

June 2018

pro-poor analysis of Kenya's 2018/19 budget estimates

what do the numbers tell us?

report

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Highlights from Kenya's 2018/19 budget

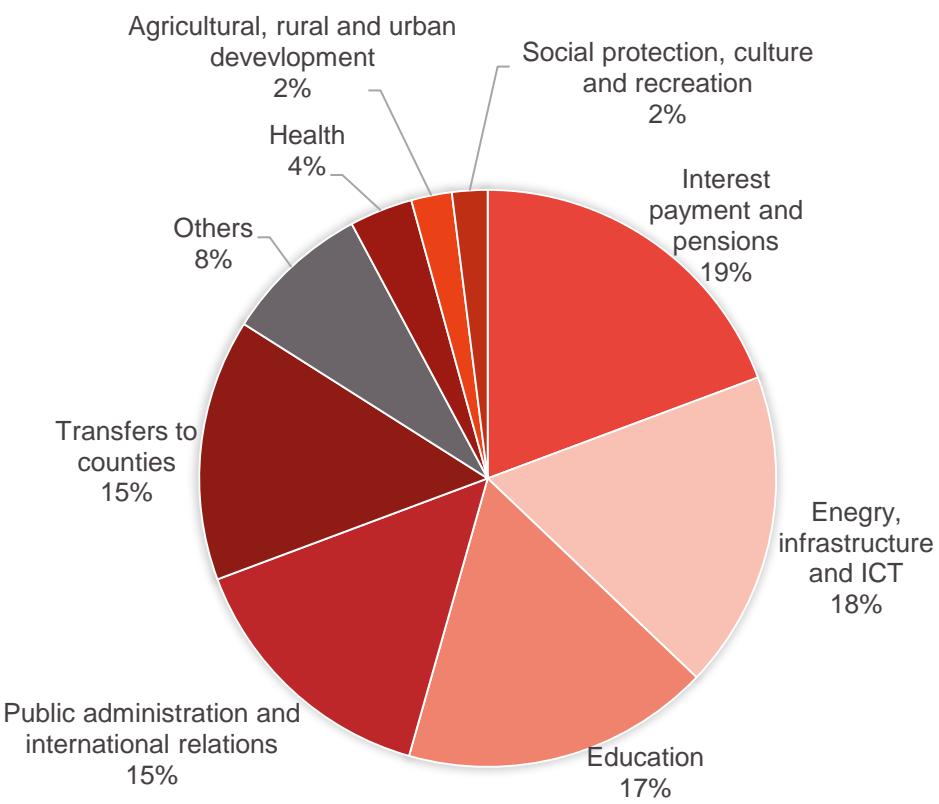
Kenya's 2018/19 budget is an opportunity to analyse government investments and how they contribute to ending poverty and inequality and support Kenya's national development plan. If the needs of the poorest people are not well targeted by government resources, or if insufficient tax is raised (or raised in ways that penalise the poor), or when support systems are under or inefficiently financed, people with the most need are at the greatest risk of being left behind. Our analysis provides an in-depth look at allocations to sectors that Development Initiatives (DI) considers to have a direct reach and effect on the poor population. It shows that, although the Kenyan government allocates more resources to pro-poor sectors in 2018/19 compared with previous years, these resources still do not adequately address the needs of their most vulnerable citizens, and financial gaps in many priority areas may result in Kenya being off-track in meeting the targets set as part of national development priorities and Sustainable Development Goals (SDGs).

The analysis in this report is limited to the national government and does not provide deeper insights on allocations to pro-poor sectors at county government level. The national government also makes supplementary budgetary allocations in response to emerging needs. However, this analysis does not consider these allocations and actual expenditures made.

Overview of the 2018/19 budget

- The priorities of the 2018/19 budget have mainly been informed by the Big Four Agenda. Under this agenda, the government prioritises investment in manufacturing, food and nutrition security, affordable housing and universal health coverage.
- The government plans to spend Ksh 2.53 trillion in 2018/19 – an increase of 8.8% from the 2017/18 fiscal year.
- Revenue collection is projected to increase by 15.9% to Ksh 1.92 trillion.
- Fiscal deficit is expected to reduce by 10.2% to Ksh 562.7 billion, owing to ongoing fiscal consolidation programmes.
- Development expenditure has increased by 12.8% from 2017/18 to Ksh 657.3 billion. This amount is equivalent to 26% of the budget, which is less than the minimum threshold of 30% required by the Public Finance Management Act, 2012.
- Transfers to county governments have increased by 15.1% to Ksh 372.7 billion from 2017/18, owing to adjustments for inflation rate, improvements in service delivery and functions that were devolved without attendant resources.

Figure 1: Budgetary allocations to various sectors



Source: Development Initiatives (DI) based on 2018/19 budget data¹

Budgetary allocations to pro-poor sectors and programmes

Social protection

- The government is committed to protecting individuals and households from shocks that are likely to push them into poverty.
- Ksh 31 billion or 1.2%² of the budget is earmarked for the State Department for Social Protection - a 3.7% increase from 2017/18 levels of funding.
- Ksh 26.4 billion has been allocated to the National Safety Net Programme. Allocations to the programme increased by 35.8% in 2017/18 but only 2.4% in 2018/19. The significant increase in 2017/18 is attributed to the expansion of the programme to include more beneficiaries.
- The Kenya Hunger Safety Net Programme has been allocated Ksh 4.5 billion – a 28.6% increase from 2017/18. However, the increase has only restored funding to the same level as in 2016/17.

Education

- The government aims to create a transformed society where education and learning catalyse achieving sustainable development. However, a reduction in funding for free primary education and a school meals programme may put success at risk.
- Ksh 99.7 billion or 3.9%³ of the budget has been allocated to the State Department of Early Learning and Basic Education. This is 48.6% higher than allocations in 2017/18 and the increase has mainly gone to the free day secondary education programme.
- Allocations to free primary education have reduced by 4.2% to Ksh 18.3 billion from 2017/18. This is also facing a funding deficit of Ksh 3.4 billion.
- The School Health, Nutrition and Meals Programme will receive Ksh 2.5 billion. However, the programme has a financing gap of Ksh 0.5 billion.
- Allocations to free day secondary education have increased by 94.2% to Ksh 69.8 billion from 2017/18 to cater for increased capitation per student and infrastructure expansion.

Health

- The government is committed to providing equitable, affordable and high-quality health and related services for all citizens. This commitment is reflected in the substantial increase in health budgets.
- Ksh 90 billion or 3.6% of the budget has been allocated to the Ministry of Health – a 47.8% increase from the previous fiscal year. The increase is explained by planned expansion of health infrastructure, national referral services and free primary healthcare.
- Ksh 4.3 billion is earmarked for free maternity care. This is equivalent to allocations to the programme in 2015/16 and 2016/17 but 8.6% higher than allocations in 2017/18.
- The Programme for Basic Insurance for Poor and Informally Employed People will receive Ksh 800 million – a 14.3% increase since 2016/17.⁴
- Free primary healthcare will receive Ksh 5.2 billion. This amount is over five times higher than allocations in 2017/18. The increase is underpinned by planned expansion of access to primary health services.
- Overall allocations to social protection in health have increased by 808.3% to Ksh 10.9 billion from Ksh 1.2 billion in 2017/18 to support access to healthcare services among vulnerable groups.

Agriculture – food security

- Enhancing food and nutrition security is a key priority of the government. However, incidents of food poverty in seven counties where most people also live in poverty are particularly high.
- Allocations to the State Department for Crop Development have increased by 44.4% to Ksh 25.3 billion or 1%⁵ of the budget compared with 2017/18. The increase has mainly gone to the Crop Development and Management Programme whose allocation has almost doubled to Ksh 20.9 billion from Ksh 12.2 billion in 2017/18.

