BUDGET GUIDE

Institute of Economic Affairs

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INSIDE

By Institute of Economic Affairs

1.0 Introduction

This analysis of Budget 2024/2025 interrogates the extent to which the budget is aligned to fiscal consolidation agenda and the government budget theme "sustaining Bottom-Up Economic Transformation Agenda (BETA) , fiscal consolidation and investing in climate change mitigation and adaptation for improved livelihoods" In relation to this, it focuses on big expenditure items, how the overall budget will be financed and reaffirms the priority policies and strategies under BETA[1] which are prioritized in the Fourth Medium Term Plan of the Vision 2030.

In terms of organization, this analysis first presents the macroeconomic performance for the country over the years, an overview of the entire budget, then proceeds with expenditure analysis that looks at issues of mandatory spending and what this means to budget flexibility, a brief on judiciary and what is expected in terms of sectoral priorities.

In addition to providing information to stir up public debate of the budget, the Institute of Economic Affairs (IEA)-Kenya through this brief point out policy concerns and issues that parliamentarians and citizen's may raise and consider in their scrutiny and interrogation of the budget 2024/2025.

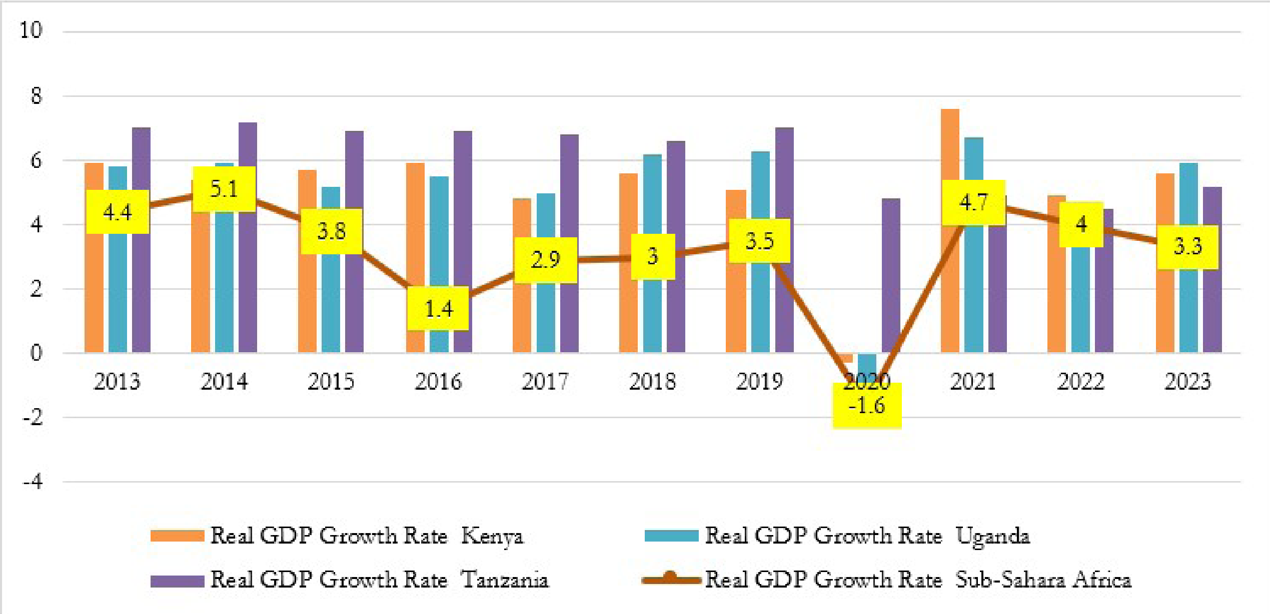
2.0 Macroeconomic Performance

2.1 Economic Growth

The Kenyan economy has performed relatively well over the last 10 years. The country's real GDP growth rate has remained above the 4 percent mark with the exception of 2020. The poor performance in 2020 was as a result of the negative effects of COVID 19 which resulted in shocks affecting most sectors of the economy. In comparison to its peers, the Kenyan economy has recovered and remained resilient post covid with the growth averaging above the Sub-Saharan Africa rate. (See Figure 1)

[1]This Development Agenda recognizes the importance of managing the cost of living through well-functioning markets to enhance increased production and productivity, availability and affordability of goods and services for all citizens. Indeed, market failures in sectors that supported the economy are glaring. The interventions target five core priority areas namely: i) Agricultural Transformation and Inclusive Growth; ii) Micro, Small and Medium Enterprise (MSME) Economy; iii) Housing and Settlement; iv) Healthcare; and v) Digital Superhighway and Creative Industry.

Figure 1: Real GDP Growth rate

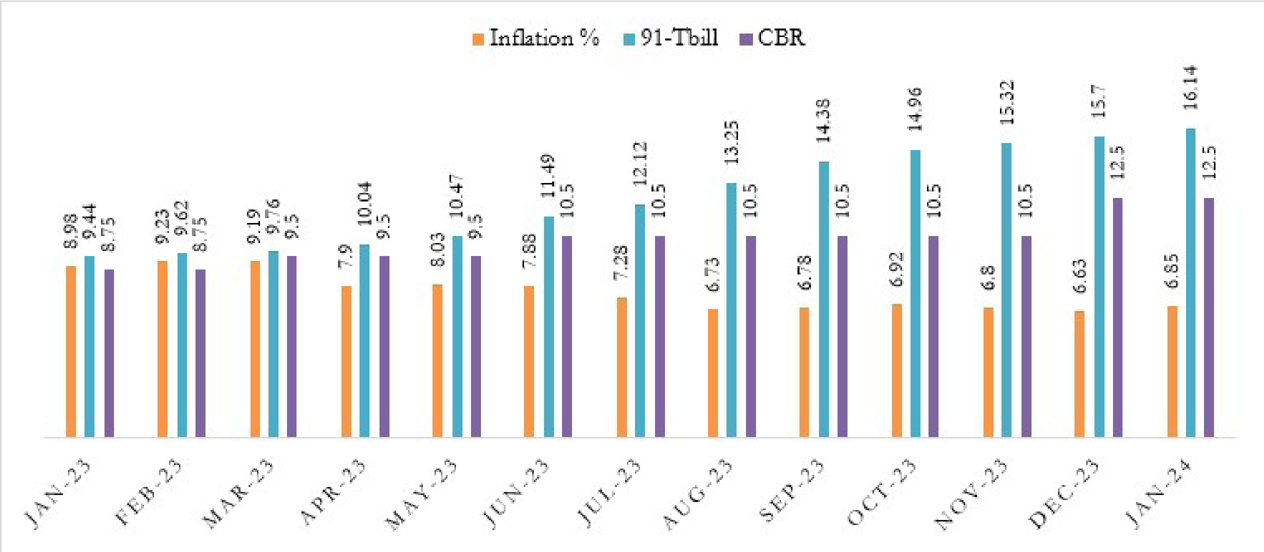


Source: KNBS

2.2 Inflation and Interest Rates

The first quarter of 2023 was occasioned by high inflation rates above the 7.5 percent upper threshold set by the government. This was due to the rise in food and fuel prices as a result of unfavorable weather conditions which reduced food production and the global tensions which affected supply of important commodities. Fuel prices in Kenya went up after the removal of fuel subsidy and was pushed up further by the increase in urban crude oil prices and the depreciation of Kenya shilling. Intervention efforts in the form of a tighter monetary policy saw the Central Bank of Kenya (CBK) adjust the Central Bank Rate (CBR) from a rate of 8.75 percent to a rate 12. 5 percent between January 2023 and January 2024. To further push inflation down, the government opted to increase the rate of return on government stock to attract domestic investors and this further reduced money supply and pushed aggregate demand down. This coupled with improvement in the exchange rate performance resulted in the decline of inflation from a rate of 8.98 percent in January 2023 to 6.85 percent in January 2023.

