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ACKNOWLEDGMENT

The Budget Watch is a Parliamentary Budget Office (PBO) report series produced annually that disseminates the assessment of key issues on the implementation of the approved budget in a particular financial year. By examining the government's priority programmes and projects, the Budget Watch is instrumental in holding the government accountable for its promises and enhancing efficiency, effectiveness, equity, and accountability in collecting and utilizing public finances. It is intended to enrich the oversight role of the Legislature and other stakeholders in the management of public resources. This 19th edition of the Budget Watch has been prepared to facilitate monitoring the implementation of the budget for the Financial Year 2026/2027.

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

The findings, interpretations, and conclusions expressed in this publication are entirely those of the authors and do not necessarily represent the views of the Parliament of Kenya.

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ACRONYMS AND ABBREVIATIONS

AiA	Appropriation in Aid
AHL	Affordable Housing Levy
AHP	Affordable Housing Programme
BETA	Bottom-up Economic Transformation Agenda
CBK	Central Bank of Kenya
CAIPs	County Aggregation and Industrial Parks
CBR	Central Bank Rate
CEO	Chief Executive Officer
CFS	Consolidated Fund Services
CPF	County Pension Fund
DoRA	Division of Revenue Act
DUC	Differentiated Unit Cost
EAC	East African Community
GDC	Geothermal Development Company
GDP	Gross Domestic Product
GOE	Government Owned Entreprises
GoK	Government of Kenya
HELB	Higher Education Loans Board
ICT	Information and Communication Technology
IEBC	Independent Electoral and Boundaries Commission
IPO	Initial Public Offer
KENGEN	Kenya Electricity Generation Company
KETRACO	Kenya Electricity Transmission Company
KIEMS	Kenya Integrated Electoral Management System
KPC	Kenya Pipeline Company
KPLC	Kenya Power and Lighting Company
KRA	Kenya Revenue Authority
KSHS	Kenya Shillings
LAPFUND	Local Authorities Provident Fund
LAPTRUST	Local Authorities Pensions Trust
NHIF	National Health Insurance Fund
NIF	National Infrastructure Fund
NOCK	National Oil Corporation of Kenya
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management
PBO	Parliamentary Budget Office
RBA	Retirements Benefits Authority
SCF	Student-Centred Funding
SEZ	Special Economic Zones
SPA	Special Purpose Account
SPV	Special Purpose Vehicle
TVET	Technical and Vocational Education and Training
UF	Universities Fund
US/USA	United States of America
USD	United States Dollars
VAT	Value Added Tax
WSP	Water Service Providers

CHAPTER ONE: INTRODUCTION

CPA. Cyrille Mutali and Ms. Terry Ondiko

This 19th edition is prepared against a global and domestic backdrop that is cautiously optimistic but characterised by significant underlying vulnerabilities where Kenya enters the new financial year on relatively firm economic footing. The Real Gross Domestic Product (GDP) expanded by 5.3% in the first quarter of 2026, compared with 4.6% in 2025, supported principally by construction, services, and a recovery in private-sector credit. However, this momentum is unfolding within a global economy constrained by geopolitical tensions, volatile energy prices, disrupted supply chains, and tight financial conditions. These pressures have direct implications for Kenya's growth, inflation, exchange-rate stability, external financing, and the cost of servicing public debt.

The outlook for domestic growth reflects this uncertainty. Forecasts for 2026 range from the World Bank's more conservative projection of 4.3% to the National Treasury's projection of 5.0%, with the Parliamentary Budget Office (PBO) adopting a comparatively cautious assessment. This divergence underscores the importance of realistic assumptions and prudent risk management in the FY 2026/27 Budget. Inflation remains within the CBK's target band of 2.5 to 7.5%, but it has edged upwards through the middle of 2026, driven largely by rising transport and food costs. Core inflation has also firmed, suggesting that price pressures may be broadening beyond volatile food and energy items.

On the external sector, foreign-exchange reserves remain adequate, diaspora remittances continue to anchor the balance of payments, and the Kenya shilling has remained broadly stable against major currencies. It is worth noting that the economy remains exposed to higher petroleum costs, external debt repayments, weaker portfolio inflows, and uncertainty in global financial markets. These developments point to the need for continued vigilance and for policies that strengthen export diversification, domestic value addition, foreign-exchange inflows, and the competitiveness of Kenya's tradable sectors.

Based on the foregoing, the Government has charted a path of fiscal consolidation for FY 2026/27. The immediate objective is to narrow the budget deficit to 5.5% of GDP, with a medium-term target of approximately 4%, while reducing public debt from about 68% toward 62% of GDP. At the same time, revenue collection must increase from approximately 17% to 18% of GDP and expenditure must be rationalised even as wages, pensions, and interest consume an increasing share of recurrent spending and risk crowding out development priorities. The financing strategy must also gradually shift toward concessional external borrowing, notwithstanding tight global financial conditions and exchange-rate risks that may increase the cost of servicing external debt.

This edition reviews six expenditure policy areas with major implications for public investment, service delivery, intergovernmental relations, institutional readiness, and citizen welfare. The transition of energy and petroleum sector projects to the National Infrastructure Fund (NIF) is expected to ease pressure on the Exchequer and attract private capital for commercially viable infrastructure. The Affordable Housing Programme (AHP), a key pillar of the Bottom-Up Economic Transformation Agenda (BETA), aims to expand housing access, boost construction, and create jobs, but faces a financing gap exceeding Kshs. 118 billion for the coming year, with 176 of 1,186 projects currently stalled—raising concerns about sequencing, prioritisation, affordability, timely financing, completion schedules, and transparent beneficiary identification.

The Student-Centred Funding Model marks a shift from blanket institutional capitation to needs-based support tied to individual student circumstances and actual programme costs, with potential to improve scholarship and loan targeting. However, chronic underfunding of the University Fund and the Higher Education Loans Board (HELB) threatens to undermine the model before it takes hold, delayed disbursements risk straining university cash flows and student welfare, and the continued lack of Sharia-compliant loan products means equitable access remains unrealised. The County Aggregation and Industrial Parks (CAIPs) programme, meant to drive agro-industrial transformation, local value addition, and economic activity across all 47 counties, illustrates the dangers of policy ambition outpacing implementation capacity: disbursement rates of roughly 50% from both national and county governments have left many parks behind schedule, even as funds are earmarked for operationalising facilities that aren't yet physically complete making success dependent on site readiness, complementary infrastructure, clear national-county responsibility divisions, market and finance access, and facility viability.

On election preparedness, the Independent Electoral and Boundaries Commission (IEBC) needs to deliver a credible, transparent, peaceful, and inclusive 2027 General Election, requiring adequate financing, timely procurement, voter registration and education, institutional capacity, reliable logistics, and secure Information and Communication Technology (ICT) systems for verification and results transmission. The Commission has received only about half of the Kshs. 48.7 billion, with shortfalls hitting general administration, voter education, and ICT thus making timely financing, schedule adherence, and early legal/regulatory reforms essential. Finally, pending pension contributions especially arrears accumulated by county governments through unremitted employee deductions and delayed employer contributions have grown to nearly Kshs.

116 billion, hitting employees nearing retirement hardest and eroding confidence in the pension system. Resolving this requires accurate liability reconciliation, realistic repayment plans, stronger enforcement, better inter-agency coordination, and timely action on the Multi-Agency Taskforce's recommendations and related legislative reforms.

A central message of this edition is therefore that budget credibility depends not only on the approval of allocations, but also on the quality, timeliness, and accountability of implementation. Delays in releasing funds, underfunding of priority programmes, weak coordination, unresolved legal and policy issues, inadequate monitoring, and the accumulation of pending obligations can undermine the impact of otherwise well-intentioned interventions.

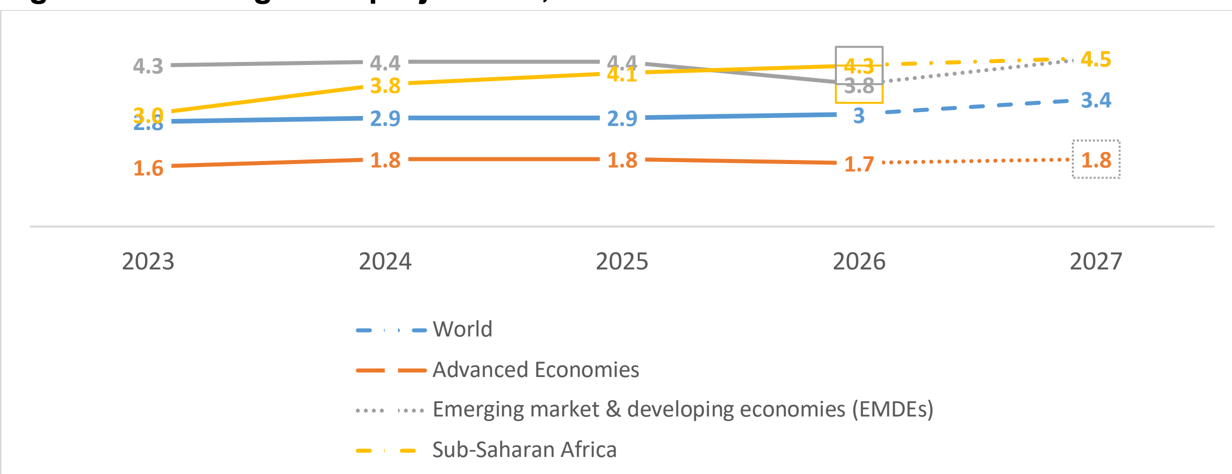
CHAPTER TWO: ECONOMIC GROWTH PROSPECTS

Ms. Julie Mwithiga, Dr. Evans Kiganda and Ms. Loice Olesia

2.1. Global Economic Outlook

1. **Global growth is expected to remain moderate, with projections pointing to 3.0 percent in 2026 and 3.4 percent in 2027 after an average of 3.5 percent in 2024–2025[1].** The outlook is constrained by heightened geopolitical tensions, energy-price volatility, supply-chain disruptions and tighter financial conditions. Advanced economy growth is expected to remain subdued, while growth in emerging market and developing economies is projected to recover gradually in 2027. Global inflation is also expected to remain elevated in 2026 before easing in 2027, implying continued pressure on policy rates, debt service costs and commodity importers.[2]

Figure 1: Global growth projections, 2023–2027



Source: World Bank

2. **Growth in Sub-Saharan Africa is projected to remain broadly stable, easing marginally from 4.1 percent in 2025 to 4.0 percent in 2026.** Domestic demand, private investment and improving monetary conditions are expected to support activity, but the region remains exposed to elevated debt-service obligations, weak job creation and spillovers from geopolitical tensions. The main transmission channels are likely to be trade, investment, financial markets and labour-market pressures.[3]

