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THIRTEENTH PARLIAMENT – FOURTH SESSION

THE SENATE

Rt. Hon. Speaker
You may approve for tabling
J. M. Nyegenye, C.B.S.,
Clerk of the senate/secretary, PSC
Date: 12/03/25

STANDING COMMITTEE ON FINANCE AND BUDGET

REPORT ON THE 2025 BUDGET POLICY STATEMENT

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12/03/25

APPROVED
RT. HON. SEN
AMASON J. KINGI

March, 2025

Clerk's Chambers,
Parliament Buildings,
NAIROBI.

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LIST OF ABBREVIATIONS/ACRONYMS

AfCFTA	- African Continental Free Trade Area
AfD	- Agence Française de Développement
AGPO	- Access to Government Procurement Opportunities
A-i-A	- Appropriations-in-Aid
ARUD	- Agriculture, Rural and Urban Development
BETA	- Bottom-Up Economic Transformation Agenda
BPS	- Budget Policy Statement
BREHS	- Building Resilient and Responsive Health Systems
BVI	- Biometric Voter Identification System,
BVR	- Biometric Voter Registration System,
CAF	- The County Assemblies Forum
CAIPs	- County Aggregated Industrial Parks
CAJ	- Commission on Administrative Justice;
CBC	- Competency-Based Curriculum
CBR	- Central Bank Rate
CFS	- Consolidated Fund Services
CMIS	- Complaint Management Information System
CMIS	- Complaint Management Information System
CoG	- The Council of Governors
CPF	- County Pension Fund
CRA	- Commission on Revenue Allocation
CRMS	- Candidate Registration Management System
DANIDA	- Danish International Development Agency
EAC	- Ethics and Anti-Corruption Commission
e-CHIS	- e-Community Health Information Systems
EPR	- Extended Producer Responsibility
FDP	- Field Development Plan
FID	- Final Investment Decision
FIF	- Facility Improvement Fund
FLLoCA	- Financing Locally-led Climate Action
GAA	- Government Advertising Agency
GBV	- gender-based violence
GDP	- Growth Domestic Product
HELB	- Higher Education Loans Board
ICE	- Internal Combustion Engines
ICPAK	- The Institute of Certified Accountants of Kenya
ICRMS	- integrated county revenue management system
IDA	- International Development Association
IEA	- Institute of Economic Affairs

IEBC	- Independent Electoral and Boundaries Commission
IEBC	- Independent Electoral and Boundaries Commission
IFAD	- International Fund for Agricultural Development
IPF	- Institute of Public Finance
IPSAS	- International Public Sector Accounting Standards
KfW	- Germany Development Bank
KIEMS	- Kenya Integrated Elections Management System
KLDA	- Leather Development Authority
KNCHR	- Kenya National Commission on Human Rights
KPEEL	- Kenya Primary Education Equity in Learning Programme
KPLC	- Kenya Power & Lighting Company
LAPFUND	- Local Authorities Provident Fund
LAPTRUST	- Local Authorities Pension Trust
LPG	- Liquefied Petroleum Gas
MES	- Medical Equipment Services
MTP	- Medium-Term Plan
NFDK	- National Fund for the Disabled of Kenya
NGCDF	- National Government Constituency Fund
NGEC	- National Gender and Equality Commission
NLC	- National Lands Commission
NPCC	- National Productivity and Competitive Centre
NPSC	- National Police Service Commission
O&M	- Operations and Maintenance
OAG	- Office of the Auditor-General
OCOB	- Office of Controller of Budget
OSR	- Own Source Revenue
PAIR	- Public Administration and International Relations
PCC	- Police Clearance Certificates
PFM	- Public Finance Management Act
PHC	- Primary Health Care
PIUs	- project implementation units
PPPs	- public-private partnerships
PPR	- Peste des Petits Ruminants
PSC	- Public Service Commission
PSELF	- Public Service Emerging Leaders Fellowship
PWDs)	- persons with disabilities
RDAs	- Regional Development Authorities
REREC	- Rural Electrification and Renewable Corporation
RMLF	- Road Maintenance Levy Fund
RMNCAH	- Reproductive, Maternal, New-born, Child and Adolescent Health

RTS	- Results Transmission System
SBTSS	- School Based Teacher Support System
SEQIP	- Secondary Quality Improvement Project
SHIF	- Social Health Insurance Fund
SHIF	- Social Health Insurance framework
SOE	- state-owned enterprises
SRC	- Salaries and Remuneration Commission
TSA	- Treasury Single Account
TSC	- Teachers Service Commission
WB	- World Bank
ZBB	- Zero-Based Budgeting

PRELIMINARY

1.0 ESTABLISHMENT AND MANDATE OF THE COMMITTEE

Article 124(1) of the Constitution of Kenya provides that each House of Parliament may establish committees and shall make Standing Orders for the orderly conduct of its proceedings, including the proceedings of its committees.

Parliamentary committees consider policy issues, scrutinize the workings and expenditures of the National and County Governments, and examine proposals for legislation. The result of any process in Committees is a report, which is tabled in the House for consideration.

The Standing Committee on Finance and Budget is established pursuant to section 8(1) of the Public Finance Management (PFM) Act, Cap 412A and standing order 228 of the Senate Standing Orders and is mandated to-

- a) investigate, inquire into, and report on all matters relating to coordination, control, and monitoring of the county budgets and examine-
 - (i) the Budget Policy Statement presented to the Senate;
 - (ii) the report on the budget allocated to constitutional Commissions and independent offices;
 - (iii) the Division of Revenue Bill, County Allocation of Revenue Bill, County Governments Additional Allocations Bill, and cash disbursement schedules for county governments;
 - (iv) all matters related to resolutions and Bills for appropriations, the share of national revenue amongst the counties, matters concerning the national budget, including public finance and monetary policies and public debt, planning, and development policy; and
- b) Pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments.

2.0 MEMBERSHIP OF THE COMMITTEE

The Standing Committee on Finance and Budget was constituted by the Senate of the Thirteenth (13th) Parliament on Thursday, 13th October, 2022 during the First Session. The Committee was later reconstituted on Wednesday, 12th February, 2025, during the Fourth Session. The Committee as currently constituted is comprised of the following Members-

- | | | |
|--|---|-------------------------|
| 1) Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2) Sen. Maureen Tabitha Mutinda, MP | - | Vice-Chairperson |
| 3) Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4) Sen. Mohamed Faki Mwinyihaji, MP | - | Member |
| 5) Sen. Richard Momoima Onyonka, MP | - | Member |
| 6) Sen. Shakila Abdalla Mohamed, MP | - | Member |
| 7) Sen. Eddy Gicheru Oketch, MP | - | Member |
| 8) Sen. Mariam Sheikh Omar, MP | - | Member |
| 9) Sen. Esther Okenyuri, MP | - | Member |

CHAIRPERSON'S FOREWORD

Section 25(2) of the Public Finance Management Act, Cap 412A provides that the National Treasury shall submit to Parliament the Budget Policy Statement (BPS) on or before 15th February in each year.

Pursuant to this provision, the National Treasury and Economic Planning submitted the 2025 Budget Policy Statement to Parliament on 13th February, 2025. Subsequently, the 2025 BPS was tabled in the Senate at its plenary sitting held on 13th February, 2025. Thereafter, and pursuant to standing orders 186(4) of the Senate Standing Orders, the BPS was committed to each Standing Committee for consideration and subsequent submission of recommendations to the Standing Committee on Finance and Budget.

Section 25(7) of the PFMA, Cap 412A provides that Parliament shall, not later than 14 days after the BPS is submitted to Parliament, table and debate a report on the BPS containing recommendations with aim of approving with or without amendments. The BPS is a government policy document that sets out the broad strategic priorities and policy goals which guides the national and county governments in the preparation of budgets.

In compliance with the provisions of standing order 186(6) of the Senate Standing Orders, the Committee held consultative meetings with various stakeholders. The Committee received either written or oral submissions on the BPS from the following stakeholders-

- a) The Commission on Revenue Allocation (CRA);
- b) The Council of Governors (CoG);
- c) The Institute of Certified Accountants of Kenya (ICPAK);
- d) The Budget Hub;
- e) The County Assemblies Forum (CAF);
- f) The Institute of Public Finance;
- g) The Hennessey;
- h) The Institute of Economic Affairs;
- i) Okoa Uchumi,
- j) The Constitutional Commissions and Independent Offices; and
- k) The members of public- Mr. Kelvin Ronyo, Mr. Peter Njoroge and Mr. Eliud Matindi.

The theme of the 2025 BPS is *Consolidating gains under Bottom-Up Economic Transformation Agenda for Inclusive Green Growth*. The BPS envisions the global economic growth to perform at 3.2 percent in 2024, with projections of 3.3 percent for both 2025 and 2026. The economic growth in developing economies is projected to stabilize at 4.2 percent in both 2024 and 2025, supported by technological advancements, a growing consumer base and infrastructure development.

The National Treasury estimates the economy to grow by 4.6 percent in 2024, down from 5.6 percent in 2023, with projections of 5.3 percent growth in both 2025 and 2026. This growth is based on expected improvements in the agriculture sector driven by favorable weather conditions and supportive government policies.

The BPS indicates that the inflation has gone down and has remained stable at 5.0 percent target band since June 2024, primarily driven by substantial drops in energy prices and ongoing moderation in food prices. Key contributors to the decline of overall inflation is the consistent negative growth in fuel and food prices between January 2024 and January 2025 especially due to currency appreciation and favorable weather conditions that boosted agricultural yields.

Under revenue outlook, the projected total revenue collection for FY 2025/26 is Ksh.3,385.8 billion which is 17.6 percent as a share of GDP. This represents an improvement of 11 percent (Ksh.325.8 billion) relative to the projection of Ksh.3,060.0 billion for FY 2024/25. The government expects to collect Ksh.2,825 billion as ordinary revenue and Ksh.550.7 billion from the Ministerial Appropriation in Aid.

For the First half FY 2024/25 total revenue performance fell short of the target (Ksh. 1,442.3 billion) by Ksh.107.7 billion as at December 2024 with a collection of Ksh.1,334.7 billion. This was majorly occasioned by the underperformance of the ordinary revenue to the tune of Ksh.93.3 billion. The 2025 BPS proposes several initiatives to improve revenue collection which include- the operationalization of the National Tax Policy and the Medium-Term Revenue Strategy 2024/25–2026/27, strengthening tax administration, broadening the tax base, reducing tax expenditures, leveraging on technology to modernize tax processes and closing revenue loopholes, improving tax system efficiency; and a focus on non-tax revenues that MDAs can generate through public services.

The proposed overall budget for FY 2025/26 is Ksh.4,336.1 billion, which is 9.8 percent (Ksh.387.7 billion) above the approved expenditures in Supplementary Estimates No. 1 for FY 2024/25. The main drivers of the increase in the proposed expenditure is the National Government ministerial expenditure which is set to increase by 11 percent (Ksh.261.6 billion), increased expenditures under the Consolidated Fund Services (CFS) of Ksh.131 billion and the increase in equitable share to counties by Ksh.17.1 billion. The projected fiscal deficit in FY 2025/26 is Ksh.831 billion (4.3 percent of GDP) from the actual borrowing of Ksh.880.5 billion (5.6 percent of GDP) in FY 2023/24.

The shareable revenue (ordinary revenue) is expected to grow from the projected Ksh.2,575.9 billion at the end of FY 2024/25 to Ksh.2,835 billion in FY 2025/26. Out of this, the BPS proposes to allocate Ksh.405.1 billion as county equitable share which is equivalent to 14 percent of the sharable revenue. The allocation is an increase of Ksh.17.7 billion from Ksh.387.4 billion allocated in FY 2024/25.

The government proposes an additional allocation to county governments of Ksh.69.8 billion in FY 2025/26 as additional revenues to county governments. The additional resources are conditional and unconditional proceeds from the National Government's share of revenue amounting to Ksh.12.89 billion and Ksh.56.91 billion from loans and grants from Development Partners.

In FY 2025/26 the government proposes to allocate Ksh.10.5 billion to the Equalization Fund out of which Ksh.7.8 billion is the 0.5 percent Constitutional requirement and Ksh.2.7 billion as contributions towards arrears.

Fiscal risks relating to county government include- spending more than 70% of their budget on recurrent expenditure, spending more than 35% of the total revenue on salaries and wages and increasing burden of pending bills in counties, which totalled Ksh. 181.9 billion by the end of the FY 2023/24.

There is a notable concern regarding the inadequate performance of Own Source Revenue (OSR) by the Counties since 2013. In the FY 2023/24, the 47 counties collectively generated Ksh.58.95 billion as Own Source Revenue, falling short of the Ksh.80.9 billion target by Ksh.22 billion.

The Committee held a total of twelve (12) sittings (*Annex 1- Minutes of the Committee*) to deliberate on the BPS and made several observations and recommendations. These include-

Observations

- a) The proposed revenue mobilization Strategy for FY 2025/26 is similar strategy proposed for FY 2024/25. Notable is failure to make policy adjustments which raises concerns about the effectiveness of these initiatives in regard expect robust revenue performance.
- b) The planned borrowing of Ksh.684.2 billion from the domestic market and Ksh. 146.8 billion from external sources to finance the projected budget deficit of Ksh. 831 billion in FY 2025/26 may lead to crowding out private sector lending, limiting access to credit and potentially slowing economic growth
- c) The ordinary revenue is projected to grow by 10% (an increase of Ksh. 259.1 billion). However, despite this overall growth, the county equitable share for FY 2025/26 is proposed to increase by only Ksh. 17.7 billion.
- d) In December 2024, the Intergovernmental Relations Technical Committee (IGRTC) identified, delineated, and transferred several functions to county governments. However, the BPS 2025 does not outline a framework for allocating and transferring the necessary resources to support these functions. The absence of clear policy direction contradicts the principle that resources should follow functions, potentially hindering effective service delivery at the county level.

Recommendations

The Committee recommends that, among others, -

- a) For equitable share distribution-
 - i) The national government's share for FY 2025/26 be Ksh. **2,359,449,965,860.**
 - ii) The county equitable share for FY 2025/26 be Ksh. **465,001,459,673.**
- b) That the Equalisation Fund be allocated Ksh. **10,589,554,076.**
- c) That Additional Allocations to counties be Ksh. **69,802,409,624.**
- d) That Commissions and Independent Offices be allocated an additional **Ksh.2.4 billion** in FY 2025/26.

3.0 ACKNOWLEDGEMENT

The Committee thanks the stakeholders who submitted written memoranda and who appeared before the Committee to present their comments and views on the 2025 BPS.

The Committee also appreciates the Offices of the Speaker and the Clerk of the Senate for the support extended to the Committee in undertaking this important assignment.

I take this opportunity to commend the Members of the Committee for their devotion and commitment to duty, which made the consideration of the 2025 BPS successful.



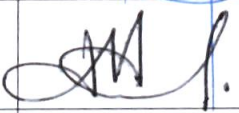



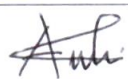
It is now my pleasant duty, pursuant to standing order 186(5) of the Senate Standing Orders and section 25(7) of the PFM Act, Cap 412A to present the 2025 Budget Policy Statement Report of the Standing Committee on Finance and Budget to the Senate for consideration and adoption.

Signature..........Date...12/03/25.....

**SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP.
CHAIRPERSON,
STANDING COMMITTEE ON FINANCE AND BUDGET)**

**4.0 ADOPTION OF THE REPORT OF THE STANDING COMMITTEE ON
FINANCE AND BUDGET ON THE 2025 BUDGET POLICY
STATEMENT**

We, the undersigned Members of the Senate Standing Committee on Finance and Budget, do hereby append our signatures to adopt this Report-

	Name	Designation	Signature
1.	Sen. Capt. Ali Ibrahim Roba, EGH, MP	Chairperson	
2.	Sen. Maureen Tabitha Mutinda, MP	Vice-Chairperson	
3.	Sen. (Dr.) Boni Khalwale, CBS, MP	Member	
4.	Sen. Mohamed Faki Mwinyihaji, CBS, MP	Member	
5.	Sen. Richard Momoima Onyonka, MP	Member	
6.	Sen. Shakila Abdalla Mohamed, MP	Member	
7.	Sen. Eddy Gicheru Oketch, MP	Member	
8.	Sen. Mariam Sheikh Omar, MP	Member	
9.	Sen. Esther Okenyuri, MP	Member	

CHAPTER ONE

THE 2025 BUDGET POLICY STATEMENT

1.0 Introduction

1. The Budget Policy Statement (BPS) 2025 was submitted to Parliament pursuant to section 25(1) of the Public Finance Management Act (Cap. 412A) on 13th February, 2025. The law requires the National Treasury to prepare and present the Budget Policy Statement, approved by the Cabinet to Parliament, by the 15th of February each year. The BPS contains broad strategic priorities and policy goals that should guide the national and county governments in preparing their budgets in the subsequent financial year and the medium term.
2. The Budget Policy Statement should contain the following-
 - i. an assessment of the current state of the economy, including macroeconomic forecasts as well as the priorities of the Government current pillars of growth and strategic directions.
 - ii. the financial outlook concerning Government revenues, expenditures, and borrowing for the next financial year and over the medium term.
 - iii. the proposed expenditure limits for the national government, including those of Parliament and the Judiciary, and indicative transfers to county governments (*Division of Revenue between the two levels of government and County Governments Additional Allocations*).
 - iv. the fiscal responsibility principles and financial objectives over the medium-term including limits on total annual debt.
3. Section 25(7) of the Act requires Parliament, not later than fourteen days after the Budget Policy Statement has been submitted, to discuss a report containing the House recommendations and pass a resolution to adopt it with or without amendments. Standing Order 186(4) of the Senate Standing Orders requires the Committee to consider the Budget Policy Statement and the recommendations received from other Standing Committees and table a Report for consideration in the House.

1.1 THE MACRO-FISCAL FRAMEWORK 2025 BPS

1.1.1 Global Economic outlook

4. The BPS 2025, envisions the global economic growth to perform at 3.2 percent in 2024, with projections of 3.3 percent for both 2025 and 2026. Notably, the United States is expected to increase tariffs and adopt stricter fiscal policies. Persistent trade tensions between the U.S. and China continue to shape global trade dynamics. These tariffs and trade barriers could diminish Chinese export revenues from the U.S. market, potentially slowing China's economic growth.
5. It is anticipated that these tensions may create opportunities for other nations to step in and fill the gap in the U.S. market where domestic production falls short of the demand, fostering new trade alliances and economic advantages for those countries. Meanwhile, in Japan, consumer spending is likely to increase due to higher real wages resulting from agreements between the government and labor unions.
6. Economic growth in developing economies is projected to stabilize at 4.2 percent in both 2024 and 2025, supported by technological advancements, a growing consumer base and infrastructure development. In Sub-Saharan Africa economic recovery is expected to gain momentum as global conditions improve and trade opportunities increase. The African Continental Free Trade Area (AfCFTA) is likely to play a pivotal role in enhancing intra-African trade, fostering regional economic integration, and driving growth.
7. Geopolitical tensions pose a significant risk, potentially disrupting supply chains and affecting global and regional trade. Additionally, debt financing remains a critical challenge, as nations may prioritize debt servicing over vital development investments, which could undermine long-term economic progress. This notwithstanding, Consumer prices are expected to drop from 5.7 percent in 2024 to 4.2 percent in 2025, signifying a reduction in inflationary pressures. The action of the US Federal Reserve Bank of easing monetary policy in September, 2024 by lowering interest rates or ceasing asset purchases is an indicator to

global central banks to follow the same path that will eventually improve consumer purchasing power and create a more predictable business environment.

1.1.2 Kenya's Economic Context

8. On the domestic front, the National Treasury estimates the economy to grow by 4.6 percent in 2024, down from 5.6 percent in 2023, with projections of 5.3 percent growth in both 2025 and 2026. The growth outlook for 2025 is based on expected improvements in the agriculture sector driven by favorable weather conditions and supportive government policies. Additionally, the services sector is anticipated to contribute to growth supported by reforms in the ICT sector, government efforts to promote tourism, and the hosting of international conferences. The industry sector is also expected to boost growth against the backdrop of reductions in production costs and government initiatives aimed at enhancing value addition.
9. Recent economic trends imply a slowdown in domestic growth, dropping from an average of 5.7 percent in the first three quarters (Q1, Q2, and Q3) of 2023 to an average of 4.5 percent in 2024. While there was a modest decrease in agricultural sector output, the overall primary sector recorded a huge decline in growth from 5.7 percent to 4.2 percent mainly due to reduced mining and quarrying activities. However, the primary sector saw some positive developments particularly in agricultural exports. Coffee exports rose by 29 percent, and tea exports increased by 7 percent, as well as cane deliveries by 189 percent due to favorable government policies aimed at boosting sugar production.
10. Growth in the industry sector declined to an average of 0.8 percent in 2024 (Q1, Q2, and Q3) compared to a performance of 2.6 percent in the same period in 2023. The deceleration is because of declining construction, electricity, and water supply sub-sectors. Conversely, growth in the service sector was at an average of 5.6 percent in the first three quarters of 2024 from 7.0 percent in 2023. This decline is attributable to the dismal performance of accommodation and

food services, finance and insurance, information and communication, and real estate.

11. Specific macroeconomic performance analysis is as follows-

a. Inflation

12. Overall inflation has decreased and has stayed below the midpoint of the 5.0 percent target band since June 2024, primarily driven by substantial drops in energy prices and ongoing moderation in food prices. A comparison of inflation trends between January 2024 and January 2025, show a significant decrease from 6.9 percent to 3.3 percent. Key contributors to the decline of overall inflation is the consistent negative growth in fuel and food prices between January 2024 and January 2025 especially due to currency appreciation and favorable weather conditions that boosted agricultural yields.

13. However, there is a pullback from core inflation which excludes volatile items like food and fuel that remained elevated (estimated at 3.7 percent in January 2025), surpassing the headline inflation since October, 2024. High core inflation signals increased spending in non-food and non-fuel sectors and persistent supply chain disruptions that increase production costs for goods and services, such as in healthcare and education.

14. The declining inflation below the target range and the stabilized exchange rate have eased the Central Bank Rate (CBR) from 13 percent in August, 2024 to 11.25 percent in December, 2024. The government envisions that the easing of the monetary policy stance supports the lowering of interest rates hence encouraging banks to increase lending to the private sector, which in turn stimulates economic activities.

b. Employment and Real Wages

15. Over the past five years (since 2019), employment trends have shown a mixed picture. While the growth rate of employment has decreased from 4.9 percent in 2019 to 4.4 percent in 2023, the overall number of employed individuals has risen from 18.1 million to 20 million during the same period. The decline in the employment rate is more pronounced in the formal sector compared to the

informal sector. Formal sector jobs are divided between the public and private sectors, with the public sector primarily focused on education, public administration and defense jobs while the private sector is largely driven by manufacturing, agriculture, wholesale and retail activities.

