National Assembly.[xxviii]

Table 1: Key dates and budget processes at the national level for FY 2025/26

Timelines	Activity / Document expected
30th August	Release of Formulation Circular
30th Sep. 2024	Budget Review and Outlook Paper (BROP)
20th – 22nd Nov. 2024	Public Sector Hearings
28th Nov. 2024	Submission and review of Sector Budget Proposals
15th Feb. 2025	Submission of Budget Policy Statement (BPS) to Parliament
29th Apr. 2025	Submission of draft Budget Estimates to Parliament
30th Jun 2025	Approval of Appropriation Bill
30th Dec.	Audit report of the previous financial year

Source: National Treasury

5.2 Key Institutions

The key institutions involved in the budgetary decision-making processes include:

- **Ministry of Finance and Economic Planning:** responsible for managing the process of budget preparation based on a national development plan which guides the sectoral allocation of funds. The Cabinet Secretary takes the proposed budget to Parliament.

- **Ministries, Departments and Agencies (MDAs):** expected to provide the budget baseline that comprises requirements for ongoing policy, newly approved policy and verified pending bills. This is done through the (Integrated Financial Management Information System (IFMIS) system in line with the budget calendar. MDAs further submit Programme Performance Review Reports to the National Treasury, prepare draft Sector Budget Proposals, and hold public sector hearings.

- **Sector Working Groups (SWGs):** comprise a chairperson who can be a Principal Secretary/ Accounting Officer chosen by consensus of other principal secretaries, a Sector Convenor appointed by the National Treasury, a Technical Working Group appointed by individual MDAs, representatives from development partners, civil society and community-based organizations to represent the public, and representatives from the private sector.

- **The Cabinet:** there is no legal power to approve the budget prior to submission to Parliament.
- **Parliament:** Under the Constitution, the National Treasury is required to submit budget and revenue estimates to the National Assembly at least two months before the financial year ends for approval. The National Assembly has the authority to approve these estimates through two main bills: the Appropriation Bill, which outlines expenditure, and the Finance Bill, which details revenue projections. The Budget and Appropriations Committee within the National Assembly is tasked with examining, overseeing, and reporting on all matters related to the coordination, control, and monitoring of the national budget. This committee reviews and makes recommendations on the budget estimates, which are then voted on by the National Assembly.

  Conversely, the Finance and National Planning Committee is responsible for discussing and reviewing revenue-raising measures presented in the Finance Bill to meet the set revenue target for the financial year. Notably, the National Assembly, based on recommendations from the Budget and Appropriations Committee, can adjust allocations within the budget estimates to address areas it deems in need of increased funding.

  While the Senate does not participate in approving the budget estimates or the Finance Bill, it collaborates with the National Assembly to determine and approve the division of revenue between the national and county governments, through the Division of Revenue Bill. The Senate also determines the distribution of revenue among counties via the County Allocation of Revenue Bill.
- **Media:** The Constitution guarantees the media the right to inform the citizens and express their views, including on matters of national interest. The budget-making process elucidates great interest among Kenyans and is thus widely covered by both mainstream and social media. During the budget speech, all mainstream media houses conduct live broadcasts and engage in debates concerning the budget, analysing its contents, and identifying areas that have seen increased funding (budget winners) and those that have faced cuts (budget losers). Moreover, experts and citizens engage in debates on taxation through social media, especially on those related to the Finance Bill, which in the past two financial years in Kenya has sparked considerable debate on platforms such as X and TikTok, as well as through the mainstream media.

5.3 Recent Developments

The recent shift from the National Health Insurance Fund Act to the Social Health Insurance Act (SHIA), despite a pending constitutional appeal in the Court of Appeal as well as legal gaps, poses a risk to the successful implementation of UHC reforms. In July, the High Court of Kenya declared the Social Health Insurance Fund (SHIF) unconstitutional, citing insufficient public participation during the enactment of the Social Health Insurance Act (SHIA).[xxix] The Court also ruled that sections 26(5) and 27(4) of the Act limited the enjoyment of the right to emergency medical treatment by requiring individuals to prove compliance with SHIF before accessing healthcare services. The Court ordered the National Assembly to conduct proper public participation and amend the contested sections within 120 days, or the Act would be rendered unconstitutional. However, the Cabinet Secretary to the Ministry of Health filed an appeal against the High Court's judgement. Despite its contested legality, the SHIA's implementation is exemplified by its rollout and the consequent registration of new members under the SHA.