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[1] https://www.imf.org/en/Publications/WEO/weo-database

[2] *World Bank, Global Economic Prospects, June 2026*

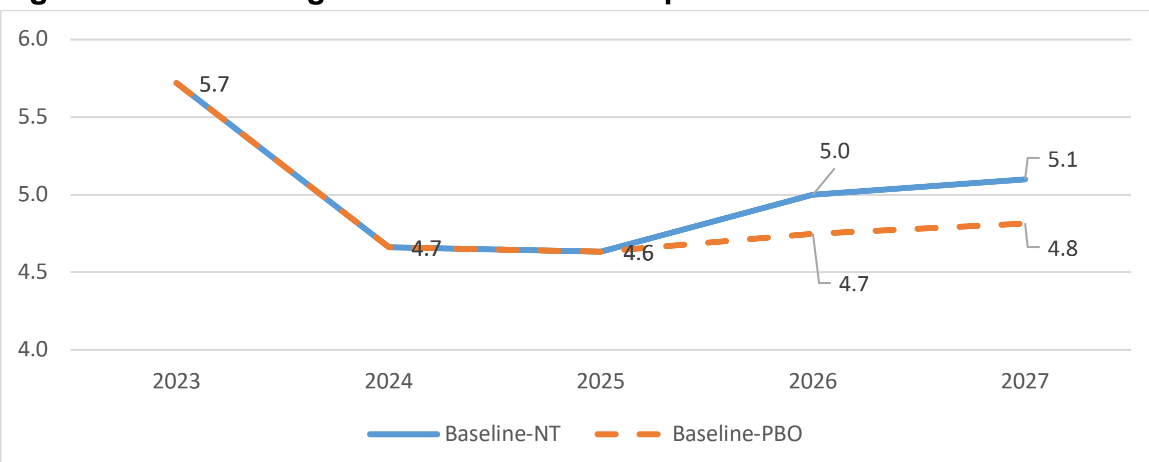
[3] World Bank (2026). Making industrial policy work in Africa: Africa economic update (April 2026). World Bank, Washington, DC. doi: 10.1596/978-1-4648-2333-6.

2.2. Domestic Economic Outlook

2.2.1. Economic Growth

3. **Kenya's growth gained momentum in early 2026, with real Gross Development Product (GDP) expanding by 5.3 percent in the first quarter, up from 4.6 percent in 2025.** The improvement was driven by construction, services and private sector credit, though risks remain from oil-price volatility, weaker external demand, debt-service pressures and geopolitical tensions. The World Bank projects lower 2026 growth of about 4.3 percent, compared with earlier forecasts above 4.6 percent, highlighting the need for a cautious baseline. As shown in Figure 2, the National Treasury projects growth of 5.0 percent in 2026 and 5.1 percent in 2027[4], while PBO projects 4.7 percent and 4.8 percent, reflecting a more cautious risk assessment. Growth is expected to be supported by manufacturing and agriculture, including over Kshs.19 billion allocated in FY 2026/27 to stimulate manufacturing and industrial growth.

Figure 2: Economic growth forecast for the period 2023 to 2027



Source: KNBS and PBO (projections)

4. **The outlook remains subject to material downside risks, particularly from external price shocks and weaker domestic production performance.** Elevated oil prices, supply disruptions, weaker external demand, lower remittances and subdued tourism could weigh on growth[5]. Scenario analysis shows that adverse shocks to manufacturing and construction would reduce overall GDP growth by about 0.1 and 0.2 percentage points, respectively, underscoring the need to sustain activity in the secondary sector.

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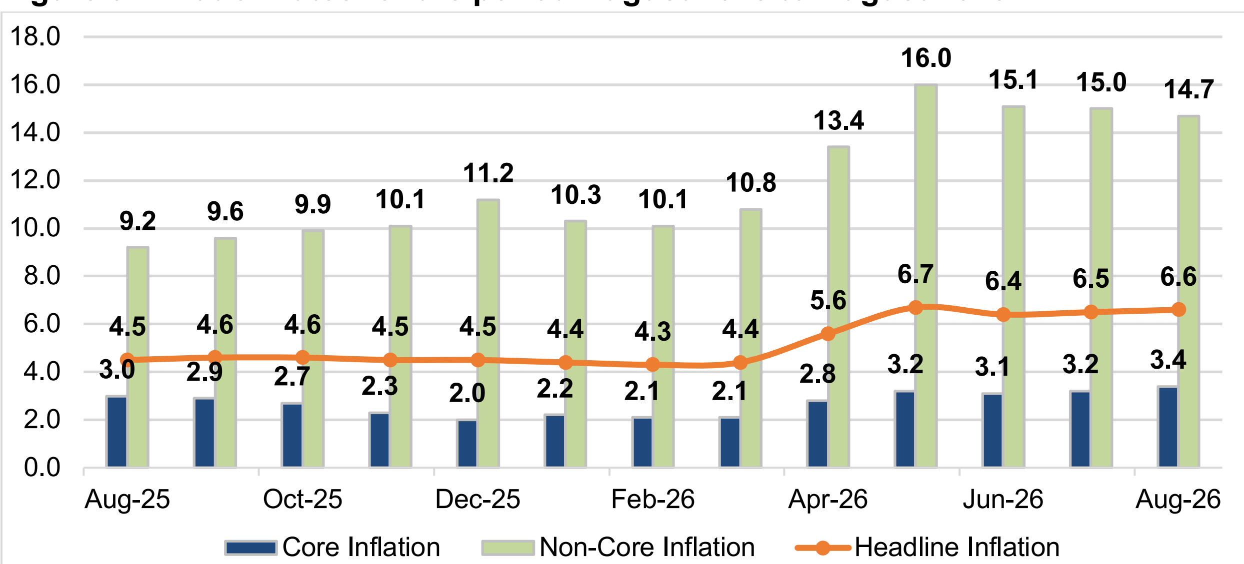
[4] National Treasury (2026). Budget summary for the fiscal year 2026/27 budget and supporting information and documents.

[5] AfDB (2026). Kenya economic outlook: Outlook and risks. https://www.afdb.org/en/countries-east-africa-kenya/kenya-economic-outlook

2.2.2. Inflation

5. **Overall inflation remained within the Central Bank of Kenya's (CBK) target band of 2.5–7.5 percent, but it edged up steadily over the period, rising from 6.4 percent in June 2026 to 6.5 percent in July and 6.6 percent in August 2026[6].** The increase in August was largely driven by higher transport costs and rising food prices, pointing to continued pressure from fuel-related expenses and household consumption items such as vegetables, fruits and milk. Core inflation, which excludes volatile food and energy components, also increased from 3.2 percent in July to 3.4 percent in August, suggesting that underlying price pressures were becoming firmer. Meanwhile, non-core inflation eased marginally from 15.0 percent in July to 14.7 percent in August, but remained high, underscoring the economy's continued vulnerability to volatile food and energy prices, weather-related supply disruptions, and global supply-side shocks.

Figure 3: Inflation rates for the period August 2025 to August 2026



Source: KNBS

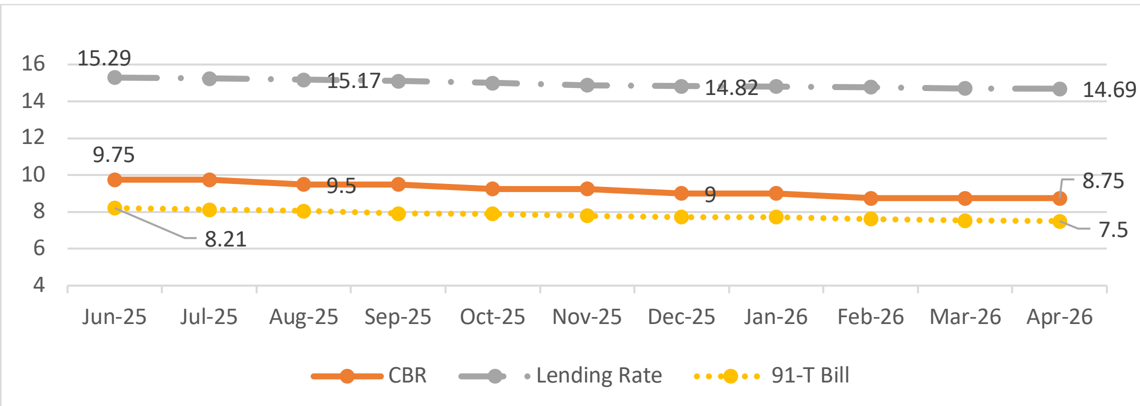
6. **Inflation is projected to remain within the target range by December 2026, with headline inflation estimated at 5.8 percent under the baseline scenario.** Under an adverse shock, headline inflation could rise by 0.8 percentage points to 6.6 percent, mainly driven by non-core inflation. Containing food and energy price pressures, while maintaining prudent monetary policy, will therefore be central to sustaining price stability.

[6] KNBS (2026). The Kenya consumer price index and inflation report: 30th June 2026

2.2.3. Interest rates and credit

7. **The Central Bank of Kenya maintained the Central Bank Rate (CBR) at 8.75 percent in August 2026, marking a pause after earlier monetary easing.** The policy stance reflects the need to keep inflation expectations anchored within the target range while preserving exchange rate stability amid elevated external uncertainty. Market transmission has continued gradually, with the average commercial bank lending rate declining to about 14.3 percent in July 2026, supported by earlier reductions in the policy rate and improved liquidity conditions.

