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Building Economic Resilience

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Disclaimer

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Table of Contents

List of Figures

List of Tables

ACKNOWLEDGMENT

The Budget Watch is a Parliamentary Budget Office (PBO) report series produced annually that disseminates the assessment of key issues on the implementation of the approved budget in a particular financial year. By examining the government's priority programmes and projects, the Budget Watch is instrumental in holding the government accountable for its promises and enhancing its efficiency, effectiveness, equity, and accountability in collecting and utilizing public finances. It is intended to enrich the role of oversight of the legislature and other stakeholders in the management of public resources. The 17th edition of the Budget Watch has been prepared to facilitate monitoring of the implementation of the budget for the Financial Year 2024/2025.

The report was prepared by a team under the overall guidance of Dr. Martin Masinde (Director, PBO), Robert Nyaga (Ag. Senior Deputy Director and Head of the Budget Analysis & Expenditure Review Department), and Lucy Makara (Ag. Senior Deputy Director and Head of Senate Affairs & Inter-Fiscal Relations Department). The report was compiled by an editorial team led by Dr. Benjamin Ngimor. The report also benefited from valuable regular review discussions with other staff members of the Parliamentary Budget Office.

ACRONYMS AND ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AiA	Appropriation in Aid
BETA	Bottom-up Economic Transformation Agenda
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CCIS	County Climate Institutional Support
CCRI	County Climate Resilience Investment
CFS	Consolidated Fund Services
CGAAA	County Governments Additional Allocations Act
CHP	Community Health Promoters
DANIDA	Danish International Development Agency
DoRA	Division of Revenue Act
DoRB	Division of Revenue Bill
EAC	East African Community
EMDEs	Emerging Markets and Developing Economies
EPA	Economic Partnership Agreement
eTIMS	Electronic Tax Invoice Management System
EU	European Union
FDI	Foreign Direct Investment
FLOCCA	Financing Locally-Led Climate Action
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GoK	Government of Kenya
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll and Personnel Database
KDSP	Kenya Devolution Support Program
KMD	Kenya Meteorological Department
KRA	Kenya Revenue Authority
KSHS	Kenya Shillings
MDAs	Ministries, Departments, and Agencies
MDTS	Medium-Term Debt Strategy
MSMEs	Micro, Small, And Medium Enterprises
NHIF	National Health Insurance Fund
ODA	Official Development Assistance
OPEC+	Organization of the Petroleum Exporting Countries
PAYE	Pay As You Earn
PHC	Primary Health Care
PPPs	Public-Private Partnerships
SSA	Sub-Saharan Africa
UK	United Kingdom
US/USA	United States of America
USD	United States Dollars
VAT	Value Added Tax
WTO GATT	World Trade Organization General Agreement on Tariffs and Trade

Executive Summary

The 17th edition of the Budget Watch prepared by the Parliamentary Budget Office of Kenya aims to provide insights to the Legislature with regard to monitoring the budget implementation for the Financial Year 2024/2025. Key highlights from the report include:

- Global economic growth is projected to remain stable in 2024-2025, with regional variations. Kenya aims for moderate economic growth of 5.2% in 2024, driven by agriculture and services.
- Kenya's fiscal outlook reflects the need to enhance revenue collection, rationalize expenditures, and manage rising debt, especially after the loss of the Finance Bill 2024. The fiscal deficit is projected to decline to 4.3% of GDP.
- Ambitious revenue targets of Kshs.3.1 trillion are set for FY 2024/25, to be achieved through the full rollout of the Electronic Tax Invoice Management System, integration of KRA systems with counties and government entities, and a tax amnesty. The report highlights other key revenue administration gaps that need to be addressed.
- Development expenditure allocation has reduced, with increasing dependency on development partners, who account for 43% of the development budget. Slow uptake of these funds remains a challenge.
- Delays in approving the County Governments Additional Allocations Bill and a lack of agreements on loans and grants between national and county governments have affected the disbursement and utilization of additional allocations to counties.
- The report emphasizes the need for balanced reforms to promote sustainable growth while addressing debt, inflation, and global economic risks as Kenya pursues its economic transformation agenda.

CHAPTER ONE: INTRODUCTION

1. The global economic landscape in 2024/25 presents a mixed picture of challenges and opportunities as nations navigate a post-pandemic recovery alongside enduring geopolitical tensions, climate risks, and shifting trade dynamics. While global growth is expected to maintain a stable trajectory at 3.2 percent in 2024 and 3.3 percent in 2025, disparities in regional performance reflect the underlying structural issues. Advanced economies, driven by improvements in wages and investment, are projected to stabilize with modest growth, while emerging markets and developing economies (EMDEs) face headwinds from demographic challenges, declining productivity, and geopolitical uncertainties.

2. In Sub-Saharan Africa (SSA), the outlook is optimistic, with growth expected to accelerate, particularly in non-resource-dependent economies. However, inflation driven by global food prices and adverse climatic conditions continues to pose a significant challenge. As inflationary pressures persist, SSA economies need to carefully balance growth objectives with the management of fiscal risks and debt-servicing challenges.

3. Kenya stands out in this regional context, as it aims for moderate economic growth in 2024, with a forecast rate of 5.2 percent, largely supported by a rebound in agriculture and sustained resilience in services. However, the country's fiscal outlook for FY 2024/25 reflects both ambition and caution. With the loss of the Finance Bill 2024 and implementation of a fiscal consolidation plan, the government seeks to enhance revenue collection, rationalize expenditure, and manage rising debt obligations. Central to Kenya's strategy is a concerted focus on improving tax administration through technological innovation, increasing efficiency in public expenditure, and leveraging Public-Private Partnerships (PPPs) to finance key development projects.

4. Furthermore, this publication delves into the complex dynamics shaping Kenya's economic and fiscal trajectory for the years 2024/25. It examines key sectors such as agriculture, infrastructure, energy, and social services, outlining both the opportunities and persistent challenges the country faces in meeting its development goals. Particular areas to focus on include Kenya's strategies for improving tax collection, managing development expenditures, and ensuring the timely and efficient disbursement of funds, particularly by county governments. These play a critical role in the country's decentralized governance structure.

5. At the heart of Kenya's fiscal policy for the upcoming years is the need for balanced reforms that promote sustainable growth while addressing pressing issues, such as debt sustainability, inflation, and the risks posed by global economic uncertainty. As Kenya continues its journey towards economic transformation under the Bottom-up Economic

Transformation Agenda (BETA), this report aims to provide insights into the key fiscal, economic, and structural reforms necessary to ensure long-term stability and prosperity for all Kenyans.

CHAPTER TWO: ECONOMIC GROWTH PROSPECTS

Ms. Julie Mwithiga, Ms. Loice Olesia, and Mr. Solomon Alubala

2.1. Global Economic Outlook

6. **Global economic growth is projected to remain stable at 3.2 percent in 2024 to 3.3 percent in 2025, compared to 3.3 percent in 2023[1].** However, growth projections across economic regions vary. Advanced economies, which had 1.7 percent growth in 2023, are expected to stabilize at 1.7 percent in 2024, picking up to 1.8 percent in 2025 due to stronger consumption on the back of rising real wages and higher investment amid easing financing conditions as monetary policy loosens in the US[2]. In emerging markets and developing economies, growth is expected to decrease slightly from 4.4 percent in 2023 to 4.3 percent in 2024, stabilizing through 2025. This will be due to slowing productivity growth in most developing countries, headwinds from an aging population in China, extension of oil production cuts by OPEC+ countries, and regional conflicts in Emerging Europe (Russia-Ukraine) and the Middle East (Israel-Hamas), which have disrupted supply chains and driven inflationary pressures. The escalation of these regional conflicts, slower than expected reduction in interest rates in advanced economies such as the UK and Eurozone, and policy uncertainties attributed to changes in government in some major economies such as the US, may pose a significant risk to global growth.

[1] https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024
[2] In September 2024, the US Federal Reserve enacted a significant policy shift, cutting its rate by 50bps from a 23-year high of 5.5%. This move marked the largest rate cut at the beginning of a policy easing cycle since 2007.

7. **For SSA, growth is expected to accelerate from 3.4 percent in 2023 to 3.7 percent in 2024 and 4.1 percent in 2025, as inflationary pressures and financial conditions ease.** This favorable growth projection is expected to be driven by non-resource-rich economies, which are forecasted to maintain a growth rate above the regional average. However, resource-rich economies will experience slow growth due to the continued weak growth in demand from China and the extension of oil production cuts by the OPEC+ countries. A major risk to economic growth is the tightening of fiscal policies by most SSA countries aimed at high government debt levels with higher taxes and lower government spending.

8. **Global inflation is projected to decline from the annual average of 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025[3].** Advanced economies are expected to witness faster inflation reductions, with projections of 2.6 percent in 2024 and 2.0 percent in 2025 compared to 4.6 percent in 2023, driven by cooler labour markets and the effects of tight monetary policies. However, inflation in emerging markets and developing economies is expected to slowly drop from 8.3 percent in 2023 to 8.2 percent in 2024 and 6.2 percent in 2025,. This will bedue to higher food and fertilizer prices, especially in lower-income countries, and currency depreciation from delays in interest rate cuts by some advanced economies such as the UK and Eurozone. The main risk to global inflation is the further escalation of geopolitical tensions due to various regional conflicts that may impact global supply chains and slower than expected reduction in interest rates in advanced economies such as the UK and Eurozone.

9. **For SSA, inflation is expected to remain elevated, albeit with a moderate decrease from 16.2 percent in 2023 to 15.3 percent in 2024 and 12.4 percent in 2025.** This is mainly because of the pass-through effect of global food and fertilizer prices due to supply disruptions caused by regional conflicts in Eastern Europe and the Middle East, the adverse effects of climate change that have caused food shortages and dependency on agricultural imports, and currency depreciation across most countries. This has kept the cost of living high for most countries which has worsened the economic hardship of the poor and increased food insecurity in the region[4]. A major risk to inflation in SSA countries is the adverse effects of climate change, which may disrupt agricultural production.

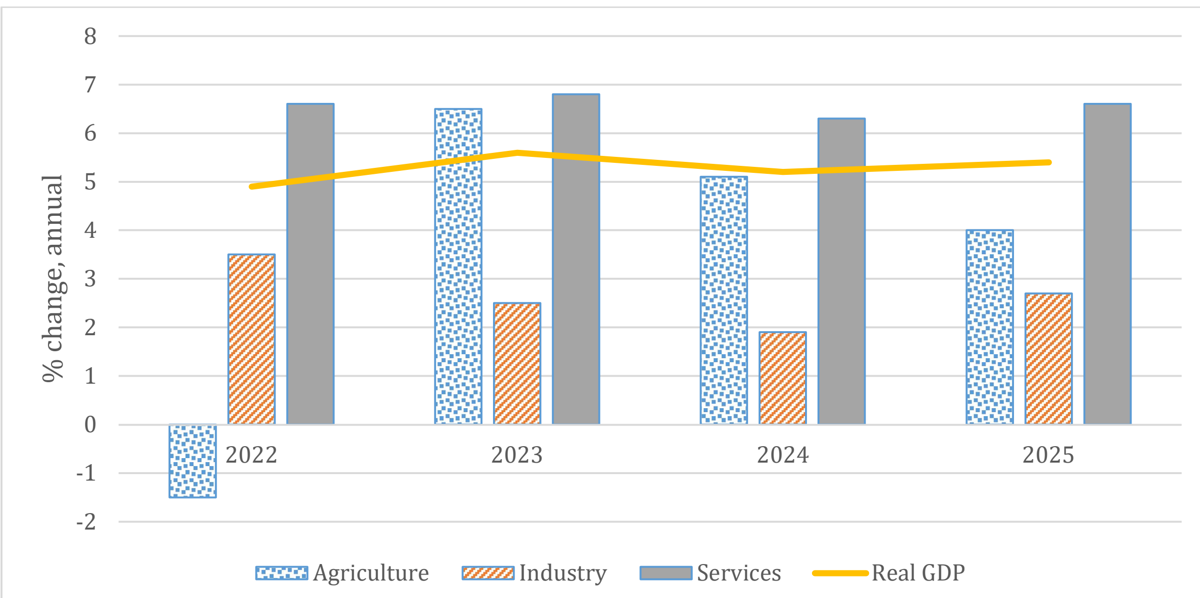
[3] https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024
[4] https://thedocs.worldbank.org/en/doc/661f109500bf58fa36a4a46eeace6786-0050012024/related/GEP-Jan-2024-Regional-Highlights-SSA.pdf

2.2. Kenya's Economic Outlook

Economic Growth

10. **The National Treasury projects moderate growth in Kenya's economy over the medium term of 5.2 percent in 2024 and 5.4 percent in 2025 compared to 5.6 percent in 2023.** From the supply side, this growth will largely be driven by recovery in the agriculture sector and the continued resilience of the service sector. Growth in the agriculture sector is based on above-average rainfall expected in most parts of the country in 2024 and continued implementation of the BETA value chains, which will attract more investments and enhance the productivity of the sector. Likewise, growth in the services sector is anchored in ICT reforms, boosting growth in financial services, healthcare, and public administration. The industrial sector is also expected to expand marginally primarily in manufacturing sector due to the reduction in production costs and easing of exchange rate pressures and in construction sector due to increased public spending on affordable housing.