16. Real wages per employee continue to record an alarming negative growth. In the period between 2020 and 2023, the annual average real wages in the private sector moved from Ksh. 749,112 to Ksh. 686,451, while in the public sector real wages reduced from Ksh.743,063 to Ksh.625,870 under the same period. The declining real wages erode the purchasing power of individuals especially where the decrease is not in tandem with inflation.

c. Interest rates and credit

17. There has been a consistent trend of downward review of the Central Bank Rate (CBR) from 13 percent in July, 2024 to 10.75 percent in February, 2025. This gradual reduction was expected to enable commercial banks to adjust bank interest rates downwards hence promoting borrowing by individuals and firms for investment. However, the weighted average lending rate oscillated between 16.84 percent and 16.89 percent between July and December 2024. It is expected that the rate shall marginally continue to reduce in tandem with the prevailing easing of the monetary policy stance.
18. There was a significant shift in the growth of total credit in the economy in 2024. Credit growth declined from 14.4 percent in November 2023 to 4.6 percent in November 2024, this was attributable to a decline in credit to the private sector from 13.2 percent to -1.1 percent in the same period. Credit drop to the private sector significantly affected the following sectors: manufacturing; building and construction; transport and communication; business services; and trade activities. During the same period, credit to the government grew from 14.4 percent to 16.6 percent pointing to a possible crowding out of the private sector.

d. External sector

19. The National Treasury estimates the current account deficit as a share of GDP to deteriorate from negative four (-4) percent in FY 2024/25 to negative four-point three (-4.3) percent in FY 2025/26. Generally, there is a slowdown in the growth of imports and exports as a share of GDP. The growth in imports as a share of GDP is estimated at 19.8 percent in 2024 compared to 20.4 percent in 2023, and it is projected at 17.9 percent in 2025, while the growth in exports in 2024 is estimated at 11.7 percent similar to 2023 and it is projected at 11.1 percent in 2025. The BPS has highlighted policies on exportation including trade agreements such as the AfCFTA and Kenya EU EPA which are likely to significantly boost export growth.
20. Trends in the capital account remained relatively similar in 2024 compared to 2023. The financial account as a share of GDP improved from 0.03 percent in the third quarter of 2023 to 1.6 percent in a similar period in 2024. This represents growth in financial inflows, suggesting more foreign direct investment, portfolio investment or other financial flows during the period. Consequently, the overall balance as a share of GDP worsened from a surplus of 3.6 percent in the third quarter of 2023 to a deficit of 0.5 percent in the third quarter of 2024.
21. Gross reserves remained steady at Ksh.1.1 trillion in the third quarter of 2024 compared to the third quarter of 2023, providing a steady buffer over shocks that can affect the exchange rate. Foreign gross reserves maintained an upward trend in the 12 months leading to November 2024 and this resulted in an improvement in the months of import cover. Months of import cover improved from 3.9 months in November 2023 to 4.9 months in November 2024. This is above the CBK threshold of 4 months of import cover and the EAC threshold of 4.5 months. The BPS projects 4.3 months of import cover in 2025, which is pegged on the sustainability of the reserves.
22. The Kenyan shilling strengthened against major foreign currencies in the period between January 2024 and January 2025. The Shilling appreciated against the US Dollar from Ksh.159.7 in January 2024 to Ksh.129.39 in January 2025. This

exchange rate has remained stable at the Ksh.129 mark for seven consecutive months between June and December 2024. The Shilling also appreciated against the Pound Sterling from Ksh.202.9 in January 2024 to Ksh.159.8 in January 2025. The Shilling improved to Ksh.134 from Ksh.174.3 against the Euro during the same period.

1.1.3 The Fiscal Framework underpinning the 2025 BPS.

a. The FY 2025/26 Revenue Outlook.

23. The projected total revenue collection for FY 2025/26 is Ksh.3,385.8 billion which is 17.6 percent as a share of GDP. This represents an improvement of 11 percent (Ksh.325.8 billion) relative to the projection of Ksh.3,060.0 billion for FY 2024/25. The government expects to collect Ksh.2,825 billion as ordinary revenue and Ksh.550.7 billion from the Ministerial Appropriation in Aid.
24. The First half FY 2024/25 total revenue fell short of the target (Ksh. 1,442.3 billion) by Ksh.107.7 billion as at December 2024 with a collection of Ksh.1,334.7 billion. This was majorly occasioned by the underperformance of the ordinary revenue to the tune of Ksh.93.3 billion. Further, total revenue growth dipped from 14.5 percent in the first half of FY 2023/24 to 1.6 percent in the first half of FY 2024/25. The performance of revenue in the First Half of FY 2024/25 as a share of GDP indicates a decline from 8.0 percent in 2023 to 7.4 percent in 2024.
25. The BPS proposes several initiatives to improve revenue collection including-
 - (i) the operationalization of the National Tax Policy and the Medium-Term Revenue Strategy 2024/25–2026/27;
 - (ii) strengthening tax administration;
 - (iii) broadening the tax base and reducing tax expenditures;
 - (iv) leveraging on technology to modernize tax processes and closing revenue loopholes;
 - (v) improving tax system efficiency; and
 - (vi) a focus on non-tax revenues that MDAs can generate through public services.

b. Expenditure outlook in FY 2025/26.

26. The BPS proposes an overall budget of Ksh.4,336.1 billion in FY 2025/26, which is 9.8 percent (Ksh.387.7 billion) above the approved expenditures in Supplementary Estimates No. 1 for FY 2024/25. The main drivers of the increase in the proposed expenditure is the National Government ministerial expenditure which is set to increase by 11 percent (Ksh.261.6 billion), increased expenditures under the Consolidated Fund Services (CFS) of Ksh.131 billion and the increase in equitable share to counties by Ksh.17.1 billion. The bulk of the national government expenditures is on account of the increased recurrent expenditures by 12 percent.
27. The Consolidated Fund Services (CFS) expenditures of Ksh.1,369.0 billion proposed in the BPS are 11 percent (Ksh. 131 billion) above the estimates for FY 2024/25. This is attributable to the growth of interest payments by 12 percent (Ksh.119.5 billion) from Ksh.1,009.9 billion to Ksh.1,129.4 billion. Interest payments as a share of GDP has increased from 2 percent to 4 percent in the last decade.
28. Overall Expenditures as a percentage of GDP have remained relatively stable, ranging between 21.5 percent and 24 percent in the recent fiscal years. The government has streamlined expenditures resulting in a reduction of overall expenditure and net lending from 24.6 percent of GDP in FY 2020/21 to an estimated 22.8% in FY 2023/24. During this period, recurrent expenditure has averaged 16% of GDP, with key components such as wages and salaries, operations and maintenance (O&M), and interest payments averaging 3.6 percent, 5.3 percent, and 6 percent, respectively.
29. Government expenditures to the end of the first half of FY 2024/25 indicate total expenditure was on target at Ksh. 1,795.8 billion against Ksh. 1,796 billion. Development expenditures and county transfers fell short of their respective targets by Ksh.12.5 billion and Ksh.27.6 billion respectively. The recurrent expenditures exceeded the target by Ksh.40.9 billion.

30. The National Treasury has proposed several measures and reforms aimed at containing expenditures over the medium term to enhance efficiency, transparency, and sustainability. These measures include: establishing a Treasury Single Account (TSA) to consolidate public funds; transitioning to accrual accounting to improve financial reporting; and a zero-based budgeting approach which will ensure more effective resource allocation.

c. The FY 2025/26 Fiscal Deficit.

31. In FY 2025/26 fiscal deficit is projected to reduce to Ksh.831 billion (4.3 percent of GDP) from the actual borrowing of Ksh.880.5 billion (5.6 percent of GDP) in FY 2023/24 and a projected fiscal deficit of Ksh.862.7 billion (4.9 percent of GDP) in FY 2024/25. This reduction in the deficit is premised on the implementation of revenue enhancement policies coupled with expenditure reforms that aim to limit expenditure growth.
32. The government proposes to borrow Ksh.684.2 billion (6 percent of GDP) from the domestic market and Ksh.146.8 billion (0.8 percent of GDP) from external markets to bridge the projected deficit for FY 2025/26. The shift from external borrowing is attributable to a reduction in receipts from the IMF programme.

d. The Sector Budget Ceilings in FY 2025/26

33. Total ministerial expenditures are set to increase to Ksh.2,562 billion in FY 2025/26 compared to Ksh. 2,300.5 billion in FY 2024/25. Most sectors have their expenditure ceilings enhanced except for Public Administration and International Relations which has recorded a decrease of Ksh.25 billion. The reduction is on account of the revision of the ceilings in the economic policy and National Planning program to zero. This is attributable to the anticipated winding up of allocations to the National Government Constituency Fund (NGCDF).
34. The health sector has the highest expenditure ceiling increment. The sector is expected to receive an additional budgetary allocation of Ksh.85.6 billion as compared to FY 2024/25. The enhanced ceiling is towards the expansion of UHC

and strengthening of the health systems resilience as a key pillar in the BETA vision.

35. The education sector will also receive substantial resources amounting to Ksh.723 billion, which is close to 30% of the total ministerial allocation. This is because of activities being implemented under Basic Education on Competency-Based Curriculum (CBC) and priority funding for the Tertiary and Higher Education department to ensure that Kenyans receive the knowledge, skills, and attitudes they need to attain Kenya's industrialization goal.

1.2 THE FY 2025/26 TRANSFERS TO COUNTIES AND COUNTY FINANCIAL MANAGEMENT

1.2.1 The Sub-National Transfers in FY 2025/26.

a. Vertical sharing of revenue.

36. The shareable revenue (ordinary revenue) is expected to grow from the projected Ksh.2,575.9 billion at the end of FY 2024/25 to Ksh.2,835 billion in FY 2025/26. This represents a growth of 10.1 percent (Ksh.259 billion increase). Out of this, the BPS proposes to allocate Ksh.405.1 billion as county equitable share which is equivalent to 14 percent of the sharable revenue. The allocation is an increase of Ksh.17.7 billion from Ksh.387.4 billion allocated in FY 2024/25. The proposed Ksh.405.1 billion is equivalent to 25.79 percent of the last audited and approved actual revenues raised nationally of Ksh.1,570 billion for the FY 2020/21, as contemplated under Article 203(3) of the Constitution.
37. The BPS has highlighted that the sharing of revenue between the two levels of government took into account the mandatory expenditures under Article 203(1) of the Constitution. These include national interest expenditures such as defense, irrigation, safety net programs, public debt servicing, Pensions, Constitutional Services and Other National obligations and allocations to the Emergencies and Equalization Fund. The total budgetary requirement to the mandatory expenditures is estimated at Ksh.2,481.3 billion.

b. Horizontal sharing of Revenue.

38. The sharing of Revenue among county governments is stipulated in the Constitution in Article 217(1). Parliament is required to consider and approve the revenue-sharing basis every five years. The BPS envisages sharing the proposed Ksh.405.1 billion using the Third Basis, since the fourth basis is yet to be approved by Parliament. The approved Third Basis has been applied between FY 2020/21 and FY 2024/25. When applied, the percentage increase in allocations in counties ranges between 7.1% and 8.3% from FY 2024/25 to FY 2025/26.
39. The draft Fourth Basis as recommended as submitted to the Senate by the Commission on Revenue Allocation (CRA) proposes to have the Population Parameter weighted at 42%, as opposed to 18% as contained in the Third Basis, The Poverty index is maintained at the same weight of 14%, the Basic Share index is enhanced to 22% from the previous 20%, while land area is given an additional unit from 8% to 9%. The proposed formula has incorporated a new parameter referred to as Income Distance weighted at 9%. The Health Index, Agriculture Index, Urban Index, and Road index parameters used in the third basis have not been used.

c. Additional Allocations to County Governments.

40. The government proposes to allocate a total of Ksh.69.8 billion in FY 2025/26 as additional revenues to county governments. The additional resources are conditional and unconditional proceeds from the National Government's share of revenue amounting to Ksh.12.89 billion and Ksh.56.91 billion from loans and grants from Development Partners. Additional allocations are given to counties pursuant to Articles 190 and 202(2) of the Constitution as support to enable county governments to perform their functions adequately as well as implementing flagship projects by the National Government.
41. The allocations from the National Government's share of revenue includes conditional allocations of Ksh.1.76 billion for Phase II of salary arrears for County Government Health workers, Ksh.3.23 billion for the matching fund of

the Community Health Promoters, Ksh.454 million to supplement construction of County Headquarters in five counties and Ksh.4.5 billion for the County Aggregated Industrial Parks (CAIPs) Programme. The unconditional allocations include Ksh.11.5 million for remitting of court fines collected by the Judiciary in the enforcement of county legislation and Ksh.2.9 billion for payment of Mineral and Royalties to counties.

42. The development partners support in FY 2025/26 is planned to be implemented with respect to twelve (12) projects across all the forty-seven (47) counties in different sectors. Most of the interventions are in the Water and Sanitation Projects, Health service activities, Informal infrastructure improvement projects, Agricultural programmes and other devolution support programmes. The highest donor funding is expected from the International Development Association (IDA) through the World Bank (WB) amounting to Ksh.48.7 billion. Others are Ksh.5.9 billion from the Germany Development Bank (KfW), Ksh.1 billion from Agence Française de Développement (Afd) Group Funds of the French government, Ksh.834.5 million from the International Fund for Agricultural Development (IFAD) and Ksh.510 million from the Danish International Development Agency (DANIDA) under the Denmark's development cooperation.

d. Allocations to the Equalisation Fund.

43. Article 204(1) of the Constitution establishes the Equalisation Fund. It is required that 0.5 percent of the National Government's revenue based on the most recent audited accounts approved by the National Assembly be allocated to the Equalization Fund annually. In FY 2025/26 the government proposes to allocate Ksh.10.5 billion to the Fund out of which Ksh.7.8 billion is the 0.5 percent Constitutional requirement and Ksh.2.7 billion as contributions of arrears.
44. In the period between the inception of the Fund (FY 2011/12) to June 2024, total disbursement to the Fund was Ksh.13.4 billion out of the total entitlement of Ksh.62.4 billion. The Ksh.13.4 billion is being applied to projects identified in

14 counties under the first Marginalization Policy (Ksh.12.4 billion) and Ksh.1 billion to projects identified in 34 counties under the second Marginalization Policy.

1.2.2 Fiscal risks among County Governments.

a. Annual development expenditures

45. County governments have consistently allocated more than 30 percent of their total budgets to development in accordance with section 107(2)(b) of the PFM Act. This is evidenced in the allocation trends in FY 2021/22, FY 2022/23, and FY 2023/24 where the allocations averaged 33.6 percent. However, the BPS indicates that actual development expenditures by the end of the financial year trail below the minimum thirty percent requirement. In FY 2023/24, only nine (9) counties met this requirement implying that most county governments do the allocation for approval purposes and fail to actualize this in the implementation of their budgets.

b. County Government Expenditure on Wages and Salaries

46. In the last decade, nearly all counties recorded expenditures on personnel emoluments above the set threshold of thirty-five (35) percent of the total revenue received by the county contrary to regulation 25 (1) (a) and (b) of the PFM (County Governments) Regulations 2015. A review between FY 2019/20 to FY 2023/24 shows that many counties spent a significant proportion (above 35%) of their revenue on salaries and wages. The BPS points out that in FY 2023/24 expenditures on employee compensation and other benefits amounted to Ksh.209.8 billion, accounting for 47.6% of the total revenue of Ksh.440.7 billion. In FY 2023/24 Tana River County, Narok county and Kilifi County are the only counties whose expenditure on wages and salaries were below the 35% threshold.

c. Accumulation of pending bills.

47. The BPS highlights the increasing burden of pending bills in counties, which totalled Ksh.181.9 billion by the end of the FY 2023/24. This marks a 10% rise or an increase of Ksh.17.22 billion compared to the Ksh.164.76 billion recorded

in the previous FY 2022/23. Additionally, as of September 2024, the pending bills had increased to Ksh.194 billion reflecting a 6% growth in the first quarter of FY 2024/25. Nairobi City County has the highest pending bill stock of Ksh.121.1 billion (as of September 2024) which represents 62.4 percent of the entire stock of pending bills.

48. The growing accumulation of unpaid bills in County Governments poses a risk to fiscal discipline and long-term sustainability. The national government has issued circulars indicating that pending bills should be treated as a first charge on the County Revenue Fund. To bolster this, the National Treasury has proposed a transition from cash to an accrual basis of accounting which is expected to substantially manage the stock of pending bills.
49. Another impending risk is the delay in remittance of pension deductions to the relevant retirement benefits authorities. The outstanding non-remitted funds totaled Ksh.91.2 billion as of October 2024. The outstanding pension remittances are owed to Local Authorities Provident Fund (LAPFUND)-DC-Ksh.45.7 billion, Local Authorities Pension Trust (LAPTRUST)-DB-Ksh.39.5 billion and County Pension Fund (CPF) -DC-Ksh. 5.9 billion. There is a risk of affected staff retiring without pensions which in turn would require additional government expenditure for support through social security arrangements.
50. As of November 2024, county governments have reportedly amassed electricity bills totaling Ksh.4.38 billion. According to the BPS Nairobi City County Government owes the largest share (up to 68 percent) of this debt amounting to approximately Ksh.3.01 billion as reported by the Kenya Power & Lighting Company (KPLC). This significant debt is largely attributed to the electricity consumption for street and security lighting across Nairobi city. The growing accumulation of unpaid electricity bills poses a threat to service delivery.

d. Performance of Own Source Revenue (OSR).

51. There is a notable concern regarding the inadequate performance of Own Source Revenue (OSR) by the Counties since 2013. In the FY 2023/24, the 47 counties collectively generated Ksh.58.95 billion as Own Source Revenue, falling short of the Ksh.80.9 billion target by Ksh.22 billion. The collection consisted of ordinary OSR and the Facility Improvement Fund (FIF) which comprises funds collected and retained by health facilities as per the Facilities Improvement Financing Act of 2023. Out of the total Ksh.58.95 billion collected during this period, Ksh.16.7 billion was retained by public health facilities under the FIF program.
52. The implementation of the Facilities Improvement Financing Act has led to a substantial increase in OSR (Own Source Revenue) between FY 2022/23 to FY 2023/24. Over this period, revenue collection increased by 56 percent moving from Ksh.37.81 billion in FY 2022/23 to Ksh.58.95 billion in FY 2023/24. This growth indicates that utilizing the collected revenues at the source has enhanced both efficiency and accuracy in collection. The BPS notes that the underperformance of OSR collection has been attributed largely to the use of manual collection systems and unscientific revenue forecasting methods. Shortfalls in revenue collection results in budget deficits, which adversely impacts the execution of planned activities and eventually buildup of pending bills.
53. The government has proposed several policy measures towards supporting county governments to enhance Own Source Revenue collection. These include: development of a revenue forecasting model that uses a more scientific approach for accurate revenue projection; operationalization and implementation of the National Rating Act, 2024; and development of an integrated county revenue management system (ICRMS) to replace the fragmented county revenue management systems.

1.1.3 Proposed policy priorities across sectors in the 2025 Budget Policy Statement

a. Infrastructure Sector

54. The BPS identifies the Affordable Housing and the Digital Superhighway as two of the main strategic pillars underpinning the infrastructure sector under the bottom-up economic transformation agenda. The other subsectors are defined as important enablers and include roads and transport, water and irrigation, and energy infrastructure. The Affordable Housing Programme is expected to increase the supply of affordable houses from the current 2 percent to 50 percent by facilitating the delivery of 200,000 housing units annually and increasing the opportunity for manufacturers, developers, and the Jua Kali industry to produce high-quality construction products and provide employment to different types of professional services.
55. According to the BPS, the Government has built 2,766 kilometers of roads in the past two years. Additional achievement includes the rehabilitation of 280 kilometers of roads, maintenance of 10,320 kilometers of roads through Performance Contracts, routine maintenance of 117,294 kilometers of roads, periodic maintenance of 2,389 kilometers of roads and the construction of 77 bridges nationwide. Despite these efforts there is some notable challenges such as the issue of pending bills of over Ksh.170 billion, multiple stalled projects, pending land compensation cases, and equity in the distribution of road projects. The extended project completion timelines have resulted in additional cost overruns for the government. The sector also has multiple institutions implementing similar roles, creating room for duplication of functions and systemic inefficiencies.
56. Over the past two years, the Government has provided safe water access to an additional 5,843,258 people. To enhance access to water for domestic, irrigation, and industrial use, the BPS further indicates that an additional 280,000 households have been connected to improved sanitation, increased water storage per capita from 107 cubic meters to 108 cubic meters and an additional 181,069

acres of land put under irrigation for rice, maize and other value chains among other interventions. To finance these critical projects, and owing to the constrained fiscal space the government planned to adopt alternative financing arrangements, including public-private partnerships (PPPs).

57. The BPS reports that 774,000 more customers are connected to the grid bringing the total number of customers connected to electricity to 9,791,575. To expand access to electricity, the government has, over the last two years, installed an additional 240MW of electricity, thus increasing the total installed capacity from 3,243 MW; constructed 675 kilometers of transmission lines; installed 1,266.7 kilometers of medium-voltage distribution lines; and constructed 30 distribution substations. The Government intends to build on the progress made through strengthening policy guidelines and laws to enhance energy generation, transmission and distribution aimed at connecting 1,440,000 new customers and 1,080 public facilities to electricity. Interventions shall include drilling of 34 geothermal wells; construction of 1,742 kilometres transmission lines and 21 transmission substations; construction of 1,050 kilometres distribution lines and 33 distribution substations; installation of 19,500 street lighting points; and construction of 55 institutional and 1,800 household biogas plants.

b. Social Sector

58. Under the Universal Health Coverage the government shifted from the National Health Insurance Fund Model to Taifa Care. The nascent Social Health Insurance Fund (SHIF) empowers citizens to contribute towards accessing a broad range of healthcare benefits.
59. To continue the Universal Health Coverage, the government intends to continue to implement programmes like Afya Bora Mashinani by engaging more community health promoters as well as developing the biomedical, pharmaceutical, and medical supplies production industries. Further to this, the government commits to scale up the scope of existing programmes such as Edu Afya and the Linda Mama Programmes.

60. To bolster education and training outcomes, the BPS posits that the government has invested significant resources and implemented radical changes in the education sector, including resolving uncertainty around the Competency-Based Curriculum, new student-focused higher education funding model, improving the student-teacher ratio by employing 56,000 teachers for primary and secondary schools and infrastructure improvement in primary, JSS, secondary and tertiary institutions. Education reforms shall be through, expanding infrastructure in all learning institutions, recruitment and training of teachers, enrolment of school children of pre-primary age in schools and expanding school feeding programme.
61. The government's medium-term plan prioritizes enhancing women's economic empowerment and tackling gender-based violence and inequality through a range of targeted initiatives. This will be achieved through monitoring compliance with gender mainstreaming, training on gender-responsive budgeting and developing a clear framework to implement the constitutional two-thirds gender principle in elective positions. These combined efforts aim to foster a more equitable society by removing barriers to women's economic participation, ensuring their safety, and embedding gender considerations into all levels of policy and decision-making.

c. Finance and Production Sector

62. Key major policy in the BPS is the transformation of Kenya's leather sector, which involves strategic interventions aimed at boosting production, job creation, and value addition. Main measures include policy alignment, infrastructure investments, market development, and capacity building. For instance, the Kenya Leather Industrial Park has been established at Kenanie. The park is geared towards developing local capacity to handle hides and skins to provide quality raw material, tanning as well as the local manufacturing of finished leather goods such as shoes, bags, and belts.

63. Interventions under the Leather and Leather Products value chain include a review of the Hides and Skin and Leather Trade Act (Cap 359) to reinstate licensing of the value chain actors and attract more MSMEs in the value chain, and to finalize legislation to establish the Leather Development Authority (KLDA). Additionally, the government will focus on creating awareness to MSMEs on the potential opportunities along the leather value chains. Other efforts shall be through establishing hides and skins collection centres, preservation stores and support delivery of hides and skins to tanneries.
64. Under the dairy value chain, the BPS highlights that the dairy sub-sector saw a 14% increase in milk production in 2023, reaching 5.2 billion litres, with projections indicating further growth in 2024. Export values of dairy products nearly doubled from Ksh. 4.8 billion in 2022 to Ksh 7.2 billion in 2023. The government has also supported broader livestock value chain improvements, including an 8.6% rise in meat exports and a 42% increase in live animal exports. To continue supporting this sector, the government will build on ongoing interventions including establishment and equipment of a feed centre in every Ward.
65. The government aims at rolling out veterinary and disease control initiatives to ensure the health and productivity of livestock. In that regard there is an ongoing program to vaccinate over 22 million cattle and 50 million goats against diseases like Foot and Mouth Disease and Peste des Petits Ruminants (PPR). A collaboration framework is being developed to enable participation of county governments in the programme.
66. In support of the Tea and Coffee Sub-sectors, BPS outlines various interventions aimed at enhancing Kenya's tea and coffee sectors, with a focus on improving competitiveness, sustainability and value addition. Efforts to modernize processing, develop research and development factories, and diversify into specialty teas and coffees is expected to enhance product differentiation and competitiveness.