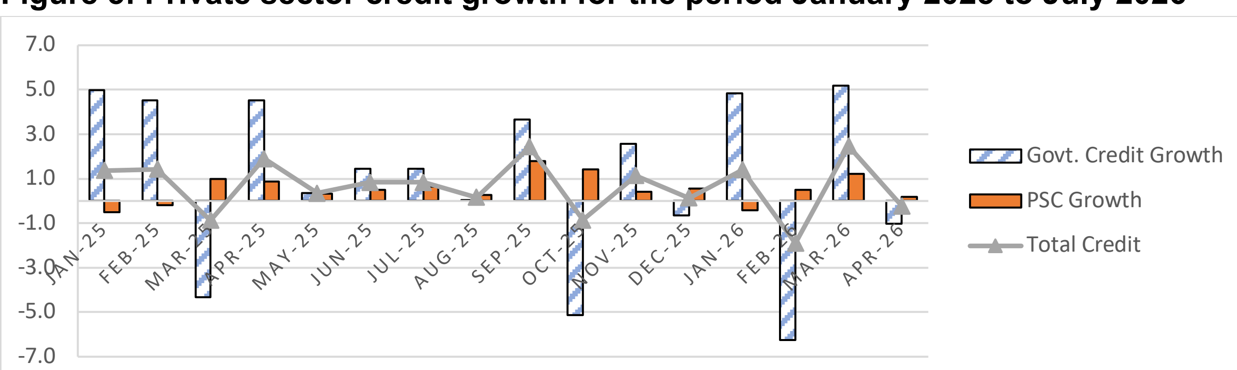
Figure 4: Interest rates for the period June 2025 to July 2026



Source: CBK

8. **Private sector credit growth strengthened substantially in 2026 as lending rates declined, rising to 10.6 percent in June and 10.2 percent in July 2026.** The recovery marks a significant improvement from the weak credit conditions recorded in early 2025 and reflects stronger lending to trade, building and construction, agriculture and consumer durables. However, sustained credit growth will depend on continued reduction in lending rates, lower credit risk, and careful management of domestic government borrowing to avoid crowding out private investment.

Figure 5: Private sector credit growth for the period January 2025 to July 2026



Source: CBK

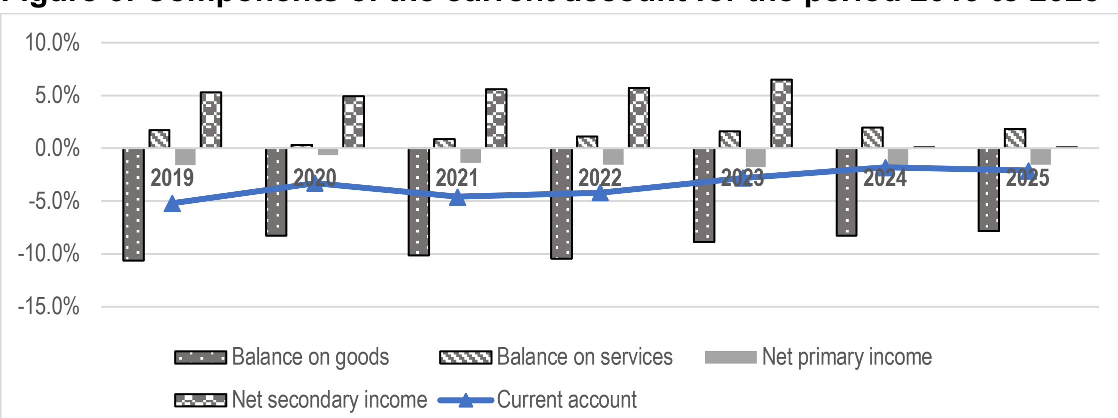
2.2.4. External Sector

9. **Kenya's external sector remained broadly stable in 2025, although the current account deficit widened modestly from 1.8 percent to 2.1 percent of GDP.** The goods deficit narrowed from 8.3 percent to 7.8 percent of GDP, supported by moderate export growth, but this was offset by weaker services performance and persistent import demand. The outlook therefore depends on export diversification, stronger value addition and resilience in foreign exchange inflows.

10. **Net primary income remained a source of pressure on the current account, although the deficit moderated during 2025.** Net secondary income, on the other hand, continued to cushion the external position, reflecting resilient diaspora remittance inflows. Notably, the improvement in the goods balance was more than offset by developments in the services and secondary income components of the current account, resulting in a modest widening of the overall deficit. The continued reliance on a relatively narrow range of export products, alongside persistent import demand, indicates the need to accelerate export diversification, enhance domestic value addition, and strengthen the competitiveness of Kenya's tradable sectors.

11. **Recent developments indicate emerging vulnerabilities. During the second half of 2025 and into the first quarter of 2026, both the current account and overall balance deteriorated modestly while financial account outflows increased.** These developments partly reflected higher external debt repayments, reduced portfolio inflows and increased uncertainty in global financial markets. Notably, the external position remained manageable owing to stronger foreign exchange reserves and continued support from remittance inflows.

Figure 6: Components of the current account for the period 2019 to 2025

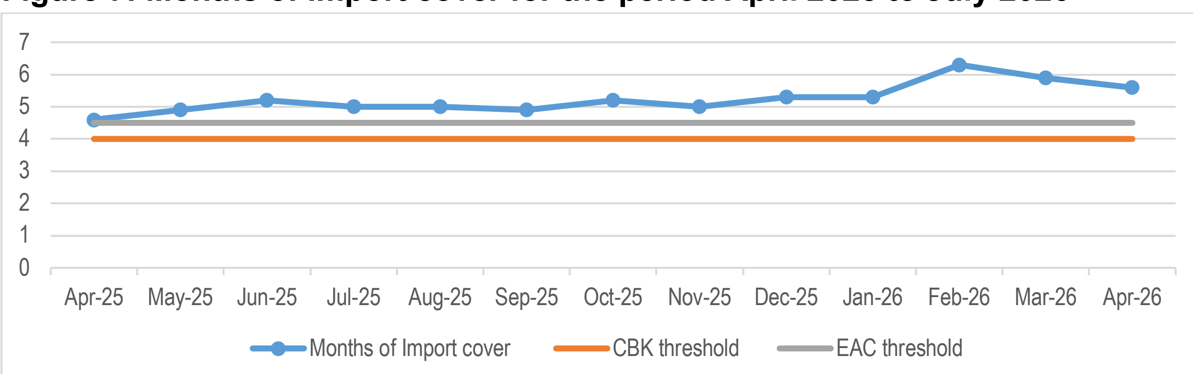


Source: KNBS

12. **Diaspora remittances continued to anchor Kenya's balance of payments, but slower growth highlights the need to broaden foreign exchange sources.** Export growth remained positive but moderated from the post-pandemic rebound, while services exports slowed as tourism normalised. Under the FY 2026/27 Budget, priority should be placed on value addition, agro-processing, export-oriented manufacturing, Special Economic Zones (SEZ), access to finance for exporters and market diversification.

13. **Foreign exchange reserves remained adequate in 2026, with import cover improving to about 6.4 months by July 2026, above both the CBK minimum threshold and the East African Community (EAC) convergence criterion.** The reserve position continues to provide an important buffer against external shocks and supports exchange rate stability, although the external sector remains exposed to higher petroleum import costs, external debt-service obligations, weaker portfolio inflows and uncertainty in global financial markets. Maintaining adequate reserves will therefore remain central to safeguarding macroeconomic stability and cushioning the economy against renewed external financing pressures.

Figure 7: Months of import cover for the period April 2025 to July 2026



Source: CBK

14. **The Kenya shilling remained broadly stable against major international currencies during the review period, supported by improved foreign exchange market conditions and stronger investor confidence.** The exchange rate against the US dollar held at around Kshs. 129 per US dollar, underpinned by adequate foreign exchange reserves, resilient remittance inflows and prudent monetary policy. The shilling depreciated moderately against the British pound and Euro, mainly reflecting the relative strength of those currencies in global markets, while it generally appreciated against the Ugandan and Tanzanian Shillings within the region, as shown in Table 1. This stability helped contain imported inflation, strengthen business confidence and support external sector resilience amid continued global financial uncertainty.

15. **Going forward, the stability of the exchange rate provides an opportunity under the FY 2026/27 Budget to strengthen macroeconomic stability while creating a more predictable environment for investment, trade and private sector activity**. The Government could leverage this stability to support export competitiveness, attract investment, and leverage on reduced costs of imported inputs. However, certain risks remain that could place renewed pressure on the shilling in 2026/27, weaker export and remittance growth, higher global interest rates, elevated external debt-service obligations, geopolitical tensions and volatility in global commodity prices. Sustained fiscal and external imbalances could also increase foreign exchange pressures and reverse the recent gains in exchange rate stability.

Table 1: Exchange rates for the period April 2025 to April 2026

Month	USD	Sterling pound	Euro	S.A. Rand	USH/KSHS	TSH/KSHS	Yen
Apr-25	129.51	170.08	145.14	6.86	28.35	20.63	89.68
May-25	129.27	172.76	145.8	7.14	28.27	20.82	89.35
Jun-25	129.25	175.15	148.88	7.24	27.92	20.43	89.38
Jul-25	129.24	174.56	151	7.28	27.76	20.19	87.99
Aug-25	129.24	173.82	150.45	7.3	27.59	19.56	87.54
Sep-25	129.24	174.58	151.63	7.4	27.15	19.18	87.41
Oct-25	129.24	172.68	150.53	7.49	26.79	19.05	85.51
Nov-25	129.48	170.06	149.65	7.52	27.59	18.92	83.51
Dec-25	129.13	172.63	151.08	7.66	27.69	19.07	82.87
Jan-26	129.02	174.32	151.37	7.91	27.62	19.49	82.24
Feb-26	129.02	175.26	152.54	8.05	27.62	19.99	83.18
Mar-26	129.43	172.87	149.85	7.76	28.79	19.97	81.65
Apr-26	129.39	174.05	151.38	7.81	28.72	20.1	81.27

Source: KNBS

16. Kenya's near-term growth prospects remain positive but more fragile, requiring Parliament to focus oversight on growth-supporting sectors, inflation containment, credit transmission, and external buffers.

17. **To achieve the economic growth prospects, Parliament should keep an eye on…**
    i) **Growth resilience:** Track manufacturing and construction performance closely, as adverse shocks to these sectors have the clearest implications for the GDP growth path.
    ii) **Price stability:** Monitor headline, core and non-core inflation, with emphasis on food, energy and transport costs that could push inflation toward the upper bound of the target range.
    iii) **Credit transmission:** Assess whether monetary easing is translating into lower lending rates and stronger private sector credit without increasing financial-sector risk.

iv) **External buffers:** Safeguard reserve adequacy, exchange rate stability and export competitiveness amid debt-service pressures and global commodity-price volatility.

CHAPTER THREE: FISCAL POLICY OUTLOOK

Dr. Abel Nyagwachi, Mr. Ringine Mutwiri and Mr. Onyango Adera

3.1. Overview of Fiscal Policy

18. **The fiscal outlook for FY 2026/2027 and the medium-term budget projections indicates that Kenya's fiscal trajectory is firmly rooted in a path of fiscal consolidation.** Nonetheless, the credibility of this trajectory is constrained by significant implementation risks. Prominent among these is the persistently high and increasing debt service burden, which continues to consume a substantial portion of revenues and consequently limits the fiscal space for development and social expenditure. Simultaneously, recurring underperformance in revenues attributable to structural weaknesses in tax mobilization and a narrow tax base—coupled with rigid expenditure pressures, particularly on wages, pensions, and interest payments continues to exert pressure on the fiscal deficit.