Figure 1: Economic growth performance and projections



Source: National Treasury, 2024

11. On the demand side, domestic demand is expected to be resilient, as both the private and public sectors consolidate to provide support for Kenya's economic growth over the medium term. Private consumption is expected to grow due to bumper agricultural harvests, employment recovery, moderate inflation, resilient remittance inflows, and modest growth of credit to the private sector. Private investment is forecasted to grow because of improved market competitiveness and efficiency, positive business sentiments, access to international markets, projected FDI inflows, and increased government focus on implementing Public Private Partnerships (PPPs) in key economic sectors to complement

its development agenda. Public consumption and investment are expected to slow down owing to ongoing fiscal consolidation efforts. Lastly, the growth in exports is expected to be bolstered by the ongoing implementation of recently negotiated trade agreements (AfCFTA, Kenya-UK EPA, and Kenya-EU EPA) and advancement in talks on new trade agreements (Kenya-US FTA), while imports are expected to grow as domestic demand recovers from the persistent global and domestic shocks of previous years.

12. **However, growth projections face significant risks owing to uncertainties in both global and domestic markets**. Further escalation of geopolitical tensions due to various regional conflicts that may impact global supply chains could negatively affect the current account deficit and slow potential growth. Ongoing fiscal consolidation measures may constrain economic growth, especially if government measures to implement PPPs and revenue enhancement measures are derailed or slowed down. Adverse weather conditions, such as projected La Niña events, may negatively affect agricultural production, reduce private consumption, and worsen the current account balance. The recent downgrade of Kenya by international rating agencies[5] is likely to increase the borrowing costs for both domestic and external debt thus reducing public consumption and investment due to constrained fiscal space and negatively affecting private consumption and investment due to crowding out effect. A slower than expected reduction in interest rates in advanced economies may aggravate Kenya's external borrowing cost, thus slowing down Government consumption and investments.

Inflation

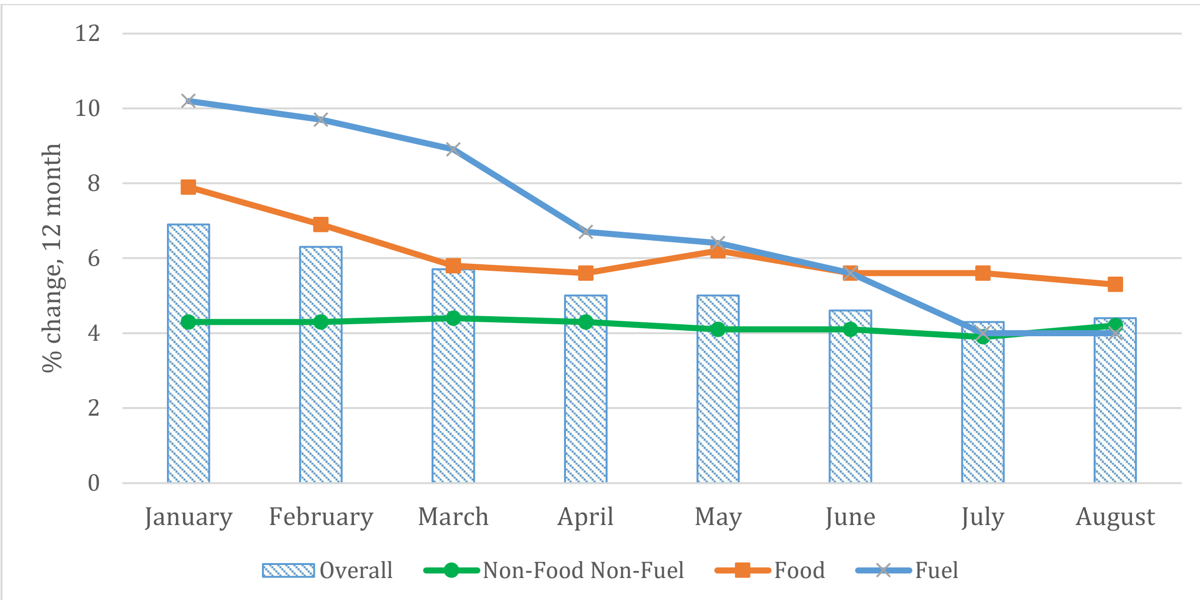
13. **The National Treasury projects the decline of annual average inflation from 7.7 percent in 2023 to 5.1 percent in 2024 and 5.0 percent in 2025, which is the mid-point range of the government's target range of 5± 2.5 percent.** Overall inflation has been within this inflation target in the first 8 months of 2024, declining from 6.9 percent in January 2024 to 4.4 percent in August 2024. Over this period, non-food non-fuel inflation has been relatively stable at about 4.0%, indicating that the CBK's efforts to contain second-round inflation effects due to the effects of rising food and fuel inflation have been effective. Fuel inflation has declined from 10.2 percent in January 2024 to 4.0 percent in August 2024, mainly due to a decline in global fuel prices, with the Murban-Adnoc price declining from USD 91.0 per barrel in December 2023 to USD 83.93 per barrel in July 2024. Food inflation has declined from 7.9 percent in January to 5.3 percent in August 2024 owing to improved food supply as a result of favourable weather conditions and declining global food prices.

14. The inflation target is expected to be achieved through the implementation of prudent monetary policy to mute demand pressures, projected decline in food prices owing to a

[5] S&P lowered its rating of Kenya to B- from B on August 23, 2024 and Fitch downgraded Kenya to B- from B on August 2, 2024, citing heighted public finance risks and increasing cost of servicing public debt.

favorable climate, decline in oil prices owing to gradual reduction in global crude oil prices, and government interventions to lower the cost of production through investment in BETA value chains. However, a major risk to projected inflation is adverse effects of climate change that may disrupt agricultural production since the Kenya Meteorological Department (KMD) projects that parts of Kenya may experience La Niña towards the end of 2024[6].

Figure 2: Inflation rates for the period January to August 2024



Source: Kenya National Bureau of Statistics, 2024

Interest Rate and Domestic Credit

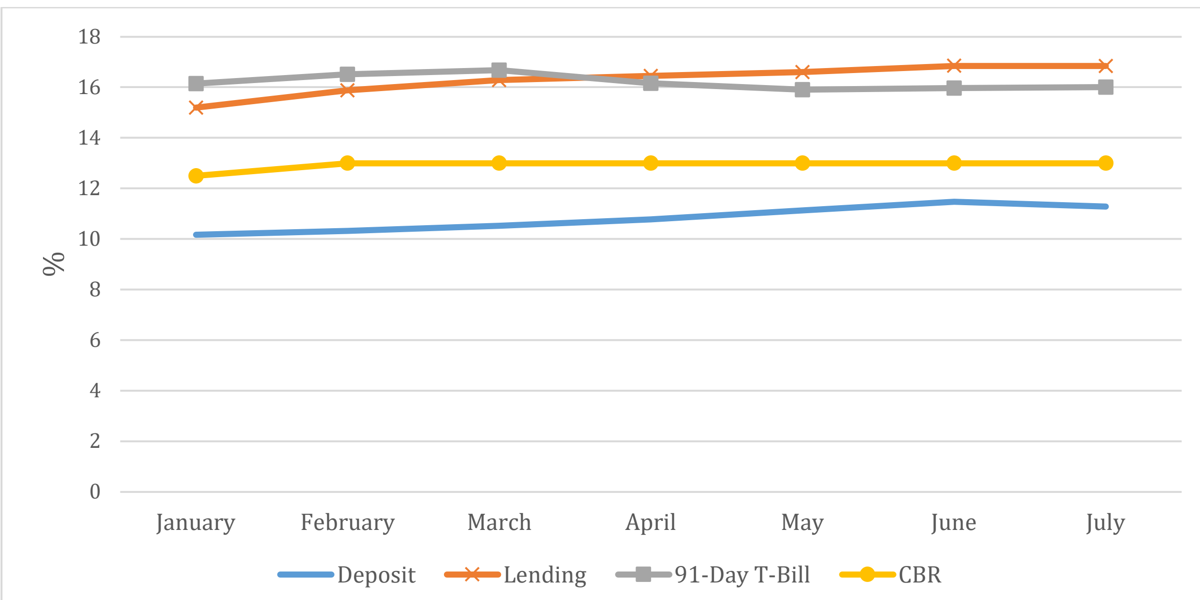
15. **The National Treasury aims to maintain stable interest rates over the medium-term.** To achieve this and maintain overall inflation, the CBK has been pursuing a tight monetary policy stance since May 2022, gradually increasing the CBR from 7 percent in April 2022 to 13 percent in February 2024. This policy was expected to anchor inflationary expectations, drive inflation downwards to the mid-point range of 5.0%, and address residual pressures on the exchange rate. The policy has been relatively effective, with non-food and non-fuel inflation remaining relatively stable at 4 percent from January to July 2024. Similarly, interest rates have also stabilized, with the 91-day treasury bill averaging at 16.2 percent, lending rates averaging at 16.3%, and deposit rates averaging at 10.8 percent over the period. The success has necessitated the CBK to start easing off its monetary policy, with a slight reduction in the CBR to 12.5 percent in August 2024. However, the recent downgrade

[6] According to Kenya Meteorological Department (KMD), the October to December 2024 short rains season in Kenya is projected to experience below-average rainfall due to the La Niña conditions. In particular, rainfall in the northern and northeastern areas will be between 45-75% of the average while that in the southern and coastal areas will be between 75-90% of the average.

of Kenya by international rating agencies is likely to be a risk to the stability of interest rates over the medium-term.

16. **The National Treasury targets a gradual increase in credit to the private sector from an annual average growth of 5.7 percent in 2023 to 10 percent in 2024 and 12.3 percent in 2025.** There has been a gradual decline in private sector credit in the first half of 2024, growing by only 4.0 percent from the 12-months to June 2024, compared to 13.7 percent in January 2024. The decline was partly due to the impact of exchange rate appreciation on foreign currency loans, which accounted for 26 percent of the total credit to the private sector. With the exchange rate stabilizing over the past few months and the CBR reducing in August 2024, the growth of private sector credit is expected to increase in the last quarter of the year and 2025. Also, resilience in economic activities is expected to somewhat support the demand of private sector credit. However, a major risk to growth in private sector credit is the potential crowding out by the government, as it increases domestic borrowing to offset part of the resources that were expected to be collected by the lost Finance Bill, 2024.

Figure 3: Interest rates for the period January to July 2024

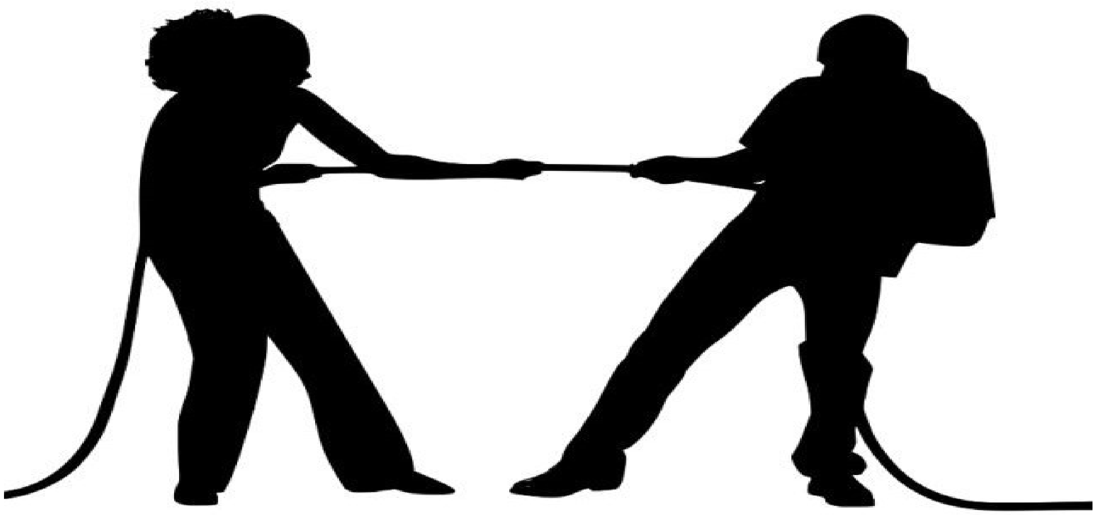


Source: Central Bank of Kenya, 2024

17. **Keep an eye on…**

i) The increase of geopolitical tensions due to various regional conflicts that affect global supply chains could negatively affect the current account deficit and slow down potential growth.
ii) A derailment in government fiscal consolidation measures, such as the implementation of PPPs and the enhancement of revenue collection, is likely to hamper growth projections.
iii) Projected adverse weather conditions such as La Niña may negatively affect agricultural production, reduce private consumption, worsen the current account balance, and increase inflation.
iv) The recent downgrade of Kenya by international rating agencies is likely to increase the borrowing costs for both domestic and external debt thus reducing public and private consumption and investment
v) A slower than expected reduction in interest rates in advanced economies may worsen Kenya's cost of external borrowing, thus slowing down government consumption and investments.

CHAPTER THREE: FISCAL POLICY OUTLOOK



Dr. Abel Nyagwachi, Mr. Chacha Machage, Mr. Ringine Mutwiri and Mr. Job Mugalavai

3.1. Overview of Fiscal Policy

18. **The government intends to implement a contractionary fiscal policy since its original budget implementation plan for FY 2024/25 was impeded by the loss of the Finance Bill 2024, which was expected to raise additional revenue amounting to Kshs. 344.3 billion (1.9 percent of GDP).** It intends to implement a fiscal consolidation plan that aims to enhance domestic revenue mobilization, reprioritization, and rationalization of expenditure while safeguarding priority government programmes.

19. On the revenue side, the government is implementing budget-neutral measures to improve revenue collection, eliminate leakages in the collection process, and improve compliance. On the expenditure side, it is improving efficiency which implies doing more with the same amount of resources or sustaining the same level of service delivery with fewer resources. Therefore, the focus is on fast-tracking the completion of donor-funded projects, unlocking donor funds under commitment, and creating an enabling environment for the private sector to thrive to support job creation and provide avenues for revenue enhancement in the medium-term.