67. The BPS highlights critical measures to boost rice production in Kenya, emphasizing the expansion of irrigation, distribution of seeds, allocation of land and development of water infrastructure. Specifically, expanding irrigation is identified as a critical approach to enhancing agricultural productivity and reducing the impacts of climate change. The BPS aims to increase irrigated areas by 500,000 acres, with a focus on regions such as Bura and Mwea.
68. Sugar production has been provided with a series of initiatives aimed at revitalizing the industry, improving sugarcane production, and enhancing competitiveness. This includes restoration of all sugar factories and expansion of domestic sugar production through the establishment of four new factories. The recently enacted Sugar Act 2024 is expected to provide further policy guidance on regulation and the promotion of the sugar industry.

d. Environment and Natural Resources Sector

69. In an effort to enhance the agroforestry value chain, the government is working on policies and regulatory frameworks to attract climate finance for establishing 5 million acres of agroforestry woodlots particularly in ASALs. This initiative aims to support sustainable land management and increase forest cover, contributing to environmental conservation and climate change mitigation efforts. The Financing Locally-led Climate Action (FLLoCA) program is a key pillar and is set to facilitate planting and nurturing of 15 billion trees by 2030.
70. To ensure safe waste management, the government plans to implement the Extended Producer Responsibility (EPR) model. The model entails having businesses and industries manage the lifecycle of their products by promoting recycling and waste reduction.
71. The tourism sector is viewed as a key contributor to Kenya's economy, accounting for approximately 10% of GDP and 9% of total employment. The government seeks to harness the sector potential by encouraging diversification, updating the Tourism Act to meet evolving industry demands, enhancing the nation's ability to host conferences, and promoting partnerships among county governments, local communities, and private entities.

CHAPTER TWO

SUBMISSIONS BY STAKEHOLDERS

72. This Chapter entails a summary of comments received from stakeholders. The Committee published an advert (*Annex- 5*) inviting members of public to submit their views on the 2025 BPS. Further, the Committee invited various stakeholders to submit their views to the Committee. The Committee received submissions (*Annex 4*) from the following stakeholders –
- a) The Commission on Revenue Allocation (CRA);
 - b) The Council of Governors (CoG);
 - c) The Institute of Certified Public Accountants of Kenya (ICPAK);
 - d) Bajeti Hub;
 - e) The County Assembly Forum (CAF);
 - f) The Institute of Public Finance (IPF);
 - g) The Institute of Economic Affairs (IEA);
 - h) Hennes;
 - i) the Constitutional Commissions and Independent Offices
 - j) Okoa Uchumi
 - k) The members of public-
 - Mr. Kelvin Ronyo,
 - Mr. Peter Njoroge, and
 - Mr. Eliud Matindi.

2.1 Submissions by the Commission on Revenue Allocation

73. The Commission on Revenue Allocation appeared before the Committee and submitted as follows. That–
- a) there are inconsistencies in the estimated ordinary revenue for FY 2024/25, with an amount of Ksh. 2,575 billion and Ksh. 2,540 billion appearing in different sections of the BPS. Since the FY 2024/25 estimate is used to calculate the projected ordinary revenue of Ksh. 2,840 billion, this discrepancy could result in varying figures for the FY 2025/26 projections. To ensure accuracy and

consistency in revenue forecasting, CRA recommended harmonizing the 2024/25 projections;

- b) while the BPS provided a detailed analysis of county governments' compliance with fiscal responsibility principles, a similar analysis for the national government was only included in an annex. They asserted that the analysis of the national government's compliance should be included as part of the main text of the BPS;
- c) the BPS provided a detailed analysis of county government pending bills, but lacked a similar analysis for the national government. They stated that this omission made it impossible to ascertain the national government's adherence to section 94(1)(a) of the PFM Act and recommended that the BPS should include details of national government pending bills;
- d) on the division of revenue for FY 2025/26, while the shareable revenue was projected to increase, the equitable share allocation to county governments was set to decline from 10.4 percent to 9.3 percent, while the allocation to the national executive was to increase from 56.7 percent to 57.5 percent. They stated that this decline in the share of allocations to county governments would negatively impact their ability to improve service delivery and amounted to a clawback on the objects of devolution;
- e) the Senate plays a central role in protecting devolution by ensuring that nationally raised revenues are equitably shared between the national and county governments;
- f) after accounting for mandatory expenditures under Article 203(1) of the Constitution, the remaining balance for sharing between the two levels of government was Ksh 353.4 billion, with the national government showing a balance of Ksh (64.522) billion. They argued that this was misleading because national interest items are implemented by the national government through the respective MDAs, and therefore it is not entirely factual to claim the national government always has a negative balance. Further, that the Constitution has only

two levels of government and the national interest does not necessarily equate to national government priorities. Therefore, CRA submitted that allocating an additional Ksh. 17.6 billion to the 47 county governments for FY 2025/26 does not amount to equity in the sharing of nationally raised revenues.

- g) county governments were expected to fulfil conditional financial obligations starting in FY 2024/25 but due to a downward revision of the projected ordinary revenue, specific programs and projects worth Ksh. 25.03 billion have not been fully financed. They include Ksh. 11.75 billion for County Aggregation and Industrial Parks, Ksh. 3.23 billion for compensation to Community Health promoters, Ksh. 4.05 billion for contributions to the Housing Levy, and Ksh. 6.0 billion for enhanced contributions to NSSF. Additionally, county governments are expected to provide Social Health Insurance for vulnerable groups, pay for doctors' Collective Bargaining Agreement and fund annual salary increments for their workforce;
- h) for FY 2025/26, the Commission therefore recommended Ksh. 2,409.75 billion for the national government, Ksh. 7.85 billion for the Equalisation Fund, and Ksh. 417.4 billion for counties;
- i) the BPS has reported adherence to fiscal responsibility principles regarding wages as a proportion of ministerial wages and national government revenue, and development spending as a percentage of ministerial national government expenditures, which excludes other arms of government like Parliament and the Judiciary, leading to misrepresentation. To correct this, the BPS should align with the PFM Act, which limits employee compensation to 35% of national government revenue and mandates at least 30% of expenditure for development.

2.2 Submissions by the Council of Governors

74. The Council of Governors appeared before the Committee and made the following submissions. That–

General Comments

- a) the CoG supported the shift from cash to accrual accounting, stating that it would enhance financial reporting, cash management and public finance management;
- b) despite economic growth projections of 5.3%, county revenue allocations were declining while the national government's share was increasing. The counties' equitable share is projected to drop from 10.4% in FY 2024/25 to 8.5% in FY 2027/28. The CoG questioned whether the National Treasury was deliberately phasing out county allocations and demanded a clear policy pronouncement on resource allocation;
- c) the CoG criticized the lack of justification for county revenue allocations, stating that projections were inconsistent with economic growth trends. They demanded that the National Treasury provide a detailed explanation for county allocations and ensure that CRA recommendations are followed;
- d) the CoG noted that the gazetted functions assigned to counties in December 2024 had not been allocated corresponding funds. It called for a clear policy on the transfer of funds for devolved functions starting July 2025, as agreed in the 11th National and County Governments Co-ordinating Summit;
- e) while the Cabinet had approved the restructuring of forty-two state corporations, including merging, dissolving and transferring them to ministries, there was no mention of transferring devolved functions to counties. State corporations handling devolved functions should be transferred to counties along with their resources, in line with the principle that resources should follow functions. The CoG urged that this be formally addressed in the 2025 BPS and reflected in resource allocations for FY 2025/26 and beyond;
- f) the National Treasury has been making arbitrary downward revisions of ordinary revenue projections, which resulted in lower allocations to counties. CoG noted that in the 2025 BPS, the projected revenue was reduced from Ksh 3,018.8 billion to Ksh 2,835 billion without explanation, despite CRA using the initial figure for revenue sharing. The CoG further pointed out that the National Treasury later reinstated the original projections through supplementary budgets, describing

this as unconstitutional and misleading, as it created a false impression of a constrained fiscal framework;

- g) despite the reduction in counties' equitable share in FY 2024/25, the 2025 BPS did not allocate funds to cover outstanding non-discretionary expenditures. Budget implementation had already been constrained due to these cuts and delays in passing the County Governments Additional Allocations Bill, 2024. The CoG recommended that the baseline for counties' equitable share for FY 2025/26 be set at Ksh 400.117 billion instead of Ksh 387.425 billion and called for provisions to cover county obligations arising from national government policies and programs;
- h) the 2025 BPS allocated significantly higher budget increases to national government sectors compared to counties. CoG noted that the health sector alone was set to receive an increase of Ksh 85.64 billion, while all 47 counties combined were allocated an equitable share of Ksh 17.64 billion, despite health being a fully devolved function. The CoG viewed this as an unfair and discriminatory allocation of resources, especially given the ongoing transfer of additional functions to counties;
- i) there is a need for a clear policy and legal framework to guide the approval and use of audited accounts in determining counties' equitable share, as required by Article 203(2) of the Constitution. Further, that using FY 2020/21 audited accounts to allocate resources for FY 2025/26 was outdated and no longer tenable.

Specific Comments

- j) Housing and Settlement: the Council noted that the Affordable Housing Act, 2024 provides that funds may be allocated to affordable housing projects, institutional housing and social infrastructure with county governments eligible to receive funding under the Public Finance Management Act. Additionally, 0.5 percent of the funds must be allocated to county committees as a conditional grant. However, despite the establishment of these committees, no disbursements have been made hindering their operations. The CoG recommended that the 2025

BPS include a three-year conditional allocation and ensure timely disbursements to fast-track infrastructure development;

- k) CoG called for a clear framework to strengthen devolution, ensuring timely disbursement of funds and full transfer of devolved functions. They urged that the 2025 BPS should outline a structured plan for transferring resources tied to devolved functions, restructure state-owned firms in line with the January 2025 Cabinet resolutions and review outdated laws to align with devolution. The 11th National and County Governments Co-ordinating Summit had resolved that resources for unbundled and gazetted functions be transferred to counties starting July 2025 and the CoG stressed that the 2025 BPS must provide a roadmap to implement this resolution including the prioritization of resource transfers from restructured state-owned firms like Regional Development Authorities (RDAs);
- l) the CoG raised concerns over the declining share of county government transfers relative to GDP despite steady growth in ordinary revenue. CoG noted that county transfers were projected to drop from 2.9% of GDP in FY 2022/23 to 1.8% in FY 2028/29 while ordinary revenue was expected to rise from 14.3% to 15.5%. The CoG warned that this trend threatened the sustainability of county governments and suggested that it could indicate a systematic reduction of counties' share of nationally raised revenue. They urged the National Treasury to review its fiscal policy to ensure that county transfers grow in line with GDP and ordinary revenue trends;
- m) the CoG noted that there is a need for greater transparency in the allocation of counties' equitable share and the National Treasury should provide a detailed breakdown of the Ksh 405.069 billion proposed allocation for FY 2025/26, similar to the national government's budget. They noted that county allocations had been arbitrarily determined without a clear basis despite CRA being responsible for revenue sharing. The CoG further criticized the declining county share of total allocations which was set to drop from 10.4% in FY 2024/25 to 8.5% in FY 2027/28 stating that this trend was unconstitutional and must be reviewed to align with overall revenue growth;

- n) CoG disputed the National Treasury's explanation of revenue sharing for FY 2025/26, arguing that the figures presented were mathematically flawed and misleading. They noted that while the Treasury claimed only Ksh 353.4 billion was available for sharing, it had allocated Ksh 417.9 billion to counties, including Ksh 405.07 billion as equitable share. The CoG asserted that the National Treasury's method of calculating the balance for revenue sharing was irrational and suggested that the listed expenditures such as education, health and infrastructure should fall under the national government's budget rather than reducing the counties' share;
- o) CoG opposed the National Treasury's claim that the national government alone absorbed revenue shortfalls while counties received their full allocations. They argued that counties had also borne budget cuts in FY 2024/25 making the statement misleading and inconsistent with the constitutional principle of equitable revenue sharing. The CoG called for the deletion of this claim from the 2025 BPS asserting that it did not reflect the financial realities faced by county governments;
- p) the Council of Governors (CoG) called for a review of the framework for conditional and unconditional allocations to counties ensuring that additional allocations from the national government's share of revenue are separate from development partner funded loans and grants. They emphasized that Article 202(2) of the Constitution and the judgment in High Court Petition No. 252 of 2016 confirmed that such allocations should come from the national government's revenue, not external funding. The CoG stressed that aligning the framework with constitutional provisions would improve the efficiency and effectiveness of fund transfers and utilization;
- q) the 2025 BPS had excluded key additional allocations for counties, specifically the Road Maintenance Levy Fund (RMLF) and the Building Resilient and Responsive Health Systems (BREHS) conditional grant. They emphasized that the RMLF should be allocated annually and the BREHS project funds were available since its effective date was January 31, 2025. The CoG urged the

National Treasury to include these allocations to ensure counties receive the necessary funding for infrastructure and healthcare;

- r) CoG highlighted a discrepancy in the 2025 BPS regarding county transfers, noting that while paragraph 325 projected total transfers at Ksh 474.87 billion the fiscal framework in Table 2.5b stated total transfers as Ksh 436.7 billion creating an inconsistency. The CoG called for clarification and alignment of these figures to ensure accuracy in county budget allocations; and
- s) the CoG urged the National Treasury to develop regulations and standards for the Integrated County Revenue Management System (ICRMS) rather than imposing a centralized system. They emphasized that counties should retain autonomous revenue systems as per the PFM Act. The CoG also questioned the need for a new system stating that IFMIS already serves both national and county governments.

2.3 Submissions by the Institute of Certified Public Accountants of Kenya

75. ICPAK appeared before the Committee and made the following submissions on key budget imperatives. That–

a) *Economic Context and Growth Projections*

ICPAK noted that the Kenyan economy faced challenges such as global supply chain disruptions and fiscal constraints, and considered the projected economic growth of 5.3% in the 2025 BPS as overly optimistic. They recommended revising growth estimates to reflect realities like reduced private sector credit, fiscal austerity and external shocks while also ensuring better alignment with IMF projections.

b) *Agricultural Transformation for Inclusive Green Growth.*

ICPAK recommended implementing policies to provide better incentives for farmers, promote mechanization and ensure access to quality inputs. They also urged diversification in agricultural exports beyond tea and coffee while increasing funding for research institutions to develop high-yield crop varieties.

Strengthening agricultural extension services and incentivizing local value addition were emphasized to boost productivity and manufacturing potential.

c) Transforming the Micro, Small and Medium Enterprise (MSME) Economy

To support MSMEs, ICPAK proposed introducing comprehensive financial literacy programs to educate businesses on the importance of maintaining strong credit histories. They also called for a review of the Hustler Fund to assess whether current loan amounts are adequate for capital-intensive industries. Additionally, they suggested offering larger loan amounts or longer repayment terms specifically tailored to businesses requiring substantial capital investment.

d) Affordable Housing and Healthcare

ICPAK recommended that the government introduce targeted subsidies and low-interest loans to enable low-income groups to access affordable housing. In healthcare, they emphasized the need for strong financial planning behind Taifa Care to ensure sustainability. They proposed exploring alternative financing sources such as public-private partnerships. They also highlighted the importance of deploying mobile clinics, incentivizing healthcare professionals to work in under-served areas and ensuring the effective use of the Facility Improvement Fund (FIF) to provide timely medical supplies and equipment.

e) Infrastructure Development

ICPAK advocated for strengthening the Public-Private Partnership (PPP) framework to attract more private investment in infrastructure. They suggested offering risk-sharing mechanisms such as credit guarantees to mitigate investment risks. Additionally, they urged the government to mobilize private capital to reduce the fiscal burden, accelerate infrastructure projects and promote innovation through private sector expertise.

f) Water, Irrigation, Roads and Electricity

To address water challenges, ICPAK recommended accelerating infrastructure development in renewable water sources such as rainwater harvesting and solar-powered water systems. They also called for the fast-tracking of the Land

Reclamation Policy 2024 to support large-scale sustainable land reclamation programs.

On roads and bridges, they emphasized that improved connectivity could reduce regional inequalities and stimulate local businesses. They recommended a balanced approach to infrastructure development that considers both urban and rural needs.

For electricity, ICPAK proposed implementing subsidies and zero-interest financing for rural households to support energy access. They also recommended modernizing the grid infrastructure, investing in smart grid technologies and expanding off-grid renewable solutions such as decentralized solar mini-grids and biogas systems in arid and semi-arid regions.

g) Manufacturing and Industrial Growth

ICPAK urged the government to accelerate the rollout of County Aggregation and Industrial Parks (CAIPs) in all forty-seven counties and improve rural road networks for last-mile connectivity. They highlighted the need for farmer training programs to improve post-harvest handling and value addition practices.

They also stressed the importance of investing in renewable energy projects, particularly geothermal, wind, and solar power, to enhance electricity supply for industries. Additionally, they called for incentives for energy efficiency programs to reduce costs for manufacturers, alongside increasing funding for TVET programs to equip the workforce with relevant industrial skills.

h) Strengthening the Services Economy

To enhance financial resilience, ICPAK proposed adopting advanced risk management frameworks within banks to mitigate external financial shocks. They also recommended strengthening regulations governing digital credit providers to ensure ethical lending, transparency and customer protection. Moreover, they advocated for increased funding for digital financial literacy programs and mobile banking platforms to improve financial inclusion

i) Devolution and Fiscal Oversight

ICPAK stressed on the importance of a clear and predictable disbursement schedule for county funds as stipulated under Article 219 of the Constitution. They suggested establishing an emergency fund to bridge financial shortfalls during delays ensuring the continuity of essential services. Additionally, they urged both levels of government to enforce fiscal responsibility principles under the PFM Act to curb excessive spending and improve accountability.

j) On expenditure management, ICPAK emphasized the need for adherence to fiscal responsibility principles.

k) Regarding private sector credit, ICPAK stated that the National Treasury needs to consider measures to increase private sector credit such as a reduction in domestic borrowing, incentivizing banks and building financial literacy. The CBK should be at the forefront in developing and implementing accommodative monetary policies.

l) Regarding the services sector, ICPAK recommended allocating funding for the expansion and modernization of tourism infrastructure, directing funding towards enhancing financial literacy, increasing budget allocations to incentivize the adoption of digital platforms by retailers, focusing on upgrading critical infrastructure through PPPs and increasing funding for e-government initiatives.

m) Concerning annual real GDP growth rates, ICPAK stated that given the IMF statistics and the economic environment, the National Treasury should consider revising the economic growth projections further.

n) Enhancing Revenue Collection and Budgetary Allocations

ICPAK emphasized broadening the tax base through fiscal reforms, improving tax compliance and leveraging public-private partnerships for revenue generation. They advocated for higher budget allocations for health and agriculture in line with international commitments like the Abuja and Maputo Declarations. Additionally, they recommended expediting the approval of audited accounts to provide a clearer picture of government revenue and ensure counties receive equitable allocations.

o) Revenue and Expenditure projections

On revenue projections, ICPAK recommended formalizing the informal sector, encouraging voluntary tax compliance, enhancing state-owned enterprises' performance, promoting PPPs, fostering industrialization, and encouraging SME growth. Regarding expenditure projections, ICPAK suggested that the government should adhere to section 15(2)(a) of the PFM Act on the allocation of resources to development and recurrent expenditure.

p) Regarding accrual accounting, ICPAK stated that the National Treasury should strictly adhere to the current roadmap to ensure timely transition to accrual accounting.

q) ICPAK recommended expediting the approval of audited accounts to provide a clearer picture of government revenue and ensure equitable county allocations. They emphasized the need for robust fiscal consolidation and expenditure rationalization to bridge the deficit gap. To enhance fiscal discipline, they urged the government to reduce transfers to state-owned enterprises (SOE), avoid bailing out non-performing SOEs, conduct regular payroll audits and align wage adjustments with SRC recommendations while promoting frugality in operational expenses.

r) ICPAK recommended that the government should fully allocate the entitled funds to bridge the implementation gap of the Equalization Fund. Additionally, they proposed establishing project implementation units (PIUs) at the divisional level to ensure efficient and direct fund transfers for effective service delivery.

s) ICPAK recommended a stable tax policy, investment in climate-resilient agriculture, improved credit access for MSMEs and fiscal consolidation to manage debt. They also urged targeted subsidies to ease the cost of living and stronger anti-corruption measures to enhance transparency and economic stability.

2.4 Submissions by Bajeti Hub

76. Bajeti Hub appeared before the Committee and made the following submissions.

That–

- a) regarding the macro-fiscal framework, Bajeti Hub stated that the National Treasury should clarify the basis for a Ksh.320 billion projected increase in revenue collection in the coming FY 2025/26, given the under-performance in revenue collection in FY 2024/25. They emphasized that the credibility of revenue projections is critical to the credibility of Kenya's fiscal framework. They also suggested that Kenya should institute a legislative ceiling on the annual fiscal deficit to ensure sustainability in public debt management;
- b) On the division of revenue framework, they recommended that the Senate should clarify the exact total transfers to county governments in FY 2025/26, as the BPS 2025 indicated differing figures. They suggested that the Senate should request the National Treasury to provide the criteria used in defining the expenditures and priorities that fall under national interest within the division of revenue framework. Bajeti Hub also recommended an increased allocation to counties within the DOR framework, especially considering recent national-level legislation and the IGRTC notice delineating functions of county governments;
- c) concerning the process of public participation on the Budget Policy Statement, they proposed that the Senate should expand the platforms through which the notice for participation is shared with the public, as well as the mode of citizens presenting their input to the process, suggesting exploration of other modes of communication with mass access;
- d) in terms of gender-responsive budgeting, they welcomed the commitment to incorporating it but urged the Senate to follow up and request the National Treasury to publish a separate statement on the gender responsiveness of the policy and financial proposals in the 2025 Budget Policy Statement. They also recommended the development of a gender management database that is regularly updated with disaggregated data on women's initiatives;

- e) regarding the health sector, they suggested that the Senate should seek clarity on the responsiveness of the BPS 2025 Health Sector ceilings to the recent cut in foreign aid to the health sector. They noted that the BPS 2025 should provide mitigation measures to be taken in preventing shortages of crucial medications. They also stated that the priorities highlighted in the sector are not specific and in-depth in their description, calling for a more detailed narration;
- f) concerning the education sector, Bajeti Hub noted the complete transfer of low-cost boarding schools and the School Feeding Programme to NACONEK. They recommended that consideration should be given to learners outside ASAL regions who still need these services due to climate change and inflation. Furthermore, they emphasized the need for a streamlined policy to ensure ECDE learners are not side-lined because of the split in functions pointing out the existing disparities in the school feeding program particularly at the ECDE level which is under county functions; and
- g) regarding the Agriculture, Rural and Urban Development (ARUD) sector, Bajeti Hub noted that the sector's priorities in the BPS were largely a repetition of the previous year's lacking explanation or progress reports on ongoing programs. They recommended that the Senate should request the National Treasury to highlight the progress made in previous interventions and address their reasons or significance, as some initiatives concluded without meaningful outcomes. They emphasized that a good report on the progress of different interventions would be helpful in tracking the fulfilment of a priority and evaluating its impact.

2.5 Submissions by the County Assembly Forum

77. CAF appeared before the Committee and submitted as follows. That-
- a) there's need for urgent policy interventions in the 2025 BPS to strengthen devolution, enhance fiscal sustainability and improve county service delivery. CAF highlighted the persistent delays in disbursing county funds and urged the National Government to fast-track a legal framework for function transfers to ensure resources align with devolved mandates. Additionally, they recommended

- allocating conditional grants for Medical Equipment Services (MES) and County Aggregation Parks (CAIPs) to ease fiscal pressure on counties and enhance service delivery;
- b) concerning Agricultural Transformation and Inclusive Growth, CAF recommended diversifying agricultural investments to include underfunded value chains (e.g., cassava, sorghum) and allocating 10 percent of public expenditure to agriculture. They also suggested integrating climate-smart practices into subsidy programs to enhance sustainability;
 - c) In the Health Sector, CAF recommended clarifying county financing mechanisms for SHIF/ECCIF and allocating direct grants to upgrade county health facilities. They also suggested providing Ksh. 10 billion for e-Community Health Information Systems (e-CHIS) rollout across all 47 counties;
 - d) Regarding the division of revenue for FY 2025/26, CAF argued that the proposed equitable share of Ksh. 405.069 billion was insufficient to address the growing expenditure pressures in counties, including pending bills and road maintenance. CAF advocated for an increase to Ksh. 430 billion to better align with county needs. CAF also recommended amending the Roads Maintenance Levy Fund Act to allocate 30% of the levies to counties instead of the current 15%, to reflect their growing road maintenance responsibilities. Additionally, CAF suggested fast-tracking the National Rating Bill to enhance county own-source revenue generation; and
 - e) On pending bills and fiscal accountability, CAF recommended issuing a circular requiring MDAs to clear debts owed to counties within FY 2025/26. They also suggested forming a national-county task force to comprehensively audit and resolve pending bills, ensuring accountability and timeliness in settling financial obligations and ensuring the timely disbursement of funds. CAF urged that the release of county funds by the National Government be accelerated to prevent the build-up of arrears and stabilize county cash flows.