Figure 2: Monthly Inflation and Nominal Interest rates (%) Jan 2023-Jan 2024



Source: KNBS

Real interest rates measure the real rate of return on investment and is calculated by subtracting inflation from the nominal rate. Real interest rates for 91 T-bills have generally been positive for the last 5 years. The rates rose to 9.1 in 2023 from 0.3 in 2022 due to the increase of nominal rates from 9.33 to 15.7 and reduction in inflation rate from 9.1 to 6.6. (See Table 1 below)

Table 1: Selected Real Principal Interest Rates, 2019-2023

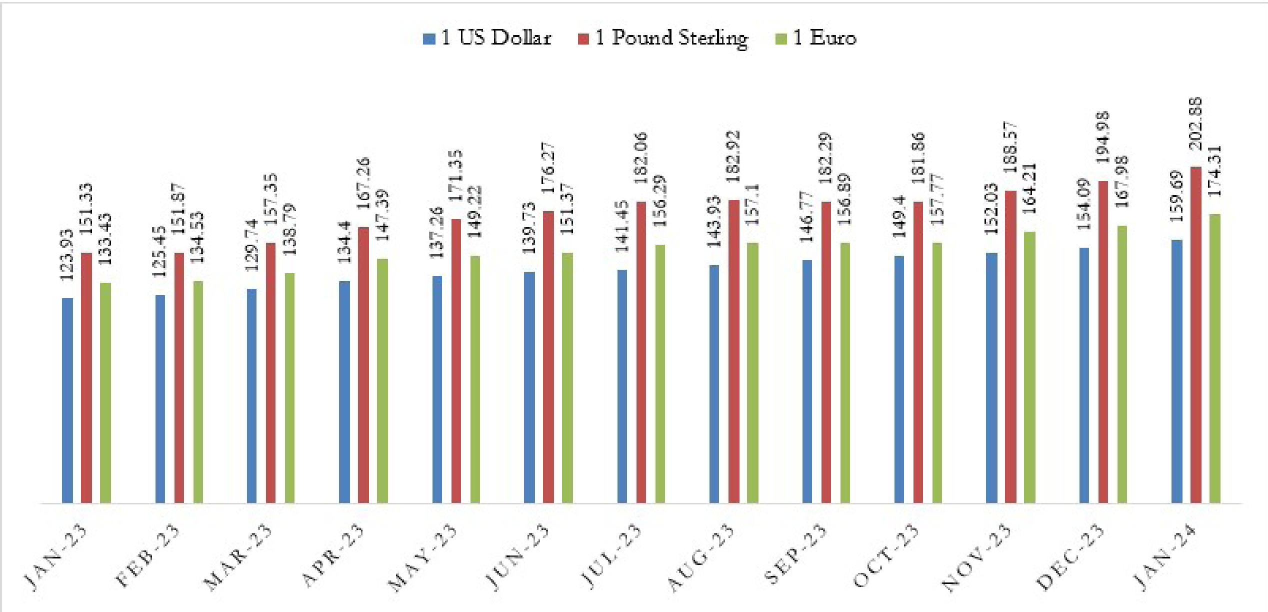
	Year	Nominal interest rate	Inflation Rate	Real interest (Nominal - Inflation) rate
Average interest rate for 91-day Treasury Bills	2019	7.17	5.82	1.35
	2020	6.9	5.62	1.28
	2021	7.26	5.73	1.53
	2022	9.33	9.1	0.23
	2023	15.7	6.6	9.1
Commercial Bank deposits (average)	2019	7.11	5.82	1.29
	2020	6.3	5.62	0.68
	2021	6.5	5.73	0.77
	2022	7.17	9.1	-1.93
	2023	10.1	6.6	3.5
Commercial bank loans and advances (Maximum)	2019	12.24	5.82	6.42
	2020	12.02	5.62	6.4
	2021	12.16	5.73	6.43
	2022	12.67	9.1	3.57
	2023	14.63	6.6	8.03

	Year	Nominal interest rate	Inflation Rate	Real interest (Nominal - Inflation) rate
Average interest rate for 91-day Treasury Bills	2019	6.03	5.82	0.21
	2020	5.29	5.62	-0.33
	2021	5.1	5.73	-0.63
	2022	5.39	9.1	-3.71
	2023	11.65	6.6	5.05

Source: Central Bank of Kenya

2.3 Foreign Exchange

Figure 3: Monthly Exchange Rate of Ksh against major currencies



Source: CBK

In the period ending January 2024, Kenya Shilling recorded poor performance against other major currencies. The shilling depreciated to a rate of 202.88, 174.31 and 159.69 against sterling pound, euro and US dollar respectively in January 2024 from a rate of 123.88, 151.33 and 133.43 in the same period in 2023. Overall, this represented a 29 percent loss against the USD, 34 percent loss against the Pound and 30 percent loss against the Euro.

Table 2: Average foreign exchange rates of Kenya shilling for selected currencies

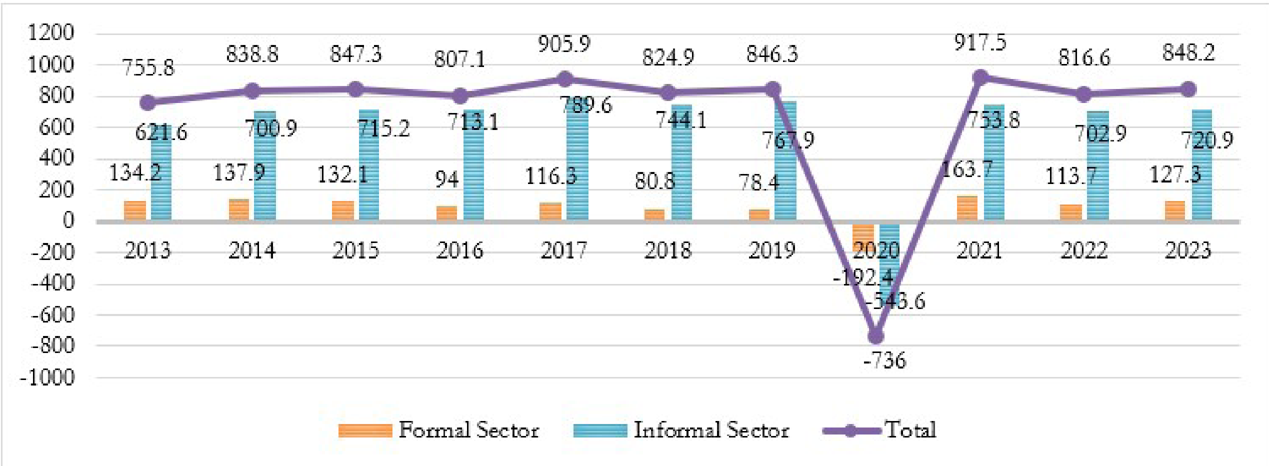
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
I Euro	114.41	116.84	108.96	112.33	116.73	119.63	114.18	121.65	129.76	124.19	151.25
I USD	86.12	87.92	98.18	101.5	103.41	101.29	101.99	106.47	109.65	117.87	139.85
I Pound Sterling	134.75	144.88	150.17	137.66	133.2	135.25	130.18	136.73	150.85	145.8	174.01
Tsh/Ksh	18.79	18.93	20.73	21.54	21.63	22.48	22.63	21.76	21.12	19.74	17.36
Ush/ Ksh	30.06	29.55	32.94	33.68	34.92	36.81	36.32	34.93	32.72	31.3	26.76

Source: CBK and KNBS

Over the last 10-year period, Kenya shilling has lost its value against currencies from key trading partners. The shilling lost 26 percent, 62 percent and 29 percent of its nominal value against the Euro, USD and Pound respectively. There was however a slight gain in nominal value in exchange rate against both Uganda and Tanzania shilling.

2.4 Employment

Figure 4: Number of new jobs created in formal and informal sectors 2013-2023 (000)