- The crop insurance programme will receive Ksh 371.8 million – a 23.9% increase since 2016/17 to cover more farmers in 2018/19.
- Fertiliser subsidy programme will receive Ksh 4.3 billion – a 6.5% reduction since 2016/17. The allocation is also less than the projected resource requirement by 18.9%.
- Allocation to irrigation and land reclamation has increased marginally by 1.4% to Ksh 7.43 billion compared with 2017/18.
- Despite the increase in allocations, many of the food security programmes continue to have financing gaps.

Energy – access to electricity

- To achieve universal access to electricity, the government is implementing the Last Mile Connectivity project. In 2018/19 the target is to connect an additional 1 million new households to an electricity supply.
- Overall allocation to the electricity subsidy programme stands at Ksh 6.7 billion, 14.1% less than allocations in 2017/18. The reduction in funding may limit the scope of the programme in 2018/19.

Emerging issues – flood control

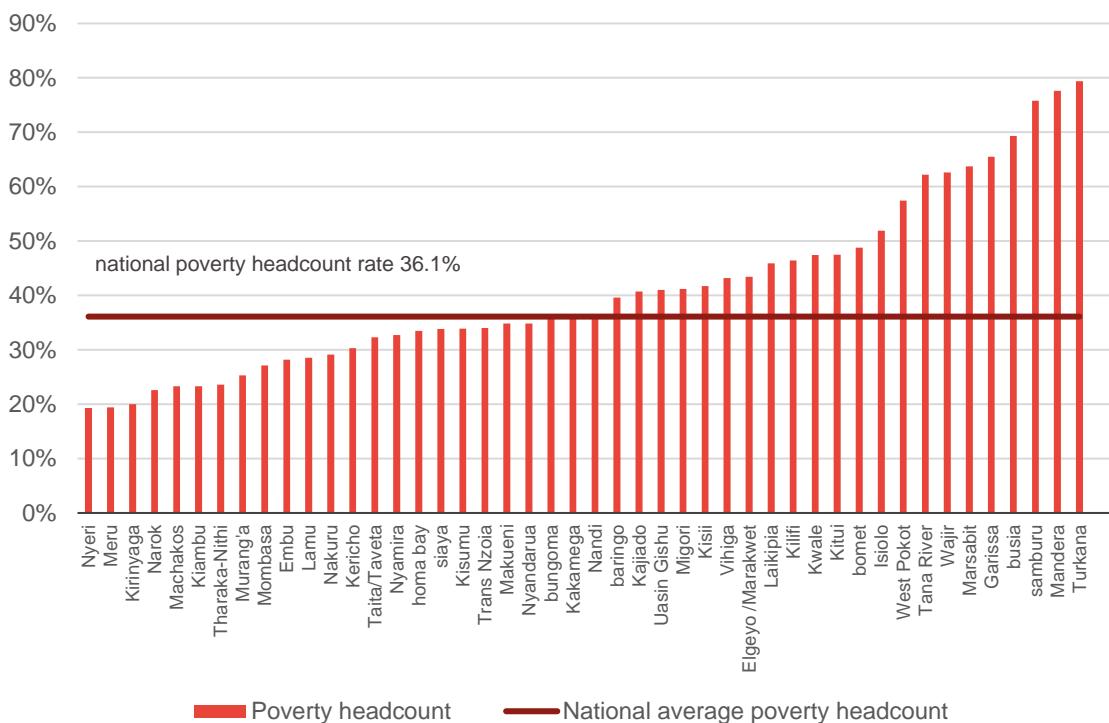
- Flooding is one of the major climate-change-induced disasters that frequently occur in Kenya, displacing hundreds of thousands of people, destroying farmlands and livestock, and disrupting education and learning.
- Ongoing rains continue to cause severe flooding across the country, thereby creating urgent humanitarian needs for shelter, food and health services.
- The government plans to use Ksh 60.4 billion or 2.4% of the budget to enhance and sustain environment protection, flood control and water harvesting interventions to build resilience of vulnerable areas.
- However, budget for flood preparedness and response is spread across numerous ministries, departments and agencies making it difficult to ascertain the exact budgetary allocation, as well as monitoring expenditure and impact.

Introduction

Kenya's annual government budget aims to operationalise national development plans, specifying how resources will be mobilised and allocated. The spending priorities identified in the annual budget are crucial for ending poverty.

Poverty in Kenya reduced from 52.6% of the population in 1997 to 46.6% in 2005/06⁶ and 36.1% in 2015/16.⁷ In addition, the proportion of the population living in extreme poverty reduced significantly from 29.6% in 1997 to 19.1% in 2005/06 and further declined to 8.6% in 2015/16. However, due to population growth, the number of people living in poverty may increase despite reduced incidence of poverty over time. In fact, the number of poor people in Kenya increased by 16.9% from 14.2 million in 1997 to 16.6 million in 2005/06 but declined marginally by 1.2% to 16.4 million in 2015/16. What is more, the progress in poverty reduction varies significantly across the country. Although the incidence of poverty stands at 36.1% nationally, over 50% of the population is living below the national poverty line in 10 counties (Figure 2).

Figure 2: Poverty headcount rate by county

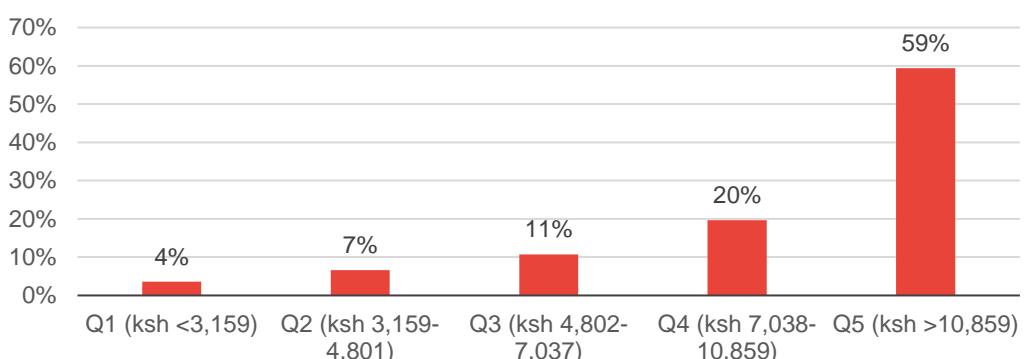


Source: DI based on 2015/16 Kenya Integrated Household Budget Survey (KIHBS)

In the East Africa region, Kenya has a higher level of poverty than Uganda and Tanzania where poverty levels stand at 19.5% and 28.2% of the population respectively. However, Kenya has a lower level of poverty than Rwanda and Burundi where 39.1% and 64.6% of the population lives below the national poverty line respectively.

The 2015/2016 Kenya Integrated Household Budget Survey (KIHBS) indicates that, although income inequality measured by the Gini coefficient has reduced⁸ since 2005/06, the richest 20% (fifth quintile) of the population still account for the largest share (59%) of household consumption expenditure⁹ (Figure 3). Distribution of consumption expenditure by quintile varies substantially across counties. For instance, the richest 40% of the population controls only 27.8% of consumption expenditure in Wajir County. However, this increases to 97.3% in Nairobi City County. There are also significant inequalities in access to basic services such as health, education, water and sanitation.¹⁰ For instance, the proportion of the population accessing drinking water from an improved source varies from a low of 22.5% in Wajir County to a high of 97% in Nairobi City County.