19. **The Government aims to reduce the budget deficit to a range of about 4 percent of GDP over the medium term in line with the objective of enhancing fiscal sustainability while supporting key development priorities under the Bottom-Up Economic Transformation Agenda (BETA).** To achieve this fiscal policy stance, the Government targets enhanced domestic revenue mobilization through reforms in tax administration alongside rationalization of expenditure by reducing non-priority spending and improving spending efficiency, while strengthening critical investments in key high-impact sectors, namely manufacturing, infrastructure and agriculture.

20. **The fiscal consolidation efforts will focus on improving domestic revenue collection, optimizing and reprioritizing expenditures, and protecting critical government programs and social spending.** On the revenue side, the Government aims to increase revenue collections to about 18 percent of GDP over the medium term and is expected to be driven by improved tax compliance, digitisation initiatives, and tax expenditure reforms. However, the notable downside risks include revenue shortfalls arising from the large informal sector, reliance on a narrow tax base, and persistent over-optimistic projections. On the expenditure side, the Government aims to contain expenditure growth to about 22 percent of GDP over the medium term while prioritizing development spending and essential services. However, the notable downside risks include rigid expenditures, particularly rising interest payments, wage pressures, and inefficiencies that continue to crowd out development spending.

21. **Furthermore, the Government aims to achieve a financing strategy of 55:45 ratio of domestic and external borrowing over the medium term, with a gradual shift towards concessional external financing and improved debt management.** The borrowing strategy for FY 2026/27 is to continue utilizing domestic borrowing while progressively rebalancing towards external concessional and semi-concessional financing, alongside efforts to lengthen maturities and reduce refinancing risks. However, the notable downside risks include an escalating debt service burden, exchange rate depreciation increasing the cost of external debt, refinancing risks associated with maturing obligations and limited fiscal space to absorb shocks.

22. **To enhance economic resilience while maintaining debt sustainability, the Government aims to reduce the debt-to-GDP ratio to 62 percent over the medium term and reduce vulnerabilities associated with high debt servicing costs.** However, the notable downside risks of such a policy switch include high domestic borrowing costs, crowding out of private sector credit, and tightening global financial conditions affecting access to external financing. To safeguard debt sustainability and reduce elevated risk of debt distress, it is recommended that the Government adopt targeted policy measures such as broadening and diversifying the export base to enhance foreign exchange earnings and maintaining a firm commitment to fiscal consolidation path over the medium term so as to create fiscal space and reduce vulnerabilities associated with public debt.

Table 2: Key Risks related to the policies

Fiscal Dimension	Medium-Term Policy Outlook	Key Risks
Revenue Mobilization	Increase from 17 percent to 18 percent of GDP	• Persistent revenue shortfalls. • Over-reliance on a narrow tax base and indirect taxes. • Policy reversals or dilution of tax measures due to political economy pressures. • Informality of productive sectors limiting tax buoyancy.
Expenditure Rationalization	Reduce from 23 percent to 22 percent of GDP	• Rigid expenditures (wages, pensions, interest payments) crowding out development spending. • Rising debt service costs reducing fiscal space. • Weak expenditure controls and inefficiencies in public spending.
Fiscal Deficit	Reduce from 6 percent to 4 percent of GDP	• Deficit slippages due to optimistic revenue projections. • Election-related or political spending pressures. • Shock-related spending (e.g., droughts, emergencies).
Borrowing Strategy	Shift from 79:21 to 55:45 ratio of domestic to external financing	• High domestic interest rates increasing cost of borrowing. • Exposure to global financial conditions. • Exchange rate and refinancing risks on external debt.
Debt Sustainability	Reduce debt-to-GDP ratio from 70 percent to 62 percent	• High and rising debt servicing burden. • Exchange rate depreciation increasing external debt costs. • Refinancing risks, including Eurobond maturities. • Limited Positive fiscal space to absorb shocks.

3.2. Fiscal Framework for FY 2026/27 Budget

23. **For FY 2026/27, the total revenue and grants are estimated at Kshs. 3.7 trillion (17.7% of GDP).** This includes ordinary revenue of Kshs. 3.0 trillion (14.3% of GDP), Appropriation-in-Aid (AIA) of Kshs. 644.8 billion (3.1% of GDP) and grants of Kshs. 43.6 billion (0.2% of GDP). When compared to FY 2025/26, the total revenue as a share of GDP has increased from 17.3 percent to 17.7 percent with ordinary revenue increasing from 13.9 percent to 14.3 percent, grants increasing from 0.1 percent to 0.2 while AIA is reducing from 3.3 percent to 3.1 percent. This trend results from ongoing tax reforms, including better compliance efforts, and digitisation like eTIMS. Nonetheless, as outlined earlier, achieving the revenue forecast will rely on continued economic growth, enhanced tax compliance, and the Government's capacity to manage risks such as narrow tax base fatigue, informality of key sectors, and possible policy reversals.

24. **Total approved expenditure and net lending for FY 2026/27 are projected at Kshs. 4.8 trillion (23.2 percent of GDP).** This comprises Kshs. 3.6 trillion (17.1 percent of GDP) in recurrent expenditure, Kshs. 740.6 billion (3.6 percent of GDP) in development expenditure and net lending, Kshs. 502 billion (2.4 percent of GDP) in transfers to County Governments, Kshs. 10.3 billion (0.1 percent of GDP) for the Equalisation Fund and Kshs. 1 billion for the Contingency Fund. In line with the Government's fiscal consolidation objectives, total expenditure and net lending as a share of GDP is projected to reduce marginally from 24.1 percent in FY 2025/26 to 23.2 percent in FY 2026/27. Buttressed on the fiscal risks discussed above, the realization of the expenditure outlook will be dependent on the Government's ability to contain non-priority spending, manage the rising debt service burden, and enhance efficiency in public expenditure.

25. **The projected fiscal deficit for FY 2026/27 is Kshs. 1,145.4 billion (5.5% of GDP).** This is a reduction from the FY 2025/26 deficit which was equivalent to 6.8% of GDP but still higher than the medium-term target of 4 percent. The higher fiscal deficit is mainly due to faster growth in expenditure compared to revenue, driven by rising debt service costs and spending pressures. Achieving this deficit outlook depends on meeting revenue targets and enforcing strict expenditure controls, especially amid macroeconomic shocks and increased spending demands.

26. **The fiscal deficit for FY 2026/27 will be financed through a 78:22 ratio of gross domestic to gross external financing.** Compared to the FY 2025/26 mix of domestic to external financing, the ratio still remains relatively similar reinforcing the challenges to borrowing noted above. The external financing will still heavily be depended on

commercial financing with a gradual increase in concessional and semi-concessional financing. The domestic financing will focus on lengthening the debt maturity and issuance of medium to long term debt securities while gradually reducing the stock of treasury bills. The successful implementation of the financing plan will depend on favourable domestic market conditions, access to external financing, exchange rate stability, and global financial conditions.

Table 3: Fiscal Framework for FY 2024/25 to FY 2026/27

Details	2024/25 Actual	2025/26 Prel. Actual	2026/27 Budget	2024/25 Actual	2025/26 Prel. Actual	2026/27 Budget
	Kshs. Billions			% of GDP		
Revenue and grants	**2,956.90**	**3,219.50**	**3,674.10**	**17.49**	**17.27**	**17.65**
Ordinary Revenue	2,420.20	2,588.40	2,985.70	14.32	13.88	14.34
Income tax	*1,093.00*	*1,175.60*	*1,383.60*	*6.47*	*6.31*	*6.65*
VAT	*660.70*	*722.40*	*829.20*	*3.91*	*3.88*	*3.98*
Import duty	*157.10*	*180.00*	*186.20*	*0.93*	*0.97*	*0.89*
Excise duty	*292.50*	*312.00*	*382.20*	*1.73*	*1.67*	*1.84*
Other tax revenue	*216.90*	*198.40*	*204.50*	*1.28*	*1.06*	*0.98*
Appropriation-in-Aid	503.40	610.40	644.80	2.98	3.27	3.10
Grants	33.30	20.70	43.60	0.20	0.11	0.21
Total expenditures & net lending	**3,976.00**	**4,484.20**	**4,819.50**	**23.52**	**24.05**	**23.15**
Recurrent expenditure	2,948.40	3,285.30	3,565.60	17.44	17.62	17.13
Wages & salaries	*624.70*	*684.40*	*702.00*	*3.70*	*3.67*	*3.37*
Interest	*995.10*	*1,074.50*	*1,254.20*	*5.89*	*5.76*	*6.02*
Pensions & Other CFS	*176.80*	*166.20*	*207.50*	*1.05*	*0.89*	*1.00*
O&M and other recurrent	*1,117.50*	*1,316.60*	*1,362.30*	*6.61*	*7.06*	*6.54*
Contribution to CSPF	*34.30*	*43.60*	*39.60*	*0.20*	*0.23*	*0.19*
Development & net lending	583.00	724.30	740.60	3.45	3.89	3.56
Development expenditure	*563.30*	*724.30*	*740.60*	*3.33*	*3.89*	*3.56*
Net lending	*19.70*	-	-	*0.12*	-	-
Transfer to Counties	444.60	467.30	502.00	2.63	2.51	2.41
Equitable Share	*418.30*	*415.00*	*428.00*	*2.47*	*2.23*	*2.06*
Conditional Allocation	*26.30*	*52.30*	*74.00*	*0.16*	*0.28*	*0.36*
Equalization Fund	-	7.30	10.30	-	0.04	0.05
Contingency Fund	-	-	1.00	-	-	0.00
Deficit incl. Grants	**(1,019.10)**	**(1,264.70)**	**(1,145.40)**	**(6.03)**	**(6.78)**	**(5.50)**
Statistical Discrepancy	15.10	(13.60)	-	0.09	(0.07)	-
Total Financing	**1,034.20**	**1,251.10**	**1,145.40**	**6.12**	**6.71**	**5.50**
Net External Borrowing	179.7	267.3	247.2	1.06	1.43	1.19
Net Domestic Borrowing	854.5	983.8	898.2	5.05	5.28	4.31
Nominal GDP	**16,904.90**	**18,642.50**	**20,816.80**			

Source: National Treasury

27. **Based on the projected borrowing for FY 2026/27, the gross public debt stock is expected at Kshs. 14.2 trillion (68 percent of GDP).** Compared to FY 2025/26, the debt to GDP ratio has gradually reduced from 69.8 percent. This doward trajectory reflects the continued reduction in fiscal deficits. The outlook for gross public debt will rely on effective debt management and the Government’s ability to successfully

consolidate fiscal policy to prevent additional debt buildup, considering the associated fiscal risks.

