March 2017

analysis of Kenya’s budget 2017/18

what’s in it for the poorest people?

report

Contents

Acronyms

ASAL	Arid and semi-arid land
CRA	Commission on Revenue Allocation
EDE	Ending Drought Emergencies
GDP	Gross domestic product
HSNP	Hunger Safety Net Programme
Ksh	Kenyan Shillings
MTEF	Medium Term Expenditure Framework
NDMA	National Drought Management Authority
NSNP	National Safety Net Programme
SDG	Sustainable Development Goal

Highlights from Kenya's 2017/18 budget

For a country with high levels of poverty and inequality, it is only reasonable to assess Kenya's budgetary allocations from a pro-poor angle. About 45.2% of Kenya's population lives below the poverty line and the richest 20% have 10 times the income of the poorest 20%. Levels of inequalities are evident among and within counties. As the Cabinet Secretary to the National Treasury prepares to read Kenya's national budget for 2017/18 in parliament on 30 March 2017, here is what we know so far from the budget documents released between September 2016 and February 2017. The highlights include an overview of the budget, revenue transfers and budgetary sectoral allocations for programmes targeting vulnerable groups.

Overview of budget 2017/18

- The government plans to spend Kenyan Shillings (Ksh) 2.29 trillion. It aims to raise Ksh 1.7 trillion in revenues while projects grants are expected to increase by 14.3%. The overall budget deficit will amount to Ksh 524 billion.
- The country will be in a contractionary fiscal cycle as it plans to reduce fiscal deficit by 21.3% through cuts in overall development expenditure and an increase in estimated revenue.
- Development expenditure will amount to 27.9% of the overall estimated budget of Ksh 2.29 trillion; this is less than the minimum 30% threshold provided by law.
- Domestic sources will play a bigger role in 2017/18. They will finance most of the overall budget deficit (60.7%) and the development expenditure (58.7%). Moreover, the government plans to increase net domestic borrowing by 12.4% and this is likely to put pressure on the domestic market.
- Pressure to repay loans from commercial financing is greater in fiscal year[1] 2017/18 where foreign repayment will increase by 242%, consistent with an earlier International Monetary Fund warning. This has a likely adverse effect on funds for basic services and infrastructure.

Transfer of revenue to the subnational governments

- National government has allocated more than twice the constitutional requirement (15%) in equitable share to county governments for 2017/18. However, the huge variations in last audited revenues, the basis for the share, and projected revenues of the years between 2015/16 and 2017/18 leave the equitable share well below 20%.
- Money ring-fenced to counties as conditional grants to support implementation of the devolved system will increase by close to 50% in 2017/18 from the previous year. The biggest increase – up 97.5% from 2016/17 – is the Ksh 7.9 billion conditional grant that allows counties to maintain roads.

- Despite being indicated in budget statements for the financial years 2015/16 and 2016/17 and launched on 11 March 2016, no disbursement of the Equalisation Fund has been made so far because the disbursement framework has not been finalised.

Pro-poor budgetary allocations: to sectors that directly target poor people

Heath

- Free primary healthcare: no change in the Ksh 900 million allocations from the previous two financial years.
- Health insurance for older people and people with disabilities: Ksh 300 million allocated, which is lower than the Health Sector Working Group's recommendation of Ksh 500 million.
- Free maternal healthcare: no change in the Ksh 4.3 billion allocations of the two previous financial years; while the conditional grant, now special grant, of Ksh 3.4 billion has been reduced by Ksh 900 million from 2016/17.

Education

- Free primary school education: of the Ksh 21.8 billion allocated for primary education, 87.5% is earmarked for free primary education – more than the share in the primary education budget in 2016/17.
- Free day secondary school education: Ksh 34.7 billion allocated of which only 3.8% (Ksh 1.3 billion) is earmarked as capital expenditure while the rest is current expenditure.
- School health, nutrition and meals: School feeding programmes allocated Ksh 2.5 billion, which includes resources from donors and is a far cry from the Ksh 4.5 billion requirement.

Social protection

- Ksh 24.2 billion or 2% of overall 2017/18 budget is earmarked for social protection programmes, a 6% increase from the previous financial year.
- National Safety Net Programme will receive Ksh 20 billion for state cash transfer to more than 1 million households with older people, orphan and vulnerable children and people with disabilities.
- National Development Fund for Persons with Disabilities: the fund will be allocated Ksh 400 million – higher than 2016/17 by Ksh 100 million. This is 54% more than what has been recommended by the Medium Term Expenditure Framework for 2017/18.

Emerging issue: Drought management

In February 2017, the government declared the current drought as a national disaster. So far, the drought has affected 2.7 million or 6.8% of Kenyans living in 23 of the 47 counties.

- Ksh 5.2 billion or three-quarters of the budget of the State Department for Special Programmes in 2017/18 is earmarked for drought management. This amount, however, is 11% less than that earmarked in 2016/17.
- The Hunger Safety Net Programme that supports 84,600 households in Mandera, Wajir, Marsabit and Turkana counties has been allocated Ksh 3.5 billion in the coming financial year.
- It is, however, difficult to identify the exact amount allocated to ‘end drought emergency’ from the budget documents since drought intervention measures are undertaken by various ministries, departments and agencies. Furthermore, there are often off-budgetary allocations and supplementary budget submissions.

Overall, the government has allocated more resources to pro-poor sectors in 2017/18 than in the previous two financial years.[2] While this is a good move, it is not an indication that allocations are adequate, since some of the programme budget estimates are lower than the requirement as stated in sectoral Medium Term Expenditure Frameworks. Furthermore, greater allocations do not always mean sufficient spending performance, as some of the sectors have received adverse audit opinion in the latest Auditor General’s report (2014/15) on disbursements and absorption.

Introduction

Resource transfers are crucial for countries like Kenya where there is high incidence of poverty and inequality among people, counties and within counties. About 45.2% of the country's population lives below the national poverty line.[3] Kenya has the highest inequality rate in the region, where income share accruing to the lowest quintile is only 4.8% of gross domestic product (GDP)[4] while the richest in the highest quintile have 10 times the income of the poorest 20%.[5] Inequality and poverty levels vary among and within counties. People living in Turkana, for example, are 15 times less likely to have access to secondary education than those in Nairobi County. Even within counties, inequality persists. In a constituency in Kilifi County, Magarini, 84.5% of the population lives in poverty compared with only 39% in Rabai Constituency within the same county.[6]

For this reason, we focus in this report on the redistribution of national resources aspects of the 2017/18 budget and budgetary allocation to sectors with programmes that target poor and vulnerable groups. We compare the 2017/18 budget with the previous two financial years, where appropriate, as well as against the country's Second Medium Term Plan (2013–2017), the five-year implementation plan of the long-term development policy Kenya Vision 2030, and relevant sector Medium Term Expenditure Framework (MTEF) reports.

The report is structured as follows: we begin with an overview of the 2017/18 budget by analysing the fiscal deficit and its financing: development expenditure and public debt. We assess budget transfers of national government's revenue through the Equalisation Fund, equitable share allocation and conditional grants to counties. We analyse sectoral budgetary allocation for pro-poor programmes in health, education, social protection. We also assess drought as an emerging issue and allocation to response management. We conclude with some recommendations.