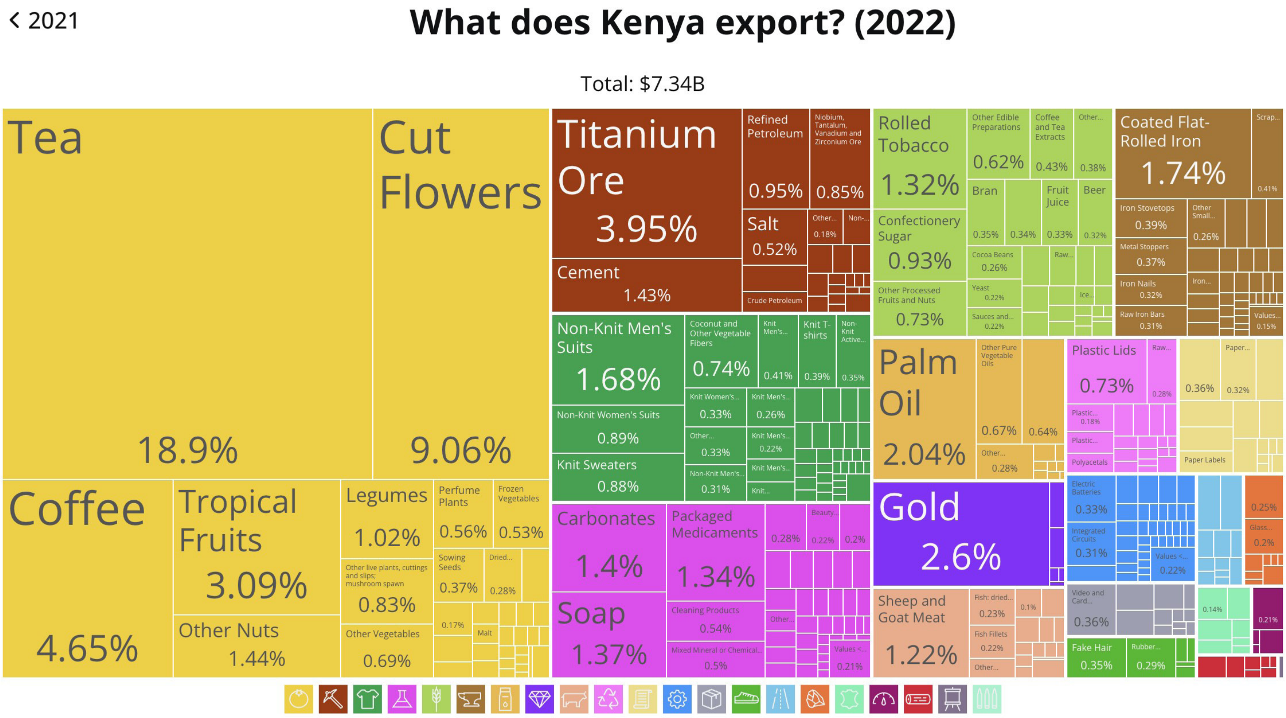


Source: KNBS

The number of jobs created in Kenya in both formal and informal sectors have been varying over the past ten years (2013-2023). The informal sector consistently created more than twice as many jobs as the formal sector. In the year 2020, the informal sector also shed more than twice as many jobs as did the formal sector. This may be attributable to the economic shock induced during the COVID19 period. The informal sector attracts workers with low skills and pays low wages. It reflects Kenya's resilience and its failure to generate an educated workforce and the absence of entrepreneurial activities in more formal, highly capitalized businesses. This persistent failure to transform at a structural level also bodes ill for state plans to raise tax rates. The growth rate of the tax base is negligible.

2.5 Trade

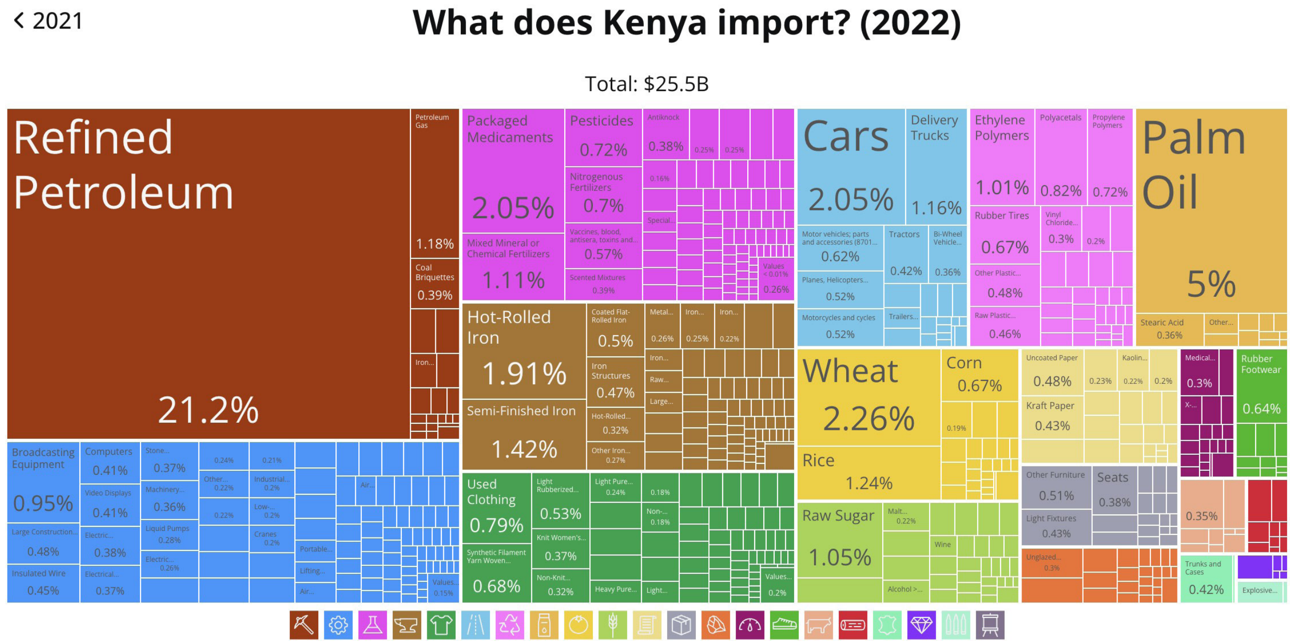
Chart 1.: The State of Kenya's Export Relations with the World



The Observatory Economic Complexity reports that in the year 2022, Kenya's exports were valued at US$ 7.34 billion. Exports to the African continent were valued at US$ 2.86 billion. In Africa, taking almost a quarter of Kenya's exports, Uganda was Kenya's most important export destination. Rwanda, Tanzania, Egypt and South Sudan took 15.4%, 14.6%, 8.38% of Kenya's trade with the African continent. More than half of Kenya's exports to Uganda were made in mineral products, animal and vegetable products and chemical products. Metals were the fourth most important category of exports to Uganda. Kenya's major export products to Uganda were made in cement, palm oil and coated flat rolled-iron. These products made up 10.1%, 11.8% and 8.94% of Kenyan exports to that country, respectively.

In the year 2022, Africa was Kenya's most important export destination. This might be owed to geographic proximity, infrastructure connectivity and demand for Kenyan products. Although Kenya's manufacturing base is small, it is relatively complex in comparison to its nearest neighbors. Kenya's exports to Asia were predominantly in metals. Kenya's exports to Oceania were dominated by agricultural products. In the European market, Kenya's principal foreign exchange earners were tea and cut flowers. Being made predominantly in textiles, trade with the americas was especially beneficial to Kenya's manufacturing base.

Chart 2.0: The State of Kenya's Import Relations with The World



The Observatory Economic Complexity reports that in the year 2022, Kenya's imports were valued at US$ 25.5 billion. Kenyan imports were dominated by petroleum products, machines, chemical products, and metals. Refined petroleum products took 21.2% of Kenya's import bill; the single largest share. Machines and chemical products took almost 11% shares of Kenya's imports, respectively.

In the year 2022, Kenyan imports from Europe totalled US$ 2.87 billion. The Netherlands, the United Kingdom, Germany and Russia were Kenya's most important European import partners. Each nation contributed 16.6%, 13.3%, 10% and 9.42% of Kenyan imports from Europe. 51.9% of Kenya's US$ 477 million in imports from the Netherlands were made in refined petroleum, and bituminous distillates. Machines and Chemical products took just about 11% and 10% of Kenyan imports from the Netherlands. This made them the second and third most important imports from that country. The Netherlands has a comparative advantage in petrochemicals processing and light and heavy manufacturing. Imports from Germany were dominated by imports in machines; presumably machine tools. German motor vehicle imports made up only 7.63% of Kenya's imports from that country. Presumably, expensive German luxury cars are not in as high demand as the range of cheaper, entry level vehicles exported by Japan.

Kenya's import trade relations are based on meeting demand for manufactured goods. The Asian regions is home to the most important import partners for the nation of Kenya. Western Asia is important for its supply of petrochemical products while Eastern Asia is important for its supply of manufactures. Other trade partners also provide grains, manufactured products, processed agricultural products, chemical products, textiles, motor vehicles and processed metals, to name a few of the important segments. These are products that Kenya does not manufacture. Overall, these relations reflect Kenya's small domestic manufacturing footprint, and it's comparative advantage

3.0 Financing Sourcing

3.1 Budget Outturn

According to the Budget Policy Statement from the National Treasury 2024, the medium-term fiscal policy continues to support the Government's Bottom-Up Economic Transformation Agenda through continued implementation of a growth responsive fiscal consolidation plan that slows the yearly increase in the public debt and puts in place an efficient liability management strategy without affecting the provision of services to the public. This will be achieved through enhancing revenue collection and curtailing non-core expenditure while prioritizing high impact social and investment expenditure. Implementation of the reforms on revenue and expenditure is expected to result in reduction in the fiscal deficit.

In the FY 2024/25, the National Treasury projects to collect total revenue including Appropriation in Aid (AiA)[2] of Ksh 3,261 billion (19% of GDP) up from actual revenue of Ksh 3,094 billion (20.4% of GDP) in FY 2023/24 as shown in table 3. This translates to a growth of 5.1%, driven by expected increase in grants of 27.1 % and ordinary revenue of 5.4 %.