28. **To achieve the fiscal policy outlook, Parliament should keep an eye on:**

i) **Achievement of Revenue Collection Targets -** Parliament should monitor quarterly collections in light of the 2026 Finance Act reforms that were targeted at enhancing revenue collection, widening the tax base and improving tax administration and facilitating trade.

ii) **Containing Expenditure Pressures -** Parliament should oversight the quarterly implementation of measures aimed at strengthening expenditure controls and enhancing the efficiency and effectiveness of public spending expenditure. These include full implementation of e-government procurement system, automation of county government exchequer processes, full implementation of the Treasury Single Account and continuous consolidation of public service sector reforms.

iii) **Realism of the Financing Strategy -** Parliament should monitor the mix of domestic to external financing to ensure that under domestic financing, the stock of treasury bills are gradually reduced while under external financing, concessionary and non-concessionary borrowing are gradually increased so as to contain the debt servicing pressures.

CHAPTER FOUR: EXPENDITURE POLICY REFORMS

Ms. Amran Mursal, Mr. Omar Abdirahim, Mr. Eric Kanyi, Mr. Brian Njeru, Mr. Collins Namulen, CPA Kennedy Owuoth and Ms. Priscilla Wangu

4.1. Transition of Energy and Petroleum Sector projects to the National Infrastructure Fund

29. **Traditionally, the government funds infrastructure projects using the national revenues and borrowing.** However, this has proved unsustainable due to a shrinking fiscal space as other priority social and economic activities including education, health and social security have increasingly demanded for additional funding. Further, the increased dependency on borrowed funds has led to untenable growth in the country's public debt. It is against this background, that the National Infrastructure Fund (NIF) was conceived.

30. **The NIF is a special purpose vehicle established to mobilise long-term capital for the development of commercially viable infrastructure projects and recycle investment proceedings into future investments to preserve and grow its capital base.** It provides a sustainable investment platform that leverages on domestic and international private capital to accelerate infrastructure delivery while preserving scarce public resources and reduce reliance on public debt for financing infrastructure development. The NIF is established through the National Infrastructure Fund Act, 2026.

31. **To ensure accountability, transparency and discipline in the operations of the NIF, the Act provided for the development of an investment policy that will guide the operations of the NIF and a two-tier governance structure that distinguishes policy from implementation.** The investment policy is required to specify the priority sectors proposed for development; the proposed projects; expected rate of return on investments on specific projects; proposed asset allocation, portfolio distribution and leverage ratios, and exposure limits per sector and project. On the other hand, the governance structure comprises of the Governing Council, which responsible for the establishment and oversight of the investment policy, and the Board of Directors, which is responsible for implementation of the investment policy through the annual business plans.

32. The investment policy provides that the NIF is capitalized principally from proceeds of privatization, proceeds from sale of shares in government-linked corporations, returns generated from investments undertaken by the Fund and strategic capital allocation

by the Government. Currently, the fund has capital amounting to about Kshs. 350 billion consisting of Kshs. 106 billion proceeds from the government's sale of a 65 percent stake in the Kenya Pipeline Company (KPC) Initial Public Offering (IPO) and Kshs. 244 billion proceeds from the government's sale of a 15 percent stake in Safaricom PLC to South Africa's Vodacom Group, as well as an additional upfront payment linked to future dividends.

33. Further, the investment policy also stipulates that the NIF will invest only in commercially sustainable infrastructure capable of generating appropriate risk-adjusted returns while delivering measurable national development outcomes. The key nationally significant infrastructure sectors that are eligible for investment include transport, energy, information and communications technology, water and irrigation, and agriculture and livestock. Currently there are no ongoing projects under the NIF.

34. In anticipation for the operationalization of the NIF, the government identified several projects in the energy and petroleum sectors mainly undertaken by Government Owned Enterprises (GOEs) whose financing can be weaned off from the exchequer and government loan book and transitioned to the NIF in FY 2026/27. As shown in Table 4, The government excluded funding for 34 ongoing projects under the State Department for Energy amounting Kshs. 38.1 billion that were being implemented by Kenya Electricity Generation Company (KENGEN), Kenya Power and Lighting Company (KPLC), Geothermal Development Company (GDC) and Kenya Electricity Transmission Company (KETRACO). Likewise, it excluded funding for 7 projects under the State Department for Petroleum amounting to Kshs. 7.8 billion that were being implemented by the State Department for Petroleum and National Oil Corporation of Kenya (NOCK).

Table 4: FY 2026/27 Budget Cuts in the Ministry of Energy and Petroleum

MDA	**SAGA/MDA**	**No. of Projects**	**Amount (Kshs. Millions)**			
			Gross	**Net GoK**	**Local AIA**	**Donor Financing**
State Department for Energy	**Total**	**34**	**38,074**	**4,489**	**5,992**	**27,593**
	KETRACO	15	8,797	1,899	1,392	5,506
	KPLC	12	18,840	2,340	-	16,500
	KENGEN	4	3,973	-	-	3,973
	GDC	3	6,464	250	4,600	1,614
State Department for Petroleum	**Total**	**7**	**7,835**	**80**	**7,755**	**-**
	State Department for Petroleum	5	6,802	80	6,722	-
	NOCK	2	1,033	-	1,033	-

Source: National Treasury

35. **The transition to the NIF presents an opportunity to diversify infrastructure financing, leverage private and institutional capital, reduce reliance on direct budgetary allocations and public borrowing, and improve the structuring of commercially viable projects.** However, the sudden transition exposes them to project implementation risks due to changes in the funding structures that will potentially lead to disruptions in budget disbursements. The transition will involve repurposing of exchequer funding for the projects to other sectors which will leaving the projects to wholly rely on Appropriations-in-Aid (AIA) for counterpart funding. Since not all implementing agencies have sufficient AIA, this may adversely affect project implementation. Likewise, it will also entail restructuring of existing contractual agreements with external financiers. Getting consent from external financier for such a restructuring may take some time and this will adversely affect implementation of Energy projects which are significantly dependent on donor funding.

36. **Another concern is that the transition of the projects to the NIF will also require them to be subjected to the general investment criteria review as provided in the IPS including demand validation, commercial viability, financial return, investor readiness and capital mobilization and risk management.** With the NIF at the formative stages of establishment, these projects may stall as they wait for the review leading to project cost overruns due to penalties for delayed payments to contractors and commitment fees from approved but undisbursed development financing from lending agencies. In addition, the general investment criteria review will entail project reappraisal, restructuring, refinancing, legal reviews, transaction advisory services and Special Purpose Vehicle (SPV) establishment which may increase the current project cost.

37. **Therefore, to ensure the successful implementation of the energy and petroleum projects identified for transition to the NIF, National Assembly should keep an eye on:**

    i) **Timely operationalization of the NIF:** The NIF currently has a Governing Council, Board of Directors and Chief Executive Officer (CEO) as of August 2026, but it is yet to recruit requisite staff. The investment policy has also been developed and approved by National Assembly, but the annual business plan is yet to be developed. With the establishment yet to be fully operational, review and approval of the energy and petroleum projects is likely to be delayed, and this may lead to implementation challenges. To minimise the disruptions, National Assembly should keenly monitor the operationalization process and require the board to provide timelines for the review and approval of the projects.

    ii) **Policy and Legal alignment for Project Migration:** National Assembly should scrutinize the migration of projects to the NIF on a project-by-project basis to ensure the initial objectives and expected impacts of the projects are not amended, contractual agreements with development partners are not breached to the detriment of the country and legal structure governing use of revenues collected as AIA will not be contravened when such revenues are utilized as part of the NIF financing arrangements for the project's debt.

4.2. Progress of the Affordable Housing Programme

38. **The State Department for Housing and Urban Development is overseeing 1,186 projects across the four portfolios of the Affordable Housing Programme (AHP) with a total cost of 1.8 trillion.** This includes 227 affordable housing projects with a total cost of Kshs. 825 billion, 329 institutional and student housing projects with a total cost of Kshs. 228 billion, 216 social housing and slum upgrading projects with a total cost of Kshs. 634 billion and 414 social and physical infrastructure projects with a total cost of Kshs. 71 billion. All the four portfolios were commenced in 2023 with an expected completion date of 2032 and the AHP is financed from the National Housing Development Fund (NHDF), whose main source of funds are the Affordable Housing Levy (AHL) collections.

39. **Since its inception, the total AHL collections amount to Kshs. 205.7 billion and the total expenditure from the NHDF amounts to Kshs. 202.8 billion.** The total AHL collections comprise of Kshs. 53.4 billion in FY 2023/24, Kshs. 73.2 billion in FY 2024/25 and Kshs. 79.1 billion in FY 2025/26. Moreover, the State Department has recorded a total expenditure from the AHL collections of Kshs. 202.8 billion out of which Kshs. 4.8 billion has been utilized for recurrent expenditure and Kshs. 198 billion has been utilized for development expenditure. The development expenditure comprises of Kshs. 118 billion for affordable housing projects, Kshs. 40 billion for social housing and slum upgrading projects, Kshs. 18 billion for institutional and student housing projects and Kshs. 22 billion for social and physical infrastructure projects.

40. **As of the end of FY 2025/26, there are 1,010 ongoing projects are various stages of completion and 176 stalled projects[7].** The portfolio of ongoing projects comprises of 211 affordable housing projects, 194 social housing and slum upgrading projects, 238 institutional and student housing projects and 367 social and physical infrastructure projects. The stalled project includes 16 affordable housing projects, 22 social housing and slum upgrading projects, 91 institutional and student housing projects and 47 social and physical infrastructure projects.

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[7] **Stalled project –** a project whose progress has stopped for a period of more than 12 months due to funding shortages, contractor abandonment or bureaucratic delays.