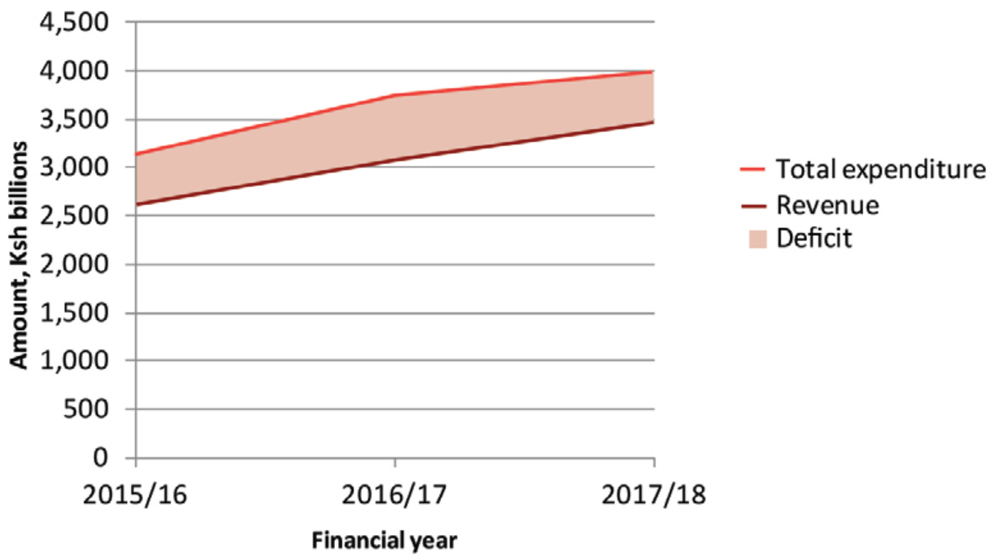
Budget 2017/18: an overview

In 2017/18, the Government of Kenya plans to spend Ksh 2.29 trillion, or 27.6% of GDP. This amount is higher than the allocations in 2016/17 by 2.4%. Of this, the recurrent budget comprises 43.2%. Development expenditure will amount to 27.9% of the total budget, less than the minimum 30% threshold provided by the Public Finance Management Act 2012.[7] Wages and salaries for the national government, excluding ministries, department and agencies, for 2017/18 amounts to Kenyan Shillings (Ksh) 365 billion[8], or 16.0% of total expenditure.

The government aims to raise Ksh 1.71 trillion, or 20.6% of GDP in revenue collection including both ordinary revenue and appropriation-in-aid in 2017/18. This amount represents a 12.5% increase in estimates from 2016/17. This projection rests on the ongoing tax policy and revenue administration reforms.[9] The estimated increase in total revenue collection is underpinned by an improved estimation of ordinary revenue growth of 13.0% and projected growth in ministerial appropriation-in-aid by 7.8%. Furthermore, grants are projected to increase by 14.3%, specifically projects grants.

The overall budget deficit is expected to be Ksh 0.52 trillion, which is less 21.3% less than in 2016/17 despite an increase in total spending of 2.4%. This is partly due to a decline in development expenditure and a projected increase in revenue and projects grants.

Figure 1: Kenya's budgets 2015/16–2017/18: Expenditure, revenue and deficit

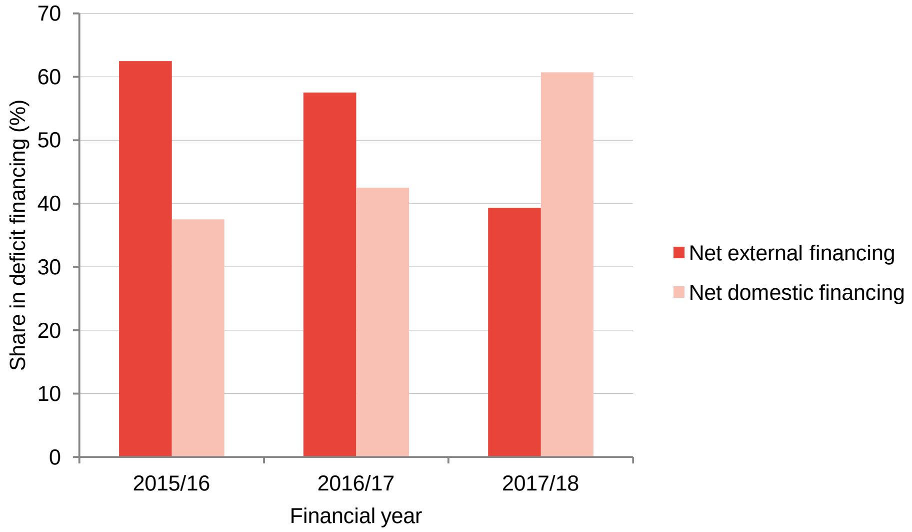


Source: DI based on figures in budget documents for financial years 2015/16 – 2017/18

Fiscal deficit financing

Unlike in previous financial years, the government plans to finance the overall budget deficit mainly through net domestic borrowing (60.7%) while the rest will be financed from net external borrowing (39.3%).

Figure 2: Sources of deficit financing, 2015/16–2017/18



Source: DI based on figures in budget documents for financial years 2015/16 to 2017/18

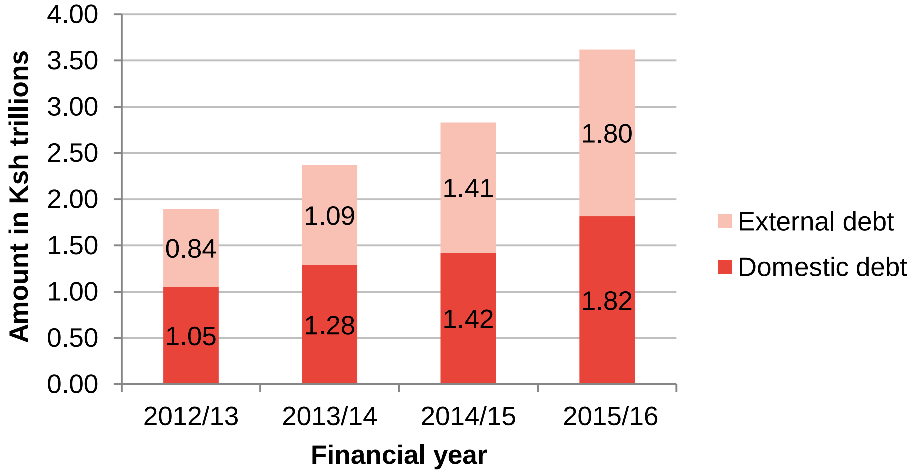
Development expenditure financing

As well as fiscal deficit, domestic sources will also be the main financier of development expenditure in the next financial year. The year will see a decline in total development spending of 12.3% according to the 2017/18 Budget Policy Statement, as a result of lower absorption in development spending by ministries in 2016/17.[10] The government plans to continue financing development expenditure mainly through domestic resources (58.7%), while the rest will be financed externally. This is slightly more than the 2016/17 domestic financing of development expenditure (56.8%).