3.2. Fiscal Framework for FY 2024/25 Budget

20. **The overall revenues for the FY 2024/25 are projected at Kshs. 3.1 trillion (16.9 percent of the GDP).** This comprises ordinary revenue, amounting to Kshs. 2.6 trillion (4.6 percent of GDP), and Appropriations-in-Aid amounting to Kshs. 428.6 billion (2.4 percent of GDP). Ordinary revenue includes the Income Tax of Kshs. 1.2 trillion, VAT of Kshs. 723.8 billion, Excise Duty of Kshs. 324.8 billion, Import Duty of Kshs. 160 billion, Investment income of Kshs. 72.3 billion and other revenues of Kshs. 170.2 billion.

21. **In line with the government's efforts to enhance domestic revenue mobilization, the projected ordinary revenue represents an increment of Kshs. 342.5 billion (15 percent) from the actual collection for FY 2023/24.** This projection is higher than the annual growth rates in ordinary revenue over the last decade, with an average of approximately 10 percent. It is noted that the annual growth rate of ordinary revenue has not been in tandem with the growth in nominal GDP, which has averaged 12 percent over the last decade, implying that a significant proportion of the informal sector actively contributes to economic growth but is outside the tax bracket. Therefore, the achievement of the projected ordinary revenue will be based on aggressive revenue mobilization, including expansion of the tax base, leveraging technology to revolutionize tax processes, sealing revenue loopholes, and enhancing the efficiency of the tax system.

22. **Total Approved Expenditure and Net Lending for the FY 2024/25 are projected at Kshs. 3.9 trillion (21.5 percent of GDP).** This comprises recurrent expenditure amounting to Kshs. 2.8 trillion (15.7 percent of GDP), development expenditure and net lending amounting to Kshs. 591.5 billion (3.3 percent of GDP), county transfers amounting to Kshs. 451 billion (2.5 percent of GDP), equalization fund of Kshs. 8 billion (0.04 percent of GDP), and contingency fund of Kshs. 4 billion (0.02 percent of GDP). The recurrent expenditure includes Kshs. 1 trillion for interest payments, Kshs. 602.7 billion for wages and salaries, Kshs. 986.3 billion for ministerial operations and maintenance, Kshs. 190.4 billion for pensions and other CFS, and Kshs. 37 million for contributions to Civil Service Pension Fund.

23. **In line with the government's efforts to rationalize expenditure, total expenditure and net lending as a share of GDP is projected to gradually reduce to 21.5 percent in FY 2024/25 compared to 22.4 percent in FY 2023/24.** Recurrent expenditure is projected to reduce from 16.6 percent in FY 2023/24 to 15.7 percent in FY 2024/25 and development expenditure and net lending is projected to reduce from 3.4 percent to 3.3 percent over the same period. However, county transfers are projected to increase from 2.4 percent in FY 2023/24 to 2.5 percent in FY 2024/25, but this is due to the payment of arrears from previous financial years.

Table 1: Fiscal Framework FY 2024/25

Details	FY 2022/23	FY 2023/24	FY 2024/25	FY 2022/23	FY 2023/24	FY 2024/25
	Actual	Actual	Appr. Estimates	Actual	Actual	Appr. Estimates
	Kshs. Billions			% of GDP		
Total Revenue	**2,355.0**	**2,702.6**	**3,060.0**	**16.5**	**16.8**	**16.9**
Ordinary Revenue	2,041.1	2,288.9	2,631.4	**14.3**	**14.2**	**14.6**
Import Duty	*941.6*	*1,042.8*	*1,180.3*	*6.6*	*6.5*	*6.5*
Excise Taxes	*130.1*	*133.9*	*160.0*	*0.9*	*0.8*	*0.9*
Income Tax	*264.5*	*276.7*	*324.8*	*1.8*	*1.7*	*1.8*
VAT	*550.4*	*645.5*	*723.8*	*3.8*	*4.0*	*4.0*
Investment Income	*41.3*	*47.8*	*72.3*	*0.3*	*0.3*	*0.4*
Other Revenues	*113.2*	*142.2*	*170.2*	*0.8*	*0.9*	*0.9*
Appropriation In Aid	313.9	413.7	428.6	2.2	2.6	2.4
Expenditure and Net Lending	**3,221.1**	**3,605.1**	**3,880.8**	**22.5**	**22.4**	**21.5**
Recurrent Expenditure	2,311.6	2,678.4	2,826.3	16.2	16.6	15.7
Interest Payments	*687.3*	*840.7*	*1,009.9*	*4.8*	*5.2*	*5.6*
Pensions & Other CFS	*120.4*	*143.9*	*190.4*	*0.8*	*0.9*	*1.1*
Contribution to Civil Service Pension Fund	*29.6*	*34.2*	*37.0*	*0.2*	*0.2*	*0.2*
Wages and Salaries	*539.6*	*575.3*	*602.7*	*3.8*	*3.6*	*3.3*
Operations and Maintenance	*934.7*	*1,084.3*	*986.3*	*6.5*	*6.7*	*5.5*
Development Expenditure and Net Lending	493.7	546.3	591.5	3.5	3.4	3.3
Domestically Financed	*343.8*	*377.0*	*349.8*	*2.4*	*2.3*	*1.9*
Foreign Financed	*137.6*	*151.9*	*241.7*	*1.0*	*0.9*	*1.3*
Net Lending	*12.3*	*17.4*	-	*0.1*	*0.1*	-
Equalization Fund	-	-	8.0	-	-	0.0
County Transfers	415.8	380.4	451.0	2.9	2.4	2.5
Equitable Share	*399.6*	*354.6*	*410.8*	*2.8*	*2.2*	*2.3*
Conditional Allocation	*16.2*	*25.8*	*40.2*	*0.1*	*0.2*	*0.2*
Contingency Fund	-	-	4.0	-	-	0.0
Fiscal Balance (commitment basis excl. of grants)	**(866.1)**	**(902.5)**	**(820.8)**	**(6.1)**	**(5.6)**	**(4.5)**
Grants	23.1	22.0	52.3	0.2	0.1	0.3
Adjustment to cash basis	37.0	45.4	-	0.3	0.3	-
Fiscal Balance (cash basis incl. of grants)	**(806.0)**	**(835.1)**	**(768.5)**	**(5.6)**	**(5.2)**	**(4.3)**
Statistical Discrepancy	(35.5)	(16.8)	-	(0.2)	(0.1)	-
Total Financing	**770.5**	**818.3**	**768.5**	**5.4**	**5.1**	**4.3**
Net Foreign Financing	310.8	222.7	355.5	2.2	1.4	2.0
Net Domestic Financing	459.7	595.6	413.0	3.2	3.7	2.3
Nominal GDP				**14,299.2**	**16,106.0**	**18,053.7**

Source: National Treasury, 2024

24. **The overall reduction in recurrent expenditure only affects discretionary expenditures while non-discretionary expenditures are seen to be increasing as a share of GDP thus implying a gradual reduction in room for future expenditure rationalization measures.** On one hand, the discretionary expenditures that have reduced include wages and salaries from 3.6 percent of GDP in FY 2023/24 to 3.3 percent of GDP in FY 2024/25, and ministerial operations and maintenance from 6.7 percent to 5.5 percent

over the same period. On the other hand, the non-discretionary expenditures that have increased include interest payments which have risen from 5.2 percent of GDP in FY 2023/24 to 5.6 percent of GDP in FY 2024/25 while pensions and other CFSs have increased from 0.9 percent to 1.1 percent over the same period. The increase in interest payments and pensions are expected to continue over the medium term and this may significantly strain the government since they are likely to crowd out resources for development and other critical recurrent expenditures.

25. **The reduction in development expenditure will affect domestically financed expenditures, while foreign-financed expenditures are seen to increase as a share of GDP, thus implying a gradual increase in dependence on donor funding.** The domestically financed expenditures are reducing from 2.3 percent of GDP in FY 2023/24 to 1.9 percent of GDP in FY 2024/25 while the foreign financed expenditures are increasing from 0.9 percent to 1.3 percent over the same period. Given previous experience with the low absorption of donor funds, it is noteworthy to watch the implementation of various donor-funded projects, including those that are being implemented in partnership with county governments. In addition, majority of current projects with pending and stalled bills are domestically financed. Therefore, a reduction in domestic financing may adversely affect the performance of ongoing projects and increase the risk of pending bills and stalled projects across the country.

26. **The challenges facing both domestically financed and foreign-financed projects are likely to cause delays in achieving the expected returns from public investments, which can impact the country's economic growth.** To address these risks, the government proposes to consider alternative frameworks for funding development projects including Public Private Partnerships (PPPs). In identifying commercially viable projects for PPP, the contingent liabilities will be considered, and the projects must be aligned with BETA. In addition, the government will commence the implementation of the end-to-end e-procurement system, whose aim is to maximize value for money and increase transparency in procurement.

27. **In line with the government's fiscal consolidation plan, the fiscal deficit is projected to decline gradually from Kshs. 835.1 billion (5.2 percent of GDP) in FY 2023/24 to Kshs. 768.5 billion (4.3 percent of GDP) in FY 2024/25.** However, this fiscal deficit target is higher than that approved by the Parliament in the Medium-Term Debt Strategy (MTDS) of Kshs. 704 billion whose costs and risks were evaluated to ensure that the government achieved its target of achieving a debt-to-GDP ratio of 55 percent by 2029. The increase in borrowing was necessitated by the effects of the loss of the Finance Bill 2024, since some of the critical expenditures that were to be funded from the expected additional revenue collection were accommodated through an increase in debt. It is noted that an increase in

borrowing will affect the cost of borrowing and increase debt servicing expenses, which would further crowd out resources for development and other critical recurrent expenditures in the medium term.

28. **Similarly, the proposed foreign-to-domestic borrowing mix of 61:39 departs from the approved borrowing plan in the MTDS of 55:45.** With the forecasted slower than expected reduction in interest rates in advanced economies over the medium term, this is likely to affect the cost of external borrowing and increase external debt service expenses over the medium term. This may also expose public debt to further foreign exchange risks.

29. **Keep an eye on…**

i) Given the ambitious deviation from the historical trend in the growth of ordinary revenue, it is important to keep an eye on the proposed measures to achieve the revenue collection target, because any shortfalls may pose a significant risk in the implementation of the approved budget.

ii) Measures for improving efficiency in public expenditure in the face of expenditure rationalization by reducing nonpriority expenditures.

iii) The rollout of the e-procurement system will improve transparency and value for money in government procurement.

iv) The identification of commercially viable projects that can be undertaken under PPP so as to ensure all contingent liabilities are considered and the country achieves value for money.

v) The implementation of various donor-funded development projects, including those being implemented in partnership with county governments, to ensure that funds are effectively absorbed.

vi) The performance of Kenya's shilling in the exchange rate market could elevate exchange rate risk, leading to an increase in external debt service expenditures.

CHAPTER FOUR: TAX ADMINISTRATION

Mr. Josephat Motonu, Mr. George Ndenjeshe, Ms. Terry Ondiko and Mr. Adera Onyango

4.1. Introduction

30. **The government has long sought to enhance revenue collection, broaden its tax base, and reduce tax evasion.** However, its efforts have not borne the expected fruits, with revenue targets continually being missed in successive years. In FY 2022/23, the government missed its revenue target by Kshs. 123.6 billion (5 percent) while it missed the FY 2023/24 target by Kshs. 205 billion (7 percent) as shown in table 2. The National Treasury identified inefficiencies in tax administration, poor implementation of new tax policies, weak enforcement, and taxpayer compliance issues as the main challenges that faced government revenue enhancement measures in previous years.

Table 2: Revenue Target vs Actual for FY 2022/23 and FY 2023/24

Details	2022/23			2023/24		
	Target	Actual	Deviation	Target	Actual	Deviation
Total Revenue	**2,478.6**	**2,355.0**	**(123.6)**	**2,907.6**	**2,702.6**	**(205.0)**
Ordinary Revenue	2,145.4	2,041.1	(104.3)	2,461.1	2,288.9	(172.2)
Income Tax	*982.1*	*941.6*	*(40.5)*	*1,101.4*	*1,042.8*	*(58.6)*
Import Duty	*142.7*	*130.1*	*(12.6)*	*142.4*	*133.9*	*(8.5)*
Excise Taxes	*294*	*264.5*	*(29.5)*	*290.1*	*276.7*	*(13.4)*
VAT	*580.6*	*550.4*	*(30.2)*	*654.8*	*645.5*	*(9.3)*
Investment Income	*35.5*	*41.3*	*5.8*	*80.4*	*47.8*	*(32.6)*
Other Revenues	*110.5*	*113.2*	*2.7*	*192.0*	*142.2*	*(49.8)*
Appropriation In Aid	333.2	313.9	(19.3)	446.5	413.7	(32.8)

Source: National Treasury, 2024

31. **Despite the country witnessing annual changes in tax policies over previous years, these have not always translated into higher revenue collections.** This points to a fundamental problem, in that simply introducing new tax policies does not guarantee better compliance or higher revenue. Therefore, the indirect effects of tax policies should be carefully considered before introducing new amendments. Future tax policies must consider these ripple effects to avoid undermining the revenue collection in various sectors. Stricter enforcement and continuous evaluation of these policies will help address such challenges and improve the outcomes in tax administration. Additionally, the government should prioritize alternative approaches to revenue enhancement over new tax proposals, including closely monitoring current tax administration systems and ensuring their full implementation and effectiveness to achieve improved tax compliance.