Figure 3: Distribution of consumption expenditure by quintile



Source: DI based on 2015/16 KIHSB¹¹

The government's commitments to end poverty and reduce inequality are enshrined in Kenya's long-term development blueprint – Vision2030¹² and its rolling five-year medium-term plans. The goal of Vision 2030 for ending poverty and inequality is to reduce the number of people living in absolute poverty to the smallest proportion of the total population. This will be achieved through investments in development projects that promote economic growth and create job opportunities so that citizens have a level of income sufficient to cater for the basic requirements of a healthy and productive life. Also, equity will be promoted through policies aimed at improving availability and equitable access to basic services such as health, education, water and sanitation for all Kenyans.

The first and second medium-term plans of Vision 2030 that covered the periods 2008–2012 and 2013–2017 respectively, focused on expanding education, health, water and sanitation, social protection programmes, and empowerment of women, youth and disabled people. They also promoted investment in key sectors such as agriculture, manufacturing and tourism to create employment opportunities. These plans informed the priorities of national budgets between 2008 and 2017.

In 2018/19, the government will roll out the third medium-term plan (2018–2022), which will be driven by the Big Four Agenda. Under this agenda, the government aims to achieve by 2022: an increase in the share of manufacturing in national GDP to 15%; food security and improved nutrition; universal health coverage; and construction of at least 500,000 affordable houses.¹³ Investment in these four areas will be ring-fenced and prioritised in annual budgets over the medium term to spur economic growth, alleviate poverty and catalyse creation of job opportunities. For this to be achieved, quality data on needs and resource requirement must be made available to decision-makers and used in planning and budgeting so that resources are channelled to where they are most needed.

In this report we look at the extent to which 2018/19 budgetary allocations are aligned to the needs of the poorest people in Kenya. In doing so, we focus on allocations to sectors that make direct investments to reach poor people. These are social protection, education, health, agriculture (food security) and energy (access to electricity). We compare allocations in the 2018/19 budget with allocations in the previous three fiscal years, as well as against projected resource requirements. We also look at performance of the budgets in the last two to three fiscal years in terms of absorption rates where relevant. Additionally, we look at achievement of programme targets to understand progress towards realising the objectives of national development plans such as Vision 2030, as well as the SDGs in each fiscal year.

The report begins with an overview of the 2018/19 budget – highlighting the size of the budget, projected revenue collection, fiscal deficit, public debt and transfers to county governments. Next, we analyse allocations to our pro-poor sectors, then look at allocations to the ongoing floods as an emerging issue. Finally, we conclude with recommendations.

Overview of the 2018/19 budget

The 2018/19 budget has been prepared in the context of a medium-term macro-fiscal framework geared towards implementing the third medium-term plan of Vision 2030. And its priorities have mainly been informed by the Big Four Agenda: manufacturing, universal health coverage, affordable housing and food security. The priorities of the government for the manufacturing sector include enhancing access to inputs and markets, expansion of infrastructure, reducing the cost of energy, and skill development.

To achieve food and nutrition security, the government prioritises investment in large-scale production (commercial farming), improving the productivity of smallholder farmers, and reducing the cost of food. The priorities for universal healthcare include scaling up health insurance coverage (especially among vulnerable groups), constructing referral hospitals, increasing availability of health personnel, and equipping hospitals with specialised equipment. In the housing sector, the priorities of the government include reducing the cost of construction, supporting development and provision of affordable home financing solutions, and upgrading informal settlements through provision of basic infrastructure and services such as water and sanitation.

The national government's net expenditure and lending for the 2018/19 fiscal year is Ksh 2.53 trillion, equivalent to 25.9% of Kenya's GDP. This is 8.8% higher than the 2017/18 budget. Of this, Ksh 657.3 billion has been earmarked for development expenditure – a 12.8% increase in allocations from 2017/18. The development budget accounts for 26% of the total budget, which is less than the minimum 30% threshold required by the Public Finance Management Act, 2012.

The projected revenue collection including appropriation-in-aid amounts to Ksh 1.92 trillion or 19.6% of GDP. This is higher than the 2017/18 revenue estimates by 15.9%. Ordinary revenue and appropriation-in-aid are expected to increase by 17% and 5.9% respectively. Grants are expected to increase by 9.5%. The expected improvement in revenue collection is underpinned by recent tax reforms that include simplifying and modernising value added tax (VAT) and tax appeals tribunal legislations, as well as operationalising the Excise Tax Act. Next, the government plans to overhaul the Income Tax Act, strengthen tax administration and expand the tax base to improve revenue collection.

Fiscal deficit in 2018/19 is expected to reduce by 10.2% to Ksh 562.7 billion¹⁴ or 5.7% of GDP from Ksh 626.7 billion or 7.2% of GDP in 2017/18 (Figure 4). This decrease is explained in part by ongoing fiscal consolidation programmes and because revenue collection is expected to grow much faster than expenditure in 2018/19. The government aims to reduce the deficit further to below 3% of GDP by 2022.

The fiscal deficit will be financed by borrowing Ksh 282.5 billion (50.2% of the deficit) in external financial markets and Ksh 276.1 billion (49.1% of the deficit) from the domestic market. The balance of Ksh 4.2 billion (0.7% of the deficit) will be financed through domestic receipts other than borrowing.

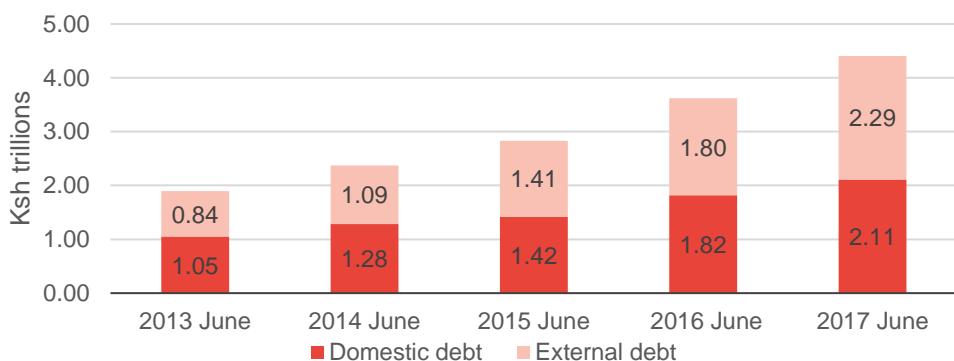
Figure 4: Fiscal deficit



Source: DI based on budget documents for various fiscal years

Kenya's overall public debt increased by 132.8% to Ksh 4.4 trillion in June 2017 from Ksh 1.89 trillion in June 2013¹⁵ (Figure 5). According to the International Monetary Fund's 2017 debt sustainability analysis report, Kenya's debt remains sustainable in the medium term.¹⁶ However, the government must remain committed to the ongoing fiscal consolidation programme for debt sustainability to be maintained.