Public debt

On average, Kenya's public debt has been growing by 23% a year between financial years 2012/13 and 2015/16. The total public debt as of June 2016 was Ksh 3.6 trillion with an apparent equal share of domestic debt (50.2%) and external debt (49.8%) in total public debt (Figure 3). Between 2012/13 and 2015/16, external debt grew yearly on average by 28% and domestic debt by 18%.

Figure 3: Kenya's public debt by source, 2012/13–2015/16



Source: DI based on Central Bank of Kenya's monthly public debt publication

This proportionate share, however, is likely to be tilted in favour of domestic debt as the government plans to increase net domestic borrowing by 12.4% and reduce its net external borrowing by 46.2%, compared with the 2016/17 budget.

The pressure to repay loans from commercial financing is greater in 2017/18 and will continue through 2018/19. These payments are for loans the country took in late 2015 and 2016 with shorter maturity dates. In October 2015, the country contracted a two-year Ksh 76 billion syndicated loan. This was planned to be a one-off operation to ease burden on the domestic market but in the 2017/18 budget external debt redemption schedule, the syndicated loan is indicated with longer maturities. The country will also pay African Export-Import Bank (Afreximbank) Ksh 21 billion, which it contracted to bailout Kenya Airways in 2016.

In terms of interest payments to external lenders, the budget document indicates that the country will pay the most to international investors of its debut international sovereign bond (Ksh 19 billion), Exim Bank of China (Ksh 16 billion) and against the Standard Chartered syndicated loan (Ksh 11 billion).

The International Monetary Fund had earlier warned that the government needed to manage commercial borrowing carefully to minimise the impact of repayment spikes.[11] High debt repayment plans between 2017/18 and 2018/19 are, indeed, likely to have an adverse impact on poverty programmes by reducing funds for services and infrastructure.

In terms of performance, public debt expenditure received adverse opinion from the Auditor General in the latest report (2014/15) in terms of accountability.[12] Despite a high absorption rate at 96.5%, the Auditor's report of 2014/15 indicated that Kenya's public debt statements show unexplained sources of funding while a certain amount of expenditure was incurred against National Assembly vote. In addition, the Auditor General stated it found inaccurate balances as well as omitted balances not reflected in the Sinking Fund or Central Bank of Kenya Public debt statement of 2014/15.

Revenue transfers

In this section, we look at the redistribution of national resources to counties.

Equitable revenue share allocation to county governments

Article 203 (2) of the Constitution of Kenya,[13] provides for the equitable allocation of revenue raised by the national government among county governments, which should not be less 15% of all revenue collected by the national government and calculated on the basis of the latest audited revenue accounts (Article 203(3)).

The national government has allocated more than twice the constitutional requirement for 2017/18 in equitable share. Trends show that the government has been allocating more than 30% of the revenue from the last audited year, 2013/14. For 2017/18, county governments' equitable share amounts to Ksh 291.1 billion, which represents increases by 7.9% and 15.2% from 2015/16 and 2016/17, respectively.

It is worth noting, however, that the revenue projected in 2017/18 is 82% higher than 2013/14 revenue. This effectively means that the equitable share would amount to only 17% had it been based on projected 2017/18 revenue. The huge variations in last audited revenues and projected revenues of respective years between 2015/16 and 2017/18 leave the equitable share well below 20% (Table 1).

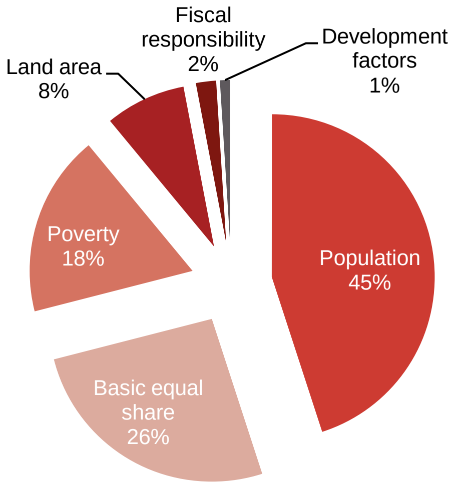
Table 1: Equitable share and share in total revenue, 2015/16–2017/18

Year	Equitable Share (in billions)	Share in recent audited revenue (%)	Share in projected revenue in respective financial year (%)
2015/16	259.7	33.4*	19.1
2016/17	280.3	30.0**	18.7
2017/18	291.1	31.1**	17.1

Source: Budget summary documents of various years: *based on audited revenue 2012/13; **based on audited revenue 2013/14

The horizontal distribution of the equitable share will be based on the revised revenue sharing (second-generation) formula recommended by the Commission on Revenue Allocation (CRA) (2016) using parameters shown in Figure 4. The second-generation formula not only altered the weights attached to 'basic equal share' and 'poverty' but also introduced a new parameter 'development factors' to capture economic disparities and development needs of counties particularly on access to water, electricity and roads.[14]

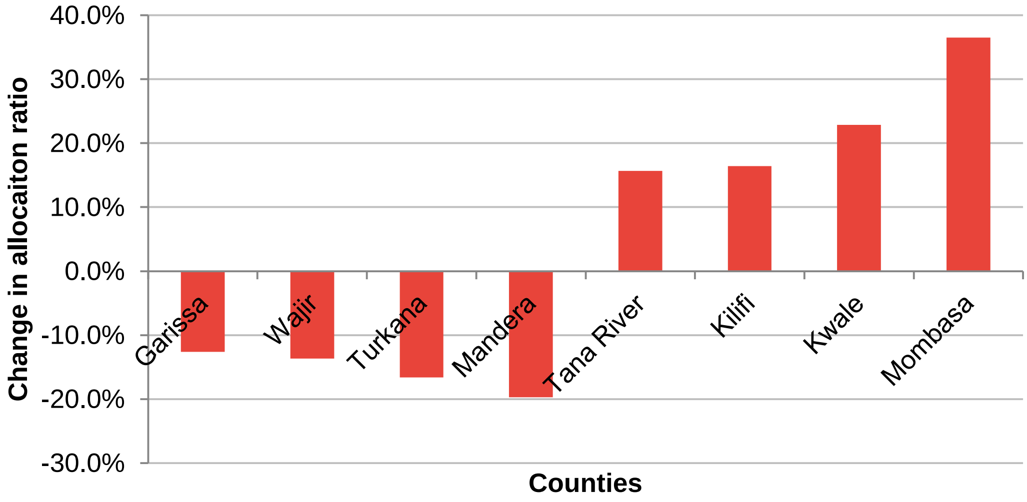
Figure 4: Second-generation equitable share formula



Source: Commission on Revenue Allocation/CRA

Some counties lose out by a huge margin while others gain due to changes in allocation ratio in 2017/18. The four poorest arid and semi-arid (ASAL) counties, Mandera, Turkana, Wajir and Garissa will see the most reduction in allocation, by 20%, 17%, 14% and 13%, respectively. The main reasons for these reductions are reduced weight attached to poverty levels and the nullification of population number estimates by the Kenya Bureau of Statistics.[15] The big gainers from the change in allocation ratio include Mombasa whose allocation ratio has increased by 37% while Kwale (23%), Kilifi (16.4%) and Tana River (15.7%) will also expect a higher allocation compared with 2016/17.