32. **With the loss of the Finance Bill, 2024, the government has a perfect opportunity to consider the improvement of current tax administrative systems as an alternative measure to achieve its target of collecting Kshs. 3.1 trillion revenue in FY 2024/25.** This decision marks a significant shift in the government's approach to revenue collection. Rather than relying on the introduction of new tax policies that are likely to create new tax burdens on Kenyans, the government may focus on improving tax administration through better enforcement of current tax policies, enhanced data analytics, and increased use of technology to simplify tax processes and improve tax compliance. The KRA's 9th Corporate Plan, which spans from FY 2024/25 to FY 2028/29, offers strategies that seek to address challenges in the current tax administrative systems by modernizing tax processes and improving revenue mobilization through digitalization and data-driven decision-making.

33. **KRA's 9th Corporate Plan focuses on four key areas: enhancing revenue collection, improving customer satisfaction, digitalizing revenue administration, and strengthening human resource management.** Central to this approach is the complete digitalization of revenue administration. This involves upgrading the technological infrastructure, streamlining tax processes, improving data management, and ensuring higher operational standards. These efforts are geared toward creating a more efficient and transparent tax system that can meet the increasing demands of Kenya's economy. Moreover, the plan intends to enforce actions to curb tax evasion and improve compliance by utilizing advanced data analytics and technology. Specific strategies include improving audit processes, increasing collaboration with other government agencies for accurate tax assessments, and deploying tools such as the Electronic Tax Invoice Management System (eTIMS) to boost compliance. These measures aim to target previously untapped sectors, expand the tax base, and improve revenue figures to ensure that the periodic revenue targets are met and even surpassed, as opposed to historical negative deviations.

34. Ultimately, the achievement of the FY 2024/25 revenue target will depend on the successful implementation of the tax administration measures outlined in KRA's 9th Corporate Plan aimed at improving efficiency, transparency, and revenue collection. This Chapter discusses some of the key tax administration measures that will be essential in achieving the ambitious revenue target for this financial year.

4.2. Full rollout of the Electronic Tax Invoice Management System (eTIMS)

35. **The full rollout of the Electronic Tax Invoice Management System (eTIMS) marks a crucial step in enhancing Kenya's tax invoicing process and projects to increase annual revenue collection by Kshs. 312 billion.** As part of broader efforts to improve tax compliance and revenue collection, this system automates the generation and real-time transmission of tax invoices and receipts. It targets the formalization of all businesses, including MSMEs and small-scale commercial traders. Before its implementation, the manual tax invoicing process led to challenges in tracking transactions and ensuring compliance, thus contributing to tax evasion and revenue shortfalls. Therefore, eTIMS intends to address these issues by accurately capturing transactions, reducing tax evasion opportunities, and simplifying tax reporting for businesses. Its capacity to electronically manage invoices also enhances transparency within the tax system.

36. **However, the adoption of eTIMS in the informal sector poses the greatest challenge.** The informal sector encompasses MSMEs and other small-scale commercial traders, and accounts for 83.4 percent of the total employment in Kenya[7]. Since most businesses in the informal sector often operate without financial records or formal registration, they pose a challenge since there is likely to be instances of non-declaration of sales and fictitious input claims which hinder the system's ability to capture accurate tax data. To address these challenges, there is need to improve the collaboration and information sharing between the national government and county governments so as to ensure that more businesses are properly registered and taxed. Further, the corroboration of tax records provided through eTIMS with financial records captured from transactions in mobile money markets and commercial banks may also boost tax compliance and collection efficiency. Finally, simplifying the tax processes targeted at reducing the tax administration burden on businesses, especially MSMEs and small-scale commercial traders, may improve tax compliance and increase collection efficiency. Such tax processes include the introduction of integrated Point of Sale (POS) systems, tax software, and USSD services.

[7] https://www.knbs.or.ke/reports/2024-economic-survey/

4.3. Full integration of the KRA System with Counties and Government Entities

37. **Several Ministries, Departments, and Agencies (MDAs) in the national government and county governments are still operating outside the Integrated Financial Management System (IFMIS), which has led to a loss of revenues in previous years.** The Kenya Revenue Authority (KRA) has faced significant challenges in collecting Pay-As-You-Earn (PAYE) taxes, with arrears amounting to Kshs. 97.8 billion from FY 2021/22 to FY 2023/24. The primary contributors to this shortfall are public sector entities, which have struggled with accumulating PAYE arrears. The Controller of Budget reports have highlighted inconsistencies between the Integrated Personnel and Payroll Database (IPPD) and the IFMIS at both the national government and county government levels[8] as a potential source of revenue collection challenges for the government.

38. To address this, the government intends to achieve full integration of the IFMIS ecosystem with other government databases, such as the IPPD, to achieve full visibility of transactions and collections at the source. It also intends to implement a simplified mobile application for registration, filing, and payment processes taxes from transactions between the government and taxpayers. The PAYE deduction at the disbursement point by the National Treasury to MDAs, county governments, and SAGAs is also in progress.

39. **There is a plan to develop and implement a new technological architecture designed to create market-customized solutions.** This architecture is intended to facilitate integration with various stakeholders by incorporating data analytics, artificial intelligence (AI), machine learning (ML), and application programming interfaces (APIs). These strategies are expected to enhance revenue collection by improving customer experience and service quality and identifying potential tax evasion schemes.

40. Despite the potential benefits of the proposed strategies, several limitations may arise. Integration challenges pose a significant risk because incorporating the new technology architecture with existing systems can be complex. This complexity may lead to compatibility issues, data synchronization problems, and technical glitches that can disrupt KRA's operations and hinder the effectiveness of new solutions. Data privacy and security concerns have also become paramount with increased reliance on data analytics, artificial intelligence (AI), and machine learning (ML). It is crucial to ensure robust cybersecurity measures to protect sensitive taxpayer information from breaches and unauthorized access. The implementation of advanced technologies has heightened the need for stringent data protection protocols to prevent potential security threats and maintain public trust.

[8] https://cob.go.ke/reports/national-government-budget-implementation-review-reports/

4.4. Import Cargo Undervaluation

41. **The government has attempted to improve its revenue collection on imports by employing advanced scanning technologies at various entry points to enhance the efficiency and accuracy of customs procedures.** However, the valuation of import cargo still faces challenges as the undervaluation of goods remains a significant issue. The key limitations in this area include resistance to policy changes and technology adoption by stakeholders which hamper the effectiveness of new measures. Additionally, high-value commercial and excisable goods are often declared at lower minimum yields, complicating accurate valuation and potentially leading to revenue loss.

42. To address this challenge, it is necessary to implement customs declarations for each import to streamline the clearance process for consolidated cargo. Additionally, strengthening bilateral collaboration with key import source countries will facilitate the exchange of information and enhance valuation accuracy. Further, streamlining the valuation of goods may also ensure compliance with the World Trade Organization's General Agreement on Tariffs and Trade (WTO GATT) Valuation Code as well as regional valuation guidelines set by the East African Community (EAC).

43. Nevertheless, despite strategic measures to address the undervaluation of import cargo, several risks may arise. One significant risk is the accuracy of valuation data. Enhanced collaboration with import source countries and adherence to international valuation codes such as the WTO GATT Valuation Code will improve the precision of cargo valuations. However, the effectiveness of these measures depends heavily on the quality and reliability of the information provided by the importers and source countries. If the data received is inaccurate or incomplete, it can still lead to instances of undervaluation, resulting in potential revenue losses for the government.

44. Another critical risk involves the legal and regulatory adjustments necessary to align valuation practices with international standards and regional guidelines set by the EAC. Implementing these adjustments requires extensive changes to existing legal frameworks and regulatory processes which can be both time consuming and complex. Navigating bureaucratic and legal hurdles may slow the implementation process and create potential obstacles.

4.5. Revenue in Pending Major Disputes

45. **Debt associated with legal disputes, including court cases, alternative dispute resolution (ADR), and independent review objections, amount to Kshs. 313.4 billion, affecting 1,288 cases.** Ongoing legal challenges highlight the complexity and financial impact of unresolved tax disputes, emphasizing the need for efficient resolution mechanisms to unlock this significant amount of revenue for the government. Ongoing

disputes highlight the complexities and potential delays in resolving tax-related issues through legal channels, emphasizing the need for effective dispute resolution mechanisms to unlock the revenue tied up in these cases.

Table 3: Summary of Outstanding Revenue in Court Cases

Category	Court	No. of Cases	Revenue (Kshs. Million)
Ongoing cases	Tax Appeals Tribunal	747	165,122
	Court	541	148,470
	Total	**1,288**	**313,592**
Concluded cases		2,543	71,896

Source: KRA

46. To harness revenue from court cases, there is a need to improve the relationship between the KRA and taxpayers. The key among these strategies is the promotion of an Alternative Dispute Resolution (ADR) framework which offers a more collaborative and less adversarial approach to resolving tax issues.

4.6. High Tax Expenditure

47. **Tax expenditures have seen a substantial increase in previous years, reaching Kshs. 393.6 billion in 2022 according to the 2023 National Treasury's Tax Expenditure Report[9].** Tax expenditures are a strategic fiscal tool used by governments to provide subsidies or incentivize specific economic activities without re-zero-rating for Value Added Tax (VAT), tax deductions, and credits. Additionally, mechanisms such as concessional tax rates or special timing rules such as accelerated depreciation, are employed to reduce or defer tax liabilities, thereby promoting targeted behaviours or supporting specific taxpayer groups. They have had a significant effect on revenue collection, amounting to between 2-3 percent of GDP from 2019 to 2022 as shown in table 4. A considerable portion of Kshs. 310 billion was attributed to VAT expenditures driven largely by domestic VAT exemptions and VAT application on fuel.

Table 4: Tax Expenditures for the various Tax Heads

Tax Head/ Year	2019	2020	2021	2022
	(Kshs. Millions)			
Income Tax	23,905.1	27,334.3	26,943.3	46,864.5
VAT	225,658.4	197,392.0	247,871.6	309,964.1
Excise Duty	6,835.3	7,123.6	7,728.8	8,474.3
Import Duty	4,332.4	4,705.3	4,825.3	13,589.4
Fees and Levies	-	2,024.1	5,553.5	14,732.5
Total	**260,731.3**	**238,579.3**	**292,922.5**	**393,624.7**
Tax Expenditure as % of GDP	**2.6%**	**2.2%**	**2.4%**	**2.9%**

Source: The National Treasury

[9] https://www.treasury.go.ke/wp-content/uploads/2023/11/2023-Tax-Expenditure-Report-Final.pdf

48. **Kenya's overall tax expenditure as a share of GDP increased between 2020 and 2022 mostly because of the expanding tax incentives and increasing economic activity targeted at accomplishing government goals.** Several incentives were added by the tax overhaul which greatly increased tax expenditures. Notably, the government offered exemptions from import duties on agricultural products[10] to address the high cost of food caused by the drought and increases in the price of commodities globally. Among other things, additional measures included an insurance rebate for NHIF contributions[11] and a 150 percent capital allowance to encourage investment[12]. However, the growing cost associated with these measures also raises concerns about the sustainability of such policies. This is particularly in the context of Kenya's broader fiscal landscape that is characterized by a need for enhanced revenue mobilization and fiscal consolidation[13]. The government should strike a balance between the need to maintain a stable and sustainable tax base and the goal of promoting economic activity.

4.7. Tax Amnesty

49. **The tax amnesty policy that was introduced in 2023 has been successful in recovery of unpaid taxes, yielding 1.06 million applications and resulting in Kshs. 54.5 billion in declared principal tax and successful collection of Kshs. 43.9 billion between September 2023 and June 2024.** The tax amnesty policy provided a pardon on penalties and interest in tax debts accumulated up to 31st December 31, 2022. After the amnesty period lapsed, the government extended it to March 2025, highlighting its success and intent to encourage voluntary compliance by taxpayers. This study demonstrates the government's approach to fostering a cooperative tax environment while addressing historical tax liabilities. This is crucial for sustaining revenue collection efforts in the long term.

50. However, the tax amnesty policy risks undermine the overall tax compliance culture as businesses and individuals may choose to evade taxes believing they will eventually benefit from waived penalties and interests. Therefore, the success of this initiative will depend on continued post-amnesty taxpayer engagement and robust enforcement measures.