Figure 5: Level of public debt

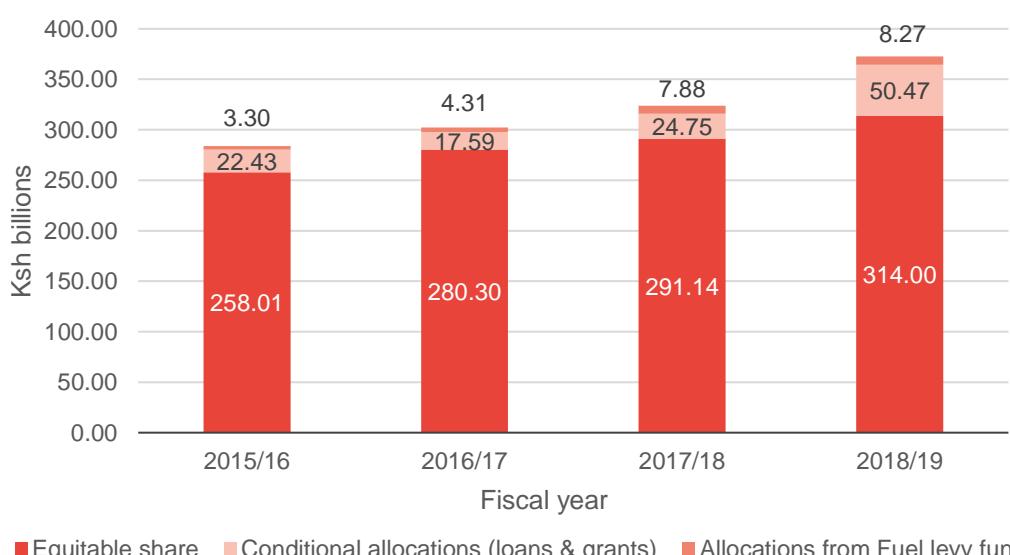


Source: DI based on data from the Central Bank of Kenya

Transfers to county governments

In 2018/19, the national government will transfer a total of Ksh 372.7 billion to county governments. This comprises equitable share allocation, conditional grants and loans and allocations from the Fuel Levy Fund (Figure 6). The equitable share is equivalent to 33.6% of the latest audited and approved revenue (2013/14): just over twice the 15% threshold required by the Constitution of Kenya, 2010. Overall, the total planned transfers to counties in 2018/19 is higher than transfers in 2017/18 by 15.1%. This increase is attributed to additional allocations to functions that were transferred to counties without attendant resources,¹⁷ as well as adjustment for inflation rate and growth or improvement in service delivery.¹⁸

Figure 6: Transfers to county governments



Source: DI based on budget documents and Division of Revenue Bills approved by the National Assembly

Budgetary allocations to pro-poor sectors

Social protection

The overall goal of social protection in Kenya is to ensure that all citizens live in dignity and exploit their capabilities to promote their own social and economic development.¹⁹ The government's commitments for the sector include protecting individuals and households from shocks that are likely to push them into poverty, reducing social exclusion and supporting vulnerable groups to graduate from assistance to self-sufficiency.

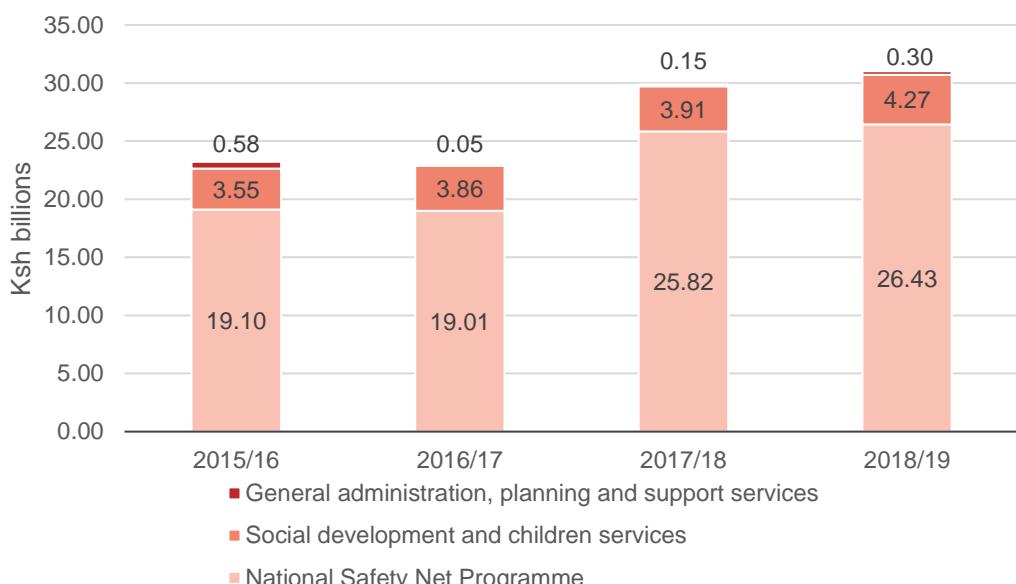
The State Department for Social Protection has been allocated Ksh 31 billion, equivalent to 1.2% of the budget. According to historical allocations, the social protection budget reduced by 1.3% in 2016/17 but increased by 30.4% and 3.7% in 2017/18 and 2018/19 respectively. The increase in 2017/18 is mainly attributed to expansion of the cash transfer programmes that are being implemented under the National Safety Net Programme (NSNP).

National Safety Net Programme

The NSNP comprises cash transfer programmes targeting older people, orphans and vulnerable children, and severely disabled people. It is one of the major interventions the government is implementing to achieve SDG 1 – eradicating poverty in all its forms,²⁰ particularly target 1.3.²¹ In 2016/17, 313,504 older people, 47,231 disabled people, and 353,007 households with orphans and vulnerable children benefitted from these cash transfer programmes.²²

As Figure 7 illustrates, NSNP will receive the highest allocation of Ksh 26.4 billion. Allocations to the programme increased by 35.8% and 2.4% in 2017/18 and 2018/19 respectively. The significant increase in 2017/18 is attributed to the expansion of the programme to include more beneficiaries. According to the latest Auditor General's report (2015/16), the absorption rates for cash transfer programmes dedicated to older people and to orphans and vulnerable children stand at 55.3% and 64.3% respectively.²³ These low absorption capacities may impede the programmes achieving their objectives.

Figure 7: Allocations to the State Department for Social Protection



Source: DI based on budget documents for various fiscal years

Arid and semi-arid lands (ASAL) development

Allocations to the State Department for ASAL, previously housed in the State Department for Special Programmes, has increased by 22.9% to Ksh 6.39 billion from Ksh 5.2 billion in 2017/18. The increase is underpinned by the planned enhancement of drought management and community resilience through projects such as sinking boreholes in ASAL areas.

Of the department's total budget, Ksh 5.8 billion or 91% is earmarked for drought management (Figure 8). Of this, Ksh 4.5 billion or 77.5% has been allocated to the Kenya Hunger Safety Net Programme – an increase of 28.6% from 2017/18. It is worth noting that this increase has only restored funding to the programme to the level it was in 2016/17 (Ksh 4.5 billion).

The Hunger Safety Net Programme is an unconditional cash transfer programme targeting households living in conditions of extreme poverty in Mandera, Marsabit, Turkana and Wajir Counties. The aim of the programme is to reduce extreme hunger and vulnerability in these counties through regular cash transfers and one-off emergency payments to cater for food and other needs.²⁴ In 2016/17, 98,896 households received regular cash transfers from the programme against a target of 100,000. Moreover, 260,000 households were covered through emergency cash transfers against a target of 150,000. Given that the programme focuses on only four ASAL counties, it is unclear how other ASAL counties – especially in northern and eastern Kenya – such as Samburu, West Pokot, Tana River and Garissa, with high incidence of food poverty and majority of their population living below the national poverty line are supported.²⁵

For the first time, the 2018/19 budget has an allocation for administrative services – this is worth Ksh 286 million. This allocation will cater for general administration expenses for the newly established State Department for ASAL.

Figure 8: Allocations to the State Department ASAL



Source: DI based on budget documents for various fiscal years

Education

The government aims to create a transformed society where education and learning catalyse achieving sustainable development.²⁶ To this end, the government has committed to providing quality life-long education and training for all Kenyans, as well as investing in research and innovation to ensure sustainable development. The government provides free primary education and free day secondary education as part of its efforts to achieve SDG 4, particularly target 4.1 – universal primary and secondary education.