Figure 5: Largest four losers and gainers from change in county allocation ratio between 2016/17 and 2017/18



Source: DI based on 2017/18 budget policy statement

Conditional grants

In addition to the unconditional equitable share allocation, counties receive conditional allocations from the national government to support the implementation of devolution. Conditional grants to counties have increased by close to 50% in 2017/18 from the previous year. Donors have pledged more resources to support counties, and slightly more than half of the total Ksh 12.9 billion will come from the World Bank – majorly for supporting the Kenya Devolution Support Project – and the rest from other development partners (Table 2).

There will be no conditional allocation for free maternal healthcare, which had seen Ksh 4.3 billion and Ksh 4.1 billion released directly to counties in financial years 2015/16 and 2016/17, as it now becomes a special grant to the National Health Insurance Fund. According to the budget estimates, this arrangement aims to bring about efficiency by eliminating both intermediaries and double insurance claims by facilities. One of the biggest increases compared with 2016/17 is the Ksh 7.9 billion conditional grant that allows counties to maintain their roads. The increase in road maintenance fuel levy fund estimates, which is 15% of projected 2017/18 collections by the Kenya Roads Board, will further increase if the Treasury adopts CRA's recommendation of 25% instead of 15% of fuel levy collected.[16] Another gainer in this financial year's conditional grant is Level 5 hospitals, whose allocation has increased by 5% from 2016/17 and close to 17% from 2015/16.

Table 2: Conditional grants allocation, 2015/16–2017/18, Ksh billions

Type of conditional grants	2015/16	2016/17	2017/18	% change in allocation (2016/17–2017/18)
Conditional grants of which:	**27.3**	**21.9**	**32.6**	**49.9%**
Free maternal healthcare	4.3	4.1	0.0	(100.0%)
Leasing medical equipment	4.5	5	4.5	(10.0%)
Level 5 hospitals	3.6	4	4.2	5.0%
Compensate county health facilities for user fees forgone	0.9	0.9	0.9	0.0%
Road maintenance fuel levy fund	3.3	4	7.9	97.5%
Development partners' loans and grants	10.7	5.3	12.5	135.8%
Other	-	1.4	2.6	-

Source: Budget summary documents between 2015/16 and 2017/18

Two additional conditional grants, indicated as 'other' in Table 2, have been added in the 2017/18 budget – allocation to finance rehabilitation of village polytechnics (Ksh 2 billion) and a conditional grant to supplement financing the construction of headquarters in five counties that do not have adequate office facilities (Ksh 0.6 billion).[17]

The Division of Revenue Bill 2017 published by the National Assembly differs from the proposal submitted by the National Assembly, not unusually, on counties' equitable share and conditional allocations. According to the budget summary for 2017/18, the Treasury proposes Ksh 299 billion in equitable share and Ksh 13 billion in conditional allocations, more than what has been published by the National Assembly.

The Equalisation Fund

The law requires the national government to set aside shareable revenue to county governments. To ensure quality of basic services in marginalised counties, Article 204 of the Constitution of Kenya obliges the national government to allocate 0.5% out of its most recent audited accounts of revenue received and approved by the National Assembly to the Equalisation Fund.[18] The Fund is to be used by marginalised counties for basic delivery of services such as health facilities, water, roads and electricity to bring them to the level generally provided in other counties.

Fourteen arid and semi-arid counties (which make up 30% of the country) are expected to benefit from the Equalisation Fund[19] based on weighted parameters. The CRA developed these after an assessment on marginalisation and historical injustices, and based on county development indices. Half of the fund is to be shared equally among the 14 counties while the other half is to be shared based on poverty gap, education, health and infrastructure parameters. According to the National Treasury, the total entitlement to the Equalisation Fund between 2011/12 and 2016/17 amounted to Ksh 20 billion.[20]

To cater for the backlog as well as allocate for 2015/16,[21] the government allocated Ksh 6 billion to the Equalisation Fund above the minimum constitutional requirement. For the next financial year, the Government of Kenya plans to allocate Ksh 7.7 billion (Table 3).

Table 3 Equalisation Fund total entitlement and allocation share

Financial year	Most recent audited revenues approved by the National Assembly		Equalisation Fund entitlement (0.5%) (Ksh millions)	Allocation of Equalisation Fund (Ksh millions)
	Base year	Amount (in Ksh millions)		
2011/12	2008/2009	468,152	2,341	0.00
2012/13	2009/2010	529,300	2,647	0.00
2013/14	2009/2010	529,300	2,647	0.00
2014/15	2012/2013	776,900	3,885	400
2015/16	2012/2013	776,900	3,886	6,000
2016/17	2013/2014	935,600	4,678	6,000
2017/2018*	2013/2014	935,600	4,678	7,700

Source: National Treasury, April 2016; * Budget summary for 2017/18

Despite being indicated in the budget statements of the 2015/16 and 2016/17 financial years and launched on 11 March 2016, the government has not made any disbursements to the Equalisation Fund so far because the disbursement framework has not been finalised.[22] The weighted parameters developed by the CRA has been criticised for failing to explain the selection of parameters. For instance, education has been included as a parameter even though it is not one of the sectors to benefit from the Fund. The weight assigned to poverty gap (16%) and the equal weight (28%) to each of infrastructure, health and education[23] have also been criticised. Many, however, fault the delay in operationalisation of the Equalisation Fund on wrangles among politicians,[24] particularly on the mechanism of channelling the fund. There is no certainty for full disbursement in 2017/18 as it is contingent on parliamentary approval of the criteria developed by CRA.

Budgetary allocation for pro-poor sectors

In this section, we present analysis on sectoral allocations with programmes that directly target poor people. Under health sector allocation, we assess universal health coverage including free primary healthcare, health insurance for older people and people with disabilities, and free maternal healthcare. Under the education sector, we assess allocations to basic education, specifically free primary education; free day secondary education programmes; and school health, nutrition and meals. We have also analysed budgetary allocations to social protection, namely cash transfer to vulnerable groups, including orphans and vulnerable children, older people and people with disabilities. For the latter group, we also assessed budget estimates for the National Development Fund for Persons with Disabilities. Given the ongoing drought crisis, we have devoted a sub-section to drought management focusing on the approach adopted by the Government of Kenya to end drought emergency.

Health sector: Towards attaining universal health coverage

The Ministry of Health will receive Ksh 61.6 billion in 2017/18 – a 2% increase in allocation from the previous financial year. According to the latest Auditor General's report, the Ministry of Health has low absorption (63%) for its development budget, indicating that many of its development programmes were not implemented by the end of fiscal year 2014/15.

One of the government's medium-term priorities in the health sector is the scaling up of universal health coverage including free maternity health services, subsidies for poor and vulnerable groups and reducing out-of-pocket health expenditure.[25]

About 80% of Kenyans do not have access to any sort of health insurance.[26] Kenya's Vision 2030 identifies the National Health Insurance Scheme as its health sector flagship project to promote equity in healthcare financing. The Health Bill, 2016, requires the health department to ensure progressive financial access to universal health coverage. This is in line with the Sustainable Development Goals (SDGs). Goal 3 urges countries to achieve universal health coverage by 2030 including 'financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all'.