The anti-Finance Bill 2024 protests led to a withdrawal of the Finance Bill 2024, a key revenue document in the budget process. Despite various reforms since the protests such as the adoption of austerity measures within a month after the approval of budget estimates and the adoption

of zero-based budgeting, the government still needs to move towards ensuring that they regain the lost trust. Anchoring tax decisions on constitutional principles of effective public participation and equity, as well as ensuring the promotion of transparency and accountability in the prudent management of resources by reducing wastage and de-funding unconstitutional offices would be a good start towards ensuring the restoration of trust. This would be significant in ensuring that fiscal reforms receive legitimacy and acceptability from the people, preventing situations where Kenya must do without a Finance Bill (for example) or having to disrupt its approved budget by preparing a supplementary budget just one month after such approval.

The declaration of the unconstitutionality of the NG-CDF Act by the High Court presents an opportunity for such funds to be channelled towards promoting other needed functions within the national or county government. The National Government Constituency Development Fund (NG-CDF) was declared unconstitutional as it breached public finance management principles. The National Assembly was realizing functions allocated to the county government, resulting in duplication and wastage of funds, thereby breaching the constitution.[xxx] From an NG-CDF Report, the allocations for 2024/25 amounted to Ksh. 62.3 billion, which was a Ksh. 8.8 billion increase in allocation from 2023/24. Following the declaration of unconstitutionality, which is set to take effect in 2025/26, these funds are anticipated to be redirected to other essential functions within either the national or county governments, such as healthcare, devolution, social protection, and other critical areas.

If there are no proper guidelines on how to conduct zero-based budgeting, there is a risk of the approach faltering, as happened in 2018/19. The government aims to adopt the zero-based budgeting approach in preparing for the 2025/26 and future years' budgets. As much as this approach could lead to the reduction of expenditure wastage, it will fail if there are no proper guidelines on how it should be conducted.[xxxi] This was seen in the FY 2018/19 when they had introduced the zero-based budget but faltered as the budget process progressed.

While Kenya is aiming to promote public-private partnerships for facilitating development, there is a need to ensure that the open transparent procedure enshrined within the Public-Private Partnerships Act is realized to enhance oversight, transparency and accountability. As seen in the privatization program, Kenya is aiming to promote public-private partnerships (PPPs) due to the lack of enough funds to facilitate development. Even though these partnerships are crucial, there is a need to ensure transparency and public participation. The lack of these was seen in the concealed agreement with the Adani group for the leasing of the JKIA for a period of 30 years. This goes against the Public-Private Partnership Act which requires a contracting authority to publish information on the execution of project agreements. Hence the PPPs should ensure transparency to avoid violation of the Public Private Partnership Act.

The current change in the university funding model from guaranteed to means-tested poses a threat to equitable access to higher education in Kenya. The means-testing instrument used to categorize students into different funding bands is inadequate, often failing to accurately reflect their economic circumstances. As a result, students may be assigned to bands that do not appropriately consider their financial situations. Additionally, this system is inequitable for learners pursuing expensive programs, such as medicine and law. Even when placed in bands that offer higher government scholarships, these funds often fall short of covering the required household contributions, making it challenging for students from low-income backgrounds to pursue these fields.

The recent efforts to implement the Treasury Single Account (TSA) is a move by the government to improve public cash management. Cabinet's approval for the TSA's implementation in early 2024 set the stage for the consolidation of government finances held by ministries, departments, and agencies (MDAs), and scattered across different commercial bank accounts. The TSA's structure

includes a hybrid arrangement where MDAs have TSA sub-accounts within commercial banks that are interlinked with a primary account held by the Central Bank of Kenya. This structure enables the government to know and ascertain its financial position daily. The National Treasury noted that it would establish a unit/department to manage the said structure in a bid to improve fiscal discipline, transparency, and efficiency in the management of public funds.