Table 3: Government Revenue and Expenditures trends for 2023/2024 and 2024/2025

Fiscal Outturn 2024/2025 (Kshs Billion)			
Item	Revised 2023/2024	Estimates 2024/25	% change
Revenue			
Total Revenue and Grants	**3,094.90**	**3,261.00**	**5.1%**
Total Revenue	3,047.50	3,196.00	4.6%
Ordinary Revenue	2,576.70	2,724.00	5.4%
Total local AIA	470.80	472.00	0.3%
Grants	47.40	65.00	27.1%
Expenditure			
Total Discretionary Expenditure	2,538.10	2,849.44	10.9%
National Executive	2,044.00	2,322.74	12.0%
Equalization fund	10.90	8.00	-36.3%
Parliament	39.20	44.60	12.1%
Contingency Fund	1.20	5.00	76.0%
Judiciary	18.90	24.60	23.2%
County government	423.90	444.50	4.6%
Non Discretionary Expenditure	**1,137.16**	**1,213.56**	**6.3%**
Interests	946.16	1,009.90	6.3%
Pension and other	191.00	203.66	6.2%

[2]AIA -Ministries, Departments and Agencies impose levy or user charges for services offered. For example, fees paid for processing of passport.

Total Government Expenditure	3,675.26	4,063.00	9.5%
Overall primary Deficit	(580.36)	(802.00)	27.6%
Total	607.00	597.00	

Source: Estimates of Revenue and Expenditure 2024/2025, Republic of Kenya

Overall budget deficit for 2024/25 is expected to be higher relative to the previous financial year. As shown in table 4, the overall primary budget deficit is Ksh 580 billion as per the revised budget for 2023/24 and is expected to increase to Ksh 802 billion in FY 2024/25. The deficit financing options will be from local sources of Ksh 263.2 billion and externally is Ksh 333.8 billion from both bilateral and multilateral donors. The earmarked amount for debt redemption is ksh843.3 billion (roll-over) which does not affect the overall size of the budget.

3.2 Consolidated Fund Services

Table 4: Trends in Consolidated Fund Services (CFS) (Ksh Billion)

Item	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	% of total CFS 23/24	% of total CFS 24/25
Public Debt	324.92	417.20	466.51	649.40	768.850	958.400	1151.300	1,359.129	1,792.473	1,853.16	90.3%	90.1%
Pensions	32.36	43.00	55.69	71.90	92.500	111.140	153.640	171.829	187.564	199.37	9.5%	9.7%
Salaries & Allowances	4.07	4.44	4.00	4.15	3.960	4.170	4.500	4.373	4.034	4.16	0.2%	0.2%
Miscellaneous Service	0.13	0.13	0.13	0.13	0.016	0.016	0.016	0.016	0.053	0.05	0.0%	0.0%
Subscriptions to International Orgs	0.00	0.00	0.00	0.00	0.001	0.001	0.001	_	-	-	0.0%	0.0%
Guaranteed Debt	1.01	0.94	1.02	1.29	0.644	0.000	0.000	0.005	-	-	0.0%	0.0%
Total	**362.49**	**465.71**	**527.35**	**726.860**	**865.970**	**1073.726**	**1309.456**	**1,535.352**	**1,984.124**	**2,056.74**	**100.0%**	**100.0%**
GoK Budget	**2112**	**2275**	**2615**	**2735**	**3119**	**3286**	**3998**	**3342**	**4449**	**4,733.44**		
CFS % of GoK Budget	17%	20%	20%	27%	28%	33%	33%	46%	45%	43%		

Source: Budget Estimates 24/25

Article 206 of the constitution of Kenya establishes the Consolidated Fund, in which all money raised or received by or on behalf of the national government, shall be paid. Thus, the Consolidated Fund is the principal account for the republic given its special status in the constitution in spite of the fact that the law permits the creation of other funds by parliament. All expenditure from the Consolidated Fund is bound by the requirements of article 206 (2) which conditions any withdrawal to be based on appropriations law passed by parliament with the only exceptions determined by articles 222 and 223 which provide limited exceptions for withdrawals and spending before the budgets are passed, or for supplementary appropriations respectively[3].

[3]The Constitution of Kenya (2020).

On the other hand, section 17 of the Public Finance Management Act 2012 states that the National Treasury shall administer the Consolidated Fund. The Consolidated Fund shall represent an account held at the Central Bank in Kenya and is also known as the Exchequer Account[4]. While referring to the establishment of the Consolidated Fund in article 206 of the constitution, the PFM Act adds that the National Treasury is the operator of the account and shall ensure that opposite government receipts are deposited therein and payments made from the Exchequer Account.

A distinguishing feature of the Consolidated Fund is that a portion of its resources are dedicated to payments known as the Consolidated Fund Services (CFS). While the CFS is neither mentioned explicitly in the Constitution of Kenya or the Public Finance Management Act, it is an indispensable feature of Kenya's budgeting practice and law. The CFS captures mandatory expenditure or the first charge on the Consolidated Fund. These are a set of items paid from the Exchequer Account and which represent non-discretionary spending.

The main items under the CFS include:

(i) Public Debt repayments

(ii) Wages and allowances of constitutional offices holders,

(iii) Pension payments due to the retired public sector workers

(iv) Subscriptions to International Organizations

(v) Miscellaneous Payments

In Table 4, the payments made under each of these categories is illustrated for the financial years from 2015/16 to the proposed amounts for the financial year starting on July 01, 2024. Because the items in the CFS are protected expenditures, they are not subject to parliamentary discretion in nay year. They represent the first claims on all revenues contained within the Exchequer Account before any balance could be spent on other discretionary items. CFs accounts are therefore important because their existence creates a hierarchy of payments that the government of Kenya must adhere to. As a result, the non-discretionary share of the total public spending is the opportunity cost for discretionary spending.

The first point revealed by the trends in Table 4 above shows that the flexibility in public spending in Kenya has reduced by an enormous margin due to the fact that the CFS portion of all spending rose from 17% in the financial year starting on July 2015 and peaked at 46% in the financial year starting in July 2022 before settling at 45% in the equivalent dates in 2023. This rapid change reveals that a higher slice of public spending was claimed by the non-discretionary budget.

Secondly, at the start of the period under reference, most of the CFS spending was accounted for by the debt repayments and the pensions payments. This feature of the CFS accounts has been maintained right up to the financial year ending in June 2024.

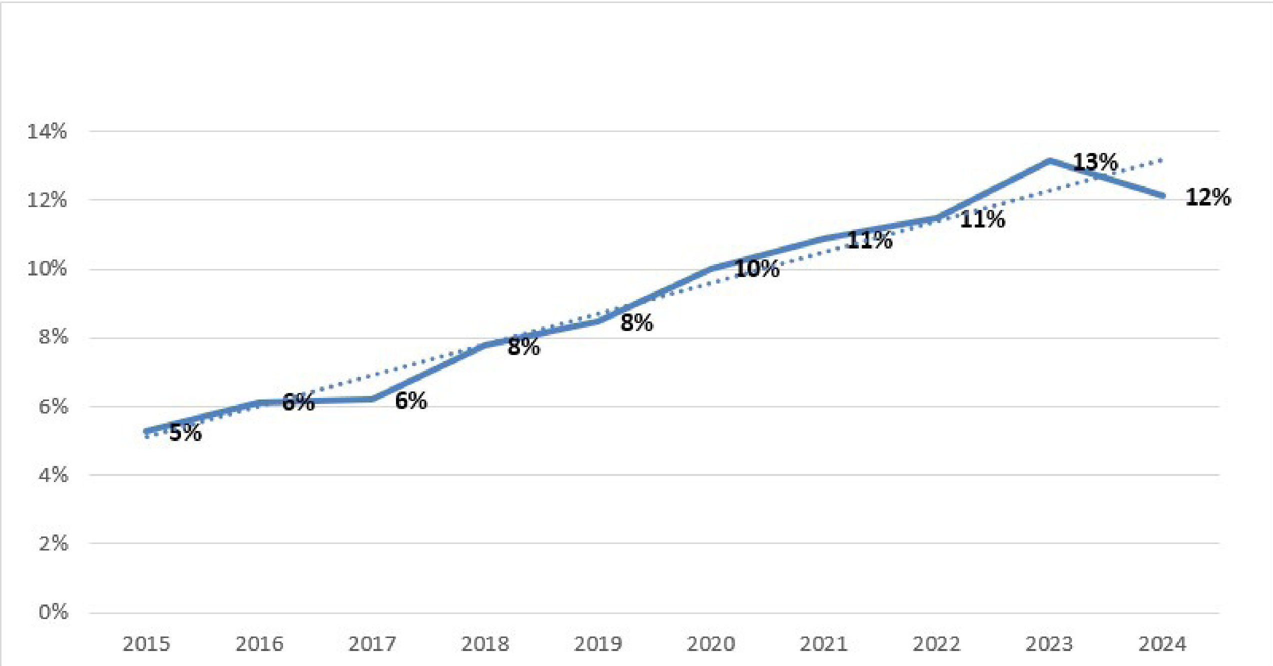
Thirdly, the rapid rise in the nominal amounts payable for obligations on public debt and pensions reveals that these obligations have been growing at a far faster rate than both the total revenues and overall spending. As a sensible insight, it is clear that the fiscal policy in the last decade from the financial year in 2015 has been driven by the need to pay for pensions and especially public debt. In that period, the nominal and real revenues have decent growth, but overall budget growth is driven largely by the need to dedicate resources for the CFS.