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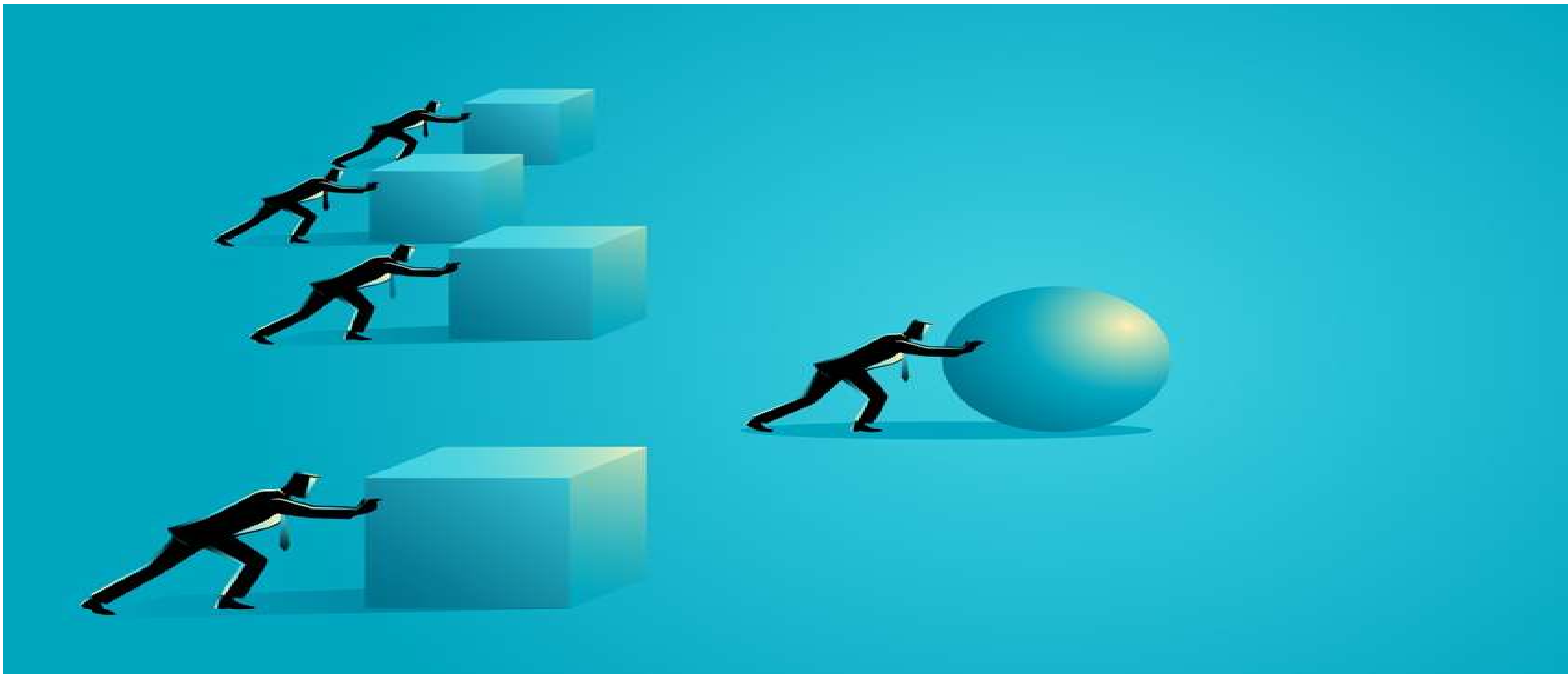
[10] https://kra.go.ke/individual/importing/95-exemptions-on-importation
[11] https://www.kra.go.ke/news-center/public-notices/1602-insurance-relief-on-contributions-to-national-hospital-insurance-fund-nhif
[12] https://www.kra.go.ke/business/companies-partnerships/companies-partnerships-pin-taxes/companies-partnerships-incentives-exemptions
[13] https://www.treasury.go.ke/wp-content/uploads/2023/09/Draft-MTRS-Final.pdf

51. **Keep an eye on…**

i) Automation and technology: Assessment of automated systems, such as the integrated Customs Management System, would improve the accuracy and efficiency of customs valuation.
ii) Upcoming amendments to tax laws, especially on VAT, have been receiving the highest tax expenditures. The planned amendments to Kenya's tax laws, particularly regarding VAT, warrant scrutiny, as VAT has historically accounted for the largest share of tax expenditures. These expenditures include exemptions, zero-rating, and deductions, which significantly reduce the potential revenue from VAT. As VAT is a consumption-based tax, its reform could have widespread implications particularly for household purchasing power and operational business costs.
iii) Prioritization of exemptions for waivers: In prioritizing exemptions, a clear focus must be placed on ensuring that these waivers support economic growth, promote equity, and address public welfare without eroding the country's tax base. Therefore, striking the right balance between incentivizing investment and safeguarding revenue collection is critical.
iv) Integrity of the tax expenditures administration: Monitoring the processes by which tax expenditures are granted and ensuring proper auditing and accountability mechanisms are in place will help reduce potential leakage, corruption, and inefficiency.

CHAPTER FIVE: EFFICIENCY IN PUBLIC EXPENDITURE OF DEVELOPMENT PARTNERS FUNDED PROGRAMMES AND PROJECTS



Mr. Abdirahman Gorod; Mr. Joseph Ndirangu, CPA; Mr. Cyrille Mutali; Mr. Emanuel Otieno; Ms. Aidah Wangui and Ms. Magdalene Kanini

5.1. Introduction

52. **Approved allocation to development expenditure accounts for 29% of the overall approved ministerial budget for FY 2024/25 relative to 34% in FY 2023/24.** This is indicative of a declining share of resources for development activities and deteriorating compliance with the legal threshold for development share allocation relative to the recurrent budget. The development budget is funded through various sources, including GoK Exchequer, local Appropriations-in-Aid (Ministerial AiA), and development partner-funded components in the form of concessional loans and grants.

53. The loss of the 2024 Finance Bill resulted in the recent revision of the FY 2024/25 budget, which led to a reduction in the development allocation from Kshs. 746.33 billion to Kshs. 641.16 billion. Consequently, the share of the GoK Exchequer component was adjusted downwards from approximately 44% to 34% thus negatively affecting a significant number of projects and programmes. However, the share of funding by Development Partners increased from approximately 37% to 43%.

54. **The increase in development partner funding and the reduction in GoK funding points to increasing dependency on development partners for development programmes.** Given the heightened constraints in domestic revenue mobilization coupled with the shrinking share of the GoK exchequer in financing the development budget, the Development Partners' component constitutes a significant source of financing various programmes and projects that account for Kshs. 277.32 billion. This translates to nearly half of the funding mix. The GoK Exchequer component amounts to Kshs. 218.94 billion, of which Kshs. 26.59 billion is counterpart funding allocation to complement co-financed development partners' activities, while the remaining share is local AiA, amounting to Kshs. 144.90 billion.

Table 5: Breakdown of Development Allocation for FY 2024/25 (Kshs. Billions)

Details	FY 2024/25 Approved Budget (A)	FY 2024/25 Revised Estimates (B)	Difference (B-A)	% Share (A)	% Share (B)
Total Development Allocation	746.336	641.166	**-105.170**	**100.00%**	**100.00%**
Of which:					
Development Partners Funding (loans and grants)	*277.824*	*277.325*	*-0.499*	*37.23%*	*43.25%*
Exchequer counter-part allocation to Development Partners' funding	*30.243*	*26.587*	*-3.656*	*4.05%*	*4.15%*
Gok Exchequer	*295.940*	*192.350*	*-103.590*	*39.65%*	*30.00%*
Local AiA (ministerial)	*142.329*	*144.904*	*2.576*	*19.07%*	*22.60%*

Source: Approved budget Estimates, National Treasury and Appropriations Act, 2024

55. **Timely implementation of development programmes and efficient use of available resources could catalyse economic resilience.** Although the government has delivered key programmes and projects that have contributed significantly to policy success, full and timely uptake of these resources for various initiatives under implementation remains a major challenge. Downside risks and challenges in achieving these development initiatives remain persistent and unabated and could further stall expected policy outcomes. Various development initiatives under various ministries, departments, counties, and agencies continue to be characterised by curtailed employment and use of goods and services, as well as delayed reforms and opportunity costs resulting from loss of use.

5.2. Source of Development Partners Funding by Sector

56. Official Development Assistance (ODA) in the form of concessional loans and grants are sourced from both bilateral and multilateral entities covering all sectors. It should be noted that the total available or committed resources from provider entities are greater than the approved annual allocations. These concessional resources are often accessed or utilized on a drawdown basis as well as in performance-oriented frameworks, including performance-linked disbursements over the project period. Other forms and modalities of access by the recipient country also depend on underlying conditions and agreements.

57. Of the total approved development partners' funding for Kshs. 277.325 billion, total bilateral loans and grants is approximately 31% while multilateral loans and grants are at 69%. The highest bilateral sources are from Government of France (10%), Government of Germany (6%) and Government of Japan (5%) as well as Government of China (3%) and South Korea (2%). On the multilateral landscape, the World Bank accounts for 39% of total loans and grants portfolio amounting to Kshs. 107.63 billion. Additionally, African Development Fund (ADB/ADF) and Global Fund account for the second and third largest multilateral share of approved allocations at 14% (Kshs 37.78 billion) and 9% (Kshs. 25.19 billion) respectively.

Table 6: Loans and Grants from Bilateral and Multilateral sources (Kshs. Millions)

No.	Details	2023/24		Total	2024/25		Total	% of total
		Loans	Grants		loans	Grants		
A	**Total Bilateral (Various countries)**	**80,729.00**	**10,048.00**	**90,777.00**	**78,719.00**	**8,270.00**	**86,989.00**	**31%**
Of which:								
A1	*Government of Germany – KFW*	*15,674.30*	*3,871.42*	19,545.72	*13,475.25*	*3,233.00*	*16,708.25*	
A2	*Government of Germany – GIZ*	*0*	*190*	190.00	*0*	*323*	*323.00*	
A3	*Government of France*	*26,002.56*	*2,422.00*	28,424.56	*25,459.64*	*1,027.87*	*26,487.51*	
A4	*Saudi Fund for Development*	*3,602.33*	*0*	3,602.33	*1,244.95*	*100*	*1,344.95*	
A5	*Government of Japan*	*9,079.00*	*193.1*	9,272.10	*14,035.89*	*353.946*	*14,389.84*	
A6	*Government of South Korea*	*10,500.00*	*82*	10,582.00	*4,800.00*	*0*	*4,800.00*	
A7	*Government of China*	*1,740.00*	*0*	1,740.00	*7,253.00*	*0*	*7,253.00*	
B	**Sub-total Multilateral**	**190,905**	**32,124**	**223,029.00**	**147,271**	**43,564**	**190,835.00**	**69%**
Of which:								
B1	*International Development Association (World Bank)*	*127,072.32*	*943*	*128,015.32*	*98,558.43*	*9,076.00*	*107,634.43*	
B2	*Global Fund*	*0*	*18,189.35*	*18,189.35*	*0*	*25,194.08*	*25,194.08*	
B3	*European Development Fund*	*0*	*3,156.94*	*3,156.94*	*0*	*2,058.57*	*2,058.57*	
B4	*European Investment Bank*	*7,700.00*	*0*	*7,700.00*	*3,827.50*	*0*	*3,827.50*	
B5	*African Development Fund (ADB/ADF)*	*48,459.01*	*3,554.00*	*52,013.01*	*36,467.21*	*1,313.40*	*37,780.61*	
B6	*Arab Bank for Economic Development in Africa*	*1,310.00*	*60*	*1,370.00*	*1,023.11*	*20*	*1,043.11*	
B7	*Global Alliance Vaccine Initiative (GAVI)*	*0*	*2,600.00*	*2,600.00*	*0*	*2,600.00*	*2,600.00*	
B8	*International Fund for Agricultural Development (IFAD)*	*5,679.27*	*575.5*	*6,254.77*	*6,610.20*	*135*	*6,745.20*	
Grand Total (A+B)		**271,634**	**42,172**	**313,806**	**225,990**	**51,834**	**277,824**	**100%**

Source: Approved Estimate Books for FY 2024/25 excludes changes at revised estimates

58. A review of sectoral allocation indicates that development partners-funded initiatives to be implemented in the current fiscal year are spread across ten (10) sectors encompassing a total of 226 projects and programmes that are at different stages of implementation or coverage.

59. The Energy, Infrastructure (including roads and transport), and ICT sectors account for nearly half (41%) of the approved development partners allocation (Kshs. 112 billion). Also, the sectors account for the highest number of funded projects (18) with the majority of the projects under the roads and energy sub-sectors. Comparatively, the National Security Sector (defence sub-sector) and the Governance, Justice Law and Order Sector account for the least allocations.

60. The health and education sectors account for a total portfolio of 33 projects with a combined value of Kshs. 36 billion. Additionally, health-related allocations are higher with certain earmarks, such as various Special Global Funds for HIV, Malaria and TB, with the approximate allocation of Kshs. 21.6 billion reflected under the Public Administration and International Relations Sector (specifically under the National Treasury Vote). The Social Protection, Culture and Recreation Sector that comprises various initiatives targeting youth empowerment and opportunities and promoting social inclusion, among others, reflects a total of 11 projects with corresponding development partner-approved allocation of Kshs. 3.52 billion (Table 7).

Table 7: Sectoral funding in the form of loans and grants (Kshs. Billions)

S/ No	MTEF Sectors	FY 2024/25 Gross Allocation including counter-part	FY 2024/25 Development Partner Funding only	Total Grants	Total Loans	No. of Projects
1	Agriculture, Rural and Urban Development	31.41	27.62	1.20	26.42	18
2	Education	19.43	18.73	9.58	9.15	17
3	Energy, Infrastructure and ICT	122.02	112.97	5.30	107.68	66
4	Environment Protection, Water and Natural Resources	52.26	49.06	3.25	45.81	48
5	General Economic and Commercial Affairs	5.98	5.61	1.67	3.94	13
6	Governance, Justice Law and Order	0.07	0.07	0.07	-	4
7	Health	23.89	17.12	7.84	9.28	16
8	National Security	1.53	1.00	-	1.00	1
9	Public Administration and International Relations	43.41	41.62	23.05	18.57	32
10	Social Protection, Culture and Recreation	3.91	3.52	0.33	3.20	11
Total		**303.91**	**277.33**	**52.28**	**225.04**	**226**

Source: Various budget Estimates, National Treasury and Appropriations Act, 2024

61. Moreover, given that the pace of implementing development allocation remains low at 55.7%, as noted in the subsequent section, below-target budget execution that is likely to result in overall poor expenditure performance partly sets the stage for in-year budget revision. This often affects allocations under development partner-funded programmes including re-allocation or reorientation of counterpart (GoK Exchequer) funding. This

counteractively requires focused or targeted parliamentary oversight to expedite implementation as opposed to unmerited reductions.