The proposed Amendment to Section 194 of the PFM Act to shift from the cash to accrual basis of accounting represents a breakthrough for Kenya in its efforts to align its financial reporting with global standards. Whereas the cash accounting records financial statements as and when cash is exchanged, accrual accounting recognizes revenues and expenses as and when they are incurred. This transition is expected to unfold over the next three years under the guidance of a steering committee supported by the National Treasury. In this time, it is expected that the reform will enable the government to have a clearer picture of its financial obligations, improve its financial management, and enhance public sector financial reporting. Despite challenges such as the expected reengineering of the Integrated Financial Management Information System, key stakeholders are committed to ensuring the success of the transition to support sustainable economic growth and public sector accountability.

Additionally, there is a proposal to amend Section 50 of the PFM Act to extend the timeline for achieving the debt threshold (introduced in 2023) from 2027 to 2029 – a change likely to elevate Kenya's overall debt levels. This new subsection would allow the government to extend the current debt limit window, thus bypassing the existing 55% of GDP cap. While this provision grants flexibility for increased short-term borrowing, it could significantly elevate Kenya's overall debt levels.

End Notes

[i]Macro Poverty Outlook (October 2024)
[ii]Macro Poverty Outlook (October 2023)
[iii]Report of the standing Committee on Finance and Budget on the County Government Cash Disbursement for the FY 2023/24. Link
[iv]Economic Survey. Link
[v]IFPRI. Link
[vi]Comprehensive African Agricultural Development Programme (CAADP) https://cgspace.cgiar.org/server/api/core/bitstreams/c6a5148c-0215-4b7c-9a0a-b6b4ac9caba0/content
[vii]Maputo Declaration. Link
[viii]WHO/UNICEF JMP. Link
[ix]USAID Water, Sanitation and Hygiene Finance. Link
[x]2022 Global Nutrition Report. Link
[xi]Global Gender Index 2024. Link
[xii]https://kippra.or.ke/towards-attainment-of-gender-equality-in-kenyas-education-sector/
[xiii]List of 23 Cabinet Secretaries in Kenya (December, 2024) — Moneyspace
[xiv]Gates foundation. Link
[xv]Kenya National Bureau of Statistics https://www.knbs.or.ke/wp-content/uploads/2023/09/Women-and-Men-in-Kenya-Facts-and-Figures-2022.pdf
[xvi]Open Budget Survey 2023. Link
[xvii]Division of Revenue (Amendment) Bill, 2024. Link
[xviii]2024 Budget Review and Outlook Paper. Link
[xix]The National Treasury https://treasury.go.ke/wp-content/uploads/2021/02/Medium-Term-Debt-Management-Strategy-2011.pdf
[xx]2024 Budget Policy Statement. Link
[xxi]Kenya Gazette Vol. CXXVI-No. 108. Link
[xxii]Health unions issue 14-day strike notice over unpaid salaries, lack of medical cover. Link
[xxiii]Health Cabinet Secretary Announces End of Doctors' strike after 56 days. Link
[xxiv]Global health Expenditure Data. Link
[xxv]WHO (2010) 'World Health Report 2010, Health Systems Financing: The Path to Universal Coverage', WHO, Geneva.
[xxvi]Social Health Authority Explainer. Link
[xxvii]2024/25 Estimates of Recurrent Expenditure of the Government of Kenya for the year ending 30th June, 2025. Volume I (Votes R1011-R1162). Link
[xxviii]The Constitution of Kenya 2010. Link
[xxix]Aura and 13 others v Cabinet Secretary Ministry of Health [2024] eKLR.
[xxx]Gikonyo & another v National Assembly of Kenya & 4 Others; Council of Governors & 3 Others (interested parties) [2024].
[xxxi]For more evidence advancing adoption of zero-based budgeting for public institution see, M Ibrahim, "Designing Zero-Based Budgeting For Public Organizations" (2019) 17 *Problems and Perspectives in Management* 2 p323-333; A Prenchard, "Budget Innovations: Performance to Zero Based Budgeting Systems" in *Government Budgeting and Expenditure Controls (1989)*; H Abbas and S Alamy "Zero-Based Budget, System and its Active Role in Choosing the Best Alternative to Rationalise Government Spending" (July 2020) 13 *International Journal of Innovation, Creativity and Change 9*.

This publication is based on research funded by the Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect the positions or policies of the Gates Foundation.

Institute Of Public Finance (IPF)

Fourth floor, Rosami Court,
Muringa road, Kilimani.
Email: info@ipfglobal.or.ke
P.O. Box 21753-00100, Nairobi, Kenya
Tel:+254 758 728 882