In 2018/19, the government plans to spend Ksh 99.7 billion or 3.9% of the national budget on early learning and basic education. This is an increase in allocation of 48.6% from 2017/18. The increase has mainly gone to the free day secondary school programme.

Primary education

Despite the increase in the budget for early learning and basic education, allocations to primary education have declined by 4.1% to Ksh 20.9 billion in 2018/19 from Ksh 21.8 billion in 2017/18 (Figure 9). Looking at historical allocations, the budget for primary education declined by 41.5% between 2015/16 and 2018/19. Furthermore, the share of primary education in early learning and basic education's budget reduced from 43.8% in 2015/16 to 21% in 2018/19. The reduction is mainly attributed to the transfer of information and communication technology (ICT) capacity development budget from primary education to digital literacy programmes from 2016/17. In 2018/19, the reduction

in the total primary education budget is also explained by reduced spending to free primary education programme and the School Health, Nutrition and Meals Programme. Overall, the 2018/19 budget for primary education is less than the estimated resource requirement by 23.6% based on the sector's medium-term expenditure framework (MTEF) for 2018/19-2020/21.²⁷

Figure 9: Allocations to the State Department for Early Learning and Basic Education



Source: DI based on budget documents for various fiscal years

The free primary education programme that accounts for 87.5% of the primary education budget has been allocated Ksh 18.3 billion. This amount is less than the 2017/18 allocation by 4.2%. In addition, the programme is facing a funding deficit of 3.4 billion.²⁸ Free primary education has contributed to the increase in primary completion rate from 79.3% in 2014 to 83.5% in 2016. It has also contributed to the increase in the primary to secondary transition rate from 76.1% in 2014 to 81.3% in 2016. The reduction in funding does not respond the government's commitment to achieve universal primary education and may have negative implications for achieving the programme's targets for 2018/19 such as the planned increase in beneficiaries by 100,000 students.

The government provides a midday meal to primary school students in ASAL, urban informal settlements and other areas with high poverty levels through the School Health, Nutrition and Meals Programme. According to the MTEF for the education sector, the government aims to increase the beneficiaries of this programme by 6% to 1.59 million students in 2018/19 from 1.5 million students in 2017/18. The programme has been allocated Ksh 2.5 billion²⁹ – a 7.4% reduction from allocations in 2016/17. Also, the programme has a financing deficit of Ksh 0.5 billion,³⁰ which may limit its scope in 2018/19.

Secondary education

Allocations to secondary education have almost doubled to Ksh 69.8 billion in 2018/19 from Ksh 36 billion in 2017/18. Of this, Ksh 68.7 billion or 98.4% is earmarked for free day secondary education. The increase in allocations is attributed in part to the increased capitation per student³¹ from Ksh 12,870 to Ksh 22,244³² from late 2017, as well as planned improvements in secondary school infrastructure in 2018/19. In 2016/17, 2.6 million students benefitted from this programme. The number of beneficiaries is expected to increase by 11.5% to 2.9 million students in 2018/19. Despite the increase in allocation, free day secondary education still faces a resource gap of Ksh 28.6 billion.³³

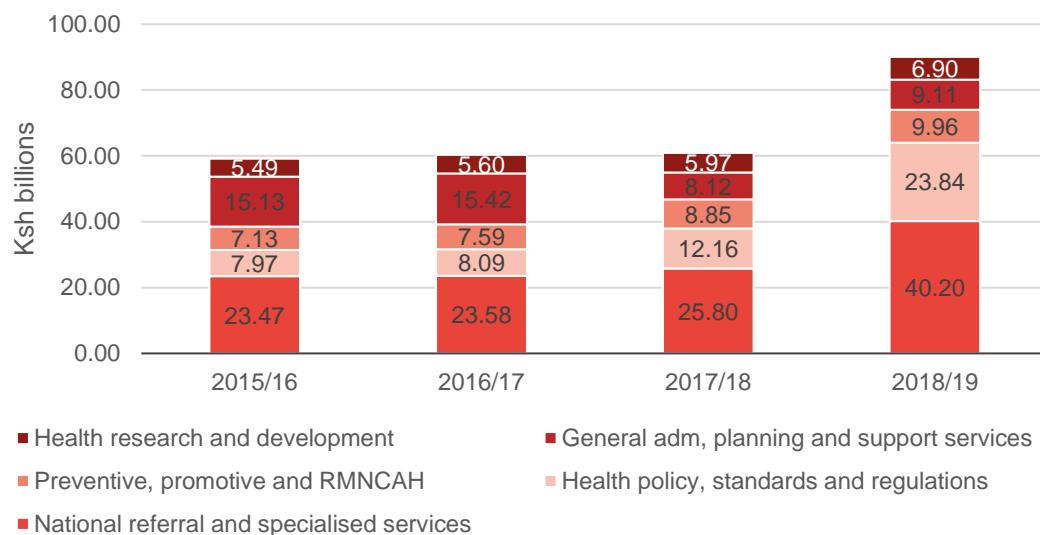
Health

The overarching goal of the health sector is to attain the highest possible standard of health in a responsive manner.³⁴ To achieve this goal, the government has committed to providing equitable, affordable and high-quality health and related services at the highest attainable standards for all citizens.

The Ministry of Health has been allocated Ksh 90 billion or 3.6% of the 2018/19 budget. This amount is higher than allocations in 2017/18 by 47.8%. As Figure 10 illustrates, much of the increase in allocation is attributed to national referral and specialised services and health policy, standards and regulations. The increase in allocation to national referral and specialised services is explained by the government's plan to revamp and expand health infrastructure, which has seen allocations to specialised medical equipment increase over three times to Ksh 16.4 billion from Ksh 5 billion in 2017/18. Furthermore, allocations to referral services³⁵ has increased by 21.6% to Ksh 20.3 billion from Ksh 16.7 billion in 2017/18.

The increase in allocation to health policy, standards and regulations is attributed to the planned improvement in access to health services among vulnerable groups such as older people through subsidised health insurance and free primary healthcare. This has led to an increase in the budget for social protection in health³⁶ by 808.3% to Ksh 10.9 billion from Ksh 1.2 billion in 2017/18.

Figure 10: Allocations to the Ministry of Health



Source: DI based on budget documents for various fiscal years

Note: RMNCAH refers to reproductive, maternal, neonatal, child and adolescent health.

Free primary healthcare

According to Article 43 of the Constitution of Kenya 2010, every citizen has a right to the highest attainable standards of health. This includes the right to healthcare services. The free primary healthcare programme is one of the interventions the government is implementing to realise the right to health. Funding to this programme has increased over five times to Ksh 5.2 billion in 2018/19 from Ksh 900 million in 2017/18. The increase is underpinned by the government's plan to enhance access to primary healthcare services. However, the performance of the programme remains an area of inquiry given the lack of data/information on the number of beneficiaries covered in the last two fiscal years. The programme-based budgets for 2017/18 and 2018/19 do not provide details on the number of people who accessed primary healthcare services through the programme in these fiscal years. This information is also lacking in the sector's MTEF for 2018/19–2020/21.