Table 5: Progress of AHP projects as at June 2026

Portfolio	Total Projects	Total Project Cost (Kshs. Blns)	Financial Progress		Physical Progress	
			Cumulative Expenditure (Kshs. Blns)	Outstanding Cost (Kshs. Blns)	Ongoing Projects	Stalled
Affordable Housing	227	825	118.0	707.0	211	16
Social Housing and Slum Upgrading	216	228	40.0	188.0	194	22
Institutional and Student Housing	329	634	18.0	616.0	238	91
Social and Physical Infrastructure	414	71	22.0	49.0	367	47
Total	**1,186**	**1,758**	**198.0**	**1,560.0**	**1,010**	**176**

Source: State Department for Housing and Urban Development

41. **The State Department has identified financial challenges as one of the key contributors to the slow progress of the AHP and stalling of its projects.** When compared to the total project cost, the overall actual expenditure as at the end of FY 2025/26 is 11 percent with the affordable housing projects receiving 14 percent, social housing and slum upgrading projects receiving 18 percent, institutional and student housing projects receiving 3 percent while social and physical infrastructure projects receiving 31 percent. The financial challenges are still evident in the FY 2026/27, with the State Department's requirement for its ongoing projects being Kshs. 228.3 billion but it was only allocated Kshs. 110 billion in the approved budget, resulting in a financing gap of Kshs. 118.3 billion.

42. **This funding shortfall is likely to expose the AHP to more fiscal and operational challenges since it will be unable to support an uninterrupted implementation path across the entire portfolio.** These challenges include stalling of projects due to lack of funding, project cost overruns due to penalties for delayed payments to contractors and escalation in construction input prices due to delayed construction periods. This risk of stalling becomes particularly acute since the payment cycles for projects are not concurrent with the annual AHL collection cycle, thereby causing unexpected cashflow constraints.

43. **Given the scale of the financing gap, the key policy requirement for FY 2026/27 would be a transition from pipeline expansion towards active portfolio management.** This means sequencing projects according to contractual exposure, completion status, infrastructure readiness, expected social and economic returns, and realistic prospects for off-take. Funding should be prioritized to projects that close to completion to convert increase the portfolio of occupiable and saleable assets thereby expanding the revenue streams or the fund. All other projects at preliminary stages including contractor mobilization, site handover, procurement finalization,

commencement, approval, litigation or contractor readiness should be consider only after the existing portfolio has been assessed against available medium-term financing.

44. **To achieve the affordable housing programme targets, National Assembly should keep an eye on:**

    i. **Prioritisation of Ongoing and Near-Complete Projects -** Ringfencing Housing Levy resources for projects already under contract and close to practical completion would improve cashflow discipline, reduce exposure to contractor claims and accelerate the conversion of public expenditure into occupiable housing. It will therefore be important to keep an eye on the proportion of annual disbursements directed to ongoing and near complete projects, changes in project completion rates, and the number of units moving from construction to occupation. National Assembly should also monitor whether new projects continue to receive funding while advanced projects remain underfinanced.

4.3. Implementation of the Student-Centred Funding Model

45. **Sustainable financing of public universities and Technical and Vocational Education and Training (TVET) institutions is a critical aspect in safeguarding the quality, accessibility and long-term viability of tertiary education.** Since FY 2017/2018, the government has been funding tertiary education using the Differentiated Unit Cost (DUC) model. The DUC was a cost-sharing model with the government expected to fund 80 percent of the unit cost per student through capitation disbursed directly to the institutions while the households were required to fund the remaining 20 percent. However, the model faced implementation challenges due to consistent underfunding by government which led to universities accumulating huge debts. The governments frequently fell short of its 80 percent commitment, with the highest allocation being 66.4 percent in FY 2018/19 and the lowest being 48.1 percent in FY 2022/23.

46. **It is on this premise that the government proposed the introduction the Student-Centred Funding (SCF) Model which is based on the individual needs of the student and actual cost of program in a university rather than a blanket capitation provided to the institutions.** The SCF constitutes of a scholarship, loan and household contribution which are determined based on the levels of need for each student. The scholarship is administered by the University Fund (UF) while the loans are administered by the Higher Education Loans Board (HELB). The scholarship component is disbursed to universities to support the tuition component whereas the

loans and the household components support both tuition as well as the students' upkeep.

47. **A significant difference between the two models is the mode of disbursing government funding.** Under the DUC, capitation was disbursed directly to universities, while under the SCF, the scholarships are first disbursed to the UF who subsequently apportions it to universities based on the number of categorized students as well as the academic programmes being pursued. Also, under the SCF, scholarships are limited to students in public tertiary institutions while under the DUC students in both public and private tertiary institutions benefited from the capitation. However, the disbursement of loans component remains the same where the funds are disbursed to HELB and eligible students from both public and private tertiary institutions apply and are awarded the loans.

48. **Having been introduced in FY 2023/24 and over the years been implemented alongside the DUC, FY 2026/27 marks the end of this transition for most universities.** Since most universities offer 4-year degree programmes, no funding has been provided directly to them for capitation with all finances being allocated towards scholarships under the UF and loans HELB. The only capitation provided in FY 2026/27 is for universities with ongoing 5-year and 6-year degree programs whose funding commenced under DUC. A comparison of the government funding under the State Department for Higher Education for FY 2025/2026 and FY 2026/2027 indicates that the universities have a reduction of Kshs. 31 billion in relation to capitation while the UF has an increase of Kshs. 12 billion and HELB has an increase of Kshs. 11 billion.

49. **Despite the positive attributes of the SCF in stabilizing institution funding challenges, there are concerns on its long-term sustainability and the lack of sharia-compliant options by HELB.** The long-term sustainability of the SCF will be dependent on government providing adequate resources and consistent, efficient and timely disbursement of funds to UF and HELB for scholarships and loans to students. However, it is noted that underfunding concerns have been raised by both institutions with the FY 2026/27 budget allocation only catering for less than 50 percent of their requirements. Also, delays in disbursement of funds to the two institutions may constrain cashflows for universities thereby leading to operational challenges. Further, the loan component does not provide sharia-complaint options thereby limiting access for some students yet a key objective of the SCF was equal access to learning opportunities for Kenyans.

50. **To fully implement the student-centred funding model, National Assembly should keep an eye on:**

i. **Timely and consistent disbursement of funds to UF and HELB -** For the SCF to work seamlessly, there is need to ensure high level of consistency, efficiency and synchronization in terms of disbursement of scholarship funds to universities as well as loans to students. This is because any inconsistency or delays in disbursements may present the risk of constraining universities in terms of cash flows and contribute to operational challenges as well as affect student welfare. Therefore, National Assembly should ensure that government develop and implements a reliable funds disbursement schedule for the UF and HELB.

ii. **Policy and Legal review to make SCF sharia compliant –** Despite a key objective of the SCF being equal access to learning opportunities for all Kenyans, the loan component does not provide sharia-complaint options thereby limiting access for some students. National Assembly should consider implementing the necessary reviews of the HELB policies and legislation to provide sharia-compliant options for the HELB funding to SCF.

4.4. Funding of County Aggregation Investment Parks

51. **The County Aggregation and Industrial Parks (CAIPs) program is an initiative to develop economic hubs across all 47 counties to grow manufacturing and investment through agro-industrialization and value addition.** Each county is expected to establish one CAIP to facilitate aggregation, processing, storage and marketing of agricultural produce, thereby increasing farmers' incomes, reducing post-harvest losses, creating employment and enhancing export competitiveness. The programme is jointly financed by the National Government and County Governments, with each level contributing Kshs. 250 million per CAIP, while counties are required to provide at least 100 acres of land for the industrial park.

52. **Between FY 2023/24 and FY 2025/26, Parliament approved an allocation of Kshs. 8.5 billion to the CAIPs program across 34 participating counties.** However, a March 2026 monitoring report by the State Department for Industry on the implementation of the CAIPs[8] revealed that only Kshs. 4.3 billion of these funds has been disbursed to the counties as of 31st March 2026 indicating the National Government has only achieved a 51 percent performance rate. The National Government has disbursed the full allocation of Kshs. 250 million to 11 counties while it had not provided a single allocation to another 11 counties. Similarly, county government were expected to allocate a total of Kshs. 8.5 billion but as at the end of March 2026, they had only allocated Kshs. 4.7 billion which translate to a 55 percent performance rate. 19 counties had provided more than 70 percent of their

[8] https://www.industrialization.go.ke/sites/default/files/2026-07/COUNTY%20AGGREGATION%20AND%20INDUSTRIAL%20PARKS%20%28DRAFT%202%29-1.pdf

commitments to the project while 12 counties had provided less than 40 percent of their commitments.

Table 6: Status of CAIPs Programme as at March 2026

County	Contract Sum (Kshs. Mlns)	Disbursement (Kshs. Mlns)			Physical Status (%)	Operationalization and Equipping (Kshs. Mlns)
		County Govt.	National Govt.	Total		
Baringo	435.6	104.9	-	104.9	35.0%	
Bungoma	474.2	125.8	250.0	375.8	45.0%	160.0
Busia	448.7	188.5	250.0	438.5	75.0%	135.1
Embu	489.0	250.0	250.0	500.0	88.0%	160.2
Garissa	490.6	239.0	250.0	489.0	75.2%	139.2
Homa Bay	498.3	62.1	250.0	312.1	50.0%	128.1
Kajiado	487.6	-	-	-	10.0%	
Kakamega	481.2	35.0	200.0	235.0	40.0%	194.0
Kericho	541.0	291.0	-	291.0	30.0%	
Kiambu	498.8	116.3	116.6	232.9	75.0%	149.2
Kilifi	515.1	50.0	-	50.0	11.6%	
Kirinyaga	500.0	250.0	250.0	500.0	82.0%	136.4
Kisii	477.9	220.0	122.1	342.1	65.0%	199.4
Kitui	492.4	250.0	-	250.0	49.4%	
Kwale	497.4	99.3	176.0	275.3	58.1%	127.3
Laikipia	492.0	250.0	-	250.0	40.0%	
Machakos	476.6	126.7	250.0	376.7	61.2%	126.2
Marsabit	498.9	250.0	-	250.0	30.0%	
Meru	492.2	250.0	250.0	500.0	98.0%	124.8
Migori	499.4	163.4	250.0	413.4	82.0%	220.0
Mombasa	461.2	50.0	116.6	166.6	28.0%	
Muranga	474.7	-	116.6	116.6	13.0%	
Nakuru	465.2	135.9	116.6	252.5	49.0%	126.8
Nandi	520.0	43.0	116.6	159.6	20.0%	
Narok	450.0	250.0	-	250.0	10.0%	
Nyamira	498.6	39.1	116.6	155.8	25.0%	
Nyandarua	464.4	72.0	-	72.0	13.0%	
Nyeri	589.3	6.8	250.0	256.8	30.0%	
Siaya	483.7	-	116.6	116.6	20.0%	
Tana River	490.0	150.0	-	150.0	40.0%	
Trans Nzoia	499.2	250.0	116.6	366.6	50.0%	127.3
Uasin Gishu	535.3	-	250.0	250.0	42.0%	196.0
Vihiga	496.0	59.0	-	59.0	10.0%	
Wajir	601.0	351.0	122.1	473.1	78.0%	
Total	**16,815.5**	**4,728.6**	**4,303.3**	**9,031.9**		**2,450.0**

Source: National Treasury and State Department of Industry

53. **This low disbursement of funds by both levels of government is a key contributor to the slow physical performance of the projects.** Out of the 34 CAIPs being constructed, 8 have achieved over 70 percent completion rate, 14 had achieved less than 40 percent completion status while 12 had achieved between 40 and 70 percent completion status. It is noted that most of the 8 CAIPs that have over 70 percent completion rates have received more than 70 percent of their full

disbursement by both levels of government while most of the 14 counties that achieved less than 40 percent completion rates had received less than 40 percent of their full disbursement by both levels of government.