Free primary healthcare: To facilitate universal health coverage, the Government of Kenya removed user fees in dispensaries and health centres at the beginning of 2013/14. There is no change in the Ksh 900 million allocations, from the previous two financial years, that will be disbursed to all counties as a refund for foregone user fees from 40,000 Kenyans. This amount is expected to increase to Ksh 1 billion by 2018/19.[27]

Health insurance for older people and people with disabilities: the 2017/18 budget allocates Ksh 300 million for health insurance subsidy programme for older people and disabled people, which is lower than the Health Sector Working Group's recommendation in its 2016 report that indicated the Ministry would require Ksh 500 million to continue providing health insurance for 219,000 older people and people with disabilities.

Free maternal healthcare: The number of mothers delivering in public health facilities increased by 48% between 2013 and 2016, attributed mainly to the free maternal services programme in the country.[28] Delivery uptake is reported to be 77% in 2015/16, an 8% increase from 2013/14. Maternal mortality has reduced from 488 to 350 per 100,000 live births between 2008 and 2014. The country plans to bring down the maternal mortality ratio to 150 per 100,000 live births by 2017/18. It is unclear how this target will be achieved in the coming financial year when allocation to free maternal health services continues to be the same amount as the previous two financial years (Ksh 4.3 billion) and more so when the conditional grant, now special grant,[29] is lowered to Ksh 3.4 billion from 4.3 billion in 2016/17, a reduction of Ksh 900 million.

Education sector: Universal access to basic education

On average, free primary education and free day secondary education take up 83% and 96% of the total budget of primary and secondary education programmes respectively. Half of the total budget for the State Department for Basic Education has been allocated to free day secondary education between 2015/16 and 2017/18.

Free and compulsory basic education is the right of every Kenyan. The country has free primary education and free day secondary education programmes designed to increase universal access to basic education. The programmes are critical in achieving SDG 4 – inclusivity in learning opportunities. The State Department for Basic Education, which is responsible for the management of primary and secondary education institutions among others, has been allocated Ksh 67.1 billion for the period. The budget absorption capacity of the department stood at 79% for development expenditure due to inadequate facilities and infrastructure. This may have an adverse impact on the quality of education for Kenyans.[30]

Free primary school education: Kenya reintroduced free primary education in 2003[31] for 7,160,000 pupils.[32] Since then, there has been a 24% increase, with 8,879,685 pupils enrolled in 21,953 schools by mid-March 2017.[33] The government aims to reach 9.2 million pupils in 2017/18. Of the total Ksh 21.8 billion allocated for primary education, 87.5% is earmarked for free primary education, which is more than the share in total primary education budgets in 2016/17.[34] Of the total Ksh 39.5 billion spending planned for secondary education, 96.6% will be allocated to free day secondary education. According to the Education Sector Working Group Report 2016, the gross enrolment rate in Kenya is above 100%.

For 2017/18, the share of free primary education in the total primary education programme's budget has increased by 6% from the previous financial year; whereas its share of the total budget for the State Department of Basic Education remains at 28% in 2017/18 (Table 4).

Free day secondary education: To make secondary education affordable to most Kenyans, the government has financed the tuition cost and subsidised operation costs in public secondary schools since 2008. The Education Sector Working Group report 2016, however, acknowledges that its expansion has not been adequate compared with primary education expansion. Gross enrolment rate for secondary education was at 63.3% in 2015. As of mid-March 2017, about 2,496,735 students were enrolled in 8,361 schools.[35] The government targets gross enrolment of 2,778,787 pupils (an 11.3% increase), by 2017/18. Of the total Ksh 34.7 billion allocated for free day secondary education, only Ksh 1.3 billion or 3.8% is earmarked as capital expenditure, with the rest as current expenditure.

Table 4: Share of free primary education, free day secondary education and school feeding programmes in programme and State Department budgets

	Share in respective programme budget			Share in State Department for Basic Education budget		
	Free primary education	Free day secondary education	School health, nutrition and meals	Free primary education	Free day secondary education	School health, nutrition and meals
2015/16	80%	96%	7%	27%	49%	2%
2016/17	81%	97%	7%	28%	50%	4%
2017/18	87%	97%	5%	28%	52%	2%
Average share	83%	96%	6%	28%	50%	3%

Source: Budget documents between 2015/16 and 2017/18 and Education Sector Working Group Report 2016

Note: Free primary education and school health, nutrition and meals fall under the broader 'Primary Education' programme while free day secondary education is under the 'Secondary Education' programme.

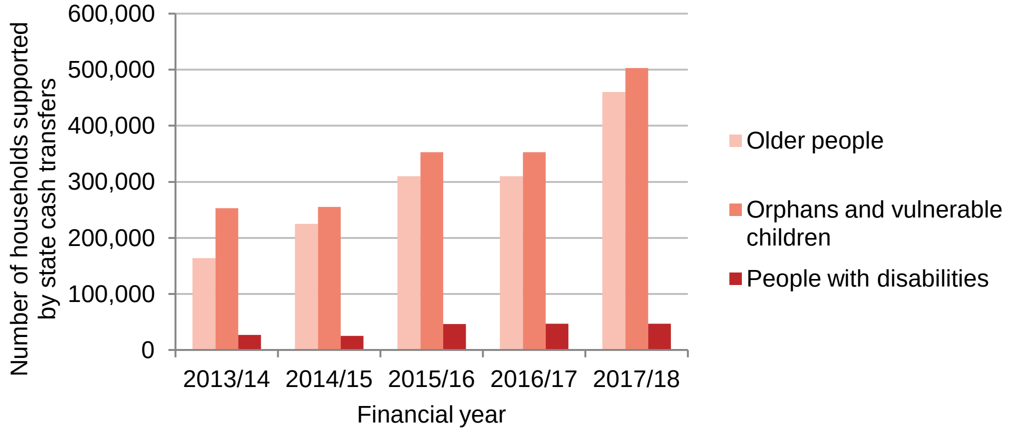
School health, nutrition and meals: ASAL urban slums and other pockets of poverty benefit from the Kenya school health, nutrition and meals programme. Under the Home Grown School Meals initiative and Regular School Meal Programme, the number of children provided with a midday meal in ASAL and pockets of poverty regions stood at 1.6 million primary and pre-primary students by 2015/16; while 6 million school-going children were de-wormed during the same period. The School Health and Nutrition Programme, however, is reported to be limited in its scope and, according to the sector Working Group report, worsened by the prolonged drought. The programme is mainly supported by donors.

Of total Ksh 1.0 billion allocated for school health, nutrition and meals, the programme-based budget indicates that 100% will be for current expenditure while no resource will be allocated for capital expenditure starting from 2017/18. No explanation has been forwarded by available budget documents despite the latest sector Working Group's report (2016), indicating capital expenditure estimates up to 2019/20. Treasury summary budget estimates indicate an allocation of Ksh 2.5 billion for school feeding programmes, which also includes resources from donors, but this amount is a far cry from the Ksh 4.5 billion amount requirement indicated in the sector's Second Medium Term Plan (2013–2017).