62. Additionally, budget revisions entailing reduction of overall development allocation is partly also informed by fiscal consolidation measures requiring budget reductions to, among others, align with key macro and fiscal targets[14]. The consolidation strategy also seeks to ringfence social and development spending to enhance the quality and credibility of the strategy. However, in-year reductions also target development partners-funded development initiatives, partly because of absorption concerns. It is common for affected MDAs to seek to revote on these reductions in the subsequent fiscal year, pointing to continuous delays, compromising completion timelines, and service delivery.

Figure 4: Number of programmes and projects and total allocation by respective Votes (MDAs)

S No	MDAs - Programmes and Projects	REVISED ESTIMATES 2024/2025				No of Projects
		Gross Allocation	Development Partner Funding	Total Grants	Total Loans	
1	1091 State Department for Roads	45,611,767,277	44,245,996,825	3,452,069,910	40,793,926,915	25
2	1109 State Department for Water & Sanitation	36,781,000,000	35,509,000,000	1,516,000,000	33,993,000,000	24
3	1071 The National Treasury	40,054,355,380	38,394,755,380	22,392,882,000	16,001,873,380	23
4	1152 State Department for Energy	34,730,880,497	29,199,180,497	1,288,000,000	27,911,180,497	23
5	1082 State Department for Medical Services	20,206,533,334	14,531,533,334	5,250,200,000	9,281,333,334	14
6	1331 State Department for Environment & Climate Change	946,796,186	881,796,186	881,796,186	-	12
7	1169 State Department for Agriculture	17,076,074,896	16,584,728,896	961,000,000	15,623,728,896	10
8	1036 State Department for the ASALs and Regional Development	2,232,530,516	1,983,610,000	1,432,610,000	551,000,000	9
9	1092 State Department for Transport	6,790,000,000	5,615,000,000	455,000,000	5,160,000,000	9
10	1064 State Department for TVET	4,404,000,000	4,057,000,000	657,000,000	3,400,000,000	8
11	1104 State Department for Irrigation	11,646,000,000	9,786,000,000	520,000,000	9,266,000,000	8
12	1072 State Department for Economic Planning	390,770,000	344,770,000	344,770,000	-	6
13	1122 State Department for ICT & Digital Economy	15,101,920,000	14,412,000,000	-	14,412,000,000	6
14	1066 State Department for Basic Education	13,479,000,000	13,129,000,000	8,650,000,000	4,479,000,000	4
15	1135 State Department for Youth Affairs and Creative Economy	1,535,069,490	1,511,710,000	21,710,000	1,490,000,000	4
16	1162 State Department for Livestock Development	7,236,000,000	5,031,000,000	240,000,000	4,791,000,000	4
17	1065 State Department for Higher Education and Research	1,150,000,000	1,150,000,000	250,000,000	900,000,000	3
18	1094 State Department for Housing & Urban Development	19,781,000,000	19,501,000,000	100,000,000	19,401,000,000	3
19	1166 State Department for the Blue Economy and Fisheries	6,892,900,000	5,820,900,000	-	5,820,900,000	3
20	1176 State Department for Micro, Small and Medium Enterprises Dev't	2,402,500,000	2,370,000,000	240,000,000	2,130,000,000	3
21	1212 State Department for Gender and Affirmative Action	355,870,000	257,300,000	257,300,000	-	3
22	1083 State Department for Public Health and Professional Standards	3,688,000,000	2,588,000,000	2,588,000,000	-	2
23	1184 State Department for Labour and Skills Development	100,000,000	20,230,000	-	20,230,000	2
24	1203 State Department for Wildlife	335,000,000	335,000,000	335,000,000	-	2
25	1332 State Department for Forestry	2,548,000,000	2,548,000,000	-	2,548,000,000	2
26	2091 Teachers Service Commission	395,329,000	395,329,000	20,000,000	375,329,000	2
27	1024 State Department for Immigration and Citizen Services	16,200,000	16,200,000	16,200,000	-	1
28	1032 State Department for Devolution	2,653,000,000	2,566,000,000	-	2,566,000,000	1
29	1041 Ministry of Defence	1,534,000,000	1,000,000,000	-	1,000,000,000	1
30	1112 State Department for Lands and Physical Planning	209,000,000	180,000,000	-	180,000,000	1
31	1134 State Department for Culture and Heritage	10,000,000	10,000,000	10,000,000	-	1
32	1175 State Department for Industry	1,343,870,000	1,259,300,000	-	1,259,300,000	1
33	1185 State Department for Social Protection and Senior Citizens Affairs	1,907,621,000	1,724,000,000	38,000,000	1,686,000,000	1
34	1213 State Department for Public Service	260,945,784	260,945,784	260,945,784	-	1
35	1252 State Law Office	35,000,000	35,000,000	35,000,000	-	1
36	1291 Office of the Director of Public Prosecutions	6,000,000	6,000,000	6,000,000	-	1
37	2111 Auditor General	55,000,000	55,000,000	55,000,000	-	1
38	2141 National Gender and Equality Commission	10,000,000	10,000,000	10,000,000	-	1
	Total	303,911,933,360	277,325,285,902	52,284,483,880	225,040,802,022	226

Source: Various budget Estimates, National Treasury and Appropriations Act, 2024

63. Mapping of the various programmes and projects to respective votes (MDAs) highlights the overall number of projects under implementation by each entity, including those with

[14] While these practices have been persisting, Kenya is currently under a milestone based fiscal consolidation program, to attain or comply to certain benchmarks and targets.

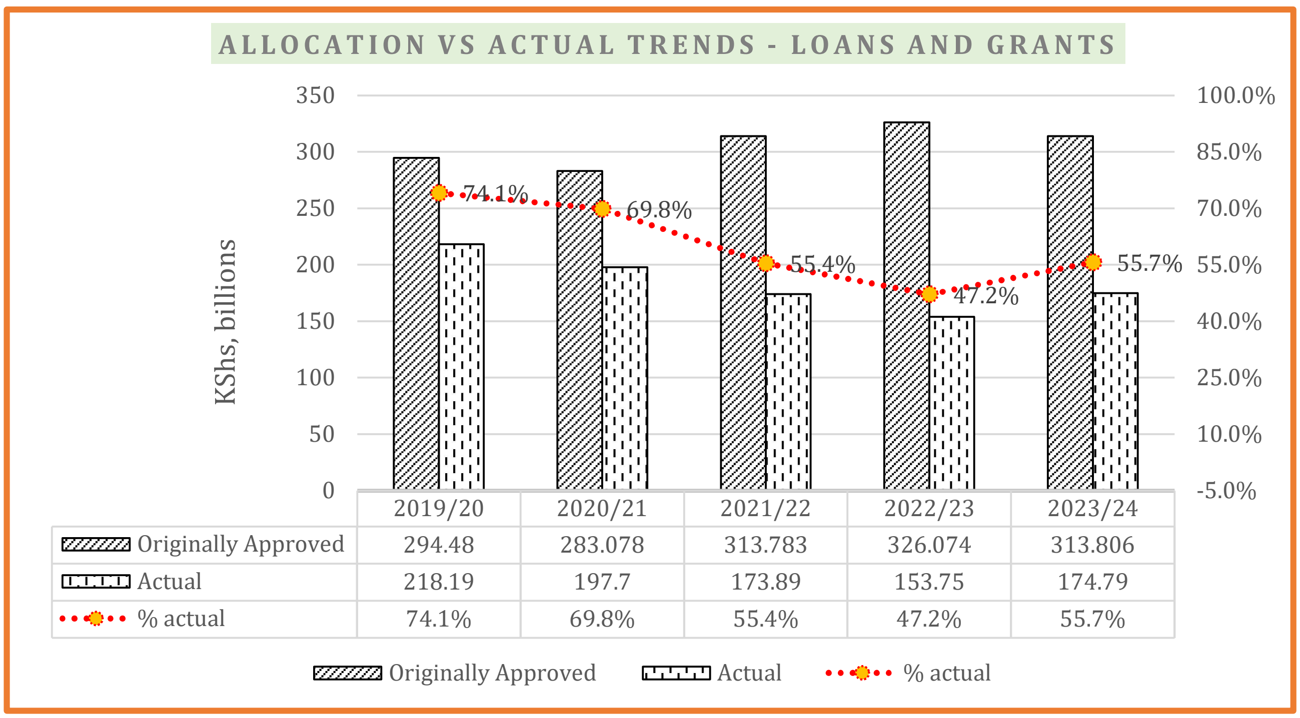
supervision or coordination mandates. Further, this may indicate or point to the (in)adequacy of relevant capacity with the necessary systems to support the effective implementation and achievement of these development initiatives. Figure 4 summarizes the number of projects per vote and the level of development partner funding.

5.3. Key Challenges on Development Partners Funding including Audit Findings

64. Unresolved but manageable challenges continue to hamper the effective implementation of approved project loans and grants resulting into lower-than-expected expenditure performance. Despite funding availability, overall performance has been declining rapidly from FY 2020/21 to FY 2022/23, albeit slightly above average performance in 2023/24.

65. Some of the reported persisting challenges include lack of effective or inadequate coordination between core actors, administrative delays or overlaps primarily affecting documentation and verification, including payment approvals, accountability and reporting concerns, and project design challenges inhibiting execution, among others.

Figure 5: Allocation and Actual trends of Development Partners Funds



Source: Various estimate books, fiscal frameworks - National Treasury, and parliamentary submission

66. The implementation of fully funded development partners and programmed initiatives needs to be fast-tracked. These initiatives have been implemented slowly and have had low utilization. These will enhance the performance of the development budget. Given that

these development initiatives are aligned with the government's Bottom-up Economic Transformation Agenda (BETA) priorities, including providing enabling frameworks, accelerated implementation will potentially enhance policy success by boosting the delivery of government priorities across various sectors, fostering economic development, and enhancing social welfare.

67. Statutory reports on in-year budget implementation may further help boost oversight mechanisms which are key to accelerating implementation. Some innovations may include granular reporting on development partners-funded projects and innovative scaling-up of reporting frameworks, including the status of counterpart funding and performance of project-specific resources. These reports (with sufficiently granular details, including the status of performance indicators) may support in-year legislative review as well as transparency and accountability on the status of development-funded projects.

68. At the legislative level, pursuing innovative oversight strategies to assess and review current impeding practices, especially at the National Government level, will provide a critical impetus in improving delivery. At the operational level, some of the planned oversight strategies may be regular quarterly assessments of the status of requisitions and timely utilization or uptake of disbursements and discouragement of idle balances. These will seek to address slowed or stalled development initiatives.

69. Moreover, timely and time-bound legislative measures to address existing bottlenecks including resolving and closing-out audit outcomes will provide critical lever in fostering implementing agencies into results-based action[15] and move the current average performance beyond 75% and narrow the utilization gaps to nearly 5% or less in the medium term.

5.4. Review of Key Audit Outcomes in respect of Development Partners Funded Projects

70. Annual statutory audit reports point to several fiduciary concerns. Table 8 summarizes the key audit findings which could potentially recur, particularly relating to undrawn balances, systemic risks such as non-compliance or lack of procurement plans, and challenges related to meeting counterpart obligations and pending bills, among others. These matters present potential recurring risks if not addressed promptly, and thus require close monitoring and corrective action to enhance implementation while ensuring compliance with underlying legal provisions to safeguard the integrity of project resources.

[15] These actions may also trigger contractual reviews such as performance contract and evaluation metrics at the ministries, departments, counties, and agencies .

Table 8: Audit Outcomes and Risks to Projects for the FY 2022/23

S/No	Audit outcomes and Lingering Concerns	Risks to Project Funds and Service Delivery
1)	**Low absorption of funds/Undrawn balances**	Review of fourteen (14) projects revealed low absorption of allocated funds, with implementing agencies failing to fully execute planned activities. This has resulted in delays in project delivery and unmerited increase in overall project implementation costs. The inefficiencies associated with underutilization of disbursed resources hinder progress and contribute to escalated expenses, undermining the effectiveness and timely completion of the projects. In the FY 2022/23, commitment fees on undrawn amounts paid during the period amounted to Kshs. 1,435,968,272. The commitment fees relate to undrawn loans signed between the Government of Kenya and foreign lenders.
2)	**Ineligible expenditure across various projects**	In the FY 2022/23, the Auditor General identified ineligible expenditures amounting to approximately Kshs. 133.4 million across several projects. This presents a significant risk to the proper utilization of project funds.
3)	**Failure to close projects and idle funds or bank balances**	The audit review revealed that closure procedures for nineteen (19) projects and programs whose financing agreements had not commenced. Further, some of the projects had idle funds/bank balances in their respective bank accounts amounting to Kshs. 104.9 million.
4)	**Failure to Maintain Separate Bank Accounts for Projects**	Regulation 76(1) of the PFM Regulations requires that project funds shall be disbursed through a dedicated project account opened and maintained at the Central Bank of Kenya, unless exempted in writing by the Cabinet Secretary. Each project shall have only one such account named after the project. It was noted that approximately twenty-one (21) projects failed to open separate bank accounts, thus posing risk of comingling with other funds.
5)	**Non-compliance to provision of Counterpart Funding Issues**	GoK and respective county governments failed to allocate and disburse counterpart funds to at least thirteen (13) projects as required under the terms of the financing agreements. This non-compliance with financial commitments may hinder project implementation and progress, potentially affecting the achievement of project objectives and outcomes. It is essential that the national government and county entities ensure timely provision of counterpart funds in alignment with agreed financing arrangements to avoid delays and ensure successful completion.
6)	**Procurement risks and related concerns**	It is worth noting that Management violated several provisions of the Public Procurement and Asset Disposal Act, Cap. 412C, and Regulations, 2020. Key issues include: - Signing procurement contracts before the mandatory 14-day period, - Entering into contracts after the tender validity period had expired, - Failing to charge liquidated damages, - Neglecting to prepare an annual procurement plan, - Approving contract variations exceeding 25%. These breaches highlight significant non-compliance with legal procurement procedures, which could lead to inefficiencies and potential financial risks including costly litigations.
7)	**Pending Bills/domestic arrears**	Pending bills totaling Kshs. 65.9 billion under Donor Funded Projects remained unsettled during the financial year, and carried forward to the FY 2023/24. Carryover of liabilities may affect timely implementation of ongoing and future projects, and underscores the impetus for urgent improvement of financial management to ensure that obligations are met within designated financial period(s).