Free maternity healthcare

Free maternity healthcare will receive Ksh 4.3 billion, equivalent to allocations to the programme in 2015/16 and 2016/17. However, the allocation is an increase of 8.6% compared with 2017/18. The aim of the programme is to increase the proportion of births attended by skilled personnel to reduce maternal deaths. The government aims to increase this from 77.4% in 2016/17 to 80% in 2018/19. According to the sector's MTEF for 2018/19–2020/21, the government's contribution to the programme is inadequate leading to dependence on donor funding that is sometimes unpredictable.³⁷

Health insurance subsidy

Allocations to the Programme for Basic Insurance for Poor and Informally Employed People has increased by 14.3% to Ksh 800 million from Ksh 700 million in 2016/17.³⁸ A total of 213,800 vulnerable people benefitted from this programme in 2016/17. According to the programme-based budget, the government aims to provide subsidised health insurance to 533,333 older people and 187,400 vulnerable people in 2018/19. The target for older people will be maintained at 533,333 in every fiscal year until 2020/21. However, it is not clear whether the target means that an additional 533,333 people will be enrolled into the programme every year or the service will be available to only 533,333 people until 2020/21. According to the 2015/16 KIHBS, there are approximately 1.2 million elderly persons (70 years and above). Therefore, the budget documents should provide clarity on the targets to be achieved to facilitate understanding of the financing gap that needs to be addressed to include all older people in the health insurance subsidy programme.

The 2016/17 report of the Controller of Budget also shows that the Ministry of Health has a low absorption rate (65.1%) for its development budget,³⁹ which constrains implementation of health projects.

Agriculture – food security

Kenya is a food deficit country, meeting its food requirements through food imports.⁴⁰ People living in urban informal settlements and ASAL regions are the most vulnerable to food insecurity. According to the 2015/16 KIHBS, 32% of the population lives below the national food poverty line. And the incidence of food poverty is over 55% in seven counties: Tana River, Mandera, Marsabit, Turkana, West Pokot, Samburu and Busia. These counties also have majority of their population living below the national poverty line.

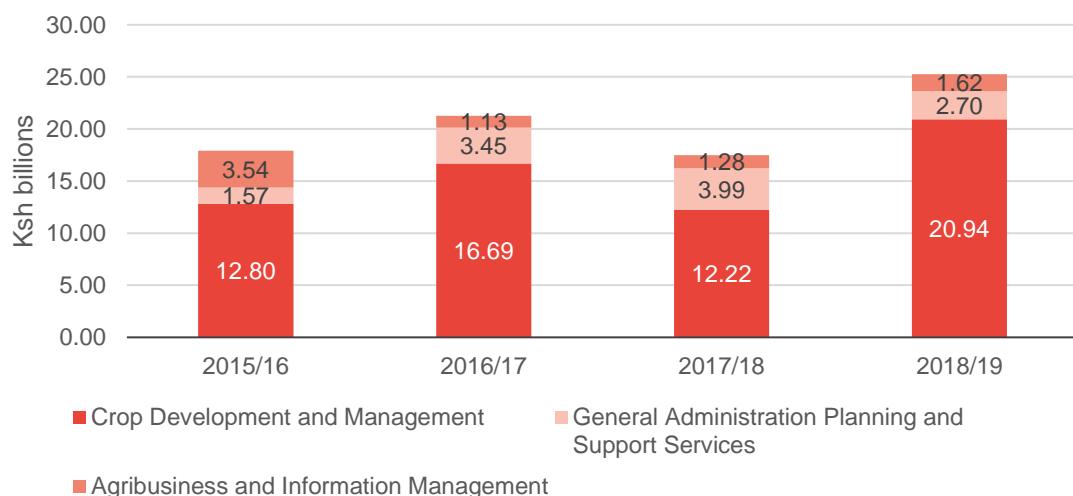
The overarching goal of the agriculture sector is to ensure that Kenya is a food secure and prosperous nation through innovative, commercially oriented and modern agriculture.⁴¹ To achieve this goal, the government has committed to increasing productivity, commercialisation and competitiveness of agricultural commodities and enterprises, as well as developing and managing key factors of production.

The State Department for Crop Development, formerly the State Department for Agriculture, will receive Ksh 25.3 billion or 1% of the budget – a 44.4% increase from 2017/18. As Figure 11 illustrates, the increase is attributed mainly to allocations to the Crop Development and Management Programme, which has increased by 71.3% to Ksh 20.9 billion from 2017/18. This is explained by the planned improvement of agricultural productivity through investment in agricultural mechanisation, use of certified seeds, climate smart agriculture, and quality assurance and monitoring services.

Food security initiatives

About half of the crop development and management budget (Ksh 11 billion) will be invested in food security initiatives – a 6.2% increase from 2017/18.

Figure 11: Allocations to the State Department for Crop Development



Source: DI based on budget documents for various fiscal years

The food security initiatives currently being implemented by the government include the National Agricultural Insurance Programme, fertiliser subsidy programme, Kenya Cereal Enhancement Programme and Small-Scale Irrigation and Value Addition programme. These initiatives are expected to facilitate achieving SDG 2 (no hunger) in Kenya, particularly targets 2.1, 2.3, and 2.4.⁴²

The Kenya National Agricultural Insurance programme facilitates access to crop insurance through insurance premium subsidies the government provides to small-scale farmers. As of mid-2017, 230,000 farmers in 10 counties had benefitted from the programme. In 2018/19, the government aims to cover 1.5 million farmers. To achieve this target, the crop insurance subsidy programme has been allocated Ksh 371.8 million – a 23.9% increase since 2016/17. Nonetheless, the programme has a financing deficit of Ksh 28.2 million for the 2018/19 fiscal year.⁴³

The fertiliser subsidy programme is aimed at enhancing agricultural productivity to spur economic growth and ensure food security. 531,481 metric tons of subsidised fertilisers were distributed to 2.3 million famers between 2014/15 and 2016/17. According to the MTEF for the agriculture sector, the government aims to increase the supply of subsidised fertilisers by 18.7% from 168,480 metric tons in 2017/18 to 200,000 metric tons in 2018/19. This will see the number of beneficiaries increase by 19.1% to 250,000 farmers in 2018/19. It is not clear how this target will be achieved given that funding to the programme has reduced by 6.5% to Ksh 4.3 billion from Ksh 4.6 billion in 2016/17 when

the programme covered 230,000 farmers. Furthermore, the allocation to the programme is 18.9% less than the projected resource requirement based on the sector's MTEF.⁴⁴ The 2015/16 report of the Auditor General also raises accountability concerns on expenditure to the programme. These include a transaction in which avoidable liability/expenditure was incurred without justification.⁴⁵

The Kenya Cereal Enhancement Programme aims to improve food security through improved production of staple cereals such as maize, sorghum, millet and pulses in eight semi-arid counties.⁴⁶ This programme will receive Ksh 1.9 billion – an increase of 16% since 2016/17 – to expand the programme in 2018/19.

The Small-Scale Irrigation and Value Addition Project contributes to poverty reduction through enhanced agricultural productivity, improved incomes and food security. The project is implemented in 11 counties.⁴⁷ The project has been allocated Ksh 1.5 billion – a 64.7% increase since 2016/17. The increase is expected to facilitate expansion of the area under irrigation by 784 acres of land in 2018/19. Despite the increase, the programme has a funding deficit of Ksh 123.4 million.⁴⁸

Irrigation and land reclamation

Apart from the Small-Scale Irrigation and Value Addition Project, the government runs small, medium and large-scale irrigation schemes through the State Department for Irrigation. In 2018/19, the department will receive Ksh 18 billion – a 36.4% increase from 2017/18. Of this, Ksh 7.4 billion or 41.1% of the department's budget is earmarked for irrigation and land reclamation. This is only 1.4% higher than allocation to irrigation and land reclamation in 2017/18. Meanwhile the government aims to expand the area under irrigation and rehabilitate some of the existing irrigation schemes. For instance, in the Bura Irrigation Scheme 8,000 acres will be rehabilitated.