[4]The Constitution of Kenya (2020).

II. CFS Growth in Comparison to the Gross Domestic Product

Table 4 has shown that the CFS has grown at a comparatively fast pace and that most of this growth is explained by the need to pay for debt in addition to obligations for public pensions. It is worth considering what the changes in the CFs obligations means in terms of the overall economic output.

Table 4: Trends in Consolidated Fund Services (CFS) (Ksh Billion)



Source: Budget Estimates (Various Issues)

Chart 3 above shows a trend for the total spending in CFS as a proportion of Kenya's Gross Domestic Product (GDP). It shows that the CFS spending was comparable to 5% of the GDP value in the financial year ending in June 2015 before reaching a peak of 13% in 2023. Based on the spending proposals for the financial year starting in July 2024, the CFS will constitute an equivalent of 12% of total value added in Kenya. This slope of the line confirms that the CFS payments are rising as a share of the GDP but have settled in the range between 10%-13% for the medium-term. Despite the effects of the Covid_19 pandemic on economic growth, the obligations under CFS payments reached 10% of the GDP.

In table 4, it has been established that from the financial year commencing in July 2015, CFS commitments are not only large and growing in nominal terms but also as a proportion of the total public spending and the overall economic output in Kenya. The decomposition of the CFS ledger shows that the main spending items in CFS are the public debt and the pensions obligations.

Table 5: Public Debt component of the CFS (Ksh Million)

Interest	2015/16	2016/17	2017/18	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/24	2024/25
Internal debt interest	137,635	197,267	196,858	301,812	339,992	421,897	482,442	508,028	629,367	749,970
External debt interest	29,738	53,520	55,215	131,868	118,748	138,365	161,022	187,057	216,949	259,907
Total	**167,373**	**250,787**	**252,073**	**433,680**	**458,740**	**560,262**	**643,464**	**695,085**	**846,316**	**1,009,877**
Redemption										
Internal debt redemption	150,001	172,104	161,780	213,691	361,955	346,810	436,623	457,165	389,670	512,577
External debt redemption	81,937	43,623	128,566	121,477	137,707	262,093	297,043	533,527	556,487	330,711
Total	**231,938**	**215,727**	**290,346**	**335,168**	**499,662**	**608,903**	**733,666**	**990,692**	**946,157**	**843,287**

Source: Budget Estimates 24/25

Table 5 traces the overall annual payments related to all public debt and decomposes to illustrate the obligations in the form of principal sums or the interest on the debt. Additionally, the data shows the payments to foreign or domestic debt holders.

Table 6: Interest and Redemption as a % of Total Debt Servicing (Ksh Million)

Interest	167,372.99	250,787.24	252,073.07	433,680.00	458,740.00	560,262.00	643,464.00	695,085.00	846,316.20	1,009,877.37
Redemption	231,937.63	215,726.80	290,346.05	335,168.00	499,662.00	608,903.00	733,666.00	990,692.00	946,157.04	843,287.47
Total	**399,310.62**	**466,514.04**	**542,419.12**	**768,848.00**	**958,402.00**	**1,169,165.00**	**1,377,130.00**	**1,685,777.00**	**1,792,473.24**	**1,853,164.84**
Interest as a % of total debt	42%	54%	46%	56%	48%	48%	47%	41%	47%	54%
Redemption as a % of total debt	58%	46%	54%	44%	52%	52%	53%	59%	53%	46%

Source: Budget Estimates (Various Issues)

In Table 6 above, the relative fractions dedicated to payment of interest and principal sums started at 42% and peaked at 56% in 2018 and is expected to constitute 54% of all debt repayments payments in the financial year commencing in July 2024. This change shows that a larger share of the allocations to debt are claimed by interest payments. This reveals that in that period, the price of debt in terms of the interest was high, leading to the admission by the government that the public debt from private sources and some of the debts from banks have been expensive. According to the budget proposals for the financial year starting in July 2024, the interest payments for public debt will constitute 54% of all debt servicing, illustrating the continuing burden of expensive debt from both domestic and foreign sources.

Table 5 and 6 not only illustrate the proportion of payments made for interest and principal (redemption) of the public debts between domestic and foreign debt but also the total amounts paid for each of the years in that series. Table 6 is a cross tabulation that shows the public debt servicing by who is owed on the one side (foreign or domestic) and the decomposition of the debt by principal and interest payments. This allows for an examination of the relative burdens of servicing domestic and foreign debt separately.

Table 7: Debt Payments by Internal and External Holders of Public Debt

Interest %	2015/16	2016/17	2017/18	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/24	2024/25
Internal	82.2%	78.7%	78.1%	69.6%	74.1%	75.3%	75.0%	73.1%	74.4%	74.3%
External	17.8%	21.3%	21.9%	30.4%	25.9%	24.7%	25.0%	26.9%	25.6%	25.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Redemption %										
Internal	64.7%	79.8%	55.7%	63.8%	72.4%	57.0%	59.5%	46.1%	41.2%	60.8%
External	35.3%	20.2%	44.3%	36.2%	27.6%	43.0%	40.5%	53.9%	58.8%	39.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Budget Estimates (Various Issues)

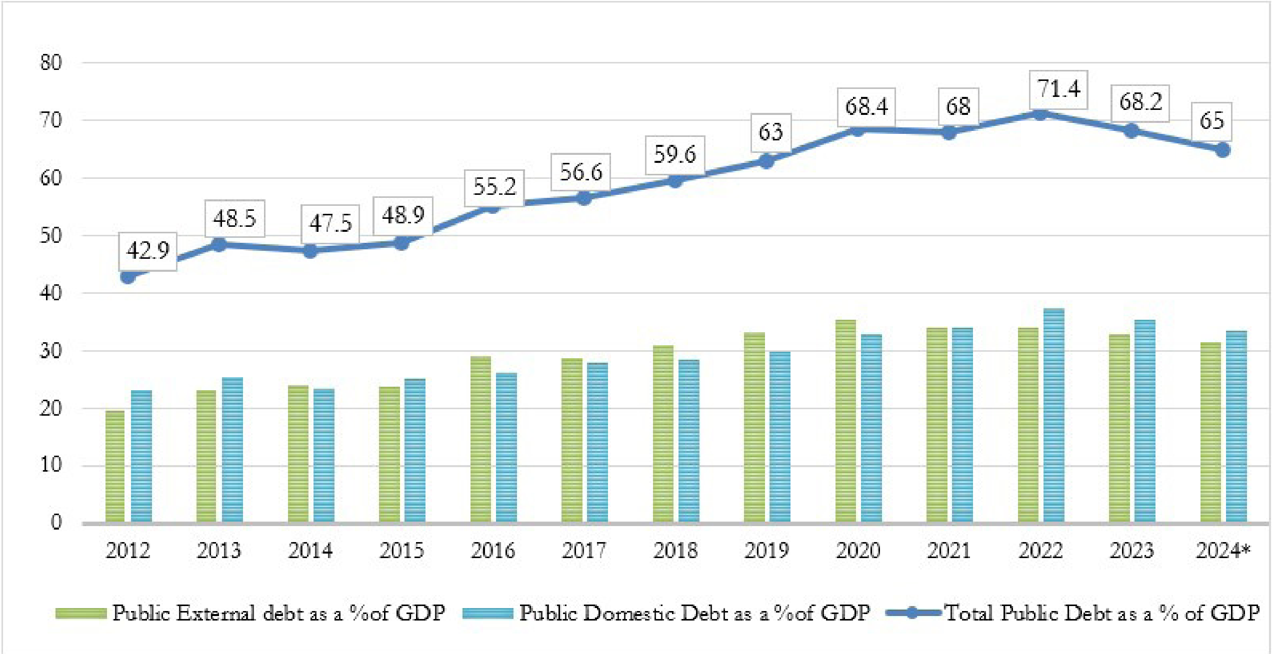
Table 7 above leads to two main conclusions. The first is that in the time since the Financial Year that started in July 2015, the interest payments made to internal banks are dominated by internal debt holders, but that share of payments changed from 82.2% to 74.4% in the decade. In the Financial year that starts in July 2024, the share will remain at 74.3% of all payments made for debt for the year.