Source: Auditor General Report, 2023

71. Audit opinions reflect the relative degree of fiduciary risk to project resources and subsequent access to available resources. A review of audit opinions for the FYs 2021/22 and 2022/23 constitutes a high number of Unmodified Opinions[16] and Qualified Opinions[17]as shown in the figure below. This suggests that due to enhanced diligence, compliance to contractual accountability frameworks and prompt address of past audit queries, audit outcomes for development-funded activities could target unqualified audit opinions in the medium term. Consequently, this will accelerate compliance to zero fault audit regime in-line with government directive. Further, a total of 4 audit reports had Adverse[18] and Disclaimer Opinions[19] signifying substantial issues or irregularities.

72. Figure 6 shows a breakdown of audit opinions and trends for donor-funded programs for financial years 2021/22 and 2022/23.

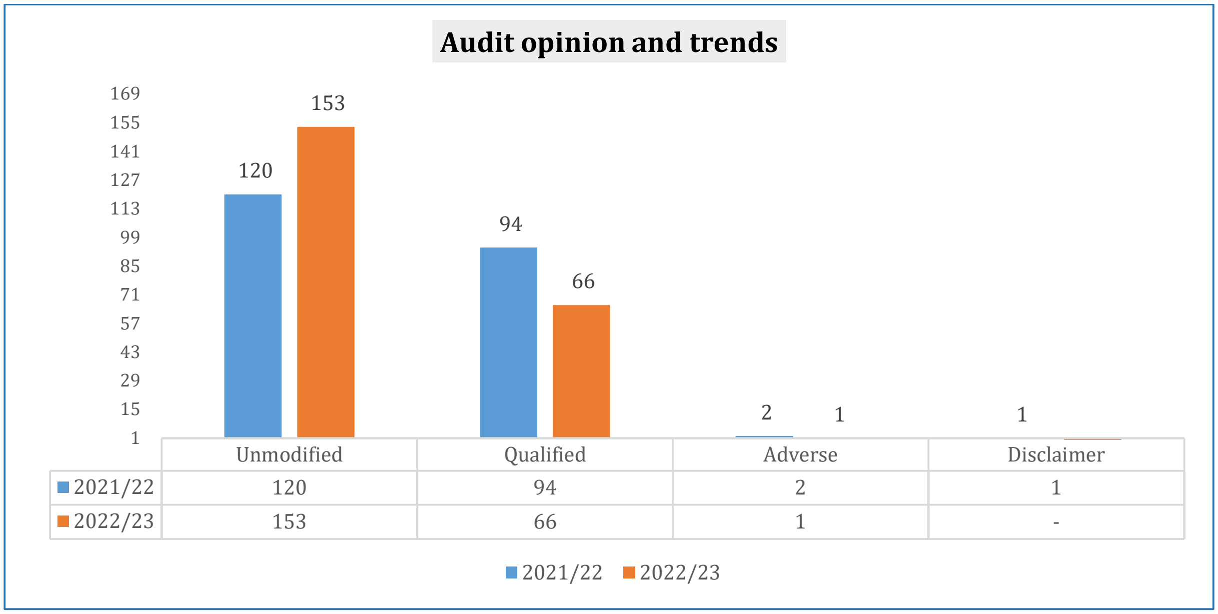
[16] **Unmodified audit opinion:** It is issued when financial statements present a true and fair view of an entity's financial position and are in conformity with generally accepted accounting principles.

[17] **Qualified audit opinion:** It is issued by an auditor when they encounter specific issues or deviations from standard accounting practices that do not, however, misrepresent the overall financial position of the entity.

[18] **Adverse audit opinion** - financial statements of an organization do not accurately reflect its financial position, results of operations, or cash flows in accordance with the relevant financial reporting framework.

[19] **Disclaimer of opinion** is an audit opinion issued by an auditor when they are unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements. This situation arises when there are significant uncertainties or limitations that prevent the auditor from assessing the accuracy or completeness of the financial statements.

Figure 6: **Audit Opinions and Relative Trends for FY 2021/22 and 2022/23**



Sources: Various Audit Reports, FY 2021/22 and 2022/23

Keep an Eye On:

i) Quarterly expenditure performance and implementation trends of development partners' funded programmes and projects, in addition to continuous assessment of disbursement status and utilization trends against key outputs and other performance indicators. The relevant parliamentary committees may target upscaling performance towards 75%, and over the medium term minimize utilization or performance gap to less than 5%.

ii) Status and performance of counterpart GoK exchequer components and potential challenges such as in-year reallocations or reductions to mitigate delays or stalling of programmes and projects.

iii) Programmes and projects that are yet to commence despite funding availability and evaluation of associated risks and opportunity costs to ensure implementation,execution and compliance to contractual timelines.

iv) Reporting and accountability concerns of core actors are likely to affect the delivery of programmed activities and other development initiatives.

v) Adequacy of both human and system capacity by entities responsible for the implementation and delivery of development-programmed activities.

vi) Perennial expenditure reductions targeting development partners' funded programmes and projects that are likely to compromise service delivery, especially for high-priority programmes or projects, including those aligned with BETA priorities. Adequate project-specific disclosures may be necessary for in-year reductions affecting development partner-funded projects and programmes to inform legislative scrutiny and approvals.

CHAPTER SIX: INTERFISCAL DEVELOPMENTS: COUNTY GOVERNMENTS ADDITIONAL ALLOCATIONS

Ms. Keziah Muthama and Ms. Lilian Onyari

6.1. Introduction

73. County Governments Additional Allocations (CGAAs) are funds transferred to County Governments to achieve particular national interests as provided for in Article 202(2) of the Constitution. These include the national government's share of revenue, either conditionally or unconditionally, and loans and grants from development partners. Every financial year, the National Government channels additional allocations to advance specific national government policy objectives. Allocations to the County Governments have been in place since FY 2013/14. The funds were included in the Annual Division of Revenue Bill (DoRB) until December, 2020 when the ruling on petition No.252 of 2016 separated conditional and non-conditional grants from the Annual Division of Revenue Bill.

74. Article 190 of the Constitution provides support to County Governments through legislation by the Parliament to ensure that they have adequate resources to perform their functions. The County Government's Additional Allocation Bill is listed in section 191 of the Public Finance Management Act, Cap. 412A as one of the legislations that are supposed to be introduced every year in Parliament alongside the Budget Policy Statement. The first County Governments Additional Allocation Bill (CGAAB) was prepared for the FY 2021/22

75. The CGAAB proposes to allocate Kshs.46.48 billion for FY 2024/25 to County Governments. However, one of the challenges noted in the past County Governments Additional Allocations Bill (CGAAB) was the delays in the approval of the Bill and lack of agreements on loan and grants between the National Government and relevant counties as provided for in section 191(A) to (E) of thePublic Finance Management Act, Cap. 412A.

76. The purpose of the agreements is to ensure that the allocated funds are only available after meeting the set conditions as well as the role played by each level of government. The Senate and the National Assembly, however, exempted the counties from preparing the agreements from FY 2021/22 to 2024/25. Therefore, the National Government and County Governments should prepare future agreements.

6.2 Delay in the approval of the County Government Additional Allocation Bill (CGAAB)

77. **The enactment of the CGAAB over the years has had delays in approval which has affected the disbursement of additional allocations to county governments.** In the last four financial years, it was only in FY 2022/23 that the Bill was passed 6 months before the end of the budget implementation period, as shown in Table 9. A delay in the passage of the bill often delays the disbursement of funds to County Governments. This leads to the non-achievement of the planned targets in the financial year.

Table 9: Dates of CGAAB Approval

S/No	Financial Year	Implementation Period	Remarks
1	**2021/22**	1/7/2021 – 30/6/2022	Passed 2 months to end of the implementation period
2	**2022/23**	1/7/2022 – 30/6/2023	Passed 6 months to end of the implementation period
3	**2023/24**	1/7/2023 – 30/6/2024	Passed 3 months to end of the implementation period
4	**2024/25**	1/7/2024 – 30/6/2025	Under consideration by Parliament

Source: Kenya Law

78. A sample of missed targets arising from the late approval of CGAAB is shown in Table 10. The Drought Resilience Programme in Northern Kenya missed its target due to the late disbursement of conditional grants to the County Governments of Turkana and Marsabit where funds were disbursed in late June, 2023. The Water and Sanitation Development Project (WSDP) missed its target in both 2021/22 and 2022/23 financial years for the same reason.

Table 10: Performance of various conditional grants for FY 2021/22 and FY 2022/23

S/No	Programme	Key Outputs	Planned Targets		Achieved Targets		Remarks
			FY 2021/22	FY 2022/23	FY 2021/22	FY 2022/23	
1	**Drought Resilience in Northern Kenya**	Water harvesting structures in Northern Kenya	20	34	0	0	Target not achieved due to late disbursement of conditional grants to the County
2	**Agricultural Sector Development Support Programme II (ASDSP)**	Market access linkage for priority value chains	2,000	1,400	1,000	1,350	In FY 2022/23, slight under -achievement was due to procurement processes and delayed flow of funds in the counties
3	**Fertilizer Subsidy Programme**	Fertilizer Subsidy-Metric Tonnes of assorted fertilizer availed	4,560	425,000	1,525	230,449	Government implemented the subsidy for FY 2021/22 and FY 2022/23. however, the available budget could not reach the targeted volumes
4	**Water and Sanitation Development Project (WSDP)**	Water and Sanitation services provided (%)	65%	40%	31%	56%	Delayed passage of CGAAB for FY 2021/22

Source: COB reports

6.3 Supplementary Budgets

79. The Counties are required to appropriate the funds contained in the CGAAA once assented for them to access funds from County Revenue funds. As demonstrated in Table 10, the CGAAB has had delays in passage, necessitating subnational governments to prepare supplementary budgets. Overall, the preparation and approval of the supplementary budget have often led to further delays in program implementation.

80. Table 12 shows the number of supplementary budgets that counties have had in the last five years. It should be noted that some counties had three supplementary budgets in a financial year. Supplementary budgets prepared and approved, particularly towards the end of a financial year, limit the time to fully implement the intended projects.

Table 11: Number of supplementary Budgets prepared by counties over the years

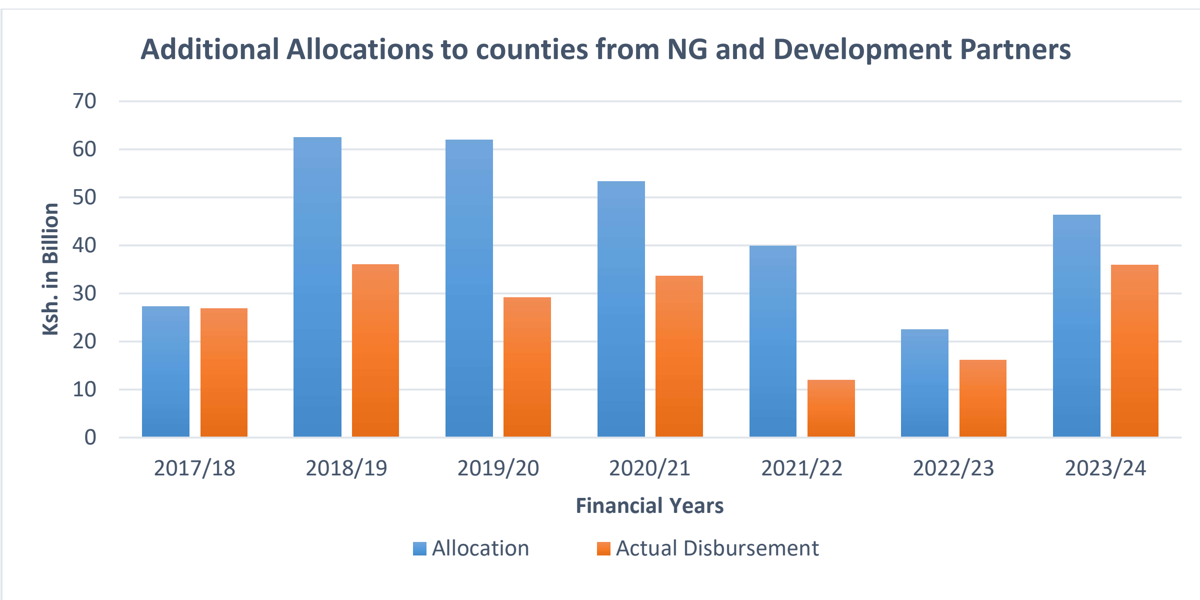
	Number of counties				
No. of Supplementary Budgets	**FY 2019/20**	**FY 2020/21**	**FY 2021/22**	**FY 2022/23**	**FY 2023/24**
Zero	-	26	3	2	3
One	45	17	42	11	28
Two	2	2	2	30	15
Three	0	2	0	4	1
Total	**47**	**47**	**47**	**47**	**47**

Source: COB reports.