2.6 Submissions by the Institute of Public Finance

78. The Institute of Public Finance (IPF) submitted as follows. That–
- a) They acknowledge the National Treasury’s adjustments, including lowering the revenue target to Ksh 2.8 trillion, committing to fiscal transparency on pending bills, increasing the education budget to Ksh 723.9 billion and prioritizing county transfers. However, they urged Parliament to expedite the IGTRC report submission to ensure full transfer of functions.
 - b) Regarding the fiscal deficit, IPF pointed out that the projected deficit of Ksh 831.0 billion (4.3% of GDP) was too high, given the economic slowdown and resistance to government policies. They recommended reducing the deficit to Ksh 715.3 billion, aligning it with the Medium-Term Debt Strategy (MTDS) and ensuring that borrowing is not used to fund recurrent expenditure.
 - c) For the agriculture sector, IPF emphasized its importance for economic growth and job creation but noted that the budget allocation had only increased marginally to Ksh 77.6 billion. They proposed raising it to Ksh 88 billion to adequately fund key initiatives like digitising land records and providing farmers with credit and subsidies.
 - d) In the health sector, IPF expressed concern over the lack of specific allocations for the Emergency, Chronic, and Critical Illness Fund within the Social Health Insurance (SHI) framework. They recommended explicit budgetary allocations and an increase in funding for Primary Health Care (PHC), which had only received Ksh 4.1 billion, making up just 2% of the total health budget.
 - e) IPF appreciated the recognition of county transfers as a first charge but called on the Senate to enforce this commitment through legislative action ensuring timely disbursement of funds to avoid disruptions in county operations.

2.7 Submissions by the Institute of Economic Affairs

79. The Institute of Economic Affairs (IEA) made the following submissions. That–
- a) With the transfer of further functions to counties, the national government must ensure balanced spending between both levels of government. The Senate should

push for more timely completion of audit reports, synchronizing them with the annual budgeting cycle. This would guarantee that the calculation of the 15% resource transfer is meaningful and addresses the decline in the share of spending relative to transfers to the counties.

- b) The IEA expressed concern over the National Treasury's history of over-estimating revenue despite tax reforms and a promising economic outlook. They highlighted discrepancies between revenue projections in the BPS 2025 and BPS 2024 reports indicating significant revenue forecasting errors. The IEA stressed the need for the National Treasury to continue improving accuracy in revenue forecasting to achieve realistic budget deficits.
- c) To enhance household resilience, the IEA suggested expanding social protection programs to support vulnerable populations, given that high food prices continue to burden low-income households. They noted that muted demand remained a key risk to economic recovery, with a significant portion of household expenditure directed toward food and limiting discretionary spending on non-food items.
- d) In order to improve government fiscal operations, there is a need for sensible revenue mobilization measures and improved spending efficiency. They suggested attracting private sector investment through PPPs, adopting accrual-based accounting, implementing e-procurement and operationalizing asset management modules in IFMIS.
- e) In terms of gender-responsive budgeting the IEA called for improved budget transparency with disaggregated information on women's economic initiatives and explicit gender budget codes. They also urged prioritization of domestic resource mobilization to address development partner dependency in health and education programs targeting women.

2.8 Submissions by Hennet

80. Hennet submitted as follows. That the national government should–

- a) fast-track medical bill processing and payment clearance by strengthening claim reimbursement mechanisms under SHIF, ensuring funds are disbursed promptly to prevent service delays and debt accumulation.
- b) increase budgetary allocations for critical health priorities, including chronic disease management, emergency medical services and community health programs to align with Kenya's commitments under the Abuja Declaration (2001) which calls for allocating at least 15% of the national budget to the health sector.
- c) develop sustainable domestic health care financing models to reduce reliance on development partner funding and promote long-term sustainability in line with the Kenya Health Financing Strategy (2020-2030).
- d) invest in healthcare workforce development by increasing recruitment, offering competitive remuneration and institutionalizing community health workers as outlined in section 27 of the Health Act, 2017.
- e) ensure proper utilization of Facility Improvement Financing (FIF) by enhancing transparency in fund management, upgrading medical equipment, and ensuring all level 2 and level 4 hospitals have adequate and functional medical tools.
- f) strengthen healthcare access for persons with disabilities (PWDs) by ensuring hospitals have disability-friendly infrastructure, training healthcare workers in disability-sensitive service delivery and automatically enrolling PWDs into SHIF with a dedicated fund for specialized services.
- g) enhance governance and accountability by promoting transparency in procurement, strengthening oversight mechanisms, and enforcing anti-corruption measures, as stipulated in the Public Procurement and Asset Disposal Act, Cap. 412B.
- h) Hennes welcomed the RMNCAH (Reproductive, Maternal, New-born, Child and Adolescent Health) budget increase for FY 2025/26 but warned that future cuts

could weaken maternal and child health efforts, urging the government to sustain funding for essential health services.

- i) increase domestic funding for HIV Programs to mitigate the impact of the stop order on donor-funded HIV programs. The government should allocate additional resources to ensure uninterrupted access to treatment, procurement of essential commodities and strengthen health systems for effective HIV prevention and care.
- j) increase immunization financing in Kenya as Gavi, the vaccine alliance, plans to transition out of Kenya by 2029. Kenya needs to be self-sufficient in financing its immunization needs.

2.9 Submissions by Mr. Kelvin Ronyo

81. Mr. Ronyo made the following submissions. That–

- a) the major economic challenges include unsustainable public debt, high unemployment, excessive taxation, poor healthcare and education systems, corruption, mismanagement of public funds and wasteful government spending. He emphasized that addressing these issues was crucial for achieving sustainable economic growth, improving service delivery, and providing financial relief to ordinary Kenyans.
- b) that a significant portion of revenue was being used for debt servicing instead of development projects. He criticized continued borrowing without proper utilization of funds and poor negotiation of loan terms which had led to an expensive debt burden. He recommended establishing strict debt ceilings, renegotiating costly loans, prioritizing concessional borrowing and ensuring public participation in debt decisions.
- c) high unemployment among qualified Kenyan youths, attributing it to ineffective government policies in key sectors like manufacturing, agriculture, and technology. He proposed incentivizing local industries, investing in youth entrepreneurship, offering tax holidays for start-ups and revamping agriculture to create jobs and enhance food security.

- d) rising taxation, including VAT increases and salary deductions for the Affordable Housing Project, have made life unaffordable and discouraged investment. He recommended reducing VAT, introducing tax breaks for small businesses, lowering income tax for middle-class earners and eliminating the housing tax deduction.
- e) opposed the Social Health Insurance Fund (SHIF), calling for its abolition due to poor structuring. He recommended reinstating NHIF with strict reforms to eliminate corruption, increasing budgetary allocation to public hospitals and improving access to essential medicines and equipment.
- f) criticized the new university funding model for increasing students' financial burden and highlighted inadequate implementation and funding of the Competency-Based Curriculum (CBC). He recommended abolishing the new model, reinstating affordable higher education, increasing resources for learning infrastructure and fully funding CBC for effective implementation.
- g) highlighted corruption and mismanagement of public funds, noting that budget allocations were often lost to embezzlement, ghost workers and fake contracts. He proposed banning politicians from government tenders, strengthening the EACC to prosecute corrupt officials, creating a digital portal for tracking expenditures and enforcing strict penalties for fund misappropriation.
- h) Regarding wasteful government spending, he criticized the Affordable Housing Project as a misallocation of funds and called for its abolition. He also recommended stopping bursary allocations to MPs and Governors to prevent misuse. He proposed cutting foreign travel by government officials by 50%, halting the creation of the Prime Minister's office, reducing the State House budget by 50%, and scaling down protection details for elected leaders, including the President.
- i) On government inefficiencies and overstaffing, he proposed that all Principal Secretaries (PSs) should be removed as they were unnecessary. He recommended reducing the number of Cabinet Secretaries to eight, with strict qualifications

based on expertise. Additionally, he suggested establishing an independent Government Efficiency Department led by professionals from the private sector to enhance policy implementation.

2.10 Submissions by Okoa Uchumi

82. Okoa Uchumi submitted the following-

- a) Regarding the fiscal deficit, Okoa Uchumi noted that the reported deficit had increased from Ksh 759.4 billion (3.9% of GDP) in the draft BPS to Ksh 831.0 billion (4.3% of GDP) in the final submission. The coalition argued that the GDP figures used to calculate the deficit had been overestimated, which led to an understatement of the actual fiscal deficit.
- b) Their analysis suggested that the real deficit was at least Ksh 934.2 billion (5.1% of GDP) or Ksh 980.5 billion (5.4% of GDP) excluding grants. They recommended that the government should revise GDP estimates, adjust revenue projections, and ensure the deficit does not exceed 3.5% of GDP.
- c) On revenue projections, the government had anticipated collecting Ksh 3.38 trillion, an increase of Ksh 325.6 billion from the previous financial year. Okoa Uchumi, however, warned that these targets were overly ambitious, as previous revenue targets had been consistently missed, leading to increased borrowing. They recommended that the government focus on enhancing tax compliance and efficiency in revenue collection instead of imposing additional tax burdens on citizens.
- d) The planned expenditure in the BPS projected total spending at Ksh 4.26 trillion, exceeding revenue by Ksh 831.0 billion. Okoa Uchumi raised concerns that unrealistic expenditure plans would encourage more borrowing, most of which would fund recurrent costs rather than development projects. They urged the government to reduce non-essential spending, implement stronger expenditure controls, and fully adopt Zero-Based Budgeting (ZBB) to ensure more efficient resource allocation.

- e) They advised the government to prioritize reducing corruption, improving business policies, and leveraging digital tax collection rather than overtaxing businesses and individuals.
- f) Okoa Uchumi noted that there was a lack of transparency in project allocation and inadequate oversight mechanisms. They recommended stronger budget monitoring frameworks and greater protection of allocations to critical sectors such as health, education, and social protection.
- g) The government's fiscal consolidation strategy aimed to reduce total expenditure from 22.8% to 22.1% of GDP and recurrent expenditure from 16.9% to 16.1%. Okoa Uchumi cautioned that such cuts, if not properly managed, could adversely affect essential public services, particularly in health and education. They stressed the importance of maintaining transparency in budget revisions and minimizing frequent mid-year budget adjustments, which had often disrupted service delivery.
- h) On devolution and county revenue, the BPS had committed to fully transferring devolved functions and increasing counties' own revenue collection. However, Okoa Uchumi pointed out that delayed disbursements, a declining share of county revenue (from 10.4% to 9.0% of GDP), and outdated revenue-sharing formulas were major concerns. They called for timely fund disbursement, updates to revenue-sharing models, and solutions to county financial challenges, including persistent pending bills.
- i) The government had highlighted its progress in anti-corruption efforts, reporting 377 completed investigations, Ksh 17.7 billion in recovered funds, and new whistleblower protections. However, Okoa Uchumi criticized selective prosecution and political interference in corruption cases. They recommended strengthening the independence of anti-corruption agencies and fast-tracking legal reforms to ensure accountability in public spending.
- j) While the BPS underscored public participation in budget-making through public hearings and online consultations, Okoa Uchumi criticized the lack of meaningful

inclusion in decision-making. They urged the government to strengthen laws governing public participation and ensure that citizen input was not disregarded, as had been the case with the Finance Bill 2024.

- k) Regarding governance reforms, Okoa Uchumi observed that slow implementation of reforms, weak enforcement of integrity laws, and poor coordination between national and county governments remained persistent challenges. They recommended accelerating legislative reforms, improving intergovernmental coordination, and expanding digital governance tools to enhance efficiency.
- l) The government had planned to implement the Treasury Single Account (TSA) over three years, with county governments transitioning in FY 2025/26 and the national government following in FY 2026/27. Okoa Uchumi supported this move but urged the government to fast-track adoption and impose penalties on agencies that failed to comply.
- m) On the transition from cash to accrual accounting, the BPS had proposed a three-year phased rollout guided by IPSAS 33. Okoa Uchumi raised concerns about risks in asset valuation and the need for capacity-building for government officers to ensure a smooth transition.
- n) Okoa Uchumi pointed out that high food prices, increased taxation, and subsidy removals had reduced household purchasing power. They also criticized the low agricultural budget allocation of 3%, arguing that Kenya should increase it to 10% in line with the Malabo Declaration.
- o) Okoa Uchumi called for clear implementation timelines and stronger stakeholder engagement to ensure effective support for MSMEs.
- p) On health sector funding, Okoa Uchumi noted that Kenya had not met the 15% Abuja Declaration target for health financing. They urged the government to increase allocations, particularly for TB, HIV, Malaria, and reproductive health programs, to ensure sustainable healthcare funding.

2.11 Submissions from Constitutional Commissions and Independent Offices

83. Further, following invitation by the Committee, the following constitutional commissions and independent offices appeared before the Committee and made submission (*Annex 4*) on the BPS.
84. Consequently, the Committee received submissions from the following-
- a) The Public Service Commission (PSC);
 - b) The Commission on Administrative Justice (CAJ);
 - c) The National Gender and Equality Commission (NGEC);
 - d) The Salaries and Remuneration Commission, (SRC);
 - e) The Independent Electoral and Boundaries Commission (IEBC);
 - f) The Office of the Auditor-General (OAG);
 - g) The Kenya National Commission on Human Rights (KNCHR);
 - h) The National Lands Commission (NLC);
 - i) The National Police Service Commission (NPSC);
 - j) The Teachers Service Commission (TSC);
 - k) The Office of Controller of Budget (OCOB);
 - l) The Ethics and Anti-Corruption Commission (EACC); and
 - m) The Commission on Revenue Allocation (CRA).

2.11.1 Submissions by the Public Service Commission

85. The Public Service Commission appeared before the Committee and submitted as follows-
- a) The PSC indicated that they had submitted a resource requirement of Ksh. 6,020.1 million for the FY 2025/26 budget. However, that only Ksh. 3,600.4 million was allocated, out of which Ksh. 3,565.1 million for recurrent expenditure and Ksh. 35.3 million for development expenditure thus leading to a shortfall of Ksh. 2,419.7 million.
 - b) For recurrent expenditure, the PSC noted that Ksh. 1,047.5 million (29.4%) was allocated to employee compensation, while Ksh. 2,000 million (56.1%) was for the Public Service Internship Programme (PSIP).

The Commission highlighted that only Ksh. 517.6 million (14.5%) was allocated to other recurrent expenditures, which is insufficient for operational needs. Further, that Ksh. 35.3 million in development expenditure was earmarked for refurbishing and modernizing PSC offices, including Ksh. 12.3 million for renovating interview rooms, Ksh. 20 million for improving the main entrance, and Ksh. 3 million for servicing firefighting equipment.

- c) The PSC identified four major priority areas that remained underfunded or unfunded, totaling Ksh. 558.1 million. That Ksh. 185.2 million was required for recruiting additional staff under its new organizational structure. Additionally, Ksh. 200 million was needed for operational costs of the Public Service Internship Programme (PSIP) beyond intern stipends. The commission also highlighted that Ksh. 72.9 million was required for court litigation and the administration of appeals from counties, universities, and state corporations. Furthermore, Ksh. 100 million was necessary to sustain the Public Service Emerging Leaders Fellowship (PSELF) program, which had lost external funding. The commission warned that without addressing these budget shortfalls, service delivery and program implementation would be severely affected.
- d) The PSC outlined several performance targets linked to the budget. That they aim to submit the Annual Report to the President and Parliament by 31st December 2025. Additionally, they plan to expand regional virtual interview centers to improve accessibility and enhance ICT infrastructure to support digital recruitment and public service administration. The commission also intended to implement policies to increase the representation of Persons with Disabilities (PWDs), marginalized groups, and women in public service. Moreover, the commission sought to develop and maintain an Integrated Performance Management System to improve accountability and conduct audits on compliance with public service values and principles as per Article 234 of the Constitution.

- e) That from the review of financial performance for the FY 2024/25, Ksh. 7.8 billion had been disbursed across various programs. However, the commission observed disparities in budget absorption rates, noting that governance and justice programs utilized 65% of their allocated funds, while social welfare programs had an absorption rate of 52%, leading to concerns about underutilization. The commission attributed these inefficiencies to bureaucratic delays and recommended enhanced financial oversight to improve expenditure efficiency.
- f) The PSC requested that Parliament should consider increasing their budget allocation by Ksh. 558.1 million to address the identified funding gaps. They recommended strengthening financial oversight to enhance budget utilization and service delivery while ensuring timely disbursement of funds to avoid delays in project implementation. The commission also called for increased stakeholder collaboration between government agencies, civil society, and development partners, alongside improved transparency and accountability in public service recruitment and governance.

2.11.2 Submissions by the Commission on Administrative Justice (CAJ)

86. CAJ appeared before the Committee and submitted as follows-
- a) The commission reported that the 2025 BPS proposed a budget allocation of Ksh. 676.2 million for the 2025/26 Financial Year against its resource requirement of Ksh. 1.4 billion, resulting in a Ksh. 728.1 million (52%) shortfall. It noted that Ksh. 485.2 million (72%) of the proposed allocation was earmarked for personnel emoluments, leaving only Ksh. 191 million (28%) for operations and maintenance. Out of this amount, Ksh. 126.6 million was allocated for mandatory expenses such as rent, utilities, insurance, and contracted services, leaving a mere Ksh. 64.4 million for program implementation. The commission warned that this budget shortfall would significantly affect its ability to deliver its mandate effectively.

- b) The commission stated that it planned to utilize the allocated funds under a single program, Promotion of Administrative Justice, which would be implemented through three sub-programs: General Administration and Support Services, Administrative Justice Services, and Access to Information Services. Priority activities under this program included resolving public complaints on maladministration, determining appeals on access to information requests, and promoting open governance initiatives.
- c) The commission also planned to automate and digitize its services, report to Parliament on the implementation of the Access to Information Act, 2016, and conduct public education campaigns on administrative justice and the right to information. Additionally, it intended to decentralize Ombudsman services, provide technical support to government agencies and counties in strengthening complaint-handling mechanisms, and conduct research and investigations.
- d) The commission outlined several challenges that hindered its ability to execute its mandate. It cited budgetary constraints as the most significant issue, noting that inadequate funding had overstretched its staffing levels, with only 121 employees (41%) in post against an approved establishment of 292. This limitation had negatively impacted service delivery.
- e) The commission also faced insufficient funding for outreach programs, which affected its ability to provide public education, monitor service delivery, and conduct mobile clinics. CAJ further reported difficulties in accessing advertising funds under the Government Advertising Agency (GAA), which had limited its ability to conduct awareness campaigns. Another major challenge was outdated ICT infrastructure, which had hindered the automation of records and complaints management systems.
- f) Additionally, the commission highlighted pending bills amounting to Ksh. 3.1 million from the 2023/24 financial year, which had further strained its current budget. Furthermore, they pointed out that manual

record management in public institutions had slowed down information retrieval and delayed responses to access-to-information requests.

- g) To address these challenges, the commission recommended an increase in budgetary allocations to close the KES 728.1 million deficit. CAJ urged Parliament to allocate additional funds for personnel emoluments to strengthen its human resource capacity. The commission also called for increased funding for public education and outreach activities, enabling more citizens to be informed about their rights to administrative justice and access to information.
- h) The commission emphasized the need for enhanced ICT funding to modernize its Complaint Management Information System (CMIS) and fully automate its services, aligning with the government's digitization policy. They further recommended that public institutions should receive support in digitizing their records, ensuring quicker responses to information requests.
- i) The commission also proposed the establishment of more Ombudsman offices at the county level to decentralize services, requesting Ksh. 47 million to set up two new offices annually. Additionally, they sought Ksh. 28 million to review their legal framework, aligning the CAJ Act, 2011 and Access to Information Act, 2016 with emerging administrative justice needs.
- j) That other priority areas requiring additional funding include Ksh. 23 million for promoting open governance, Ksh. 50 million for automating Ombudsman services, Ksh. 12 million for public education, Ksh. 20 million for outreach services, and Ksh. 28 million for international engagements related to access to information.

2.11.3 Submissions by the National Gender and Equality Commission

- 87. NGEC appeared before the Committee and submitted the following-
 - a) The commission reported that they had been allocated Ksh. 476.7 million for FY 2025/26, which was significantly lower than its requested Ksh. 1

billion, leaving a Ksh. 523 million shortfalls. They explained that the allocated budget would not be sufficient to effectively implement the commission's strategic objectives, which had been outlined in its 2025–2029 Strategic Plan. To bridge the funding gap, the commission requested an additional Ksh. 595 million, detailing specific areas that required immediate intervention.

- b) That underfunding would hinder the commission's ability to address pressing issues such as gender-based violence (GBV), femicide, social inclusion, and equitable representation in governance.
- c) The commission highlighted three critical areas requiring urgent financial support; Ksh. 175 million to combat GBV and femicide, Ksh. 76 million to establish four new regional offices in Western, Central, North Rift, and Lower Coast regions and Ksh. 85 million to align staff salaries and Ksh. 36 million to hire additional personnel.
- d) Additionally, the commission stated that they have 107 staff members, which is only 54% of the approved establishment of 197, thus limiting their operational efficiency. They also requested an additional Ksh. 100 million to establish a staff mortgage and car loan scheme, arguing that improved staff welfare would enhance motivation and service delivery.
- e) The commission further provided a status update on the implementation of the FY 2024/25 budget as of 31st December 2024. They reported that they had spent Ksh. 291.2 million out of the Ksh. 636.5 million allocated, reflecting an absorption rate of 46%. That by 17th February 2025, the total expenditure had risen to Ksh. 350.1 million, increasing the absorption rate to 55%.
- f) That key achievements included handling 3,064 public complaints, out of which 1,468 cases were resolved; determining 99 access to information applications; and engaging 3.5 million people through awareness campaigns. Additionally, the commission had expanded its services by opening a new branch office in Makueni County and had trained 370

government agencies and counties on complaint resolution under the public sector performance contracting framework.

- g) The commission highlighted several challenges that had hindered its progress. They cited budgetary constraints as the most significant issue, noting that inadequate funding had overstretched its staffing capacity and limited outreach programs. It also reported challenges in accessing funds for advertising, which had affected its ability to conduct public education and awareness campaigns.
- h) Additionally, that outdated ICT infrastructure had slowed down the automation of complaints handling, and manual record management in public institutions had hindered the efficient retrieval of information. The commission further noted that pending bills amounting to Ksh. 3.1 million from the 2023/24 financial year had placed additional strain on its current budget.
- i) To address these challenges, the commission urged Parliament to increase their budget allocation by Ksh. 595 million to ensure the effective implementation of gender equality programs. They called for enhanced ICT funding to complete the automation of its Complaint Management Information System (CMIS) and modernize its service delivery.
- j) They also emphasized the need for greater investment in public education and awareness programs, particularly on GBV, access to justice, and economic empowerment for marginalized groups. Furthermore, they recommended that county governments should receive support in digitizing their record management systems to improve information accessibility and response times.
- k) The commission also outlined key performance targets linked to the 2025 Budget Policy Statement as follows; increasing public engagement on gender equality issues, strengthening compliance with gender inclusion policies, and enhancing monitoring of affirmative action initiatives such as the Access to Government Procurement Opportunities (AGPO) program.

- l) Additionally, that they plan to conduct audits on gender representation in sports federations, the tea and sacco sectors, and government employment policies to ensure compliance with constitutional requirements.

2.11.4 Submissions by the Salaries and Remuneration Commission

88. SRC appeared before the Committee and submitted as follows-

- a) The Salaries and Remuneration Commission (SRC) outlined key policies underpinning the expenditure ceilings in the 2025 Budget Policy Statement. That over the medium term, the commission aimed to reinforce ongoing reforms to enhance public service transformation, focusing on performance management and productivity.
- b) SRC committed to collaborating with public service employers to manage the growing public sector wage bill, which had placed significant pressure on development and investment resources. That to address this, the commission planned to conduct monitoring and evaluation visits to public service institutions to ensure adherence to SRC's guidelines. Additionally, capacity-building initiatives are to be undertaken to clarify remuneration and benefits advice. The commission also intends to work with government agencies to track the implementation of the 3rd National Wage Bill Conference resolutions and provide periodic wage bill data.
- c) In terms of productivity, SRC plans to assess and advise on performance-based bonuses within public institutions. In collaboration with the National Productivity and Competitive Centre (NPCC) and the Kenya School of Government, the commission aims to support institutions in developing productivity measurement tools and frameworks.
- d) To ensure equity and fairness in remuneration, the commission sought to conduct job evaluations and salary surveys to inform the fourth remuneration and benefits review cycle (2025/26 – 2028/29). Additionally, they plan to continue implementing a structured framework for streamlining allowances in the public service to ensure fiscal sustainability.