The second conclusion is that annual payments for the principal of the public debt are also dominated by internal payments but at a lower ratio representing 64.7% in the first year in the series, with a peak to 72.4% in the year preceding the Covid-19 pandemic in 2020, before falling to 41.2% in financial year starting in July 2023. However, the variable debt payments for redemptions only is projected to rise sharply to 60.8% in the Financial Year starting in July 2024.

Public Debt as a Share of GDP

The past decade has seen a sharp increase in the public debt rate as a percentage of GDP. Total public debt as a percentage of GDP rose from a low rate of 42.9 percent in 2012 to the highest rate recorded in the decade of 71.4 percent in 2022 (Chart 1). The government's over reliance on debt to finance the deficit has led to the sharp increase in debt stocks witnessed over the years. The current administration is implementing the fiscal consolidation plan which is meant to curb spending and ultimately reduce fiscal deficit. The FY 2024/25 budget estimates however paint a different picture since the overall deficit is projected to increase. This means that overall debt will continue to rise with deficits.

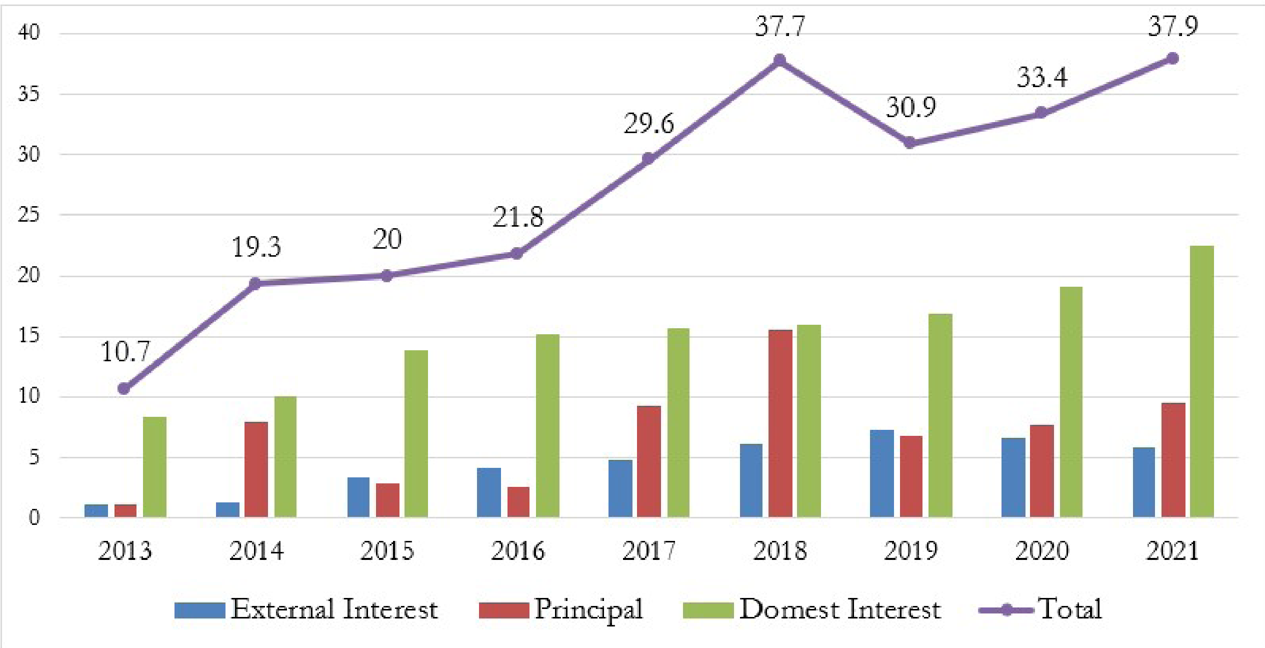
Figure 5: Public debt as a share of GDP



Source: National Treasury

Figure 6 below shows an increase in debt service as a percentage of revenue. Total debt service as a percentage of revenue increased from 10.7 percent in 2013 to 37.9 percent in 2021. This means that on average, servicing debt in 2021 took up over 35 percent of revenue collected. Domestic interests constitute the biggest payments since the government borrows at very high interest rates domestically.

Figure 6: Debt Service as a % of Revenue



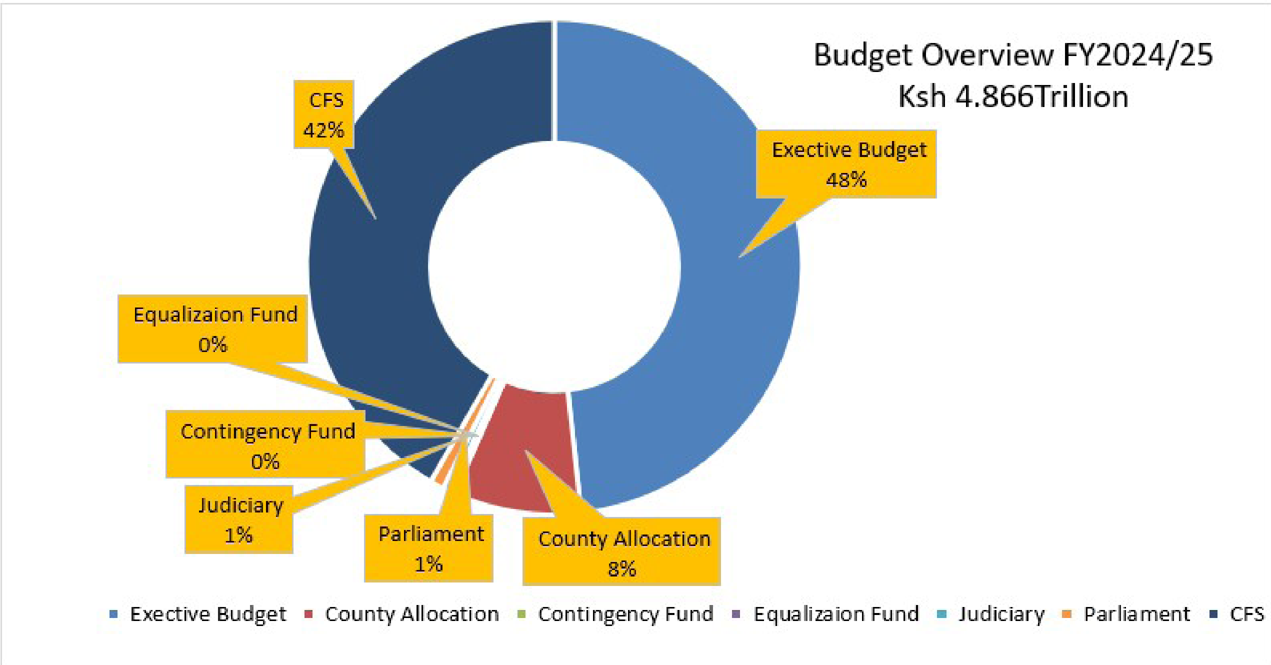
Source: National Treasury

4.0 Expenditure Analysis

4.1 Trends in Budget Allocation

The national executive budget and mandatory expenditure and national executive budget form the bulk allocation of the national budget with 90 % of the entire budget. Indeed, the growth of the CFS[5], which is a "first charge" on the budget, has implications on budget flexibility or the quantum of resources that will be left for use in public service delivery. Comparatively, as a share of the total government expenditure, the CFS as a share of the total budget decreased in FY 2024/2025 from 44% to 42% in the FY 2023/2024 nominally. The figures in the CFS have been rising largely attributed to the loans the government takes every year from external and domestic markets.

Chart 4: Budget Trends FY 2024/2025



Source: The National Treasury/Budget estimates

It is important to note the budget for independent institutions/commissions and transfer to the county government is still very small and that 48% of the budget remains with the executive arm of the national government and 42% being a first charge to the consolidated fund services as shown in chart 4.0. This shows that the burden of Kenyans receiving improved service delivery lies with the national government given the level of budget size. Therefore, scrutiny and oversight by the legislature and civil society on public finance management should be well balanced for both the National and the County Government.

[5]CFS stands for consolidated fund services and constitutes Debt repayment as the main expenditure item. CFS also includes a smaller amount of money like pensions, salaries and allowances, miscellaneous service and international subscription.