54. **In FY 2026/27, the National Government has provided Kshs. 2.5 billion for operationalization and equipping of 16 CAIPs.** The funding was targeting projects that had achieved high levels of completion rates. However, it is noted that 8 of the identified CAIPs had achieved less than 70 percent completion rates as of end of March 2026 and this may affect absorption of the proposed funds since equipping may not commence when the project is yet to finalized. It is also noted that the Wajir project has achieved 78 percent completion rate as of 31st March 2026 but has not been considered for operationalization.

55. **To achieve the CAIPS objectives, Parliament should keep an eye on:**

    i. **Timely and Consistent Disbursement of fund by National and County Governments -** Delays in national and county government counterpart funding have slowed project implementation and resulted in extensions of project completion timelines, project cost overruns due to penalties for delayed payments to contractors and escalation in construction input prices due to delayed construction periods. Continued delays may further affect the timely completion and operationalization of the CAIPs. Parliament should ensure that each level of government disburses its counterpart funding to the Special Purpose Accounts (SPA).

    ii. **Fast-tracking Completion of CAIPs identified for operationalization -** Several CAIPs targeted for operationalization in FY 2026/27 had recorded less than 70 percent physical completion as at the end of March 2026, raising concerns over project readiness and the efficient utilization of operationalization funds. Parliament should monitor the operations of the 8 CAIPS with less than 70 physical completion status as at 31st March 2026 to ensure they are ready for operationalization before the end of FY 2026/27.

4.5. 2027 General Election Preparedness

56. **The Independent Electoral and Boundaries Commission (IEBC) is set to commence in earnest preparations for the 2027 General Election in the FY 2026/27.** Some of the key activities to be undertaken in the financial year include voter registration, verification and audit of the register; procurement of election materials including ballot papers; voter sensitization and education; acquisition of Information and Communication Technology (ICT) equipment and infrastructure; training of electoral personnel and election planning and operations. Therefore, adequate

allocation of resources and preparations should be undertaken within the FY 2026/27 since it will be essential in fostering public confidence and ensuring the conduct of a transparent, inclusive, and credible electoral process.

57. **For FY 2026/27, the IEBC required Kshs. 48.7 billion to undertake the preparations for the elections.** However, the approved budget allocated it Kshs. 25.0 billion, indicating an overall financing gap of Kshs. 23.7 billion. This substantial resource deficit underscores the need for sustained resource mobilization, expenditure rationalization, and prioritization of critical electoral activities to ensure timely preparedness and safeguard the integrity and credibility of the electoral process.

Table 7: Overall Funding for FY 2026/27

Activity	**Resource Requirement (Kshs. Blns)**	**Approved Allocation (Kshs. Blns)**	**Percentage Allocation (%)**
Voter Registration and Electoral Operations	18.4	12.8	70%
General Administration Planning and Support Services	15.1	5.5	36%
Electoral Information and Communication Technology	9.4	4.7	50%
Voter Education	5.6	1.8	32%
Delimitation of Electoral Boundaries	0.1	0.1	100%
Total	**48.7**	**25.0**	**51%**

Source: IEBC

58. **Voter registration and Electoral Operations has been allocated Kshs. 12.8 billion comprising of Kshs. 3.2 billion for Voter registration and Kshs. 9.6 billion for electoral operations.** IEBC projects that the register of voters will increase from the current 22.1 million registered voters to approximately 28.5 million voters by 2027 through the registration of an additional 6.4 million eligible voters. The IEBC is also expanding voter registration for citizens residing outside Kenya from 12 to 26 countries. As of August 2026, the IEBC had been able to register 2.9 million eligible voters indicating an achievement of 45 percent. The voters, verification and audit of the register are expected to continue and be completed 60 days to the general elections. On the other hand, the allocations for electoral operations are to be utilized for procurement of strategic and non-strategic electoral materials. This is expected to be completed within the FY 2026/27, in good time for the general elections.

59. **General administration planning and support services constitute a significant component for election preparedness despite the minimal allocation provided.** The funds are mainly utilized for training and renumeration of electoral poll officials,

transport and logistic equipment, election planning and operations and legal fees. Adequate financing of these activities is essential to guarantee the efficient administration and credibility of the electoral process. Despite a requirement of Kshs. 15.1 billion for the FY 2026/27, the IEBC was allocated Kshs. 5.5 billion and this may not be adequate and budgetary shortfalls is already evident across all these critical areas. In addition, the Commission has accumulated pending bills amounting to Kshs. 5.6 billion as at 30 June 2025, largely attributable to legal fees and election logistics. These outstanding obligations may constrain the Commission's fiscal space and adversely affect the timely implementation of election preparedness activities if not adequately addressed.

60. **Electoral technology remains a cornerstone of modern election management and is critical to the integrity of the electoral process and the IEBC has been allocated Kshs. 4.7 billion.** The funding will be used for ICT related interventions including replacement of the Kenya Integrated Management System (KIEMS) kits, upgrading of electoral systems, simulation exercises, and implementation of the Candidate Registration Management System. Nevertheless, the allocation provided is not sufficient since the requirement was Kshs. 9.4 billion. The shortfall will adversely impact on the ICT interventions with the most significant impact relating to the acquisition and replacement of KIEMS kits, which are integral to voter identification, voter verification, and results transmission.

61. **Legal and institutional reforms constitute an integral component of preparedness for the 2027 General Election.** The successful conduct of elections depends not only on adequate financing and operational readiness but also on the existence of a stable, coherent, and predictable legal framework. The IEBC indicated that it intends to present to Parliament proposed amendments to electoral laws and regulations aimed at addressing emerging challenges, strengthening electoral dispute resolution mechanisms, enhancing the integrity of electoral processes, and aligning the legal framework with evolving technological developments in election management. Timely enactment of electoral reforms is critical in providing certainty to stakeholders, facilitating effective planning and implementation, and minimizing the risk of litigation and operational disruptions during the electoral cycle. Consequently, any outstanding legislative and regulatory amendments should be finalized sufficiently before the end of the FY 2026/27 to allow adequate time for implementation, stakeholder sensitization, institutional adaptation, and capacity building before the 2027 General Elections.

62. **To ensure adequate preparation for the 2027 General Election, Parliament should keep an eye on:**

i. **Addressing bottlenecks to election preparedness** - While significant progress has been made towards preparations for the 2027 General Election through enhanced allocations, strategic planning, and institutional interventions, considerable financing gaps remain in voter registration, election operations, and electoral technology. Parliament should ensure that these are adequately addressed alongside timely implementation of electoral reforms, will be imperative in ensuring that Kenya is adequately prepared to deliver a credible, peaceful, and well-administered electoral process in 2027.

ii. **Adherence to the implementation schedule** - Parliament should also monitor and ensure the IEBC indicative implementation schedule for preparation for the 2027 General Elections is followed to guarantee independence, accountability, transparency and professionalism of the process.

Table 8: Indicative Implementation Schedule

Period	Major Activities
July – December 2026	Continuous voter registration, procurement planning, ICT procurement, legal reforms, stakeholder engagement
January – March 2027	Voter register audit, KIEMS acquisition, system upgrades, simulation exercises
April – June 2027	Final voter register, voter education, procurement completion, training of trainers
July 2027	Recruitment and training of temporary election officials, deployment planning
August 2027	Printing and distribution of ballot papers, deployment of election materials, General Election
September – December 2027	Results management, dispute resolution, payment of election officials, post-election audit

Source: IEBC

4.6. Addressing Pending Pension Contributions

63. **The timely remittance of pension contributions is a statutory obligation of every public employer and a critical element of sound public financial management.** Pension deductions are trust funds belonging to employees and must be remitted promptly to the respective retirement benefit schemes. Failure to do so violates employees' constitutional right to social security, weakens retirement income security, and exposes public institutions to interest charges, penalties, litigation, and reputational risks.

64. **The pension sector is broadly guided by the Retirement Benefits Act, 1997, and National Retirement Benefits Policy, 2023 approved by Cabinet in 2023.** The Act provides a regulatory framework that streamlined the retirement benefits sector and restored confidence in stakeholders and employees and enabled them save more for

retirement while the policy provides a framework to guide the harmonization, coordination, good governance and growth of the retirement benefits sector. Other critical legislations for the sector include the Public Service Superannuation Scheme Act, 2012, which established a contributory retirement benefits scheme for employees in Kenya's public service and the National Social Security (NSS) Act, 2013, which establishes the National Social Security Fund (NSSF) as a provident fund that mandates all employees to participate in the formal retirement benefits arrangement through a tiered system of contribution.

65. **The retirement benefits system predominantly covers the working population in the public and the private sector but excludes the informal sector.** The system comprises of state funded pension for elderly citizens to provide a basic income, mandatory contributions under the NSS Act, 2013, civil service pension schemes and retirement benefits schemes which are largely voluntary in nature. Retirement benefits schemes are made up of Defined Benefits (DB), Defined Contribution (DC) and Hybrid Schemes which have the components of both designs. DB is a retirement plan where your final payout is pre-determined by a specific formula based on your final salary and years of service, rather than how much you or your employer invest. DC scheme is a savings plan where both the employer and employee make fixed regular contributions into a personal account for the worker, and the final payout depends on the total money saved plus investment returns.

66. **Kenya's retirement benefits sector has grown substantially over the past two decades since the enactment of the Retirement Benefits Act, 1997.** Total pension assets rising from Kshs. 40 billion in 2000 to Kshs. 2.8 trillion as at 31st December 2025 and scheme membership coverage expanding from around 13 percent of the workforce in 2000 to 26.5 percent by 2025[9]. However, this growth, however, continues to be shadowed by a persistent build-up of unremitted contributions with public sector accounting for more than 90 percent of them. Most of the outstanding contributions from the public sector are due from county governments and universities.