- e) On legal matters, SRC intends to operationalize policies on remuneration and finalize a bill on public sector remuneration and benefits. That studies are to be conducted to assess skill attraction and retention in the public sector, with a focus on labour market salary trends.
- f) That the commission faced financial constraints in executing its mandate. For the financial year 2025/26, they had requested for Ksh. 657 million but were allocated Ksh. 481.8 million, resulting in a funding gap of Ksh. 175.2 million. SRC sought additional budgetary support amounting to Ksh. 519.36 million to implement key activities such as conducting wage bill reviews, capacity-building programs, and compliance monitoring.
- g) Specific budget shortfalls were highlighted, including a Ksh. 102.6 million deficits for research, wage bill monitoring, and implementation of the allowances framework. There are also gaps in funding for stakeholder engagement, ICT infrastructure, and the operationalization of an automated wage bill monitoring system. Furthermore, critical office operations, including communication services, hospitality, vehicle maintenance, and office supplies, face shortfalls that could hinder the commission's ability to function effectively.
- h) Without adequate funding, SRC warned that gains made in wage bill management could be reversed. The commission noted that its advisory role had saved Kenya an estimated Ksh. 105.79 billion between 2021/22 and 2023/24 by preventing excessive wage expenditures. The ongoing effort to streamline public service allowances had also resulted in estimated annual savings of Ksh. 11.2 billion.
- i) The submissions emphasized the need for sustained financial support to ensure the effective execution of SRC's mandate in regulating public service remuneration, promoting productivity, and maintaining fiscal discipline.

2.11.5 Submissions by the Independent Electoral and Boundaries Commission (IEBC)

89. IEBC appeared before the Committee and submitted as follows-
- a) The Independent Electoral and Boundaries Commission (IEBC) presented its budgetary requirements for the 2027 General Election to the Parliamentary Committee. They indicated that the total resource requirement amounted to Ksh. 61.7 billion, while the National Treasury had proposed an allocation of Ksh. 55 billion, resulting in a funding gap of Ksh. 6.73 billion.
 - b) IEBC detailed the components of the Kenya Integrated Elections Management System (KIEMS), which included the Biometric Voter Registration System (BVR), Biometric Voter Identification System (BVI), Results Transmission System (RTS), and Candidate Registration Management System (CRMS). The Commission emphasized that several key electoral activities, such as by-elections and continuous voter registration, heavily relied on these technological systems.
 - c) The IEBC also raised concerns regarding the aging equipment used in the electoral process. They pointed out that the BVR kits acquired in 2012 were now 15 years old and unsupported by manufacturers, while KIEMS kits from 2017 would be over ten years old by 2027 without any existing hardware support contract. Furthermore, limitations in network compatibility were noted, as current KIEMS kits only supported older network technologies, which posed risks for reliable communication during elections.
 - d) In addition to these issues, the commission highlighted that they had introduced an iris scanner to enhance voter identification reliability; however, older kits did not possess this feature and were no longer supported by vendors. The IEBC reiterated that standard industry practice dictates disposing of IT equipment after three to five years, yet their current equipment had been in use for over a decade, leading to a net book value of zero.

- e) The risks associated with using outdated technology include increased chances of technical failures and public dissatisfaction stemming from previous election performance issues. The IEBC proposed enhancing transparency by publishing results for all six elective positions on public portals instead of just presidential results as done in prior elections.
- f) Overall, the IEBC underscored the necessity for timely and adequate funding to ensure comprehensive preparedness for the upcoming elections, including technological upgrades and voter education initiatives. They expressed concern that without sufficient financial resources, their ability to conduct credible elections could be compromised.

2.11.6 Submissions by the Office of the Auditor-General

90. OAG appeared before the Committee and submitted as follows-
- a) The OAG highlighted that despite its crucial role in ensuring accountability in the use of public resources, they had been allocated Ksh. 8.65 billion, which fell short of its estimated requirement of Ksh. 10.48 billion. This funding gap of Ksh. 1.83 billion would hinder critical operations, including personnel emoluments, audit-related travel, acquisition of motor vehicles, and ICT infrastructure.
 - b) To address these challenges, the OAG appealed for an additional Ksh. 1.2 billion to bridge the shortfall and enhance its operational capacity.
 - c) The OAG reported a significant increase in its audit universe over the past five years, growing from 1,440 entities in 2019/2020 to an estimated 12,800 in 2024/2025. This expansion was attributed to the inclusion of public secondary schools, TVET institutions, level 4 and level 5 hospitals, and political parties. Despite the increased workload, the Office's budgetary allocations had not kept pace, limiting its ability to recruit additional staff and conduct thorough audits.

- d) Furthermore, the OAG pointed out that they carried out specialized audits such as performance audits, forensic audits, and public debt audits, often requested by Parliament. However, resource constraints had made it difficult to complete these audits efficiently, thus affecting the overall effectiveness of public financial oversight.
- e) That a recent High Court ruling reinforced the requirement for the OAG to adhere strictly to constitutional audit timelines. This ruling underscored the legal risk associated with delayed audits, as reports issued outside the mandated period could be challenged. The OAG, however, argued that compliance with these timelines was increasingly difficult due to delays in financial statement submissions by public entities and inadequate resources to handle the growing audit scope.
- f) The Office had previously proposed an amendment to the Public Finance Management Act (PFMA) to reduce the period allowed for public entities to submit their financial statements from three months to one month. However, this proposal had not been implemented, exacerbating the risk of non-compliance with constitutional deadlines.
- g) The implementation of audit recommendations remained a persistent challenge due to the absence of enforcement mechanisms. The OAG observed that despite making numerous recommendations to improve accountability and efficiency in public financial management, many of these suggestions were ignored. The lack of sanctions for non-compliance had led to recurring audit queries, misallocation of funds, and fiscal indiscipline. To address this issue, the OAG proposed amendments to the PFM Act that would introduce penalties for non-implementation of audit recommendations, ensuring greater accountability in public sector financial management.
- h) The OAG also expressed concern over the lack of parliamentary action on performance of audit reports. Although they had submitted 57 performance audit reports over the years, only one had been discussed in

Parliament. Performance audits play a critical role in evaluating government programs' effectiveness, efficiency, and economic impact.

- i) The failure to deliberate on these reports meant that valuable insights and recommendations were not being utilized to improve service delivery and governance. The OAG called on Parliament to prioritize the review of these reports to ensure their findings contributed to national development and resource optimization.
- j) That to strengthen its independence and operational efficiency, the OAG supports the Public Audit (Amendment) Bill, 2023 which seeks to clarify the Office's mandate, enhance its autonomy, and establish the OAG Fund, which would provide financial stability by reducing reliance on the National Treasury. Additionally, the OAG advocated for a one-line budget system, which would allow it to manage its funds independently without frequent approvals from the Treasury. This financial autonomy is crucial in enabling the Office to respond swiftly to emerging audit needs and parliamentary requests for special audits.
- k) In an effort to diversify their funding sources, the OAG proposed the implementation of an audit fees policy. The Public Audit Act allows the Office to charge audit fees, but only a small fraction of entities currently pay. The proposed policy aimed to make audit fees a mandatory budget item for all audited entities, potentially covering up to 50% of the OAG's budget. This initiative would reduce reliance on exchequer funding and strengthen the Office's financial independence. However, the OAG noted that the successful implementation of this policy would require support from Parliament, government agencies, and other stakeholders to ensure compliance.
- l) The transition to International Public Sector Accounting Standards (IPSAS) accrual accounting poses another challenge for the OAG. One of the major hurdles in this transition is the valuation of government assets, which require significant financial resources. The OAG cautioned that hiring private valuers to assess all government assets would impose a

- heavy fiscal burden. They urged Parliament to lead discussions on developing a cost-effective approach to asset valuation that would minimize expenses while ensuring compliance with IPSAS requirements.
- m) Therefore, the OAG requested an increase in its budget allocation by Ksh. 1.1 billion to cover critical operational needs and an additional Ksh. 100 million for the construction of the Mombasa regional office.
 - n) They also called for amendments to the PFM Act to introduce sanctions for non-implementation of audit recommendations and to shorten the timeline for public entities to submit financial statements. Furthermore, they urged Parliament to support the Public Audit (Amendment) Bill, prioritize performance audit reports, and facilitate the implementation of a one-line budget to enhance financial independence. The OAG also sought parliamentary support for the adoption of the proposed audit fees policy and the development of a viable framework for government asset valuation under IPSAS accrual accounting

2.11.7 Submissions by the Kenya National Commission on Human Rights

- 91. The Kenya National Commission on Human Rights (KNCHR) appeared before the Committee and submitted as follows. That–
 - a) The Commission has been allocated Ksh. 528.61 million in the 2025 Budget Policy Statement against a requirement of Ksh. 847.78 million. This is comprised of Ksh. 362.50 million for Compensation to Employees and Ksh. 166.11 million for the Operating Expenses. This will result in a deficit of Ksh. 319.17
 - b) The budget deficit of Ksh. 319.17 million will seriously affect the operations of the commission. The 4 critical budget items and priorities that have not been funded include-
 - i) Complaints, Investigations, Redress, Research, Public Education Awareness which has a shortfall of Ksh. 100.42 million
 - ii) Prevention of Torture Act and Intersex Rights which has a shortfall of Ksh. 20 million;

- iii) Devolution of Human Rights Services to the Counties which has a shortfall of Ksh. 118.75 million;
 - iv) Purchase of Commissioners Vehicles which has a shortfall of Ksh. 80 million.
- c) That during the FY 2024/2025, the KNCHR received a total funding of Ksh. 620.67 million with the contribution from the Government of Kenya being Ksh. 478.04 million and the Development Partners (The Royal Norwegian Embassy, The Royal Netherlands Embassy, Danish Institute for Human Rights, OHCHR and UNFPA) being Ksh. 142.63 million.
- d) The Commission further noted that the Government of Kenya allocation during FY 2024/25 was not affected in Supplementary Estimates No. 1 with the actual expenditure of GOK allocation being Ksh. 283.73 million (59 % absorption) as at 31st December 2024.
- e) That the commission is faced with challenges of limited staff with filled positions standing at 25% of the approved establishment and that geographical spread in the counties is also another challenge against the intention of the commission to devolve its services to the Counties so that human rights issues can be addressed at the grassroots level.
- f) That, there is a need to address staff capacity gaps and build adequate infrastructure in order to improve on the implementation of programme activities and facilitate the realization of the commission's mandate.
- g) That there is a need to enhance resources from the Government of Kenya in the Financial Year 2025/2026 to enable the commission to engage more with the current Human Rights issues in the Country including engagement with Policy makers; Parliament; Other State and Non-State Organs and counties. The commission is seeking to be adequately funded by the Government of Kenya so as to minimize over reliance on the donor funds.

2.11.8 Submissions by the National Lands Commission

92. The National Land Commission (NLC) appeared before the Committee and submitted as follows. That–
- a) The Commission was allocated Ksh. 3,013.82 million (46% of the requirement) in a resource requirement of Ksh. 6,521.94 million leaving a variance of Ksh. 3,508.94 million. This is equivalent to 54% of the requested budget.
 - b) That, of the allocated development budget of Ksh. 1,007.00 million, the commission prioritized as follows: ongoing ICT Infrastructure project (Ksh. 72 million); final survey and vesting of compulsory acquired land (Ksh. 200 million); refund of compensation to PAPs (Ksh. 735 million)
 - c) Out of the unfunded amount of Ksh. 3,508.90 million, the commission has prioritized activities to a tune of Ksh. 548 million that will help the Commission greatly, in the discharge of its Constitutional mandates. The Commission requests to be allocated an additional budget of Ksh. 548 million to enable funding of the Commission shortfalls as it undertakes all its mandates and actualizes the Strategic Plan 2021-2026.
 - d) On pending bills, NLC noted that it has continually been underfunded and this has resulted in accumulation of huge pending bills. The outstanding pending bill as at 31st December 2024 was Ksh. 1.153 billion. The commission forwarded pending bills to the pending bills verification Committee for consideration.
 - e) On the appointment of NLC Chief Executive Officer as collector and receiver of revenue, the NLC requested the assistance of the Committee for the CEO of the commission to be appointed as a collector and receiver of revenue which had been approved to be implemented in the FY 2024/25 but dropped in the finance Bill.
 - f) NLC is an enabler in the BETA priorities through provision of public land for construction of affordable housing projects and other key infrastructure and water development projects in Kenya.

- g) The Commission is implementing Public Land Information Management (PLIM) which is part of the Medium-Term Plan IV and Vision 2030.

2.11.9 Submissions by the National Police Service Commission

93. The National Police Service Commission (NPSC) appeared before the Committee and submitted as follows. That–

- a) The Commission's 2025/2026 budget estimate is Ksh. 1,333,020,000 comprising Ksh. 733,900,000 for Personal Emoluments and Ksh. 599,120,000 for Operations & Maintenance
- b) On the policies underlying the 2025 BPS expenditure ceilings, the commission submitted that it has put in place various strategies geared towards improving the conditions of service for the officers and enhancing provision of welfare benefits to police officers and their families. These include-
 - i) Annual recruitments of 10,000 police constables to fill the gaps and shortfalls in the National Police Service caused by exits and natural attrition.
 - ii) Implementation of the Maraga Police reforms recommendations. The key cost areas for this include: Development of regulations & Policies, Decentralization of Commission's services, and Development of HR Frameworks and Manuals.
 - iii) Automation of Human Resource Management Processes to improve efficiency in human resource management and the processing of the Commission's business
 - iv) Decentralization of the Human Resource Services, Counselling and Wellness services. NPSC noted that they have been able to open and operationalize regional offices in Nairobi, Coast, Nyanza, Western, and North Eastern but it seeks to establish more offices. Further, The Commission has an establishment of 38 counsellors and social workers that were recruited in 2021/2022 and 2022/2023

financial year and needs additional counsellors to fully offer welfare support officers across the country.

- v) Enhancing the Staff House Mortgage Scheme. The scheme has grown from a low of Ksh. 17 million in FY 2017/18 to a current fund value of Ksh. 226 million. The objective of the scheme is to provide a loan scheme for members of staff for purchase of an existing residential property, construction, renovation and improvement of an existing residential property, takeover of loans on existing mortgages or equity release. To extend this benefit to all the staff, the Commission wishes to enhance the mortgage facility.
 - vi) Lease of Commission Vehicles to ease the mobility of the Commissioners and Commission Staff to enhance mobility at both the headquarters and the regional offices. These vehicles will enhance the Commission's capacity to carry out its mandate by facilitating staff movement and operational activities.
- c) That key underfunded areas include; -
- i) Automation and Digital Transformation of NPS and NPSC Processes which has a budget deficit of Ksh. 680 million;
 - ii) Decentralization of the NPSC HR and Counselling Services which has a budget deficit of Ksh. 154 million;
 - iii) Implementation of the Maraga Taskforce Recommendations which has a budget deficit of Ksh. 41 million;
 - iv) Enhancing the Staff House Mortgage Scheme which has a budget deficit of Ksh. 95 million.
- d) Key areas which are completely unfunded include-
- i) Annual Recruitment of 10,000 Police Officers which has a budget deficit of Ksh. 379 million;
 - ii) Lease of Commission Vehicles to ease the mobility of the Commissioners and Commission Staff which has a deficit of Ksh. 85 million.

2.11.10 Submissions by the Teachers Service Commission

94. The Teachers Service Commission (TSC) appeared before the Committee and submitted as follows. That–
- a) The commission budget is being prepared in the second year of the implementation of the Strategic Plan 2023-2027. The number of teachers has increased by 46,000 and 20,000 on permanent and pensionable terms and on internship terms respectively.
 - b) Implementation of CBC is currently at Grade 9 in Junior School and is expected to reach Grade 12 in the Medium Term. In addition, the 8-4-4 curriculum shall be phased out in 2027. Consequently, in 2026, the first cohort of CBC learners shall be joining Senior School. The Commission continues to retool teachers on CBC and CBA to prepare them for the Grade 10 curriculum.
 - c) There have also been considerable investments in ICT infrastructure; the server room has been upgraded to a tier III data center; the Commission has established a disaster recovery site at Konza Technopolis. Most of the equipment is already co-located.
 - d) The commission, with support from the World Bank, has been implementing two projects; Secondary Quality Improvement Project (SEQIP) and Kenya Primary Education Equity in Learning Programme (KPEEL). Through the SEQIP programme, the commission has trained teachers on School Based Teacher Support System (SBTSS) and rolled out live streaming in 30 principal schools and 180 satellite schools. KPEEL project targets primary schools in all the counties to equalize learning opportunities for all learners. In addition, the project aims at piloting remote learning methodologies in sampled primary schools.
 - e) The 2025 BPS provided allocations to the commission over the medium term at Ksh.382.278 billion in FY 2025/26, Ksh.391.57 billion in FY 2026/27 and Ksh.422.574 billion in 2027/28 FY. This constitutes both current and development expenditure.

- f) Some of the key programmes that have been funded with in these estimates include:
- i) Recruitment of 20,000 teachers on permanent and pensionable terms in 2025/26 FY and the medium term.
 - ii) Inducting the newly recruited teacher and heads of institutions on mentorship and coaching.
 - iii) Competitive promotion of about 20,000 teachers
 - iv) Training teachers on Performance management (Performance Contracting and Teacher Performance Appraisal and Development).
 - v) Train at least 6,000 heads of Institutions and BOMs on management of discipline cases.
 - vi) Undertake retooling of at least 120,000 teachers on Competency Based Curriculum.
 - vii) Undertake training of 600 secretariat staff on different topical areas.
 - viii) Digitize 20,000 teacher files per year.
 - ix) Connect at least 114 sub-counties to internet and layout a local area network
- g) Some of the key programmes that have not been provided for in the BPS ceilings for the commission include-
- i) Underfunding of the personnel emolument requirement at Ksh.11.59 billion.
 - ii) Dispensation of discipline cases underfunded by Ksh. 49 million.
 - iii) Full allocation for Medical, Group Personal Accident and WIBA. This has been funded at 50% of the current contract.
 - iv) Procurement of motor vehicles for the sub counties at a cost of Ksh.720 million. The proposed Collective bargaining agreement.
- h) During the FY 2025/26 and the medium term the commission will continue to implement the Kenya Primary Equity in Learning Programme

and start the construction of county offices in Kwale, Kitui and Murang'a county. These will enhance service delivery in the field offices.

2.11.11 Submissions by the Office of Controller of Budget

95. COB appeared before the Committee and submitted as follows. That-
- a) Despite its critical role, the office faced significant financial constraints that affected its ability to fulfill its oversight functions effectively.
 - b) In their assessment of the FY 2024/25 budget implementation as of December 31, 2024, the OCOB reported that it had no capital projects or new initiatives introduced during the budget cycle. The office also highlighted the importance of aligning government expenditure ceilings with realistic policy objectives.
 - c) The 2025 BPS emphasized three key policies under OCOB's oversight: the management of pending bills, public sector wage control, and the prioritization of development projects.
 - d) On the issue of pending bills, the OCOB noted that national and county governments had accumulated debts amounting to Ksh. 524.07 billion and Ksh. 180.52 billion, respectively. The government had prioritized settling these bills to prevent financial distress among businesses that had supplied goods and services to the government. The OCOB had been actively enforcing compliance by requiring county governments to submit payment plans for pending bills at the start of each financial year. However, the office stressed that continuous monitoring and reporting were necessary to ensure accountability in settling these obligations.
 - e) The OCOB also highlighted concerns regarding the public sector wage bill, which had been identified as a major fiscal risk. The government aimed to reduce the wage bill as part of its fiscal consolidation strategy. The OCOB had been monitoring and reporting on the proportion of total revenues allocated to personnel emoluments to ensure compliance with legal provisions. The office underscored the need for sustainable

measures to control the wage bill while ensuring efficient service delivery.

- f) Regarding development projects, the OCOB supported the government's policy to prioritize the completion of ongoing projects before funding new ones. The fiscal consolidation policy aimed to enhance efficiency by ensuring that only projects with clear economic benefits were funded.
- g) The OCOB committed to monitoring and reporting on county-level projects, though it lacked sufficient funding to extend its oversight to national government projects. The office emphasized that increased budgetary provisions would be essential for it to effectively track and report on government programs.
- h) That during the preparation of the 2025/26 budget, the OCOB initially proposed a budget of Ksh. 1.6 billion under the Public Administration and International Relations (PAIR) sector. However, this figure was revised downward to Ksh. 777.5 million as per the final Budget Policy Statement. The OCOB expressed concerns that this reduction would severely impact its ability to discharge its mandate effectively.
- i) The office outlined several unfunded priorities, including personnel emoluments, monitoring and evaluation, automation of financial reporting systems, and public sensitization on budget matters.
- j) A major funding challenge identified by the OCOB was the deficit in personnel emoluments. The office had a staffing gap of Ksh. 182.8 million, affecting its ability to implement a newly approved grading structure. Similarly, the office lacked adequate resources for publishing and printing critical financial reports required under Article 228(6) of the Constitution.
- k) The OCOB also highlighted a shortfall in funding for monitoring and evaluation activities, which are crucial for tracking budget implementation across the government. Other underfunded areas included public participation, advisory services, and legal compliance efforts.

- l) The OCOB further emphasized the need to automate their financial oversight systems to improve efficiency in exchequer approvals and reporting. They proposed the development of the Controller of Budget Management Information System (COBMIS) to streamline financial monitoring. However, the budgetary allocation for this project had not been approved, necessitating additional funding of Ksh. 50 million.
- m) The office also sought resources for staff training, capacity-building workshops, and foreign benchmarking to enhance its ability to oversee budget implementation effectively.
- n) In their final submission, the OCOB requested an additional budget allocation of Ksh. 579.3 million to address critical funding gaps. The office called for parliamentary approval to cover priority areas such as personnel emoluments, automation of budget processes, public sensitization, and monitoring and evaluation.
- o) The OCOB reaffirmed its commitment to promoting transparency and accountability in public financial management. However, they warned that without adequate funding, their ability to fulfill the constitutional mandate would be significantly compromised.

2.11.12 Submissions by the Ethics and Anti-Corruption Commission (EACC)

- 96. EACC appeared before the Committee and submitted as follows. That-
 - a) The Commission reported that by December 31, 2024, it had received Ksh. 1.94 billion in recurrent exchequer disbursements against an approved budget of Ksh. 4.11 billion, representing a funding level of 47%. The development budget allocation was Ksh. 30 million, all of which had been absorbed, amounting to 100% utilization. The Commission's overall budget absorption stood at 53%.
 - b) In terms of performance, the EACC completed 103 cases and forwarded the files to the Director of Public Prosecutions (DPP). They also

conducted proactive investigations, leading to the disruption of corruption networks and the prevention of financial losses amounting to approximately Ksh. 8 billion. Furthermore, they recovered assets valued at Ksh. 1.47 billion and issued 53 advisories to government entities to prevent bribery and corruption.

- c) The EACC is engaged in two key capital projects: the refurbishment and extension of its headquarters and the automation of business processes. The refurbishment project was projected to cost Ksh. 828.19 million, with Ksh. 122.97 million spent by December 2024. The remaining balance of Ksh. 705.22 million is required to complete the project, which is currently in its second phase. The automation of business processes is estimated at Ksh. 1.59 billion, with only Ksh. 19.31 million spent so far. This project did not receive any budgetary allocation in the 2024/2025 financial year, leaving a funding gap of Ksh. 1.58 billion.
- d) The commission's expenditure ceiling was guided by legal frameworks such as the Constitution of Kenya, the Anti-Corruption and Economic Crimes Act, and the Public Finance Management Act.
- e) The EACC's strategic focus under the 2025 BPS include strengthening investigations into corruption, tracing and recovering unexplained wealth, and conducting public education on ethical governance.
- f) The Commission also prioritized budget analysis and monitoring of capital-intensive projects to prevent corruption. Additionally, they plan to intensify asset-tracing efforts through lifestyle audits on public officers.
- g) For the 2025/2026 financial year, the EACC had requested a budget of Ksh. 7.98 billion, but only Ksh. 4.31 billion is allocated under the BPS 2025, leading to a budget shortfall of Ksh. 3.67 billion.
- h) The Commission identified several underfunded areas, including recruitment of staff, core operations in law enforcement, and the post-retirement medical scheme for staff. They requested Ksh. 304.84 million to recruit additional personnel, citing the need to strengthen the commission's investigative capacity.