4.2 The Size of the Budget Relative to the Economy

The government budget influences economic activity through its impact on aggregate demand, resource allocation, and income distribution. Government spending stimulates economic growth, while taxation affects disposable income and consumption patterns. Table shows the patterns in government budgets for the years 2022/2023 to the year 2024/2024 showing that the spending has been on the rise from Ksh 3.34 billion to ksh 4.06 billion in nominal terms. When budget estimates are expressed as a share of GD, the range is between 26% to 24% over the period FY 2022/2023 to FY2024/2025.The GDP growth for the year 2023/2024 and 2024/2025 stagnated at 24% which reflect that the government to align itself to fiscal consolidation plan through restricted growth in recurrent spending, cutting down on non-priority expenditures, freezing of employment in non-priority sector and doubling efforts in domestic resource mobilization. However, its success will be dictated by commitment to cutting down on expenditure and revenue performance so that the country can register growth in GDP.

Table 8: Trend in total budget for year 2022/2023 to 2024/2024

	2022/2023	2023/2024	2024/2025
Total Budget (ksh billion)	3,342	3,675	4,063
Total Budget (as a share of GDP)	26%	24%	24%
Total Budget per person (ksh)	66,047	87,456	78,893
Total Budget per person (ksh), Adjusted for inflation	66,047	81,204	68,717

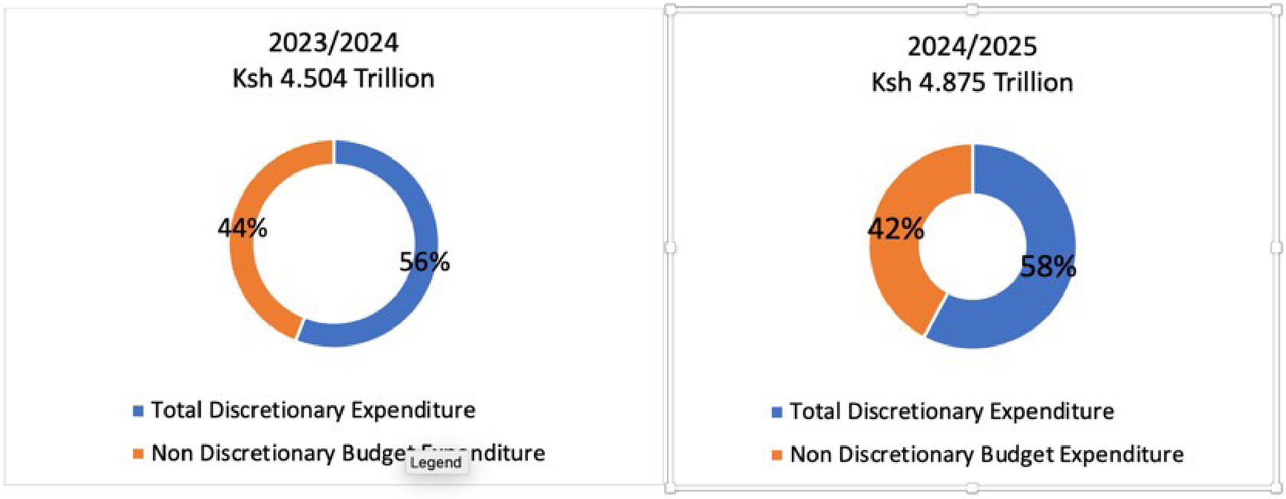
Source: The National Treasury/Budget estimate

4.3 Mandatory Spending and Non-Discretionary Spending

What share of the budget constitutes mandatory spending and what does this mean for budget flexibility for 2024/2025

Non-discretionary expenditure is composed of mandatory expenditure items and includes all the CFS items. Out of the total budget of Ksh 4.504 trillion in 2023/24, the non-discretionary allocation was 44%. On the other hand, of the total budget of Ksh 4.875 trillion in 2024/25, the non-discretionary allocation was 42 % expressed as a share of the total budget. It can be concluded that the proportion of the budget for non-discretionary allocation has reduced by 2 percentage points. However, the flexibility of the budget is still tight and the government needs to work more on fiscal consolidation.

Chart 5: Percentage share of Mandatory and non-discretionary spending

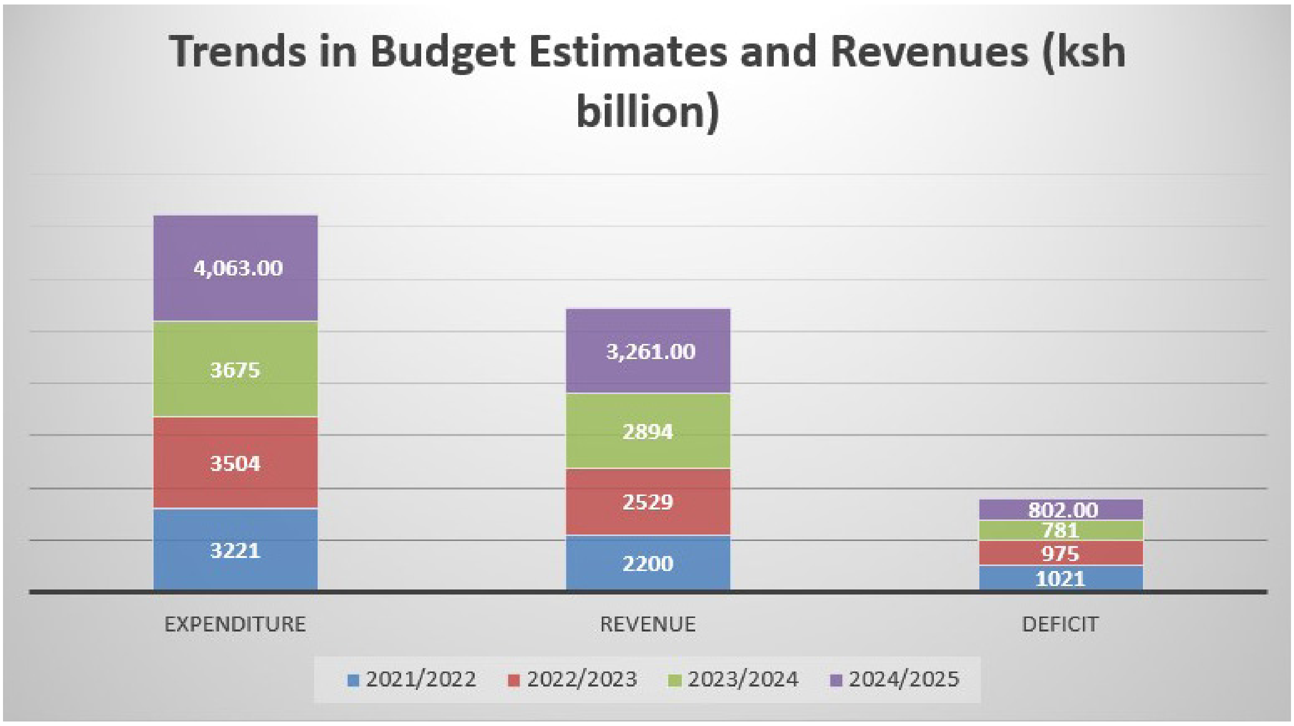


Source: The National Treasury/Budget estimate

4.4. Budget Deficits

Public spending in Kenya has been on an upward trend measured in both nominal spending and as a share of GDP as shown in the charts below.

Chart 6: Trends in expenditures and revenues from 2021/22 to 2024/25

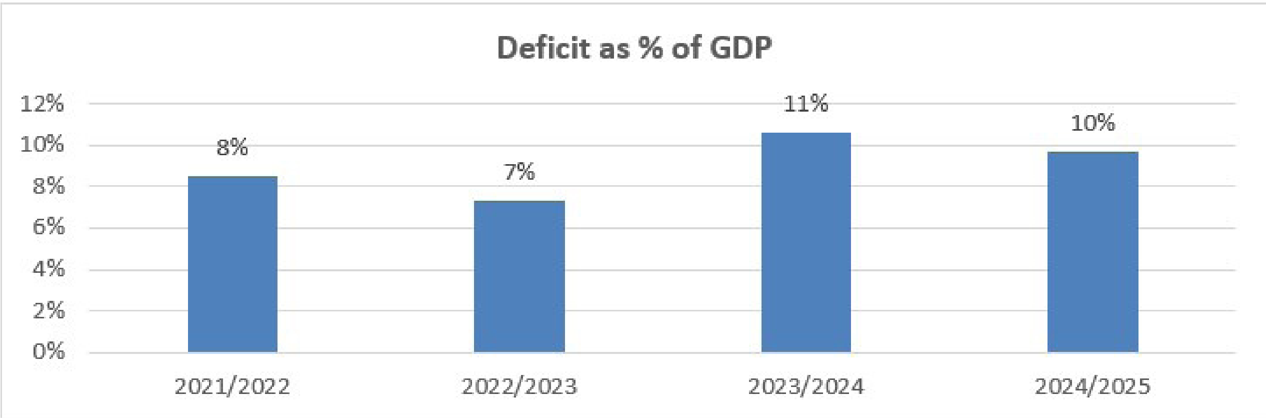


Source: The National Treasury/Budget estimate

This is a positive direction which is aligned to the fiscal consolidation plan through restricted growth in recurrent spending, cutting down on non-priority expenditures, freezing of employment in the non-priority sector and doubling efforts in domestic resource mobilization. However, its success will be dictated by commitment to cutting down on expenditure and revenue performance during the financial year.