Social protection for vulnerable groups

Of the overall 2017/18 budget, 2% is earmarked for social protection programmes. Budgetary allocation to the State Department for Social Protection is Ksh 24.2 billion, that is a steady increase of 68% since 2013/14. This is attributed to scale up of the three components of its National Safety Net cash transfer programmes to older people, orphans and vulnerable children and people with disabilities. Since its establishment in September 2013, the National Safety Net Programme (NSNP) managed to increase the number of beneficiaries supported through cash transfers by 89%, 40% and 72% of households with older people, orphans and vulnerable children and people with disabilities, respectively, between financial years 2013/14 and 2016/17 (Figure 6). As of 2016, actual beneficiaries included 310,000 older people, 353,000 households with orphans and vulnerable children and 47,000 households with people with disabilities.

Figure 6: NSNP beneficiary households, 2013/14–2017/18



Source: DI based on figures from Social Protection sector Working Group report 2016

The 2017/18 budget for social protection has seen a 6% increase from the previous financial year; while allocation to the NSNP, which takes about 82% of the total budget for social protection, has increased by 5%. Allocation for the NSNP for 2017/18 stands at

Ksh 19.9 billion, against the required Ksh 35.8 billion for the same year indicated in the sector's MTEF (2016/17–2018/19).[36]

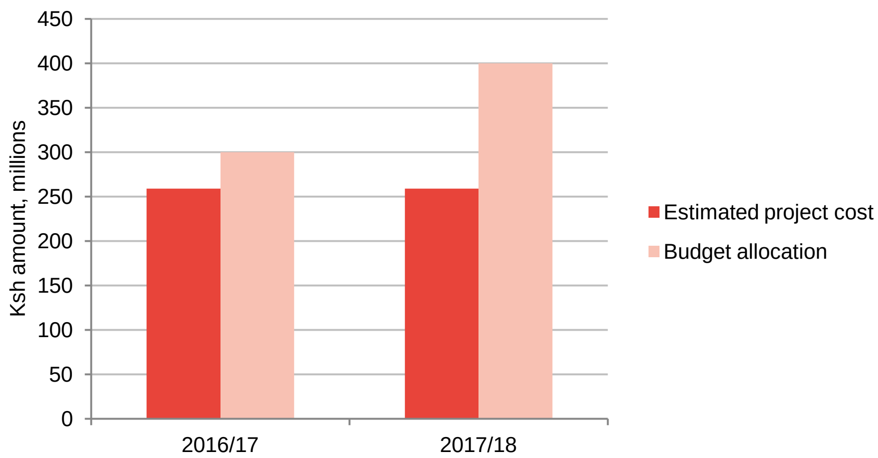
Apart from a budget deficit of Ksh 15.8 billion, the sustainability of the NSNP is an area of inquiry, given that cash transfers to 60,000 households with orphans and vulnerable children supported by donors will come to an end in 2017/18.[37] This poses a challenge as the government plans to expand its outreach to 685,000 households with orphans and vulnerable children from the current 503,000 households.

National Development Fund for Persons with Disabilities: To facilitate socioeconomic empowerment of people with disabilities, allocations have been made in the form of infrastructure improvement to institutions providing services to people with disabilities and capacity-building for disabled people's organisations. The Second Medium Term Plan (2013–2017) promised to scale up of the National Development Fund during the stated period.[38]

Operationalised in 2010, the 20-year project with an estimated Ksh 6.1 billion total cost is expected to result in economic and social benefits to people with disabilities that include improved livelihoods, improved physical accessibility in learning institutions, and increased school enrolment and performance.[39]

In the coming financial year, the Government of Kenya has allocated Ksh 400 million to the Fund, an increase of Ksh 100 million from the allocations in 2016/17. The estimated budget for the Fund in 2017/18 is 54% higher than what was indicated by the sector's MTEF report for the same year.

Figure 7: Estimated project cost and budget allocation to the National Development Fund, 2016/17–2017/18



Source: MTEF (2017/18-2019/20); budget summaries 2016/17 and 2017/18

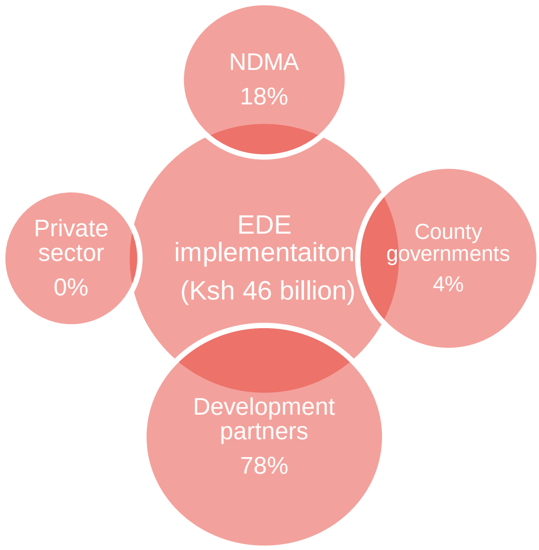
Financial scrutiny by the Auditor General reveals unaccountability of the fund by an awarded institution. In the latest audit report (2014/15) a physical verification at Kisiwa Technical Training Institute relating to expenditure records on water closet and wash hand basin facility for people with disabilities was found to be non-existent.[40]

Drought management

No other natural hazard is as disastrous as drought in Kenya.[41] More than a third of Kenyans live in ASAL, which make up 89% of the country,[42] and prone to droughts. The Ending Drought Emergencies (EDE)strategy is identified in the Second Medium Term Plan (2013–2017) to end reactive crisis-management approaches and broadly, to enable the objectives of Vision 2030. The flagship projects under EDE are the National Drought and Disaster Contingency Fund to allow speedy response; an Integrated Drought Early Warning System for accurate information; and an Integrated Knowledge Management System for the Hunger Safety Net Programme (HSNP).

Of the total Ksh 45,598 million required to implement EDE between 2014 and 2018, the national government is expected to contribute Ksh 1.9 billion through the National Drought Management Authority (NDMA) – excluding sectors with a component of drought risk or response interventions. The private sector's involvement has not been reflected in the budget, except through partnership with HSNP, but its contribution has been recognised to be crucial in relevant sectors such as telecommunications and financial services.[43] Development partners will contribute more than three-quarters of the EDE implementation budget during the four-year period.

Figure 8: Budget and contributions required for drought risk management, by source 2014–2018



Source: DI from figures obtained from the Common Programme Framework (April 2015)

Despite the EDE strategy, the country is currently in a severe drought crisis. The country experienced a poor rainy season in 2016, following a similar pattern preceding the 2010/11 drought crisis.[44] In February 2017, the President declared the ongoing drought a national emergency with 2.7 million Kenyans in 23 of the 47 counties (or 6.8% of the population) food insecure.[45] This dire situation from low level of rainfall between October and December 2016 particularly in pastoral and marginal agricultural (Coastal and south eastern) areas is expected to continue until September 2017,[46] likely increasing the number of food insecure people.