- i) The commission is operating at only 50% of its approved staff establishment, which is affecting its ability to handle increasingly complex corruption cases.
- j) In addition, the EACC sought Ksh. 220.1 million to enhance its operational capacity, particularly for legal and investigative services, and Ksh. 200 million to operationalize a post-retirement medical scheme.
- k) The Commission also requested Ksh. 164.24 million for the refurbishment of the Integrity Centre, which is an ongoing project since 2018/2019 but has been affected repeatedly by budget constraints. The completion of this project is expected to resolve office space challenges and create a more conducive working environment.
- l) That the commission set ambitious performance targets for the 2025/2026 financial year, including finalizing and forwarding 431 corruption cases to the Office of the Director of Public Prosecutions, recovering assets worth Ksh. 3.9 billion, and preventing losses of approximately Ksh. 8 billion through proactive investigations. They also aim to conduct 90 investigations on ethical breaches and reach an estimated 30 million people through public education campaigns.

2.11.13 Submissions by the Commission on Revenue Allocation (CRA)

97. CRA appeared before the Committee and submitted as follows concerning their proposed budget allocations. That-
- a) The Commission outlined their budget priorities for the 2025/2026 financial year and the medium term, emphasizing the preparation of recommendations on revenue sharing. They plan to develop proposals for the equitable division of revenue between the national and county governments for the financial years 2025/2026 to 2027/2028. These recommendations are required to be submitted at least six months before the beginning of the financial year in accordance with Section 190 of the Public Finance Management Act (PFMA), 2012.

- b) The CRA's activities include stakeholder engagement with the public, civil society, the National Treasury, and county governments to ensure the adoption of a fair revenue-sharing formula.
- c) The commission also plans to finalize and disseminate the Fourth Basis for revenue-sharing among counties, which would be used for five financial years from 2025/2026 to 2029/2030. This process requires consultations with the Senate and National Assembly, publication of the approved formula, and the preparation of a simplified version for public understanding.
- d) Additionally, the CRA sought to assess the impact of devolution on service delivery by collecting data from all 47 counties to evaluate how resources had been utilized in key sectors such as health, agriculture, water, roads, education, and urban services.
- e) Another priority area is the development of a framework for financing cities and urban areas. More than a decade after devolution, counties are yet to adopt an objective approach for funding urban centers. The CRA plans to guide county governments in developing financial allocation criteria in line with Section 173 of the PFM Act. The Commission also aims to strengthen prudent financial management by setting recurrent expenditure ceilings for counties, reviewing county financial documents, and enhancing transparency through an online portal for budget reporting.
- f) In addition, the CRA plans to promote fiscal responsibility by developing a ranking system to assess county governments' financial management performance. They plan to implement a market-based county borrowing framework to help counties access alternative financing sources while ensuring compliance with borrowing regulations. The Commission also aims to enhance county own-source revenue (OSR) by developing revenue forecasting models, supporting revenue collection efforts, and facilitating the adoption of an integrated county revenue management system.

- g) Furthermore, the CRA will introduce a policy and model bill for county entertainment tax as an additional revenue stream.
- h) The Commission highlighted the need to support revenue enhancement from natural resources. That they intend to conduct studies on potential revenue sources from natural resource exploitation and develop frameworks for benefit-sharing between the national and county governments. Moreover, the CRA plans to prepare a third policy for identifying marginalized areas eligible for the Equalization Fund.
- i) The Commission has also prioritized strengthening its institutional resilience by investing in cybersecurity, disaster recovery planning, and digital transformation initiatives. They sought funding to modernize its ICT infrastructure, improve data security, and implement a robust records management system. Additionally, the CRA plans to expand public awareness on its mandate through education campaigns targeting citizens and policymakers.
- j) For the 2025/2026 financial year, the CRA had requested Ksh. 1.11 billion but was allocated only Ksh. 409 million, leaving a budget shortfall of Ksh. 701.9 million.
- k) The Commission identified several unfunded priorities, including stakeholder consultations on revenue-sharing, assessments of county financial management, and revenue enhancement initiatives. That they also face funding gaps in personnel emoluments, ICT infrastructure, operations and maintenance, and capital expenditures.
- l) The CRA therefore requested for an additional Ksh. 702 million to bridge the funding gap and enable it to execute its mandate effectively. The Commission emphasized that its recommendations played a crucial role in shaping public finance policies at both the national and county levels. Without adequate funding, they warned the commission's ability to provide informed guidance on revenue allocation and fiscal responsibility would significantly be undermined.

CHAPTER THREE

SUBMISSIONS BY STANDING COMMITTEES

The Senate Standing Committees considered their sector specific areas and made submissions as follows-

3.1 Standing Committee on Devolution and Intergovernmental Relations

98. The Committee noted that there is a discrepancy between the county equitable share proposed by the National Treasury and the recommendation by the Commission on Revenue Allocation. Additionally, the BPS proposal of Ksh. 405.1 billion for counties does not account for rising non-discretionary commitments such as the housing levy and social health insurance. The committee recommended that the National Treasury should fully integrate these obligations when determining the county equitable share for FY 2025/26 and the medium term.
99. The Committee also noted that the policies indicated in the BPS have not recognized the actual and potential role of the livestock sector, fisheries and the blue economy in reducing food insecurity, supporting the export market and creating jobs. The Committee recommended that the National Treasury prioritize these sectors and invest in boosting livestock productivity, similar to crop production.
100. The policies across the devolution sector for the past three years emphasize on the transfer of the county equitable share in a timely and predictable manner and in accordance with the law. However, there have been continuous delays in the disbursement of equitable share to the counties affecting service delivery in the Counties. The committee recommended that the National Treasury should ensure adherence to the policies relating to devolution underlined in the BPS such as the transfer of the county equitable share in a timely and predictable manner to support the smooth running of county operations and enhance service delivery.
101. The committee observed that the policies highlighted in the BPS 2025 and previous BPSs indicate increased support by the national government to the

counties to improve their capacity to generate their own source revenue through the development of a revenue forecasting tool to assist counties in making accurate revenue projections. This has however not been achieved. The committee recommended that the National Treasury should fast-track the development of a revenue forecasting tool to assist counties in making accurate revenue projections to align the OSR projections and County budgets.

102. The committee also noted there have been revisions in the budgetary allocations for conditional and unconditional allocations from the national government share of revenue in Supplementary Appropriations despite the allocations being agreed upon by both Houses during the consideration of the County Governments Additional Allocation Bill. The committee recommended that the National Treasury should ensure that there are no in year revisions through the supplementary budgets to the additional allocations provided for in the annual County Governments Additional Allocation Act and in case of any revisions they should be done through an amendment to the County Governments Additional Act for the respective year.
103. The committee observed that continuous delay in the approval of the County Government's Additional Allocations has serious implications such as delayed implementation of programmes funded by development partners. Additionally, the delay affects allocations relating to personnel emolument such as Community Health Promoters (CHPs) and the Transfer for Museum function hampering service delivery.
104. County Governments have accumulated pending bills over time largely due to underperformance of OSR, delayed cash disbursement by the National Treasury, non-alignment of procurement plans to cash flow plans and budgets and IFMIS related challenges among others. Consequently, pending bills incurred by county governments continue to increase and amounted to Ksh. 194 billion as at September, 2024.
105. The Intergovernmental Relations Technical Committee (IGRTC) in Gazette Notice Vol. CXXVI No. 219 dated 16th December, 2024 defined the functions

between the national government and county governments. However, costing of the functions and guidelines/framework to implement the transfer of functions has not been provided. Additionally, the committee observed that the 2025 BPS budgetary ceilings for the National Government and county governments has not considered the gazette notice and there is no adherence to the principle of funding-follows-functions. The committee recommended that The IGRTC should undertake costing of devolved functions by February 2026 to ensure resources allocated to county governments are sufficient to carry out the functions assigned. The committee further recommends that in the meantime, the National Treasury should allocate funds to County Governments to undertake the defined functions under gazette notice Vol. CXXVI No. 219 dated 16th December, 2024. The current budgets available for these functions should form the baseline allocations and be included in the Division of Revenue Act, 2025 to align with the county budget cycle.

106. The Committee noted that the IGRTC has identified and reviewed 94 pieces of legislation across different sectors, which had been deemed to hinder the effective implementation of devolution.
107. The NSSF has not granted the county and their employees exemptions from making NSSF Tier II contributions despite the counties being members of well-established pension schemes such as LAPTRUST. The committee recommended that the NSSF should exempt county government employees from contributing Tier II of the National Social Security Fund (NSSF);
108. The committee observed that non-remittance of statutory deductions by some county governments, particularly pension contributions with total outstanding pension pending bills owed to three pension schemes standing at Ksh. 91.17 billion as at 31st October 2024 reflecting an increase from Ksh. 73.40 billion recorded as at 31st August, 2023.

3.2 Standing Committee on Energy

109. The committee noted a budget shortfall where the allocated resources to the State Department for Energy is insufficient to cover the Department's resource

requirement. In this regard, the committee noted that whereas financing energy projects through Public-Private Partnerships (PPP) framework is important given the fiscal constraints facing the country, there was need for more transparency in order to promote public trust and buy-in of the projects by citizens. The committee recommended that the Ministry of Energy and Petroleum should enhance transparency to ensure smooth execution and value for money for Public-Private Partnership projects and employ competitive sourcing of private investors as opposed to privately initiated proposals (PIPs) in line with section 46 of the PPP Act, 2021.

110. The committee noted an increase in recurrent ceiling for the State Department for Energy by Ksh. 2.27 billion in comparison to the baseline and was attributed to planned recruitment of staff by KETRACO, REREC and GDC. In this regard, the Committee recommended that the State Department for Energy provides a breakdown of how much each agency would receive. Further, the Ministry would need to demonstrate equity in employment in line with section 5(1) of the Employment Act, Cap. 226, and public service guidelines. The State Department for Energy submits to the Senate a breakdown of the proposed increase in recurrent ceiling on the funds that are to be absorbed by each of the proposed agencies within 1 month of tabling of this report in the Senate.
111. The Committee observed that while the government aims to accelerate transition to E-Mobility with BasiGo planning to deliver 1,000 electric buses in the next three years in line with the national goal of transitioning to a fully electric bus fleet by 2027, there is no clarity in the BPS on the support the government is providing to the private sector in form of incentives and that this, coupled with the high cost of electricity in the country may hinder accelerated transition to E-mobility. The State Department for Petroleum in collaboration with the National Treasury should provide more incentives to the private sector to enable the smooth transition from Internal Combustion Engines (ICE) to Electrical Vehicles (EVs) and encourage private sector investment in Electric Vehicle charging infrastructure and ensure its accessibility across the country.

112. The Committee observed that debts owed to Kenya Power by County governments stood at Ksh. 4,375,103,982 as at November 2024, with Nairobi County accounting for the largest portion of the debt (68.9%) amounting to Ksh. 3,011,878,481.04. These debts amounted to Ksh. 4,224,865,269.80 as of April 2024, implying that the debts grew by Ksh. 150,238,713.09 between April and November 2024. The committee recommended that County Governments should budget and ring-fence funds in their financial year 2025/26 budgets for payment of all the verified pending bills owed to Kenya Power.
113. The Committee observed that non-payment of electricity bills by counties has partly been caused by lack of consultation with counties on streetlight projects that have been implemented by the National Government through its agencies and consequently non-payment of streetlight bills relating to such projects. The committee recommended that the State Department for Energy and Kenya Power should submit the measures it is taking to ensure that there is proper planning and coordination with county governments whenever the National Government through its agencies is implementing energy projects in the counties, especially streetlight projects.
114. The committee noted that whereas the Fourth Schedule of Constitution and the Fifth Schedule of the Energy Act has assigned street lighting function to counties, street lighting has a significant role in national security and hence the need for the national government to support counties. The committee recommended that, given that street lighting contributes greatly to National Security, the State Department for Energy in collaboration with the Energy and Petroleum Regulatory Authority (EPRA) should ensure that the National Government supports counties in the payment of the high electricity bills associated with street lighting.
115. The Committee noted the budgetary challenges facing counties especially in implementing rural electrification programmes which is partly due to appropriation of resources meant for this function through national agencies such as Rural Electrification and Renewable Corporation (REREC). The committee

recommended that REREC's contribution to the Matching Fund programme be enhanced by adopting a 2:1 contribution ratio where REREC contributes more as this would incentivize more counties to participate in the programme and accelerate the pace of rural electrification.

116. The Committee noted that the State Department for Petroleum had consistently failed to meet its targets on the distribution of 6 Kg-Liquified Petroleum Gas (LPG) cylinders to low-income households with zero cylinders having been distributed in the last three financial years despite the LPG distribution and Infrastructure Project having been allocated resources over the years. The committee recommended that the State Department for Petroleum submits to the Senate the measures being implemented to address the challenges affecting the distribution of 6Kg-Liquified Petroleum Gas (LPG) cylinders to low-income households, and the criteria used to identify the beneficiaries for the same within thirty days of the approval of this report.
117. The Committee observed that the approval of the Field Development Plan (FDP) for the South Lokichar oil project had experienced significant delays, despite its critical role in informing the Final Investment Decision (FID) on the project. The delays had been further compounded by the exit of Tullow's two joint venture partners and Tullow's failure to secure new investment partners in time. The Committee observed that the continued delay poses a risk to the project's viability, especially in the context of a global shift towards green energy, which may further deter potential investors in the fossil fuel sector. The State Department for Petroleum, in collaboration with the EPRA, should within thirty days of the approval of this report, submit to the Senate a status update in respect of the approval process of the Field Development Plan (FDP).
118. The Committee noted that most of the marginalised counties mostly in the northern part of Kenya were not currently connected to the national grid and were depending on unreliable mini-grids for electricity supply, hence the need to ensure equity in electricity access across counties including energy transmission projects. The committee noted that the State Department for Energy

should prioritise marginalised counties which are mostly off-grid when implementing future power transmission projects in a bid to connect them to the national grid and ensure equity in electricity access across counties. In this regard, the State Department for Energy should submit the feasibility study on the proposed transmission line from Garissa to Wajir within 3 weeks.

3.3 Standing Committee on Health

119. The proposed Health Sector ceiling under the national government for the FY 2025/26 is Ksh.204,494.8 million and accounts for 8% of the total budgetary estimates compared to Ksh. 118,856.3 million in the approved budget 2024/25 which accounts for 5.2% of the total budget. However, the increase is disproportionate to growing healthcare needs; provision of equitable, accessible and affordable care. The committee therefore recommended that the Health Sector Budgetary Allocation for the FY 2025/2026 should be increased to 15% of the total proposed budget in line with the Abuja Declaration of 2001. Consequently, the National Government should expeditiously implement the recommendations of the Intergovernmental Relations Technical Committee on the unbundling of functions
120. The 2025 BPS proposes additional funds to the health sector through the County Governments Additional Allocations Bill such as: conditional grants for stipend of Community Health Promoters Ksh. 3,234,930,000 to be matched with an equal amount from the county governments; conditional grant for payment of outstanding basic salary arrears for county government health workers Kshs.1,759,101,729; and DANIDA-Primary Healthcare in Devolved Context (PHDC) grant Ksh. 510,000,000. However, the National Government should increase allocation to critical health programs that are funded by development partners in light of the emerging fiscal constraints that the sector could face.
121. The Government rolled out the Universal Health Coverage following the transition of National Health Insurance Fund (NHIF) to Social Health Authority (SHA) under Taifa Care. While approximately 18 million people have registered with SHA however only 4 million people are actively contributing to the Social

Health Insurance Fund. It is observed that the actual contribution from the informal sector is challenging due to irregular income in the sector and further a huge population of about 30% require government subsidy.

122. The government has allocated Ksh.4.1 billion (2% of the total health budget) to the Primary Health Care Fund, However, there appears to be no allocation for the Emergency, Chronic and Critical Illness Fund. Further, the Social Health Authority faces other challenges like system delays that affect claims processing and deny many paid up patients' access to healthcare. The National Treasury should therefore provide sufficient resources for allocation to the provision of Emergency, Chronic and Critical Illness Fund.
123. The Social Health Authority inherited Ksh. 30.9 billion pending bills from the defunct NHIF which is affecting healthcare service provision. Payment of these pending bills should therefore be prioritized.
124. The Committee noted the increase in the General Administration Programme in the State Department for Medical Services from Ksh.14.5 billion in the approved estimates of FY 2024/25 to Ksh. 93.4 billion in the current BPS 2025, out of which Ksh.78.9 billion is anticipated to be money raised as proceeds from the Social Health Authority. The amount budgeted under the Ministry of Health to be raised through the Social Health Authority should include a condition that if SHA is not able to achieve the revenue projection, the National Treasury will provide resources to ensure financial sustainability for the Universal Health Coverage (UHC) and cover any possible funding shortfall.
125. The Inter-Governmental Relations Technical Committee gazetted the unbundling of functions as provided in the Fourth Schedule of the Constitution on 16th December 2024. However, the BPS 2025, which determines the allocation framework for resource allocation in the FY 2025/26 has not taken the delineated functions between the national and county governments into account.
126. The committee further recommends that the National Treasury should allocate sufficient funds to implement the policy to employ 20,000 healthcare workers as contained in the BPS 2023. With the foregoing, the Committee recommends that

priority should be given to about 8,000 UHC healthcare workers currently employed on contractual terms. Further, the Ministry of Health should provide details on the different cadres targeted for employment and their distribution.

3.4 Standing Committee on Agriculture, Livestock and Fisheries

127. The committee observed that there is low uptake of developed irrigation infrastructure by farmers which has hindered agricultural productivity and the realization of MTP IV targets. The committee recommends increased support for irrigation infrastructure adoption by farmers to maximize agricultural productivity. The committee recommended that the State Department for Irrigation provide a detailed report by 30th March 2025 outlining the crops under irrigation, targeted output, challenges, and required interventions.
128. The committee noted that according to the 2024 Economic Survey by the Kenya National Bureau of Statistics (KNBS), Kenya's total import bill for 2023 stood at Ksh.2,612 billion. Among the top imports, wheat (un-milled) accounted for Ksh. 93.76 billion, yet it is not classified as a key value chain crop in the BPS, despite its significant role in food security. The committee recommended that wheat be prioritized as a key value chain crop in the BPS, with clear annual reduction targets for wheat imports. The State Department for Agriculture to provide a detailed report on the wheat production value chain by 30th April 2025.
129. The committee observed that avocado and macadamia, which have significant potential to increase foreign exchange inflows, are omitted from the list of priority value chains in the BPS. The committee recommends that avocado and macadamia be included in the BPS priority value chains to boost exports and improve the country's import bill. The committee recommends that the State Department for Agriculture provide a status report on Avocado and macadamia within thirty days of the approval of this report detailing targets, outputs, and interventions.
130. The committee further recommended that large-scale irrigation projects for wheat, rice, vegetable fats and oils and textile yarn (cotton) be developed to

reduce reliance on rainfed agriculture and mitigate the import bill. The State Department for Agriculture should submit a detailed report to the Senate within sixty days of the approval of this report detailing the crops under irrigation, the expected output per acreage and any challenges encountered.

131. The committee observed that Kenya experiences severe livestock feed shortages, particularly during drought seasons, which negatively impact livestock productivity. The committee recommended that the government facilitate and invest in fodder seed multiplication and distribution, establish feedlots, develop rangelands, provide feed mechanization equipment, support feed bulking at livestock farms, and create a strategic livestock feed reserve to stabilize feed availability. The State department for livestock to provide a detailed status report within sixty days of the approval of this report.
132. The committee noted that agricultural extension services remain inadequate, with a ratio of 1 extension officer per 1,500 farmers, far below the FAO-recommended ratio of 1:400. Additionally, only 25% of farmers access extension services, with nearly half expressing dissatisfaction due to insufficient funding and personnel. The committee recommended that the State Department for Livestock develop a policy framework to standardize agricultural extension services across counties. A report should be submitted to the Senate within sixty days of the approval of this report.
133. The Committee noted that over 90% of hides are illegally exported, depriving the local leather industry of essential raw materials. Data indicates that approximately 3.35 million cattle are slaughtered annually indicating sustainable supply of key raw materials for leather value chains. Additionally, the committee observed that the Kenya Leather Industrial Park (Kenanie) lacks critical infrastructure, delaying value addition initiatives. The National Treasury should therefore provide a timeline for the completion of key facilities at Kenanie Leather Industrial Park, including the Common Effluent Treatment Plant, link roads, water reticulation, ICT infrastructure, security installations, power station,

and warehouses. A detailed funding plan and completion timeline should be submitted by 30th April 2025.

134. The Committee further recommends that stricter enforcement against illegal raw hide and skin exports be implemented to protect the local leather industry. The State Department for Livestock should provide recommendations by 30th April 2025.
135. The Committee also observed that the BPS sets a target to train 1,000 fishermen annually but lacks clarity on the expected output and impact of the training. The committee recommended that the targeted annual output for each key intervention under the training program be specified. The State Department for Blue Economy and Fisheries should develop a tracking framework to assess the impact of these training programs and their effectiveness in improving livelihoods within the fisheries sector. The State Department to provide a detailed report by 30th April, 2025 stating implementation status, expected post-training outputs, and the metrics for measuring their success.
136. The Committee observed that Additional Conditional Allocations to County Governments, financed through loans and grants from development partners, have faced delays in the enactment of the County Government Additional Allocation Bill. These delays have negatively impacted project implementation timelines, hindering the timely execution of programs.
137. Further, the Committee recommended that the National Treasury should provide the implementation status report of all projects funded by development partners by 30th March 2025. The report should include; the full project amount, implementation timelines, absorption rates, exchequer releases, current status, targets, loan purpose, loan repayment period, and interest rates.
138. The Committee noted that Kenya Gazette Vol. CXXVI-No. 219, Gazette Notice No. 16478, transferred several key agricultural functions to county governments under the Constitution and The Intergovernmental Relations Act. Despite this, the 2025 BPS does not reflect the necessary resource allocation to counties for these devolved functions, raising concerns about budgetary constraints affecting

service delivery. The Committee recommended that the National Treasury ensure proper costing of devolved agricultural functions and incorporate this in the revenue-sharing formula. A framework should be developed to guide the transfer of funds alongside functions to prevent operational inefficiencies at the county level. The National Treasury should submit a report by 30th April 2025.

3.5 Standing Committee on Roads, Transportation and Housing

139. The Committee observed that total pending bills under the road's sector is currently at Ksh. 175 billion as at 31st December 2024 relating to delayed payment towards clearance of certified works, land compensation, and relocation services. The Committee further noted with concern the impact of increasing stock of pending bills and the negative outcome on citizen contractors and economic development where some projects have stalled due to funding shortfalls.
140. The Committee noted that a total of Ksh. 69.523 billion has been earmarked from the RMLF towards the recurrent budget of the State Department for Roads. The Committee also noted that the Road Maintenance Levy Fund (RMLF) portion to the counties was not provided similar to the BPS 2024. Consequently, there was no provision towards counties to undertake maintenance of county roads. The Committee recommended that sharing of expected proceeds of the RMLF for the FY 2025/26 takes into account transfer to counties towards maintenance and rehabilitation of county roads. Consequently, the Committee recommends a total of Ksh. 13.9 billion as conditional allocation towards maintenance and rehabilitation of county roads and the amounts be included in the County Government Additional Allocation Bill for FY 2025/26.
141. Following the revision of the fuel levy from Ksh.18 to Ksh. 25 per litre of Diesel and petrol currently in force, the Cabinet approved the securitization of the additional fuel levy of Ksh. 7 per litre in July 2024 with a view to borrow and avail additional financing to support sector specific interventions. Consequently, the State Department for Roads, through the Kenya Roads Board, is planning a bond issuance to raise Ksh. 175 billion by 30th June, 2025 where the amounts

raised will be used to settle pending bills in the road sector. The Committee recommended that the State Department for roads should also consider and incorporate a proportionate share of the amounts to be raised through the bond towards settlement of respective pending bills in counties under the road sector.