6.4 Utilization of unspent balances

81. Additional allocations to counties have not been fully disbursed and utilized within the same financial year (Figure 7). The balances that have not been disbursed within a particular financial year should be incorporated into the next financial year as part of the cash balance brought forward and utilized.

Figure 7: Additional Allocations to counties from NG and Development Partners



Source: CGAAA, COB and DORA

82. Further analysis over the financial years indicates that there have been cash balances that were not disbursed in the respective financial years and were carried forward to be utilized in the subsequent financial year. However, there are cases where the allocation for the balance brought forward may not have been included in the next financial year budget as

should happen, and the program objectives may not have been fully realized. Table 12 presents a sample of balances and specific development partner projects.

Table 12: Conditional Allocations brought forward (b/f) from the FY 2022/23

S/No	Programme	County	Bal b/f 2022/23	FY 2023/24 allocation	Actual Receipt
1	Marsabit County Drought Resilience-Balance B/F	Marsabit	145,038,663	-	-
2	Marsabit County Climate Change Fund-Balance B/F	Marsabit	1,768,000	-	-
3	FLOCCA balance from FY 2022/2023 in SP Account	Mandera	6,644,937	6,644,937	100%
4	KDSP (Kenya Devolution Support Programme) balance in SP Account	Mandera	851,785	851,785	100%
5	B/F Grants-KDSP	Narok	68,451,638	-	-
6	KDSP Roll Over FY 2022/2023	West Pokot	25,377,012	-	-
7	FLOCCA Grants to Support Climate Change	Kericho	15,096,989	-	-
8	Financing Locally Led Climate Action Program (FLLOCA)- County Climate Institutional Support (CCIS) Grants	Nyandarua	11,000,000		

Source: COB reports

6.5 Sample Implementation Challenges of programmes funded through Conditional and Additional Allocation

83. The implementation success of programs funded through additional and conditional allocation depends on a number of factors, including county governments meeting conditions set to access the funds and availability of resources, especially where counterpart funding of projects from the counties is required, among other factors.

a) Conditions for counties to access the funds

84. The Danida grant is one of the grants to be accessed by counties after fulfilling some conditions. To access the funds, a county must allocate a minimum of 22% of the total county budget to health, excluding conditional grants with forward verification of the annual budgets, among other conditions. Counties that spend less than 30% of their annual health budget should increase their budgets on an annual basis.

85. In the FY 2024/25, Ksh487.5 million will be shared among the 47 counties as per the equitable revenue sharing formula approved by Parliament. However, some counties, including Nairobi City County, do not qualify to access the funds because they do not meet the aforementioned condition of allocating at least 22% of the county budget to health.

86. Similarly, financing the Locally-led Climate Action (FLLoCA) program benefits the 47 Counties through two distinct grants, namely, The County Climate Institutional Support (CCIS) grant and the County Climate Resilience Investment (CCRI) grant. Nairobi and Mombasa Counties did not meet the four Minimum Access Conditions for the CCIS grant which include signing the FLLoCA agreement, opening a special purpose account to receive both the CCIS and CCRI grants, the requirement of the Governor to appoint a County Executive Committee Member in charge of climate change, the requirement of the Governor to approve the Work Plan, and the Budget for use of the CCIS grant for the next financial year to access resources from the Ksh.4,912 million allocation for FY 2024/25.

b) Resource Availability for co-funding of the projects

87. Ninety percent of essential Universal Health Coverage (UHC) interventions can be delivered through a Primary Health Care (PHC) approach, potentially increasing the average life expectancy by 3.7 years by 2030.[20]The shift and reorientation of health systems towards preventive and promotive healthcare, rather than a focus on curative care, is poised as a smart investment that will reduce healthcare costs and bring significant improvements across all 47 counties.

88. The Primary HealthCare Act,2023 requires the national government to appropriately allocate additional allocations to County Governments for the effective delivery of primary healthcare services. Community Health Promoters (CHPs) provide primary healthcare services, including prenatal care, immunization, nutrition, education, and treatment of common illnesses. The CHPs are mandated to visit 100 households every two to three months to provide services to all Kenyans from the comfort of their homes. This strategy is geared towards reducing the burden on higher-tier healthcare systems. CHPs play a key role in ensuring that universal health care is achieved; hence, their sustainability is critical for continuous service delivery.

89. The total number of Community Health Promoters (CHPs) is 107,831 across the 47 counties. Counties with the highest number of CHPs include Nairobi (7,467), Kakamega (4,250), Kilifi (3,870), Makueni (3,790), Meru (3,716), Bungoma (3,580), Nakuru (3,313) and Nandi (3,222). Those with less than 1,000 CHPS are Lamu (484), Mandera (618), Isiolo (721), Laikipia (841), and Tana River (963). The distribution of CHPS across the 47 counties is shown in Annex II.

90. Each Community Health promoter is expected to earn a monthly stipend of Ksh.5,000 per month(contributed by the two levels of government on a matching basis). Therefore, the actual resource requirement for renumeration of the 107,831 CHPS in the financial year 2024/25 amounts to Kshs 6.47billion. Each county government is obligated to provide an

[20] World Health Organization (WHO) UHC 2023

equal amount of counterpart funding from its equitable share to match the National Government's contribution, as shown in Annex II.

91. Notably, as an agreement between the two levels of government and further posited by Primary HealthCare Act 2023, the national government is required to contribute additional allocation to county government amounting to **Kshs 3.23 billion**, as a counter funding obligation. However, only Kshs 2.58 billion has been allocated by the Ministry of Health on behalf of the national government. Therefore, the national government allocation can only fully support stipends for 86,133 CHPS due to the funding gap for this program amounting to Kshs 651 million. Furthermore, there are no clear guidelines in instances where there is a resource shortfall in the course of implementation of this program.

6.6 Fiduciary risks of Conditional Grants as highlighted by the Auditor General

92. **Fiduciary risks are the risks of not utilizing allocated funds for intended purposes, not realizing value for money, and not accurately accounting for revenue and expenditure.** The Auditor General has flagged out some issues regarding the management of conditional grants in counties over the years. These issues include non-submission of county climate change fund financial statements, failure to match county contributions to donor-funded projects, unreconciled project receipts and payments, unexplained variances, and improper bank reconciliations among others as shown in Table 13. Risks can lead to delays in project implementation in some counties.

Table 13: A sample of Audit issues relating to Conditional Grants for FY 2022/23

	Conditional Grant	Issue(s)
1	**Financing Locally Led Climate Action Program (FLLoCA)**	✓ Failure to Match County Contribution on Donor Funded Projects ✓ Non-Submission of County Climate Change Fund Financial Statements ✓ Inaccuracies in the Cash and Cash Equivalents ✓ Balance Lack of Reconciliations ✓ Unreconciled Project Receipts and Payments ✓ Unsupported Adjustments to Financial Statements ✓ Unexplained Variances - Conditional Grants

2	**National Agricultural Rural and Inclusive Growth Project (NARIGP)**	✓ Unreconciled Balances - Other Grants and Transfers ✓ Value for money could not be confirmed.
3	**Agricultural Sector Development Support Programme (ASDSP)**	✓ Unreconciled Balances - Other Grants and Transfers

Source: Auditor General Report for FY 2022/23

93. **Keep an eye on ……**

i) Consideration and passage of the County Government Additional Allocation of Revenue Bill, 2024 by Parliament to ensure that counties receive their allocation for FY 2024/25 early enough for the implementation of programs and projects.

ii) Achievement of the intended objectives underpinning the various conditional grants for FY 2024/25 whose proposed allocation is as per Annex 1

iii) Provision of counterpart funding by County Governments to ensure that the donor funds for FY 24/25 with this requirement are available on time to meet the programme and project targets and objectives.

ANNEXTURES

ANNEX I: Proposed Conditional Grants to Counties for FY 2024/25

A	**Conditional Grants from National Government (Millions)**	
		(Proposed) FY 2024/25
1	Conditional Grant for Provision of Fertilizer Subsidy Programme	-
2	Supplement for Construction of County Headquarters	-
3	CAIPs Programme	1,900,000,000
4	CHPs Project	2,584,000,000
	Total (A)	**4,484,000,000**
B	**Loans and Grants from Development Partners (Millions)**	
5	DANIDA - Primary Health Care	487,500,000
6	IDA - KISIP II	5,156,700,000
7	AFD - KISIP II	5,243,300,000
8	IDA - ELRP	1,900,000,000
9	KfW - FLLoCA	1,200,000,000
10	IDA - FLLoCA CCRI GRANT	3,712,000,000
11	IDA - Food System Resilience Project	2,250,000,000
12	IDA - NAVCDP	5,000,000,000
13	IDA - WSDP	5,700,000,000
14	IDA - KDSP-II	1,762,500,000
15	IDA KUSP UIG	1,715,000,000
16	IDA KUSP UDG	5,890,000,000
17	IFAD- Kenya Livestock	378,730,000
18	KfW - Drought Resilience Programme	781,970,000
19	IFAD ABDP	245,880,000
20	UNFPA - 10th Country Grant	65,190,000
21	SWEDEN- KABDP	513,190,000
	Total (B)	**42,000,000,000**
	Total (loans and grants) from National Government and Development Partners)	**46,484,000,000**

Source: CGAAB,24 under consideration by parliament

Annex II: Distribution, Resource Requirement and Payment of CHP's Stipends in the Financial Year 2024/25

	County	No. of CHPs per County	National Government allocation	County Allocation(matching)	Total amount (Kshs.)	Monthly stipend (Ksh.)
1	Baringo	2,127	63,810,000	63,810,000	127,620,000	5,000
2	Bomet	2,469	74,070,000	74,070,000	148,140,000	5,000
3	Bungoma	3,580	107,400,000	107,400,000	214,800,000	5,000
4	Busia	2,213	66,390,000	66,390,000	132,780,000	5,000
5	Elgeyo Marakwet	1,240	37,200,000	37,200,000	74,400,000	5,000
6	Embu	2,010	60,300,000	60,300,000	120,600,000	5,000
7	Garissa	2,484	74,520,000	74,520,000	149,040,000	5,000
8	Homa Bay	2,954	88,620,000	88,620,000	177,240,000	5,000
9	Isiolo	721	21,630,000	21,630,000	43,260,000	5,000
10	Kajiado	1,669	50,070,000	50,070,000	100,140,000	5,000
11	Kakamega	4,250	127,500,000	127,500,000	255,000,000	5,000
12	Kericho	1,523	45,690,000	45,690,000	91,380,000	5,000
13	Kiambu	3,156	94,680,000	94,680,000	189,360,000	5,000
14	Kilifi	3,870	116,100,000	116,100,000	232,200,000	5,000
15	Kirinyaga	1,222	36,660,000	36,660,000	73,320,000	5,000
16	Kisii	2,940	88,200,000	88,200,000	176,400,000	5,000
17	Kisumu	2,998	89,940,000	89,940,000	179,880,000	5,000
18	Kitui	2,470	74,100,000	74,100,000	148,200,000	5,000
19	Kwale	1,738	52,140,000	52,140,000	104,280,000	5,000
20	Laikipia	841	25,230,000	25,230,000	50,460,000	5,000
21	Lamu	484	14,520,000	14,520,000	29,040,000	5,000
22	Machakos	2,775	83,250,000	83,250,000	166,500,000	5,000
23	Makueni	3,790	113,700,000	113,700,000	227,400,000	5,000
24	Mandera	618	18,540,000	18,540,000	37,080,000	5,000
25	Marsabit	2,003	60,090,000	60,090,000	120,180,000	5,000
26	Meru	3,716	111,480,000	111,480,000	222,960,000	5,000
27	Migori	2,946	88,380,000	88,380,000	176,760,000	5,000
28	Mombasa	2,387	71,610,000	71,610,000	143,220,000	5,000
29	Murang'a	1,535	46,050,000	46,050,000	92,100,000	5,000
30	Nairobi City	7,467	224,010,000	224,010,000	448,020,000	5,000
31	Nakuru	3,313	99,390,000	99,390,000	198,780,000	5,000
32	Nandi	3,222	96,660,000	96,660,000	193,320,000	5,000
33	Narok	1,660	49,800,000	49,800,000	99,600,000	5,000
34	Nyamira	1,479	44,370,000	44,370,000	88,740,000	5,000
35	Nyandarua	1,387	41,610,000	41,610,000	83,220,000	5,000

	County	No. of CHPs per County	National Government allocation	County Allocation(matching)	Total amount (Kshs.)	Monthly stipend (Ksh.)
36	Nyeri	2,475	74,250,000	74,250,000	148,500,000	5,000
37	Samburu	1,538	46,140,000	46,140,000	92,280,000	5,000
38	Siaya	2,127	63,810,000	63,810,000	127,620,000	5,000
39	Taita Taveta	1,369	41,070,000	41,070,000	82,140,000	5,000
40	Tana River	963	28,890,000	28,890,000	57,780,000	5,000
41	Tharaka Nithi	1,265	37,950,000	37,950,000	75,900,000	5,000
42	Trans Nzoia	2,240	67,200,000	67,200,000	134,400,000	5,000
43	Turkana	2,475	74,250,000	74,250,000	148,500,000	5,000
44	Uasin Gishu	2,066	61,980,000	61,980,000	123,960,000	5,000
45	Vihiga	1,446	43,380,000	43,380,000	86,760,000	5,000
46	Wajir	2,027	60,810,000	60,810,000	121,620,000	5,000
47	West Pokot	2,583	77,490,000	77,490,000	154,980,000	5,000
	TOTAL	**107,831**	**3,234,930,000**	**3,234,930,000**	**6,469,860,000**	