It is difficult to identify the exact amount allocated to EDE since drought intervention measures are undertaken by various ministries, departments and agencies including water, food and safety nets, livestock agriculture, education, health and nutrition, interior, environment and natural resources as well as NDMA. Furthermore, the emergency nature of drought in Kenya often leads to supplementary budget allocations while some donors prefer off-budgetary allocations. For instance, according to NDMA, National Treasury released Ksh 1.8 billion for the first course of intervention required for November 2016 to January 2017, less than the estimated Ksh 5.4 billion. Sectoral plans for February to April were estimated to be Ksh 11.6 billion for which the Treasury has agreed to release Ksh 7 billion to support the plans.[47]

Direct allocation to drought management for 2017/18 has been reduced by 11% from the previous financial year. The State Department for Special Programmes is mandated to ensure accelerated and sustainable development in ASALs, build resilience and end drought emergencies. Of the Ksh 6.7 billion allocated to the State Department for Special Programmes in 2017/18, drought management will take Ksh 5.2 billion or slightly more than three-quarters of the total budget for the State Department. This allocation is lower than the previous financial year due to a reduction in capital transfers to government agencies of 11%.

Poor households receive cash transfers under the HSNP. Implemented by NDMA, the programme has been allocated Ksh 3.5 billion in the next financial year. Despite budget documents indicating the target number of poor households receiving cash transfers under the HSNP being 100,000 between 2015/16 and 2017/18, as of July 2016, the programme supported 84,600 households in four counties – Mandera, Wajir, Marsabit and Turkana.[48] The budget document for 2016/17 indicated a scale-up programme to reach 150,000 poor households but there is no mention of this plan in the 2017/18 budget document.

Conclusion and recommendations

The government of Kenya plans to reduce fiscal deficit by 21.3% from the previous financial year. This contractionary fiscal policy phase will be made possible by increasing revenue and reducing development expenditure below the threshold stipulated by the Public Finance Management Act 2012. Development expenditure, associated with creating employment opportunities, will decline by 12.3%. What is more, recurrent spending, financed with domestic resources, is expected to increase by 7.6%. Kenya has a sizeable wage bill. It is unclear from the available budget documents if the total amount allocated to wages and salaries, Ksh 365 billion, includes the recent Cabinet's approval of Ksh 100 billion in salaries for civil servants in 2017/18.

There will be mounting pressure on the domestic market in 2017/18. The government plans to finance 60.7% of the fiscal deficit and fund 58.7% of development expenditure using domestic sources. Moreover, it plans to increase net domestic borrowing by 12.4%. This is likely to have an adverse impact on private investors accessing domestic loans.

Spikes in debt-repayment plans between 2017/18 and 2018/19 will likely have an adverse impact on poverty programmes by reducing funds for services and infrastructure

The Equalisation Fund intended to boost basic service delivery in 14 ASAL counties has not been operationalised to date. Flexibility is required from all parties involved, CRA and county governments, to hasten finalisation of the disbursement framework and to help bring people out of poverty.

In line with the Second Medium Term Plan (2013–2017), the government has been implementing pro-poor programmes for universal health coverage, universal access to basic education and cash transfers to vulnerable groups including older people, disabled people, orphans and children as well as food insecure households.

Compared with previous financial years, almost all the programmes favouring poor and vulnerable groups assessed in the report have been allocated more resources. However, there is a financing gap between actual allocations and target resource requirements as indicated in the various sector MTEFs. Deficits are found in allocations to health insurance for older people and disabled people's programmes; school health, nutrition and meals; and the National Social Safety Net Programme.

The absorption capacity of the education and health sectors, in the development budget, has been reported to be low, which may have negative implication on the quality of services Kenyans are receiving. Furthermore, some of the sectors have been adversely mentioned by the Auditor General's report indicating that expenditure performance needs to be as closely scrutinised as resource allocation.

Drought remains a huge challenge in realising food security and sustainable growth in ASAL areas. Five years from 2022, the year the country has committed itself to ending drought emergencies by, 2.7 million Kenyans are food insecure from the ongoing drought that has been declared as a national disaster. Donor dependency to meet EDE is unsustainable while the government contributes only 18% and that is even assuming it contributes to HSNP in full and commits to establish the National Drought Contingency Fund. More budgetary allocation needs to be given to NDMA as well as sectors that have drought risk reduction interventions to enhance food security for poor and vulnerable Kenyans.

The analysis in this report is based on national budget estimates but more analysis could be done by interrogating county budgets given devolved functions of social sectors. Whether analysing national or county budgetary allocation, pro-poor sectoral and programme allocations should take the centre stage.

Notes

[1] Kenya's fiscal year is from July 1 to June 30.

[2] See our analysis: Development Initiatives, 2016. *Towards pro-poor budgeting: Analysis of Kenya's budget allocations*. Available at: http://devinit.org/wp-content/uploads/2016/06/Towards-pro-poor-budgeting-Kenya%E2%80%99s-budget-allocations-Briefing-report-June-2016.pdf

[3] Kenya National Bureau of Statistics (KNBS) and Society for International Development (SID), 2013. *Exploring Kenya's Inequality: Pulling apart or pooling together?* Abridged Report, page 10.

[4] This is lower than Burundi (9%), Tanzania (7.4%), Rwanda (5.2%) and Uganda (5.8). Source: SID, 2016. *State of East Africa Report: Consolidating Misery? The Political Economy of Inequalities in East Africa*, page 171.

[5] As of 2005, the richest 20% in Kenya owned 54.1% of national income, in contrast to the 4.7% shared by the poorest 20%, Read more in our country Profile analyses for Kenya Available at: www.devinit.org/p20i and http://data.devinit.org/pdf/20160802/Kenya.pdf

[6] KNBS and SID, 2013. *Exploring Kenya's Inequality: Pulling apart or pooling together?* Abridged Report.

[7] Article 15 (2a): 'over the medium term, a minimum of thirty percent of the national and county governments' budget shall be allocated to the development expenditure.'

[8] However, it is unclear from the 2017/18 budget documents if the Ksh 365 billion budget includes the recent Cabinet's approval of a Ksh 100 billion increase in salaries for civil servants to be implemented in 2017/2018, see Saleries & Remuneration Commission blog, *No Matter What the IMF Says, Kenya's Wage Bill Is Not Out Of Control*: http://www.src.go.ke/index.php/our-blogs/244-no-matter-what-the-imf-says-kenya-s-wage-bill-is-not-out-of-control

[9] Including automation and inter-agency collaboration and connectivity. According to the Budget Policy Statement for financial year 2017/18, the government will also complete the review of the income tax law, which will be modernised and aligned to international practices.

[10] 2017/18 Budget Policy Statement, page 36.