142. In addition, the Committee recommended that the State Department for Roads submit to the Senate, within 14 days of the approval of this report, a list of all the pending bills totaling Ksh. 175 billion further indicating the corresponding specific projects and contractors and reasons for the arrears.
143. That, further to the proposal to utilize a portion of the proceeds from the RMLF as security to unlock additional financing through issuance of a bond, contractual information and other binding disclosures including legal opinions and agreements between the borrower and lender be submitted to the Senate within 14 days of the approval of this report. The information to be submitted to include: the amount to be borrowed and borrowing costs (debt service) as well as its use and application and its implication on the sustainability of the RMLF.
144. The Committee further queried if the arrangement to securitize the additional fuel levy is in-line with the existing legislations - in particular the RMLF Act, Kenya Roads Acts and by extension the mandate of the Kenya Roads Board. There is need for further clarification on these arrangements including the portfolio of pending bills to be settled.
145. The Committee noted a proposal to undertake Nairobi – Mombasa Express Way under Public Private Partnership (PPP) framework. However, there are no further budgetary and legal details in the 2025 Budget Policy Statement setting out timeline, cost and other contractual terms. The committee recommended that the State Department of Roads submit to the Senate within thirty days of the approval of this report setting out comprehensive details on underlying financing, legal and contractual provisions on this project. The financial provisions of the proposed PPP framework should also include any contingent liabilities and its overall impact on the stock of public and publicly guaranteed debt.

146. The Committee raised concerns and sought the status of previous plans for extending the construction and operations of the Standard Gauge Railway (SGR) to western Kenya and further to the Malaba border which will also improve the country's competitiveness and improve financial prospects of the SGR and reduce its over reliance on Exchequer.
147. Under the housing development and human settlement program, the Committee observed that there was an overall proposed amount of Ksh.102 billion, substantially being the expected collection of the Housing Levy. However, the Committee noted a low absorption rate in the housing development program in the current budget for the same programme, indicating low uptake of the collected levy which stood at Ksh. 18.6 billion compared to approved amount of Ksh. 64 billion. The Committee recommended that the State Department for Housing and Urban Development ensures absorption and utilization of the housing levy and other allocations to fast-track delivery of the planned construction of various houses under the affordable housing programme.
148. Further, the Committee recommended that the public be provided with information related to the use of the housing levy and project specific information on on-going and completed projects in *BomaYangu* and other accessible platforms for greater transparency and accountability. A report on compliance with this recommendation be submitted to the Senate within thirty days of the approval of this report.
149. The Committee observed that out of the six metropolitan areas under the urban and metropolitan development programme, only the Nairobi zone comprising Muranga, Kiambu, Kajiado and Machakos Counties has been implemented.
150. The Committee observed that there was low absorption of development partner funded programmes such as KUSP II and KISIP II partly due to delays in approval of relevant legislation such as the County Government Additional Allocation for the current FY 2024/25.

3.6 Standing Committee on Education

151. The Committee noted that under the State Department for Basic Education, certain baseline targets had not been met. For instance, while 2,088 learners with special needs and disabilities received assistive devices in FY 2023/24, there was no recorded achievement in the current financial year, and no specific target has been set for FY 2025/26. This highlights the importance of ensuring continued support for Special Needs Education (SNE) learners to help them attain quality learning standards.
152. The Committee further noted that in the BPS 2024, the national government was to provide conditional grants to County Governments to extend the school feeding programme in early childhood development schools. This was however not provided and hence the committee recommended establishment of a conditional allocation to counties of Ksh. 3 billion towards support of school feeding programme in ECDE centres. The objective is to increase the enrolment in early childhood education.
153. The Committee was concerned that the ceiling provided for the State Department for Higher Education & Research may not be adequate to solve the financial crisis faced by a number of public universities.
154. The Committee also noted that the BPS does not provide the way forward with regards to the policy on financing public sponsored university students despite the target on the number of students supported increasing. The funding model has been faced by structural issues with difficulties in placing students in the respective bands and failure to disburse funds to students. The government may need to develop an optimal model of supporting university education.
155. The Committee noted the need to enhance the Teachers Service Commission (TSC) budget ceiling to help in addressing the teacher shortage in the country as well as supporting ICT integration in public schools through capacity building of teachers which is key in breaching the large ICT skills gap in public schools as reported by KNBS.

156. The Committee noted that despite ECDE teacher recruitment being a devolved function there has been concerns regarding their remuneration and career progression. The government should develop a policy on collaboration between counties and the TSC in regards to the career progression of ECDE teachers.
157. The Committee further noted that the criteria for funding by the Higher Education Loans Board (HELB) and the Universities Funding Board need to be harmonized. The HELB funding criterion identifies students that are in need of sponsorship and therefore the current means testing and banding criteria adopted by the new universities funding model should be scrapped.

3.7 Standing Committee on Justice, Legal Affairs and Human Rights

158. The Committee observed that the resource ceilings proposed to be allocated to most of the Ministries, Departments and Agencies under the purview of the Committee in the 2025 BPS are below their resource requirements hence resulting in underfunding. The Committee recommended that, in view of the resource requirement gaps, the National Treasury to enhance the budgetary allocations for the agencies under the Governance, Justice, Law and Order Sector to facilitate the completion of the numerous stalled projects, especially under the Judiciary.
159. The Committee has also observed the need for the Judiciary to adopt strategic prioritization to promote allocative efficiency in the implementation of its projects based on affordability, and the expected results. It is therefore imperative that the department prioritizes ongoing projects without introducing new projects. In addition, the National Treasury should enhance the development vote of the Judiciary in order for the ongoing projects to be completed on time.
160. To address the case backlog in the Judiciary, the Committee recommended that the Judiciary undertake Court circuits, service weeks, and mobile courts in far flung areas in order to enhance access to justice across the country.
161. The Committee observed that the State Law Office has a total pending bill of Ksh. 462.2 million as at 30th June, 2024 comprising Ksh.357.3 million for

recurrent expenditure and Ksh.104.9 million for development expenditure. These pending bills were incurred as a result of lack of exchequer release.

162. The Committee further observed that the Office of the Director of Public Prosecutions (ODPP) is a key player towards improving national security, strengthening good governance and fighting against corruption and therefore requires an increase in resource allocation to enable the Office to execute its mandate.
163. The Committee observed that the Independent Electoral and Boundaries Commission (IEBC) has pending bills accumulated over the years amounting to Ksh. 3.895 billion of which legal fees accounts for Ksh. 2.6 billion, election logistics – Postal Corporation of Kenya - Ksh. 0.499 billion and other pending bills – Ksh. 0.796 billion. The Committee recommends that the IEBC and National Treasury promptly settles these pending bills.
164. The committee observed that the allocation to the Political Parties Fund is not in compliance with the provision of the section 24 of the Registrar of Political Parties Act as well as the ruling of Justice Aburili on the implementation of the section 24 of the Act. The committee recommended that the proposed budget for the Registrar of Political Parties should be enhanced and the National Treasury should adhere to the provisions of section 24 of the Political Parties Act 2011.
165. Other matters that the committee observed include;
 - a) Pension Arrears; most counties owe money to various pension funds, and these pending bills not reflected in their pending bills stock posing a great risk that these liabilities may not be prioritized for payment. The total unremitted deductions stood at Ksh.91.2 billion as at 31st October, 2024. The National Treasury should fast track and ensure that the Taskforce established *vide* Gazette Notice No. 14800 provide and develop appropriate formula and framework for payment of pension liabilities.
 - b) Court Fines: The Committee observed that the 2025 BPS recommends allocation of Ksh.11.5 million arising from court fines as result of contravention of county legislation.

166. The Committee further recommended that County Governments with huge pending bills should provide a comprehensive framework for settling/clearing such bills since delayed payments to suppliers and contractors adversely affect their operations in terms of liquidity while the government is negatively impacted by low revenues due to delays in the remittance of taxes.

3.8 Standing Committee on Labour and Social Welfare

167. The Committee observed that over the past five financial years, counties have steadily increased spending on general public service, social protection, recreation and culture.
168. The Committee observed that most counties breached the legal threshold of spending not more than 35% of total revenues on wages and benefits as required under regulation 25(1)(a) and (b) of the PFM (County Governments) Regulations, 2015. The Committee noted that only three counties (Tana River, Narok, and Kilifi) complied with this requirement.
169. The Committee also observed that both National Government institutions and county governments had challenges of non-remittance of pension deductions and non-payment of pension dues. County Governments have unremitted pensions amounting to Ksh.91.173 billion. This presents a likelihood of staff retiring without their pension benefits and presents a fiduciary risk exposure for county governments.
170. The Committee noted duplication of programmes and projects within different state departments in the national government. For instance, the State Department of Culture is developing youth centres, while the State Department of Youth Affairs & Creative Economy is developing Youth Empowerment Centres. Additionally, there are Youth Affirmative Action programmes under the State Departments for Gender and Affirmative Action and the State Department of Social Protection.
171. Additionally, the Committee noted the State Department of Labour whose programmes include youth employability services and construction of

employment promotion centres seem to be similar to the ones the Ministry of Public Service is doing under the Public Service Internship and Training Programs and the State Department for Culture, Arts and Heritage.

172. Under the State Department for Labour and Skills Development, the 2025 BPS proposed to allocate Ksh.6.221 billion in FY 2025/26, constituting Ksh. 4.338 billion for recurrent expenditure and Ksh.1.882 billion for development expenditure geared towards the continuity of projects in occupational safety and health, youth employability, the establishment of National Labour Markets Information Systems, and the construction of labour offices in different parts of the country amongst other initiatives.
173. The Committee recommended that the allocations to the State Department for Labour and Skills Development should set up clear guidelines in the recruitment process for prospective jobs in other jurisdictions with which the Ministry for Labour and Social Protection has secured credible opportunities. The Committee recommends a seamless process in advertisement, recruitment, relocation and transfer back. The Committee also recommended that priority be given to citizens with prerequisite documentation and training for the relevant jobs.
174. Under the State Department for Social Protection and Senior Citizen Affairs, the 2025 BPS proposed to allocate Ksh. 40.075 billion in FY 2025/26, constituting Ksh.38.168 billion for recurrent expenditure and Ksh.1.91 billion for development expenditure. The Government should then rehabilitate, re-socialize, and re-integrate street families into society by establishing a model National Street Families Rehabilitation Centre, develop a Street Families Rehabilitation Management Information System and undertake a National Street Families' Census.
175. The Committee also noted that the State Department for Social Protection and Senior Citizen Affairs also proposed to promote and protect the rights and welfare of Persons with Disability (PWD) through different initiatives such as registering PWDs to allow them to access services, enrolling learners with special needs and disabilities in public primary schools, and implementing

Albinism and Autism programs. Also, promote the welfare of PWDs, by merging the National Fund for the Disabled of Kenya (NFDK) with the National Council for Persons with Disabilities (NCPWD) among other programs and initiatives.

176. The Committee also noted that the merger between the National Council for Persons with Disabilities (NCPWD) and the National Fund for the Disabled of Kenya (NFDK) was provided for in BPS 2023, not provided for under BPS 2024 and provided for once again in BPS 2025.
177. The Committee noted that there is a need to ensure that vulnerable groups and senior citizens receive their cash transfers in the most convenient way. In this regard, the Committee recommended a hybrid method of paying cash transfers to senior citizens between digital platforms such as M-Pesa and Banking systems.
178. The Committee further recommended the establishment of a clear policy framework on cash transfers under social safety nets made to orphans, persons with disability, senior citizens and other vulnerable groups.
179. With regards to the cash transfer for senior citizens, the committee recommended a steady increment to Ksh. 4,000 per month over the medium term from the current Ksh. 2,000 per month.
180. Additionally, the Committee recommended that the National Treasury should remain cognizant to the fact that Cash Transfers to the vulnerable in society serve as a source of livelihood for some of these groups hence it is the recommendation of the Committee that no downward budget revisions should be made on resources meant to support these programmes in any financial year.
181. The Committee recommends that programs that are implemented for vulnerable groups in counties that are considered to be in hardship areas or ASALS be re-engineered to account for residents in counties in urban areas that may be living in abject poverty.
182. Under the State Department for Sports, the 2025 BPS proposes to allocate Ksh. 18.681 billion in FY 2025/26, constituting Ksh.1.581 billion for recurrent

expenditure and Ksh.17.1 billion for development expenditure. The Government will endeavor to continue the implementation of the ‘*Talanta Hela*’ program to support and nurture talents in sports, film and theatre, fashion and pageantry, digital content creation, and fine arts and upgrade infrastructure in Stadia to international standards.

183. The Committee recommended that the Sports and Arts programs be aligned to the Kenya Education Curriculum design with regard to the Arts and Sports Science pathways as envisioned in the Competence Based Curriculum (CBC).
184. The Committee also recommended the fast-tracking of the Sports Policy and Sports Act, which will delineate National government and County Government functions. The Committee further recommends the close monitoring of AFCON and CHAN projects to ensure they are up to FIFA and AFCON standards in time for the hosting of these championships.
185. Under the State Department for Youth Affairs and Creative Economy, the 2025 BPS proposes to allocate Ksh. 4.106 billion in FY 2025/26, constituting Ksh. 2.266 billion for recurrent expenditure and Ksh. 1.840 billion for development expenditure. The Government then intends to promote youth empowerment programs and further empower the creative economy. The Committee noted that youth empowerment programs are duplicated across different State Departments and recommends the merging and consolidating of youth programs and projects to avoid duplication by the different government departments over the medium term.
186. Under the State Department for Public Service the 2025 BPS proposes to allocate Ksh. 21.07 billion in FY 2025/26, constituting Ksh. 19.88 billion for recurrent expenditure and Ksh. 1.195 billion for development expenditure to finalize key programs aimed at upgrading ICT infrastructure for Huduma Service Delivery Platforms, establish mental health services in public service, strengthen the KSG institutions, provide comprehensive medical insurance schemes for civil servants, Human Resource Development Scholarships, and Upgrading of the Government Human Resource Information System (GHRIS).

187. The Committee noted that the State Department for public service had high pending bills amounting to Ksh. 170 million from three key projects and had begun to attract interest fees. This may expose the State Department to fiduciary risks and lead to essential services being compromised while funds are used up in making these penalty payments.
188. The Committee recommended the fast-tracking of the implementation of the Human Resource Integrated System to ensure that the two additional modules are operational and that the system be used across the entire public service, including state corporations, constitutional offices, public universities, and county governments by June 2025. The Committee further recommends that this system be used in resolving issues in payroll such as ghost workers and remittance of statutory deductions.
189. The 2025 BPS proposes to allocate the State Department for Gender and Affirmative Action Ksh. 6.160 billion in FY 2025/26, constituting Ksh. 2.337 billion for recurrent expenditure and Ksh. 3.823 billion for development expenditure. The national government intends to continue empowering women economically through capacity building and facilitating access to affordable credit and markets through the Hustler Fund, Women Enterprise Fund and other affirmative action funds and strengthening prevention of gender-based violence (GBV), female genital mutilation (FGM) and femicide.
190. The 2025 BPS proposes to allocate Ksh. 3.541 billion in the FY 2025/26, constituting Ksh. 3.45 billion for recurrent expenditure and Ksh. 90 million for development expenditure. The Government intends to prioritize empowerment of the cultural practitioners through the establishment of a National Arts Gallery and promotion of the Kenya National Music and Cultural Festival, Mapping and documenting Kenya's Indigenous languages and establishing an integrated National Cultural and Creative Industries Information Management System and further operationalize the Ushanga State Agency among other initiatives.
191. The 2023 BPS transferred libraries that are spread across 33 counties, however there are fourteen counties without libraries; These are Tana River, Lamu,

Tharaka-Nithi, Machakos, Kirinyaga, Turkana, West Pokot, Samburu, Trans-Nzoia, Kajiado, Vihiga, Busia, Homa Bay and Nyamira. The Committee recommended that the National Government develops a policy that will ensure all counties have at least one library. Library services are critical for learners, scholars, and researchers across the country and provide an avenue for youth to improve their knowledge and competence in academia.

192. The Committee also noted that the 2024 BPS provided for resources for the transferred Museums function of Ksh. 30,184,835 for Meru (Njuri-Njeke), Narok, Garissa, Wajir, Loyangalani, Kisumu, Kitale, and Isiolo. The funds are yet to be transferred as unconditional additional allocations to the respective County Governments in FY 2024/25 due to the delay in processing the County Government Additional Allocation Bill, 2024.

3.9 Standing Committee on National Security, Defence and Foreign Relations

193. The Committee noted with concern the pitfalls of the policy priority of the migration of 31.5 million records from the second-generation ID system to the third-generation system (Maisha Card). It was observed that the expiry of these cards would result in citizens being unable to access government services pending renewal of the cards. To address this, the Committee recommended that the Cabinet Secretary for Interior and National Administration develop policy, within six months of the approval of this report, setting out guidelines on how citizens would access government services before renewal of their cards.
194. The Committee observed that there are inadequate consular services to Kenyans in the diaspora given that out of the sixty-five Kenya Missions abroad, only thirty-five are offering consular services on account of inadequate funds to open new offices.
195. The Committee further noted that the Presidential proclamation on non-vetting of citizens in some parts of the country was yet to be gazetted even though

issuance of Identification Cards by the National Registration Bureau (NRB) was ongoing without the said vetting.

196. The Committee also observed that the number of police officers have dwindled over time due to natural attrition and the current police to population ratio was at 1:505 instead of the United Nations recommended ratio of 1:405. The Committee recommended that the National Treasury should allocate adequate resources for the recruitment of additional 5,000 police officers in the FY 2025/2026
197. The Committee similarly noted that the BPS ceiling of Ksh. 118 billion had only provided for recruitment of 5,000 police officers while National Police Service intends to recruit 10,000 police officers hence the policy is inconsistent with the allocation provided under the BPS.
198. The Committee observed that the policy of motor vehicle leasing by the National Police Service is not yielding optimal returns given the challenges posed by the terms of service from the leasing company. For instance, in most operational areas, the fueling point is several kilometers away and the terrain makes it difficult to service the cars. Moreover, the vehicles at times get impounded by the dealer on account of non-payments by the government making such a venture to be a threat to national security. The Committee therefore recommended a policy mix of both leasing and purchasing institutional vehicles.
199. The Committee noted that the implementation of the comprehensive medical cover and group life insurance for all the police officers over the years has been negatively impacted by inadequate funding. The total requirement for medical cover and Group Life & GPA cover amounts to Ksh. 12.9 billion over the medium term but the BPS ceiling for the same is Ksh. 3.5 billion. Failure to provide adequate resources for Health Insurance may imply that the policy priority of improving the police welfare is not translated fully into budget.
200. The Committee observed that the National Forensic Laboratory is operating at only 51 percent of its capacity on account of various labs including the Biology,

Chemistry, Acoustics and Imaging sections not having been equipped with the required reagents. There is no value for money accruing from the laboratory.

201. The Committee observed that the Directorate of Criminal Investigation (DCI) allocation towards security operations for undercover investigations as well as cases of specialized crimes such as femicide has dwindled over the years. The Committee further observed that there was a need to enhance the allocation towards such expenditure items for enhanced service delivery. To effectively deal with funding challenges facing the Directorate of Criminal Investigations on the operationalization of the National Forensic Laboratory, the Committee recommends that the DCI be allowed to retain 40 percent of all revenues generated from issuance of the Police Clearance Certificates (PCC) as Appropriation-in-Aid for the National Police Service effective in the FY 2025/26.
202. The Committee observed that the Housing requirements for the police had not been met for a long time with a housing deficit of 78,040 housing units and that there was need for the National Police Service to collaborate with the State Department for Housing to work together towards delivering the said houses under the affordable housing programme. The Committee recommends the Cabinet Secretary for Interior and National Administration develop a collaboration framework between the National Police Service and the State Department for Housing for the provision of police housing in the affordable housing programme within six months from the approval of this report.
203. The Committee observed that the State Department for Internal Security has been pursuing a policy of moving services closer to the people through operationalization of new administrative units. However, it was observed that despite slow progress in the operationalization of the already gazetted ones, more units were still being gazetted. The Committee recommended the operationalization of these units before gazettelement of additional units. The Committee further recommends that the Cabinet Secretary for Interior and

National Administration develop policy guidelines on gazettelement of new Administrative Units within six months of approval of this report.

204. The Committee observed that the resources for security operations were skewed towards the State Department at the expense of the National Police Service. There was a need to review how such resources could be shared between the State Department and the National Police Service. Given that the State Department for Internal Security coordinates security operations matters while the National Police Service executes the actual operations, the Committee recommends that The Cabinet Secretary for Interior and National Administration develops a basis of sharing security operations resources with the National Police Service within six months of the adoption of this report.

3.10 Standing Committee on Information, Communication and Technology.

205. The Committee noted that whereas the 2025 BPS proposes an increase in the allocations to the State Department for Broadcasting and Telecommunication for recurrent expenditure, this may be inadequate to discharge the high wage bills and pending bills for Corporations under this State Department. In addition, the Committee noted that the targets set by the Ministry for FY 2023/24 were not achieved partly due to exchequer issues.
206. The Committee noted the misalignment between allocations and set targets. The reduction in ICT and infrastructure development budget by Ksh.423.5 million despite targets for FY 2025/26 remaining unchanged. This will affect the implementation of those projects.
207. The Committee recommends an additional allocation of Ksh. 94 million to fully fund the establishment of 450 digital hubs as the initial allocation was Ksh. 378 million while the total resource requirement is Ksh. 472 million;
208. The Committee also noted that while there is a proposal to equip forty-two KBC stations with solar power, no funds have been allocated for the project. Given the resource requirement of Ksh. 200 million to equip 42 KBC stations with solar

power, the Committee recommended an allocation of Ksh. 100 million to achieve at least 50 percent implementation.

209. The Committee further recommended an additional allocation of Ksh.100 million for the Last Mile County Connectivity Network (Phase IV and V). Combined with existing foreign funding, this will ensure internet connectivity for all 1,500 government institutions across counties.

3.11 Standing Committee on Lands, Environment and Natural Resources

210. The Committee observed that the pace of Digitization of Land Registries is very slow. The total allocation for the digitization of land registries amounted to Ksh. 1,077 million, with an aim to digitize 10 land registries by 30th June, 2024. Despite this allocation the project has encountered implementation challenges, causing a slowdown in land transactions with only two registries, Nairobi and Murang'a, digitized.
211. Further, the Committee observed that the target to settle the landless for FY 2024/25 was to settle 8,000 households. However, by 31st Dec,2024 only 1,284 households were settled. This was occasioned by low budget allocation. The Committee recommended that the National Treasury should provide additional resources in the budget estimates for FY 2025/26 in order for the sector to be able to meet its objectives and targets for FY 2025/26 and the Medium Term.
212. The Committee recommended that the State Department for Lands and Physical planning be allocated sufficient funding for digitization of land registries and settlement of the landless. The budgetary shortfall of Ksh.693 million for digitization of land registries will reduce the pace of digitization of land processes and records. Additionally, the shortfall in the budget allocation by Ksh.6,024.8 million for settlement of the landless will hinder the achievement of the target to settle 14,000 households.
213. The Committee observed that under the Funding for Human Wildlife Conflict Claims Ksh. 2,045.3 million has been disbursed for compensation for Human-

Wildlife Conflict (HWC) which was piloted in six hotspot counties of Meru, Baringo, Laikipia, Narok, Kajiado, and Taita Taveta. However, the unpaid claims remain high and there is a need to allocate sufficient funds for compensation. The Committee recommended that the National Treasury provide additional resources to the State department for Wildlife to enable it to adequately provide water for the wildlife, clear the pending bills for the HWC claims, provide for fencing around national parks and to reduce the human wildlife conflicts.

214. The Committee noted that the Wildlife Conservation Trust Fund which was established under new Public Finance Management (Wildlife Conservation Trust Fund) Regulations 2023, to support conservation funding and ensure sustainable financing for wildlife initiatives has not received any allocation in the FY 2025/26 and the medium term even after its operationalization. The Committee recommended that the Wildlife Conservation Trust Fund which has a resource requirement of Ksh.941 million should be considered for a seed capital allocation of Kshs. 200 million and their Appropriation-In-Aid projection be captured in the FY 2025/26 and the Medium Term.
215. The Committee observed that, the Ksh.2,934,923,147.60 Minerals Royalties to County Governments as contained in the County Governments Additional Allocations Act, 2023 has not been disbursed to the 32 beneficiary counties. Further, due to the non-disbursement the allocation is being proposed in the FY 2025/26 Bill. There has been a challenge of withdrawing the funds from the Consolidated Fund to County Revenue Funds (CRF) due to lack of Budgetary provision under the State Department for Mining. Additionally, the regulations to facilitate the transfer of 10% share of mineral royalties due for communities are yet to be finalized. The challenges and the timelines for this unconditional disbursement need to be resolved.
216. The Committee recommended that, the Division of Revenue Bill (DORB) and County Government Additional Allocation Bill be synchronized and that if parliament fails to pass a County Governments Additional Allocations Bill on

time, there should be a provision for a county or implementing agency to access half (50%) of additional allocations.