67. **As at December 2026, the outstanding unremitted pension contributions owed by county governments amounted to Kshs. 115.9 billion inclusive of principal, interests, penalties and the actuarial deficit.** This comprised of Kshs. 103.2 billion by the county executive, Kshs. 9.3 billion by the water service providers (WSPs) and Kshs. 3.2 billion by County Assemblies. Bulk of the outstanding pension contributions have been borne after the advent of devolution in 2013. Pre-devolution debt inherited from the defunct Local Authorities amounts to Kshs. 21.3 billion while post-devolution

[9] https://www.rba.go.ke/download/retirement-benefits-industry-brief-as-at-december-2025/?wpdmdl=7955&refresh=6a955a738d3291788172915

debt amounts to Kshs. 94.6 billion. County governments have experienced increasing pension arrears arising from fiscal constraints, delayed exchequer releases, weak payroll management systems, and competing expenditure priorities. This has resulted in the continued accumulation of unremitted pension contributions, making pension arrears one of the largest categories of statutory pending bills within county governments and a growing concern for public finance sustainability.

68. **The unremitted pensions are prevalent in all the 3 schemes widely used by county governments, namely Local Authorities Pension Trust (LAPTRUST), Local Authorities Provident Fund (LAPFUND) and County Pension Fund (CPF).** LAPFUND is a DC scheme established under the Local Authorities Provident Fund Act, 1960. It has 78,000 members and accounts for Kshs. 57.9 billion of the outstanding pension scheme. Most of its debt are borne by Nairobi County (21 percent) and Mombasa County (16 percent). LAPTRUST is a DB scheme established under the Local Authorities Pension Trust Rules 2010. It has 25,983 members and accounts for Kshs. 48.5 billion of total outstanding debt. Most of its debt are borne by Nairobi County (79 percent) and Mombasa County (13 percent). CPF is a DC Scheme established as an irrevocable trust under trust deed and rules. It has 89,699 members and accounts for Kshs. 9.6 billion of total outstanding debt. Most of its debt are borne by Kajiado County (14 percent) and Wajir County (13 percent). Across the 3 schemes, Nairobi County contributes the largest portion of the debt of Kshs. 48.2 billion followed by Mombasa of Kshs. 19.1 billion while counties with the least contribution include Nyeri of Kshs. 20.2 million and Lamu of Kshs. 23.1 million.

69. **The consequences of non-remittance are borne primarily by county employees and pensioners.** Since Kenyan law does not expressly grant unremitted pension contributions preferential status during insolvency or debt recovery proceedings, pension schemes may rank as unsecured creditors, significantly reducing the likelihood of full recovery. Consequently, members of both defined benefit and defined contribution schemes risk receiving only a fraction of their accrued retirement benefits where an employer becomes insolvent or a pension scheme is underfunded. For LAPTRUST, the sole defined benefit scheme among the three examined, the risk is structural. The Retirement Benefits Act requires such schemes to be funded at 100 percent, and any persistent shortfall directly threatens the guaranteed benefit promised to members upon retirement. The Retirement Benefits Authority (RBA) may direct an under-funded scheme to submit a remedial plan, but implementation may take up to six years for an on-going scheme, during which affected members' benefits remain at risk.

Table 9: Consolidated County Pension Debt by Scheme as at 31st December 2025

S/No.	County	LAPFUND (DC) (Kshs. Mlns)	LAPTRUST (DB) (Kshs. Mlns)	CPF (DC) (Kshs. Mlns)	Total Debt (Kshs. Mlns)
1	Nairobi	9,656.1	38,426.9	129.3	48,212.3
2	Mombasa	12,369.1	6,463.2	230.2	19,062.6
3	Garissa	3,024.8	31.4	635.8	3,692.0
4	Narok	2,553.5	133.8	410.9	3,098.2
5	Kisii	2,867.6	58.1	158.4	3,084.0
6	Migori	2,683.2	101.9	28.0	2,813.1
7	Isiolo	2,519.1	7.5	84.9	2,611.6
8	Homa Bay	2,008.5	110.3	343.4	2,462.3
9	Machakos	1,776.7	176.4	476.7	2,429.8
10	Trans Nzoia	1,500.3	707.4	175.4	2,383.1
11	Murang'a	1,637.1	459.3	118.6	2,215.1
12	Busia	1,270.2	345.5	238.7	1,854.4
13	Wajir	654.7	3.4	1,173.6	1,831.8
14	Kajiado	332.2	110.6	1,383.7	1,826.4
15	Meru	1,278.9	25.5	143.9	1,448.3
16	Uasin Gishu	1,075.5	112.3	196.4	1,384.2
17	Nandi	802.9	40.8	331.1	1,174.8
18	Taita-Taveta	453.4	22.9	522.6	998.9
19	Kilifi	856.1	72.7	20.9	949.7
20	Kisumu	607.6	178.8	147.4	933.7
21	Kakamega	159.4	13.6	705.3	878.3
22	Laikipia	774.0	44.0	44.5	862.6
23	Baringo	823.2	11.0	11.8	846.0
24	Marsabit	454.6	3.0	310.1	767.8
25	Tharaka Nithi	617.6	89.2	49.3	756.1
26	Embu	540.2	56.8	157.7	754.7
27	Bungoma	501.4	57.9	88.5	647.8
28	Samburu	259.1	128.3	190.9	578.3
29	Vihiga	471.9	33.6	69.3	574.8
30	West Pokot	534.4	2.6	2.5	539.5
31	Kericho	501.0	8.3	22.2	531.5
32	Nakuru	344.4	143.2	27.6	515.2
33	Nyamira	449.3	-	31.9	481.2
34	Kiambu	60.9	196.1	159.1	416.2
35	Mandera	56.7	3.4	290.5	350.7
36	Turkana	92.9	1.5	250.7	345.1
37	Bomet	298.4	-	0.9	299.2
38	Nyandarua	204.2	23.0	19.7	247.0
39	Siaya	159.9	29.3	56.9	246.1
40	Kitui	108.9	28.8	40.8	178.4
41	Tana River	105.8	3.0	38.7	147.5
42	Kirinyaga	94.3	36.9	8.6	139.8
43	Elgeyo Marakwet	117.9	0.9	14.4	133.1
44	Kwale	110.5	1.9	6.3	118.7
45	Makueni	81.7	-	-	81.7
46	Lamu	22.4	-	0.7	23.1
47	Nyeri	20.2	-	-	20.2
	TOTAL	**57,893.1**	**48,504.7**	**9,548.9**	**115,946.8**

Source: RBA

70. **Beyond the pension schemes themselves, the broader challenge of county payroll arrears underscores the significant human cost of delayed remittance of statutory deductions.** According to the County Governments Budget Implementation Review Report for the First Nine Months of FY 2025/26, county governments had accumulated Kshs. 43.64 billion in unpaid salaries and unremitted statutory deductions outstanding for more than three years, with Nairobi City County accounting for over 93 percent of the total backlog. These persistent arrears have left many public servants uncertain about the security of their retirement savings despite having faithfully contributed throughout their careers.

71. **The impact is particularly severe for employees approaching retirement, many of whom experience delays in accessing their pension benefits because contributions deducted from their salaries were never remitted to the respective pension schemes.** This not only exposes retirees to financial hardship at a time when they are most vulnerable but also undermines public confidence in the pension system. Ultimately, the continued accumulation of pension arrears is more than a fiscal or administrative challenge—it represents a failure to uphold the constitutional right to social security and the broader constitutional commitment to protecting the dignity and welfare of citizens, particularly in old age. Addressing these arrears is therefore essential not only for restoring fiscal discipline but also for safeguarding the retirement security and livelihoods of county government employees.

72. **To address the challenge of county pension arrears, a Multi-Agency Taskforce was formed in November 2024.** The Taskforce undertook the first comprehensive reconciliation of county pension liabilities and proposed wide-ranging legislative, administrative, and debt recovery reforms, including harmonization of pension calculations, adoption of the 91-Day Treasury Bill rate for computing interest, prioritization of pension contributions as a first charge on the County Revenue Fund, automatic remittance of pension deductions through integrated payroll systems, and structured repayment plans for defaulting counties. The taskforce was expected to propose recommendations on strategies as well as the formulae and framework for clearing outstanding county pension liabilities, including reform initiatives to enhance the pensions sector.

73. From the report of the taskforce, the following are the key recommendations:
    (i) **Standardization of interest and penalty calculations** through the adoption of the Average Annual 91-Day Treasury Bill rate, replacing the varying and punitive penalty regimes previously applied by different pension schemes. This significantly reduced the computed liabilities across County Executives, County Assemblies, and Water Service Providers.

(ii) **Introduction of a structured repayment framework** based on the size of the outstanding liability, including one-year settlement for arrears of Kshs. 300 million and below, Five-year annual instalments for liabilities between Kshs. 300 million and Kshs. 1.5 billion, and tailor-made repayment schedules for Nairobi and Mombasa Counties which have exceptionally large arrears.

(iii) **Amendment of Section 109 of the Public Finance Management Act, 2012** to designate pension contributions as a first charge on the County Revenue Fund, thereby prioritizing pension remittances before other county expenditures.

(iv) **Harmonization and reconciliation of pension records** among all retirement benefit schemes to establish a single, verified database of county pension liabilities.

(v) **Strengthening inter-agency coordination and oversight** to enhance monitoring, reporting, and enforcement of timely pension remittances by county governments.

74. **While the Taskforce successfully reconciled pension liabilities and developed a practical framework for resolving the arrears, its Report has not yet been tabled and adopted by the Senate.** Consequently, its recommendations remain unimplemented, and counties continue to accumulate pension arrears despite the availability of a clear policy and legislative roadmap. The continued growth in outstanding liabilities demonstrates that administrative interventions alone are insufficient and underscores the need for parliamentary consideration of the Taskforce's recommendations, supported by legislative reforms and stronger enforcement mechanisms to ensure timely remittance of pension contributions.

75. **To ensure improved contribution to pension funds, Senate should keep an eye on:**

(i) **Approval and Implementation of Taskforce Report -** The Senate should expedite the tabling and consideration of the Multi-Agency Taskforce Report on County Pension Arrears and monitor the implementation of its recommendations. Attention should be given to the proposed amendments to the Public Finance Management (PFM) Act and the Kenya Revenue Authority (KRA) Act, which are intended to strengthen enforcement and prevent the continued accumulation of pension arrears. Pending adoption of these reforms, the Senate should require regular reporting by the National Treasury, the Controller of Budget, the RBA, and county governments on compliance with statutory pension remittances and progress in clearing outstanding arrears.