Energy – access to electricity

Kenya aims to achieve universal access to electricity by 2020 to improve the wellbeing of its citizens. This aspiration is informed by SDG 7 that calls for universal access to affordable, reliable and modern energy services by 2030. To achieve universal access, the government is implementing the Last Mile Connectivity project to accelerate connection of households to the national grid at a subsidised fee, especially those living in rural areas.⁴⁹

This project has contributed to the increase in electricity access rate from 49% of the population in 2014/15 to 69.5% in 2016/17. About 3.5 million new consumers were connected over this period. The government aims to connect 1 million new households, which is expected to contribute to the planned increase in overall electricity access rate to 80% in 2018/19.

The overall allocation to the electricity connection subsidy programme amounts to Ksh 6.7 billion, 14.1% less than the 2017/18 allocation. The reduction in funding may limit the scope of the programme in 2018/19.

Emerging issue: allocations to flood response and preparedness

Flooding is one of the major climate-change-induced disasters that frequently occur in Kenya. The long rains season that began in March 2018 has resulted into severe flooding across the country – largely affecting 20 counties.⁵⁰ Latest available data shows that 332,000 people have been displaced and 183 people killed due to the floods, with more people and households likely to be affected as the rain continues through May and early June.⁵¹ At least 21,700 acres of farmland have been destroyed and 19,200 livestock killed by the floods.⁵² About 6,612 schools⁵³ have reported destruction to their teaching and learning materials, thereby disrupting learning activities. The flooding has caused destruction to livelihoods, infrastructure and shelter in the affected counties. This has resulted in urgent humanitarian needs, particularly for shelter, food and health assistance to the affected households.

Flood preparedness and response interventions are undertaken by several ministries, state departments and agencies including the Ministry of Water and Sanitation, State Department for Irrigation, Water Resources Authority and county governments. Consequently, the budget for flood preparedness and response is spread across different ministries, departments and agencies, making it difficult to ascertain the exact budgetary allocation for flood preparedness.

The government will use Ksh 60.4 billion or 2.4% of the budget to sustain environment protection, flood control and water harvesting interventions in 2018/19. The budget documents do not provide a detailed breakdown of how this amount will be allocated to various interventions including humanitarian assistance to affected households and individuals. However, allocations to the Ministry of Water and Sanitation shows that Ksh 150 million is earmarked for flood control works that will be implemented in Nyando, Narok, Turkana, Budalangi, Migori and Homa-Bay. The State Department for Irrigation has allocated Ksh 8 billion for water storage and flood control – a 142.4% increase from allocations in 2017/18. However, according to the 2016/17 report of the Controller of Budget, the State Department for Irrigation has a very low absorption rate, which stands at 48.2% for the recurrent budget and 51.5% for the development budget.

Conclusion and recommendations

The 2018/19 budget has been prepared at a time when the government has twin objectives of reducing fiscal deficit to prevent escalation of public debt while prioritising budgetary allocations to the Big Four Agenda sectors (manufacturing, universal healthcare, affordable housing and food security). The proportion of the fiscal deficit that will be financed through domestic borrowing will reduce from 60.7% in 2017/18 to 49.1% in 2018/19. This is in line with the government's aim to avoid crowding out private investment by reducing public borrowing in the domestic market.

Compared with the previous three fiscal years, there is a strong increase in budget allocations for the majority of the pro-poor programmes and sectors. Nonetheless, some programmes have also seen reductions which are likely to impact the achievement of government targets in these areas. For example, allocations to the fertiliser subsidy programme, electricity connection subsidy programme and free primary education have reduced. There are also significant financing gaps in free primary education, free day secondary education, the School Health, Nutrition and Meals Programme, and the fertiliser subsidy programme. Given the importance of these programmes in ending poverty, achieving national and global development priorities, the government should consider methods by which they can mobilise additional funding for these areas in the short term whilst they work to increase domestic budgets to allow for greater spending in these priority areas. Exploring alternative financing mechanisms, improving efficiency in resource use, and fast-tracking implementation of ongoing tax reforms to enhance revenue collection could help in reducing the financing gaps.

Recommendations

1. **The government should review how reduced budgets to key areas (such as electricity connection subsidy, fertiliser subsidy and free primary education) are likely to affect its commitments and targets, especially in reaching the poorest and most marginalised people. The government should mobilise new funding to fill the funding gaps to prevent a reversal of development achievements.**

Reduced budget allocations for primary education, including the free primary education programme, puts at risk the government's commitment to education and achieving the target of 100,000 new beneficiaries of free primary education.

The government's target to increase beneficiaries of the School Health, Nutrition and Meals Programme from 1.5 million to 1.6 million by the end of 2018/19 may also be compromised due to a reduction (7%) of allocations and a continued financing gap of Ksh 0.5bn.

2. The government should work to improve the absorption capacity of implementing agencies and ensure better donor support.

Absorption capacity of some departments, specifically the Minister of Health, State Department for Irrigation, and cash transfer programmes have been reported to be low. According to the sector MTEFs for 2018/19–2020/21, the causes of low absorption rate include delays in exchequer releases and donor contributions, as well as lengthy procurement processes and pending bills.

Timely approval of annual work plans, initiating early disbursement of funds to implementing units and strengthening procurement system to reduce the lead time could improve absorption capacity.

3. The government should improve policy coherence to provide greater visibility on how budgets are allocated and delivered to various interventions including humanitarian assistances to affected households and individuals.

Currently, budget for flood preparedness and response are spread across numerous ministries, departments and agencies making it difficult to ascertain the exact budgetary allocation as well as monitoring expenditure and impact.

4. The government should consider the expansion of the Hunger Safety Net Programme to other ASAL counties, particularly Samburu, West Pokot, Tana River and Garissa, which have high incidence of food poverty and most of the population living below the national poverty line.

5. The government should improve data collection and analysis to demonstrate the impact increased budgetary allocations have on the lives of beneficiaries and ensure the services are reaching those most in need.

Monitoring the reach and impact of funding remains weak in many areas, such as data on who has ace to and benefits from improved primary healthcare services and humanitarian assistance programmes.

Notes

¹ The list of state departments, ministries, and agencies included in each sector can be provided upon request.

² This refers to the share of the State Department for Social Protection only. In Figure 1, the percentage is indicated as 2% since it includes allocations to state departments responsible for labour, sports, heritage, ASAL and gender, as well as National Gender and Equality Commission.

³ This refers to the share of the State Department for Early Learning and Basic Education only. In Figure 1, the share for education is indicated as 17% because it includes allocations to Teachers Service Commission, as well as vocational and technical training, research and university education, and post training and skills development.

⁴ Allocations to specific programmes such as crop insurance are available only in the line item budget, which was not provided in 2017/18. Because of this data limitation we compare with 2016/17 allocations where relevant.

⁵ This refers to allocations to State Department for Crop Development only. In Figure 1, the share for agriculture is indicated as 2% because it includes allocations to state departments responsible for livestock, fisheries, aquaculture, blue economy, irrigation, and agricultural research.

⁶ Kenya National Bureau of Statistics. Kenya Integrated Household Budget Survey (KIHBS) 2005/06, pages 43–54. Available at: <http://statistics.knbs.or.ke/nada/index.php/catalog/8>

⁷ Kenya National Bureau of Statistics. KIHBS 2015/16 – basic report on wellbeing in Kenya, page 50. Available at: www.knbs.or.ke/download/basic-report

⁸ However, the report does not provide data for the Gini coefficients, making it difficult to analyse the extent to which income inequality has reduced. See note 7, page 12 and 78.

⁹ See note 7, page 60.

¹⁰ See note 7, pages 29–109.

¹¹ Figures in parentheses are the respective monthly expenditures for each quintile.

¹² See Kenya Vision 2030 priorities here:

www.researchictafrica.net/countries/kenya/Kenya_Vision_2030_-_2007.pdf

¹³ National Treasury, 2018. *2018 Budget policy statement*. Available at:

www.treasury.go.ke/component/downloads/send/195-budget-policy-statement/732-2018-budget-policy-statement.html

¹⁴ This is the level of deficit after factoring grants for 2018/19.