217. The Committee observed that the Financing for Locally-led Climate Action (FLLoCA) program has a proposed allocation of Ksh. 7.8 billion to benefit the forty-seven counties.
218. The Committee noted that the Cabinet resolution on state corporation reforms affected five SAGAs under the State Department for Water and Sanitation. However, there is no policy direction in the BPS 2025 on how the resolution will be effected. The Committee recommended that, within six months of the approval of this report, the State department for Water and Sanitation provides a clear framework on how the merger of the Water Services Regulatory Board (WASREB), Water Resources Authority and the Regional Centre for Ground Water Resource into one Agency will be affected and the implications for County Governments.
219. The Committee noted that in FY 2024/2025 Supplementary I, the State Department for Water and Sanitation was allocated Ksh. 49.8 billion. In FY 2025/2026 the State Department has a total resource requirement of Ksh. 93.8 billion. However, in the BPS the Department has been allocated a total budget of Ksh. 46.1 billion. This reduction will make it difficult for the State Department to support the government's policy on improving water and sanitation.
220. That Committee noted that even with the enactment of the National Rating Bill, no provision has been made in the BPS 2025 with respect to the payment for contribution in lieu of rates to the County Governments. The Committee recommended that the National Treasury provide resources in FY 2025/26 for payment of contribution in lieu of rates for the County Governments since the National Rating Act is in force.
221. The Committee noted the delay in the enactment of the County Governments Additional Allocation Bill relating to FY 2024/25 has led to low or non-absorption funds for programmes supported by development partners such as K-

WASH, WSDP and FLLoCA and therefore, delay in achievement of their respective objectives and targets.

3.12 Standing Committee on Trade, Industrialization and Tourism

222. The Committee noted that as per the sector progress reports, the completion status of County Aggregated Industrial Parks (CAIPs) for the 18 counties averaged at 30 percent, two years after its launch. The roll out of phase II of the other 18 counties should commence with adherence to the timelines provided. The Ministry of Investments, Trade and Industry should therefore provide quarterly status implementation updates report on CAIPS to help oversight of the programme.
223. The Committee observed that there was a need to review the framework for disbursement of all loans by the Ministry of Investments, Trade and Industry especially in order to curb losses. The Committee recommended that the various State Departments under which the Financial Inclusion Fund (Hustler Fund), National Youth Opportunities Towards Advancement (NYOTA), Kenya Youth Employment and Opportunities Project (KYEOP), Kenya Industrial Estate (KIE), and UWEZO Fund fall submit reports, within thirty days of the approval of this report, on the effectiveness of the initiatives and actionable steps to limit the losses incurred by the Funds.

3.13 Standing Committee on National Cohesion, Equal Opportunity and Regional Integration

224. The Committee noted the lack of ethnic diversity among employees of county governments as reported by Auditor General over the years where employees are mainly drawn from the dominant community in the respective counties. This is contrary to the provisions of Section 7(1) of the National Cohesion and Integrity Act, No. 12 of 2008 which requires representation of the diversity of the people of Kenya in staff establishments of public entities.
225. The Committee noted that the three agencies under its purview have unmet targets mainly due to budget constraints. With the proposed increased ceilings

and the proposed priorities in the 2025 BPS, these agencies are unlikely to meet their targets in FY 2025/26 and the medium term. The National Treasury should provide additional resources in the budget estimates for FY 2025/26 enable the sector to meet its objectives and targets.

226. The Committee noted that the 2025 BPS proposes merging of the National Fund for the Disabled of Kenya (NFDK) with the National Council for Persons with Disabilities (NCPWD). However, there is no policy direction in the BPS on how the resolution will be effected. The committee recommended that, within 3 months upon approval of these report by the Senate, the two agencies should provide the policy direction and the implication of this proposed merger to the welfare of PWDs.
227. Further, the Committee recommended that, the National Treasury should provide sufficient resources in FY 2025/26 and the medium term for interventions to support albinism, autism, Internally Displaced Persons (IDPs) and refugee programmes.

CHAPTER 4

COMMITTEE OBSERVATIONS AND FINDINGS

228. Having considered the 2025 BPS, submissions from Stakeholders and Standing Committees, the Committee made the following observations and findings-
- a) The National Treasury projects economic growth at 5.3 percent in 2025, up from the 4.6 percent projected for 2024. This growth is expected to be driven by the agriculture and the services sectors. However, factors such as delays in implementing key Bottom-Up Economic Transformation Agenda (BETA) priorities, limited fiscal space, sluggish private sector activity and unpredictable weather conditions could pose risks to achieving this outlook.
 - b) Overall inflation is projected to remain within the target range of 5 ± 2.5 percent, supported by a downward trend in food and fuel prices. This decline is primarily attributed to favorable weather conditions and falling global crude oil prices. The benefits of lower inflation are yet to be fully felt. This indicates subdued demand due to reduced disposable income due to taxation and persistent policy changes. Additionally, inflationary risks remain high due to potential climate-related shocks, volatility in global fuel prices, and disruptions in trade and global supply chains, suggesting that the current relief may be short-lived.
 - c) The BPS builds on the proposed interventions under the Fourth Medium-Term Plan (MTP IV) which aims to generate approximately 1.2 million jobs annually. However, employment trends in the country indicate a concerning trajectory. While overall employment increased from 18.1 million to 20 million between 2019 and 2023, the employment growth rate declined from 4.9 percent to 4.4 percent over the same period. Additionally, real wages across both the private and public sectors fell by 10.7 percent between 2020 and 2023. The average annual real wages in the private sector declined by 8.4 percent, while those in the public sector dropped by 15.8 percent. This slowdown in employment creation is largely due to the sluggish expansion of the industrial sector, which is critical for job generation.

- d) Between August 2024 and February 2025, the Central Bank implemented a monetary policy easing by consistently lowering the Central Bank Rate (CBR) in order to reduce interest rates and improve access to credit. However, credit to the private sector has instead contracted: notably total credit growth dropped significantly from 14.4 percent in November 2023 to 4.6 percent in November 2024, driven by a sharp deceleration in private sector credit growth from 13.2 percent to -1.1 percent over the same period.
- e) The 2025 BPS highlights that the current account deficit has narrowed from 4.4 percent of GDP in December 2023 to 3.6 percent of GDP in 2024. However, this reduction is primarily attributed to a decline in imports rather than a significant improvement in exports. The drop in imports has been driven by weakened household and business demand due to declining purchasing power and reduced investment capacity.
- f) The funding of the FY 2025/26 budget is based on the expectation of strong total revenue performance, including Appropriations-in-Aid (A-i-A), projected at 17.6 percent of GDP in both FY 2024/25 and FY 2025/26, before rising to 18.1 percent of GDP over the medium term. However, total revenue as a share of GDP has remained within an average of 17.2 percent between FY 2021/22 and FY 2023/24, with ordinary revenue declining from 15.1 percent of GDP to 14.5 percent of GDP over the same period—falling below set targets.

Additionally, total revenue fell short of the target by Ksh. 107.7 billion in the first half of FY 2024/25. This persistent revenue underperformance raises concerns about the feasibility of the projected targets, increasing the government's reliance on additional borrowing to bridge the fiscal gap and further exacerbating debt sustainability challenges.

- g) The National Treasury has maintained similar revenue mobilization strategies in the 2025 BPS as those outlined in the Budget Policy Statements of 2023 and 2024. These initiatives include implementing the National Tax Policy and the Medium-Term Revenue Strategy, strengthening tax administration, broadening the tax base, reducing tax expenditures, leveraging on technology to modernize

tax processes, closing revenue loopholes, and improving tax system efficiency. However, failure to make policy adjustments raises concerns about the effectiveness of these initiatives, as the existing strategies have consistently yielded the same results, with revenue performance continuing to fall short of targets.

- h) To support fiscal consolidation, the government aims to reduce total expenditure from 22.8 percent of GDP in FY 2024/25 to 22.1 percent of GDP in FY 2025/26. Efforts to re-prioritize and rationalize spending have already led to a decline in overall expenditure-net lending from 24.6 percent of GDP in FY 2020/21 to 22.4 percent of GDP in FY 2023/24. However, this reduction has primarily affected development expenditure, which dropped from 4.2 percent of GDP to 3.4 percent of GDP, and transfers to county governments, which declined from 2.8 percent of GDP to 2.4 percent of GDP. The sharp decline in development expenditure raises concerns about stalled projects, rising pending bills, prolonged project completion timelines, reduced public investment, and a contraction in aggregate demand.
- i) The government plans to reduce the fiscal deficit (including grants) from 5.6 percent of GDP in FY 2023/24 to 4.3 percent of GDP in FY 2025/26. This reduction is based on anticipated improvements in revenue performance through proposed measures and the fiscal consolidation strategy. However, if revenue continues to fall short of targets—as has been the trend—the actual fiscal deficit may exceed the target unless there are corresponding reductions in ministerial expenditures. The growth in fiscal deficit results to increase in debt service which takes a huge part of the budget, thus, affecting development budget.
- j) The National Treasury plans to borrow Ksh. 684.2 billion from the domestic market and Ksh. 146.8 billion from external sources to finance the projected budget deficit of Ksh. 831 billion in FY 2025/26. The government's reliance on the domestic market for funding may lead to crowding out private sector lending, limiting access to credit and potentially slowing economic growth.

- k) Nationally raised revenue (ordinary revenue) is projected to grow by 10% (an increase of Ksh. 259.1 billion), rising from Ksh. 2,575.9 billion in FY 2024/25 to Ksh. 2,835 billion in FY 2025/26. However, despite this overall growth, the county equitable share for FY 2025/26 is proposed to increase by Ksh. 17.7 billion to Ksh. 405.1 billion from Ksh. 387.4 billion allocated in FY 2024/25. This does not align proportionally with the growth in sharable revenue thus limiting the abilities of counties to adequately finance devolved functions. Further, The National Treasury did not provide the criteria used to arrive at the proposed allocation of Ksh. 405.1 billion.
- l) The revenue-sharing criteria for FY 2025/26 indicate that after deducting mandatory allocations as outlined in Article 203(1) of the Constitution, only Ksh. 353.4 billion remains for distribution between the two levels of government. This falls short of the proposed Ksh. 405.1 billion county equitable share, highlighting a misalignment between the sharable revenue provided under Article 203(2) and the government's mandatory expenditure commitments under Article 203(1).
- m) In December 2024, the Intergovernmental Relations Technical Committee (IGRTC) identified, delineated, and transferred several functions to county governments. However, the BPS 2025 does not outline a framework for allocating and transferring the necessary resources to support these functions. The absence of clear policy direction contradicts the principle that resources should follow functions, potentially hindering effective service delivery at the county level.
- n) Counties have consistently allocated more than 30 percent of their total budgets to development, which has averaged at 33.6 percent between FY 2022/23 and FY 2024/25. However, the actual development expenditures by the end of the financial year trail below the minimum thirty percent requirement as per the provisions of the PFM. In FY 2023/24, only nine counties met this requirement, implying that counties do the allocation for approval purposes and fail to actualize at the implementation. This non-adherence to the requirement affects the expected service delivery.

- o) Over time, nearly all counties have exceeded the threshold of thirty-five (35) percent of the total revenue for personnel emolument. In FY 2023/24, County Governments' expenditure on employee compensation and other benefits amounted to Kshs.209.8 billion, accounting for 47.6% of the total revenue of Kshs.440.7 billion. Only three counties, namely Tana River, Narok, and Kilifi, had expenditures on wages, and salaries were below the threshold. It is observed that the rise is attributable to use of manual payrolls and the unregulated employments, that go beyond approved staff establishments.
- p) There is a growing pending bills burden in counties totaling Kshs.181.9 billion by the end of FY 2023/24. This was equivalent to a 10% growth (an increase of Kshs.17.22 billion) from Ksh.164.76 billion reported in the previous FY 2022/23. As of September 2024, total pending bills stood at Kshs.194 billion, representing a 6 percent growth in the First Quarter of FY 2024/25. Nairobi City County has the highest pending bill of Ksh.121.1 billion (as of September 2024), which represents 62.4 percent of the entire stock of pending bills. Pending bills compromise the ability of counties to provide services.
- q) County governments have persistently failed to remit to pension deductions in contravention of the law. The outstanding non-remitted fund totaled Kshs.91.2 billion as of October 2024. The debts increased by Kshs.17.8 billion from August 2023 which had an outstanding balance of Kshs.73.4 billion. This accumulation rate (24.5 percent increase) is alarming and would lead to staff retiring without pensions.
- r) The BPS 2025 proposes a number of interventions to support counties to enhance collection of OSR, mainly including the imposition of property rates by counties pursuant to Article 209(3)(a) and the National Rating Act, 2024. However, while property rates are a considerable source for enhancing the fiscal space for counties, its potential is not uniform across all counties. The impact would be limited in rural counties that are characterized by lands without title deeds, low values of land and the inability of citizens to meet their obligations. Further, other

counties have limited agricultural production capacity hence, rely more on levying cess on goods in transit.

- s) The BPS indicates that part of the expected sharable revenue (ordinary revenue) is allocated to programs that are of National Interest and other key pillars of the economy. However, part of the project implementation is left as an obligation to county governments. Projects such as Universal Health Care being implemented through Community Health Promoters (CHPs), County Aggregation, and Industrial Parks (CAIPs), and contributions towards the Housing Levy and Social Health Insurance tend to constrain the fiscal space of counties, hence depriving them of the resources to implement their core flagship projects.
- t) The BPS proposes to allocate Ksh.7.8 billion to the Equalisation Fund for FY 2025/26 and further Ksh.2.7 billion towards the settlement of outstanding arrears owed to the Fund.

However, total arrears to the Fund at the end of FY 2023/24 was Ksh.49 billion. Five years to the lapse of the Fund, the objectives of the Fund are yet to be realized.

- u) Whereas there have been consistent appropriations to the Equalization Fund, the National Treasury has delayed disbursements. Further, despite the growing arrears there is a lack of commitment from the government to honor the payment of the arrears to the Fund.
- v) Regarding the proposed transition from cash accounting to accrual accounting, the Committee noted that the initiative will enhance financial management, improve cash flow oversight, and strengthen fiscal reporting across all levels of government.
- w) The restructuring of state corporations presents challenges, especially for those handling devolved functions. While plans exist to merge or dissolve several agencies, there has been no commitment to transferring those performing county-level responsibilities such as the National Water Harvesting and Storage

Authority, KURA, and KeRRA, to county governments along with their financial resources.

- x) The BPS's reporting on fiscal responsibility principles related to wages and development spending is incomplete. It only considers ministerial wages and expenditures within the national government while excluding other arms of government such as Parliament and the Judiciary. This approach misrepresents the true financial position of the government.
- y) The national government intends to focus on non-tax revenues that MDAs can raise through charging additional fees for their services. This will have the attendant consequence of increased costs for members of the public to access government services and increasing the cost of doing business.
- z) Debts owed to Kenya Power and Lighting Company by county governments amount to approximately Ksh. 4.3 billion as at November 2024 with Nairobi City County accounting for the largest portion of the debt at 69 %, equivalent to Ksh. 3.0 billion. These outstanding electricity pending bills continue to rise as demonstrated by the increase of approximately Ksh. 150 million in the period between April and November 2024. Non-payment of electricity bills by counties has partly been caused by lack of consultation between relevant national government agencies and county governments on street lighting projects.
- aa) There is an increase in allocation under the General Administration programme in the State Department for Medical Services from Ksh. 14.5 billion in the approved estimates of FY 2024/25 to Ksh. 93.4 billion in the 2025 BPS of which Ksh. 78.9 billion is anticipated to be money raised from contributions to the Social Health Insurance Fund (SHIF). However, whereas 18 million people have registered with the Social Health Authority, only 4 million people are currently contributing to SHIF. This will affect the funding trend for the Fund and may occasion shortfalls in contributions.
- bb) The BPS proposed an allocation of Ksh.4.1 billion to the Primary Health Care Fund, however, there is no provision for Emergency, Chronic and Critical Illness

Fund and this will affect the implementation of UHC. Additionally, the Social Health Authority continues to face challenges relating to the roll out and management of SHIF such as processing of claims primarily associated with system failures and pending bills.

cc) The Committee noted that the RMLF remains a critical financing component in the FY 2025/26 budget with the BPS 2025 recommending a total of Ksh. 69.523 billion from the RMLF to be applied to the recurrent budget of the State Department for Roads. However, despite this proposal to deploy proceeds from RMLF to national government agencies, there is no corresponding allocation to county government for the maintenance of county roads as contemplated in the Road Maintenance Fund Act. Moreover, the Senate approved a total of Ksh. 10.52 billion in the 2024 BPS following a proposal by the National Treasury to transfer to counties as conditional allocation through the County Governments Additional Allocations Bill, 2024.

dd) Further, following the revision of the Road Maintenance Fuel Levy from Ksh. 18 to Ksh. 25 per litre of diesel and petrol, the Cabinet approved the securitization of the additional Ksh. 7 per litre in July 2024 with a view to borrow and unlock additional financing to support sector specific interventions such as payment of pending bills. Consequently, the State Department for Roads, through the Kenya Roads Board, is planning to issue a bond to raise Ksh. 175 billion by 30th June, 2025, where the amounts raised will be used to settle road pending bills.

ee) Following deliberations with Constitutional Commissions and Independent Offices the Committee noted that most their services are centralized in Nairobi City. This limits timely access to their services by the public particularly for citizens living outside Nairobi City County. Further due to lack of full automation of their processes and systems, resulting in inefficiencies, delays in service delivery, and increased operational costs.

ff) Most Constitutional Commissions and Independent Offices spend a substantial share of their budgets on rent for office space and especially on private premises which reduces the resources available for their core functions.

gg) There is an increase in the number of persons affected by government projects whose implementation requires acquisition of private land. This is because a number of projects are initiated before full acquisition of land, which often leads to project implementation delays, cost overruns, and legal disputes, ultimately affecting the timely and efficient implementation of projects.

hh) The proposed ceilings in the 2025 BPS are insufficient to meet the resource needs of constitutional commissions and independent offices, which will limit their ability to fully execute their constitutional mandates.

CHAPTER 5

COMMITTEE RECOMMENDATIONS

229. Arising from the above observations, the Committee recommends as follows-

a) Policy Recommendations

- a) To address unemployment and hasten economic growth, the government should accelerate the delivery of delayed development programmes including those funded by development partners, fast track delivery of BETA priorities and key value chains including agro processing while promoting cost effective manufacturing to support industrial growth in the country.
- b) Both the National Government and respective County Governments should ensure strict compliance to fiscal responsibility principles set out in the Constitution and more specifically in the PFM Act including thresholds on allocations to development expenditure and personnel emoluments under section 15(2) as read together with section 107(2) and regulation 25 of the PFM (County Governments) Regulations, 2015, respectively.
- c) The National Treasury should provide requisite resources for allocation to the Emergency, Chronic and Critical Illness Fund for FY 2025/26 to enhance Universal Health Coverage (UHC) coverage. Further, in the event that contributions to the SHIF fall below the expected target, the National Treasury should provide additional resources to ensure financial sustainability for the UHC.
- d) That sharing of expected proceeds of the RMLF for the FY 2025/26 takes into account transfer for counties towards maintenance and rehabilitation of county roads. Consequently, the Committee recommends a total of KShs. 13.9 billion as conditional allocation towards maintenance and rehabilitation of county specific roads and the amounts be included in the County Government Additional Allocation Bill applicable to FY 2025/26.
- e) Subject to legal compliance to applicable law governing the administration of the RMLF, the planned borrowing of Ksh.175 billion using part of the road maintenance levy as security (KSh 7). The State Department for Roads should

consider and incorporate a proportionate share of the amounts to be raised through the bond towards settlement of respective county's pending bills under the road sector.

- f) National Treasury should ensure that there are no in-year revisions through the Supplementary Budgets to the additional allocations provided for in the respective County Governments Additional Allocation Act. Further that, in case of any revisions, they must be effected through amendments to the applicable County Governments Additional Allocations Act;
- g) In line with the resolution of the Senate on pending bills, the National Treasury and the Pending Bills Verification Committee should submit to the Senate, within thirty days of the approval of the BPS report, a status report on the progress made in addressing the issue of pending bills.
- h) That county governments should, in their budgets for FY 2025/26, provide for the payment of all verified pending bills owed to Kenya Power and Lighting Company. Further, the national government should ensure proper planning and coordination with county governments whenever the national government, through its implementing agencies, proposes energy projects in the counties, especially street lighting projects.
- i) The Multi-Agency Taskforce on the non-remittance of pension deductions to pension schemes established vide Gazette Notice No. 14800 of 2024 to submit a status report to the Senate, within sixty days of the adoption of this report, setting out the progress made in addressing non-remittance of statutory deductions as well as curtailing non-compliance going forward.
- j) Following the review of various laws on devolution, the IGRTC to submit a report to the Senate, within thirty days of the approval of this report, setting out proposed amendments to various laws to support devolution including the transfer of functions to counties.
- k) That, in order to take services closer to the people and enhance accessibility, constitutional commissions and independent offices should decentralize their operations by establishing

offices at the county level or establish regional hubs in line in principle of taking services closer to the people.

- l) That, Ministries, Departments and Agencies implementing a project affecting private land should ensure land acquisition is prioritised when implementing such projects especially compensation of affected persons.
- m) That, National Treasury should coordinate the development and implementation of a long-term strategy to minimize rent expenditure across national government agencies including investing in government-owned office space and optimizing office-sharing arrangements.

b) Financial Recommendations

- n) The Committee made the following financial recommendations-
 - i) The national government's equitable share for FY 2025/26 be Ksh. **2,359,449,965,860.**
 - ii) The county equitable share for FY 2025/26 be Ksh. **465,001,459,673**
 - iii) That the Equalisation Fund be allocated Ksh. **10,589,554,076**
 - iv) That Additional Allocations to counties be Ksh. **69,802,409,624** billion as per (*Annex 2*)
- o) Following receipt of requests for additional funding from the Constitutional Commissions and Independent offices amounting to Ksh.43.72 billion (*Annex 3*) for various unfunded and underfunded needs, the Committee recommends that the National Treasury consider an extra allocation of **Ksh.2.4 billion** to cater for critical expenditure needs within the FY 2025/26 fiscal framework for the following offices-
 - i. Office of the Controller of Budget- **Ksh.181.1 million** for the staff grade restructuring.
 - ii. Office of the Auditor-General -**Ksh.240.0 million** for additional Audit needs in the Public Sector
 - iii. Independent Electoral and Boundaries Commission (IEBC)-**Ksh. 520 million** to enhance the funding for the upcoming by-elections.
 - iv. Commission on Administrative Justice- **Ksh.67.6 million** for establishing and operationalizing two county offices.

- v. National Land Commission- **Ksh.67.7 million** for the commissions to Prioritize payment of litigation pending bills.
- vi. Ethics and Anti-Corruption Commission- **Ksh.88.9 million** for recruitment of additional staff.
- vii. Salaries and Remuneration Commission -**Ksh.51.9 million** for the Implementation of Key activities under the SRC Mandate.
- viii. Commission on Revenue Allocation- **Ksh.140.3 million** to undertake a study on the cost of OSR collection
- ix. Kenya National Commission on Human Rights -**Ksh.52.9 million** for Devolution of Human Rights Services to the Counties.
- x. National Police Service Commission -**Ksh.143.3 million** for automation and Digital transformation of NPS and NPSC Processes.
- xi. Teachers Service Commission-**Ksh.494.4 million** for the Purchase of Motor Vehicles for Sub-County offices.
- xii. Public Service Commission -**Ksh.55.8 million** for the Public Service Emerging Leaders Fellowship (PSELF) Programme
- xiii. National Gender and Equality Commission -**Ksh.59.5 million** to enhance the Commission’s work at the County Level.