[11] IMF (2016). Kenya: Debt sustainability analysis update. Available at: https://www.imf.org/external/pubs/ft/dsa/pdf/2016/dsacr1685.pdf

[12] Report of the Auditor General for National Government for the year 2014/15, pages 14–16)

[13] National Council for Law Reporting (2013). *The Constitution of Kenya 2010*. Available at: http://www.crakenya.org/wp-content/uploads/2013/10/The_constitution_of_kenya_2010.pdf

[14] The weights attached to population, land area and fiscal responsibility remain the same between the first and second generation criteria while it increased by 1% for basic equal share with the weight attached to poverty declining by 2% in the CRA revised recommendation.

[15] Civil Appeal 64 of 2012. Available at: http://kenyalaw.org/caselaw/cases/view/122059/

[16] There are reports that this is likely to happen. See: http://www.the-star.co.ke/news/2017/02/22/state-to-hike-roads-fund-to-25-fuel-levy_c1511045

[17] The five counties that have not yet inherited adequate office facilities and are expected to benefit in this financial year are Tharaka Nithi, Nyandarua, Isiolo, Lamu and Tana River.

[18] Constitution of Kenya: 204. Equalisation Fund. Available at: http://www.klrc.go.ke/index.php/constitution-of-kenya/147-chapter-twelve-public-finance/part-1-principles-and-framework-of-public-finance/373-204-equalisation-fund

[19] These are Garissa, Isiolo, Kilifi, Kwale, Mandera, Marsabit, Narok, Samburu, Taita Taveta, Tana River, Turkana, Wajir and West Pokot. See details of projects for financial year 2016/2017 at: http://treasury.go.ke/projects/Equalization%20Fund%20proposed%20Projects%20for%20financial year%202016-17%20-%20%2025.11.2016%20.pdf

[20] Estimates of revenue to and expenditure from the Equalisation Fund of the Government of Kenya for the year ending 30 June 2017 April 2016.

[21] Budget Statement for the Fiscal Year 2015/2016 (1 July–30 June) read by Henry K Rotich, Cabinet Secretary for the National Treasury.

[22] However, some progress has been made so far. Parliament has approved the Fund's guidelines and the National Treasury appointed the Fund's Administrator and opened the Fund's Account at the Central Bank of Kenya. According to the National Treasury, the Fund's Advisory Board has also been established.

[23] Kinuthia, J and Lakin, J (August 2016). *A Fair Share of the Budget Principles and Practices in Public Resource Distribution in Kenya*. Available at: http://www.internationalbudget.org/wp-content/uploads/ibp-kenya-paper-principles-and-practices-in-public-resource-distribution-8-2016.pdf

[24] *MPs, Senators wrangles to delay disbursement of Equalisation Fund*, available at: http://x254.co/2016/06/10/mps-senators-wrangles-to-delay-disbursement-of-equalisation-fund/; *Governors in court to stop disbursement of equalization cash*, at: https://citizentv.co.ke/news/governors-in-court-to-stop-disbursement-of-equalization-cash-132110/; and *Kenyan counties call for release of $194m*, at: http://www.theeastafrican.co.ke/news/Kenyan-counties-call-for-release-of--194m-/2558-3368588-ewokiw/index.html

[25] Ministry of Health, September 2016. *Health Sector Working Group Report: Medium term expenditure framework for the period 2017/18-2019/20*, page 73.

[26] The World Bank (2014). *Improving Health Care for Kenya's Poor*. Available at http://www.worldbank.org/en/news/feature/2014/10/28/improving-healthcare-for-kenyas-poor

[27] Ministry of Health, September 2016. *Health Sector Working Group Report: Medium term expenditure framework for the period 2017/18-2019/20*, page 80.

[28] See note above, page xii.

[29] As indicated in 'conditional grant' section of the report, county governments will no longer receive conditional allocation for free maternal healthcare, rather this will be a special grant to the National Health Insurance Fund, which will reimburse contracted health institutions directly.

[30] Report of the Auditor General for National Government for the year 2014/15.

[31] The history of free primary education in Kenya goes as far back 1971. KENPRO, 2010. Challenges Facing the Implementation of Free Primary Education in Kenya. KENPRO Online Papers Portal. Available at: www.kenpro.org/papers

[32] Network for International Policies and cooperation in Educaiton and Training (2008). *Education for Sustainable Development? Or The Sustainability of Education Investment?* A Special Issue. Available at http://www.norrag.org/es/publications/boletin-norrag/online-version/education-for-sustainable-development-or-the-sustainability-of-education-investment-a-special-issue/detail/universalising-primary-education-in-kenya-is-it-beneficial-and-sustainable.html

[33] Various news outlets carried news dispatch from the Ministry that had put the number of public primary school students at 8,879,685 in 21,953 public primary schools. See *Capital News Ministry disburses Sh22bn free education funds*, available at: http://www.capitalfm.co.ke/news/2017/02/ministry-disburses-sh22bn-free-education-funds/ or Mediamax State disburses Sh22b free education cash to schools, available at: http://www.mediamaxnetwork.co.ke/news/297416/state-disburses-sh22b-free-education-cash-schools/

[34] This was 80.9% in 2016/17

[35] For source, see note 33

[36] Social Protection, Culture and Recreation Sector Report, 2015. *Medium Term Expenditure Framework 2016/17–2018/19*, page 88.

[37] See note above, page 100.

[38] Government of Kenya. *Second Medium Term Plan (2013–2017): Transforming Kenya: Pathway to devolution, socio-economic development, equity and national unity*, page 92.

[39] Government of Kenya, National Treasury. Social Protection, Culture and Recreation Sector Report, September 2016. *Medium Term Expenditure Framework 2016/17 – 2018/19 Sector Report*, page 202.

[40] Report of the Auditor-General on the Financial Statements for National Government for the Year 2014/2015, page 176.

[41] Government of Kenya. Second Medium Term Plan (2013–2017): *Transforming Kenya: Pathway to devolution, socio-economic development, equity and national unity*, page 40.

[42] Ministry of Devolution and Planning, Government of Kenya, July 2015. *National Draft Policy for the Sustainable Development of Northern Kenya and other Arid Lands: Unlocking Our Full Potential for Realization of the Kenya Vision 2030*. Available at: http://www.devolutionplanning.go.ke/wp-content/uploads/2015/04/DRAFT%20ASAL%20POLICY.pdf

[43] NDMA, April 2015. *Ending Drought Emergencies: Common Programme Framework for Drought Risk Management*, page 136.

[44] WFP Kenya Drought Situation Report - Jan 2017. Avalable at: https://www.wfp.org/content/wfp-kenya-drought-situation-report-jan-2017

[45]Kenya: Drought - 2014-2017. Available at: http://reliefweb.int/disaster/dr-2014-000131-ken

[46] Famine Early Warning Systems Network (May 2017). *Kenya Food Security Outlook : Atypical high food insecurity expected through September. Available at:* http://www.fews.net/east-africa/kenya

[47] Supported sectors include water (improving water access); education (retaining retention in schools); food and safety nets (safe lives of vulnerable people); health and nutrition (improve hygiene and sanitation); peace and security (improve access to natural resources); livestock (cushion pastoral livelihoods); and agriculture (cushion livelihood).

[48] Remarks by Ministry of Devolution and Planning Cabinet Secretary on 21 June 2016. Available at: http://www.devolutionplanning.go.ke/images/ASAL%20SPEECH.pdf

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