¹⁵ We have analysed public debt as at 30 June, the end of the government's fiscal year.

¹⁶ IMF, 2017. *Kenya: Country report number 17/25*. Available at:

www.imf.org/en/Publications/CR/Issues/2017/02/02/Kenya-First-Review-Under-the-Twenty-Four-Month-Stand-By-Arrangement-and-the-Arrangement-44607

¹⁷ These functions include libraries and class D roads that were transferred to counties under Gazette Notice No. 2,238 of 1 April 2016.

¹⁸ Commission of Revenue Allocation, 2018. *Recommendation on the basis for equitable sharing of revenue between National and County governments for the fiscal year 2018/19*. Available at: www.crakenya.org/wp-content/uploads/2018/01/Recommendation-on-the-Basis-for-Equitable-Sharing-Of-Revenue-between-National-and-County-Governments-for-the-Financial-Year-2018-2019.pdf

- ¹⁹ Ministry of Gender, Children, and Social Development, 2011. *Kenya National Social Protection Policy*, Available at: www.africanchildforum.org/clr/policy%20per%20country/kenya/kenya_socialprot_2011_en.pdf
- ²⁰ Government of Kenya, 2017. *Implementation of the agenda 2030 for Sustainable Development in Kenya*. Available at: www.un.int/kenya/sites/www.un.int/files/Kenya/vnr_report_for_kenya.pdf.
- ²¹ Target 1.3 relates to implementing nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieving substantial coverage of poor and vulnerable people.
- ²² National Treasury, 2017. *Social protection, culture and recreation sector report: 2018/19-2020/21*, page 44. Available at: www.treasury.go.ke/component/downloads/send/194-2018/712-social-protection-culture-and-recreation.html
- ²³ Office of the Auditor-General, 2016. *Report of the Auditor-General on the financial statements for national government for the year 2015/16*. Available at: www.oagkenya.go.ke/index.php/reports/cat_view/2-reports/9-national-government/69-national-government-mdas
- ²⁴ Oxford Policy Management, 2016. *Evaluation of the Kenya Hunger Safety Net Programme Phase 2*. Available at: <https://reliefweb.int/sites/reliefweb.int/files/resources/1518601483.HSNP%20Qualitative%20Summary%20Report%202017.pdf>
- ²⁵ According to 2015/16 KIHBS, Samburu, West Pokot, Tana River and Garissa are among the top 10 poorest counties with poverty headcount rates above 50% and incidence of food poverty above 45% of the population
- ²⁶ Ministry of Education, 2017. *Education for Sustainable Development Policy for the Education Sector*. Available at: www.education.go.ke/index.php/downloads/file/308-unesco-policy-for-education-sector-web-fa
- ²⁷ National Treasury, 2017. *Education sector report for the medium-term expenditure framework 2018/19-2020/21*, page 70. Available at: www.treasury.go.ke/component/downloads/send/194-2018/705-education-sector-report.html
- ²⁸ See note 27, page 70.
- ²⁹ The programme-based budget indicates only Ksh 842.39 which is earmarked for recurrent expenditure. The line item budget indicates that an additional Ksh 1.65 billion is earmarked for the programme's development expenditure. This brings the total allocation to Ksh 2.49 billion.
- ³⁰ See note 27, page 72.
- ³¹ The capitation per student caters for teaching and learning materials, repairs and maintenance costs, administration costs, activity fees, personal emoluments and medical insurance. See Ministry of Education, Science and Technology, 2015. *Fees guidelines for public secondary schools in Kenya*. Available at: <https://africacheck.org/wp-content/uploads/2017/06/fees-guidelines-for-secondary-schools-in-kenya-1.docbuhere-1.pdf>
- ³² See Africa Check, 2015. *Factsheet: Cost of providing 'truly' free secondary education in Kenya*. Available at: <https://africacheck.org/factsheets/factsheet-cost-providing-free-secondary-education-kenya/>
- ³³ See note 27, page 73.
- ³⁴ Ministry of Health, 2014. *Kenya Health Policy (2014–2030)*. Available at: www.afidep.org/?wpfb_dl=80
- ³⁵ This refers to allocations meant to cover the cost of providing referral health services – staff costs, transfers to institutions that provide these services, and regular supplies.
- ³⁶ Social protection in health includes two programmes under the Ministry of Health: free primary healthcare and health insurance subsidy.

³⁷ National Treasury, 2017. *Health sector working group report for medium term expenditure framework: 2018/19*, page xxiii. Available at: www.treasury.go.ke/component/downloads/send/194-2018/731-health-sector.html

³⁸ These figures are available only in the line item budget, which was not provided in 2017/18. Therefore, we use 2016/17 for comparison.

³⁹ Office of the Controller of Budget, 2016. *Annual National Government budget implementation review report for fiscal year 2016/17*, page 43. Available at: <http://cob.go.ke/publications/national-government-budget-implementation-review-reports/>

⁴⁰ World Food Programme, 2016. Comprehensive food security and vulnerability survey. Available at: <https://documents.wfp.org/stellent/groups/public/documents/ena/wfp285611.pdf?iframe>

⁴¹ Government of Kenya, 2010. *Agricultural Sector Development Strategy (2010–2020)*. Available at: www.gafspfund.org/sites/gafspfund.org/files/Documents/5.%20Kenya_strategy.pdf

⁴² SDG targets: <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>

⁴³ National Treasury, 2018. *Agriculture rural and urban development (ARUD) sector report for medium term expenditure framework: 2018/19–2020/21*, page 167. Available at:

www.treasury.go.ke/component/downloads/send/194-2018/706-agriculture-and-rural-development-sector.html

⁴⁴ See note 43, page 167.

⁴⁵ See note 23, page 234.

⁴⁶ The counties are Embu, Tharaka Nithi, Kitui, Machakos, Makueni, Taita Taveta, Kwale, and Kilifi.

⁴⁷ Machakos, Kitui, Makueni, Tana River, Bomet, Meru, Tharaka Nithi, Nyandarua, Muranga, Kajiado and Nyeri

⁴⁸ See note 43, page 174.

⁴⁹ Beneficiaries pay Ksh 15,000, which is equivalent to 44.12% of the actual connection fee, while the government pays the balance. The fee can be paid through monthly instalments spread over three years to ensure affordability. Poor households in informal settlements get additional subsidy that reduces the connection fee to Ksh 1,160.

⁵⁰ The most affected counties are: Garissa, Tana River, Wajir, Turkana, Mandera, Kilifi, Homa-Bay, Siaya, Kisumu, Busia, Taita-Taveta, Baringo, Nakuru, Kitui, Nandi, Makueni, Narok, Marsabit, Kajiado and Isiolo.

⁵¹ UNICEF, 2018. *Kenya floods response update – 19 May 2018*. Available at: <https://reliefweb.int/sites/reliefweb.int/files/resources/UNICEF%20Kenya%20Floods%20Reponse%20Update%20-%202019%20May%202018.pdf>

⁵² ACAPS, 2018. Briefing note: *Kenya floods*. Available at: https://reliefweb.int/sites/reliefweb.int/files/resources/20180504_acaps_briefing_note_floods_in_kenya.pdf

⁵³ See note 51.

Acronyms

ASAL	Arid and semi-arid lands
DI	Development Initiatives
GDP	Gross domestic product
KIHBS	Kenya Integrated Household Budget Survey
MTEF	Medium-term expenditure framework
NSNP	National Safety Net Programme
SDG	Sustainable Development Goal
VAT	Value added tax

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