Over the medium term the budget deficits are estimated to reduce to -10 % of GDP in 2024/25 from -11 % in 2023/24. Although the direction is positive, the deficit gap is still large (it is still far below the medium-term target of -3%) and not aligned to the fiscal consolidation plan. However, this is a positive direction which is aligned to the fiscal consolidation plan by the government through restricted growth in recurrent spending, cutting down on non-priority expenditures, freezing of employment in the non-priority sector and doubling efforts in domestic resource mobilization. However, its success will be dictated by commitment to cutting down on expenditure and revenue performance during the financial year.

Chart 7: Trend in budget deficit as share of GDP



Source: The National Treasury/Budget estimate

4.5 Pending Bills

The SC pending bills include payment to contractors/projects, suppliers, unremitted statutory and other deductions, pension arrears for Local Authorities Pension Trust, and others. The highest percentage of the SCs pending bills belong to Contractor/Projects and Suppliers. Ministries/State Departments and other government Agencies pending bills consist mainly of historical pending bills. All MDAs are expected to continue with prioritization of payment of the pending bills by settling them as a first charge in the current financial year budget in line with the Treasury guidelines for implementation of the financial year 2023/24 and the medium-term budget.

Further consideration of financial reports for pending bills by the Office of the controller of budget presents different values during reporting periods. For instance, pending bills for MDAs and state corporations for the year ending 30th June 2023 report show a total pending bill of ksh 727.7 billion. compared with the report after nine months showing that the outstanding pending bills as at 30th June 2023 was ksh 558.8 billion. This is a significant amount. This inconsistency could be an indication of lack of transparency and proper accountability by MDAs and state corporations.

Table 9: Comparison of National Government Pending Bills Between FY 2022/23 and 31st March 2024

CATEGORY	31st March 2024	30th June 2023	Change Increase/ (Decrease)	Overall Change in %
	Kshs			
a) MDAs				
Recurrent	63,027,944,397	86,974,748,826	(23,946,804,429)	(38)
Development	18,486,431,692	28,265,786,657	(9,779,354,965)	(53)
Sub-Total*	**81,514,376,089**	**115,240,535,483**	**(33,726,159,394)**	**(41)**
b) State Corporations (SC)/State Owned Enterprises (SOEs/SAGAs				
Recurrent				
Pay as you Earn	20,059,092,181	20,158,407,897	(99,315,716)	(1)
National Social Security Fund	495,609,065	182,522,530	313,086,535	63
National Hospital Insurance Fund	76,771,282	33,887,484	42,883,798	56
Unremitted Sacco Deductions	2,618,869,186	2,504,095,407	114,773,779	4
Unremitted Staff Loan Deductions	2,532,496,852	1,781,223,777	751,273,075	30
Pension Arrears	35,646,829,561	46,806,796,510	(11,159,966,948)	(31)
Others	62,906,892,097	85,595,784,996	(22,688,892,899)	(36)
Consumables and General Supplies	39,280,086,789	31,072,554,614	8,207,532,174	21
Subtotal (Recurrent)	**163,616,647,013**	**188,135,273,215**	**(24,518,626,202)**	**(15)**
Contractors/Projects (Development)	241,665,811,918.9	255,460,724,633	(13,794,912,715)	(6)
Sub-Total	**405,282,458,932**	**443,595,997,848**	**(38,313,538,917)**	(10)
Total (National Government)	**486,796,835,021**	**558,836,533,331**	**(72,039,698,311)**	**(15)**

Source: The National Treasury

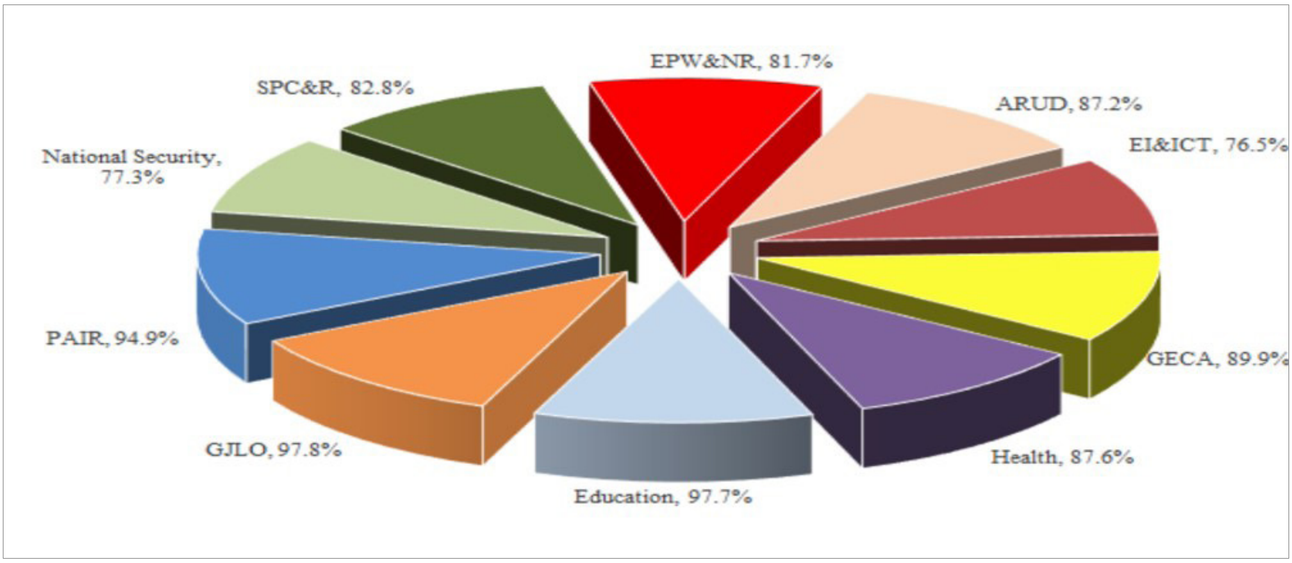
According to the auditor general, long standing pending bills distorts financial records. Furthermore, pending bills may attract penalties and interest and therefore put more pressure on the available resources. It is important to also note that pending bills should be a first charge of the budget as provided for in Section 74(4) of the PFM Act, 2012 and National Treasury Circulars on pending bills and are therefore priority payments.

4.6 Budget Credibility and Execution

Budget implementation is critical to public service delivery outcomes. The question of public expenditure management on how to improve efficiency in public spending and reduce wastages is pertinent to the government. Quarterly reports from the Office of the Controller of Budget indicate gross expenditure for the National Government FY 2023/2024 for the nine months was Kshs.2.91 trillion, recording an overall absorption rate of 64 per cent, compared to Kshs.2.15 trillion (59 per cent) recorded in a similar period FY 2022/23. This comprised ministerial development expenditure at Kshs.368.79 billion (absorption rate of 47 per cent), ministerial recurrent expenditure at Kshs.1.15 trillion (absorption rate of 68 per cent), and Consolidated Fund Services at Kshs.1.39 trillion (67 per cent). Over the years the government has struggled with the challenge of low uptake/absorption particularly of the development budget. A big challenge and common in past budget performance is delay in release of funds to the MDAs by the National Treasury. On this point, actual exchequer issues for both recurrent and development expenditure affected implementation of planned activities. The situation was made worse by the frequent IFMIS downtime which affected timely access of funds and processing of payment.

During the period under review, the Governance, Justice, Law and Order (GJLO) sector recorded the highest absorption at 97.8 percent followed by the Education sector at 97.7 percent and Public Administration and International Relations (PAIR) at 94.9 percent. The Energy, Infrastructure & ICT (EI&ICT) sector recorded the lowest absorption of 76.5 percent as shown in the chart 8.

Chart 8: Sectoral Budget Absorption as at 31st March, 2024



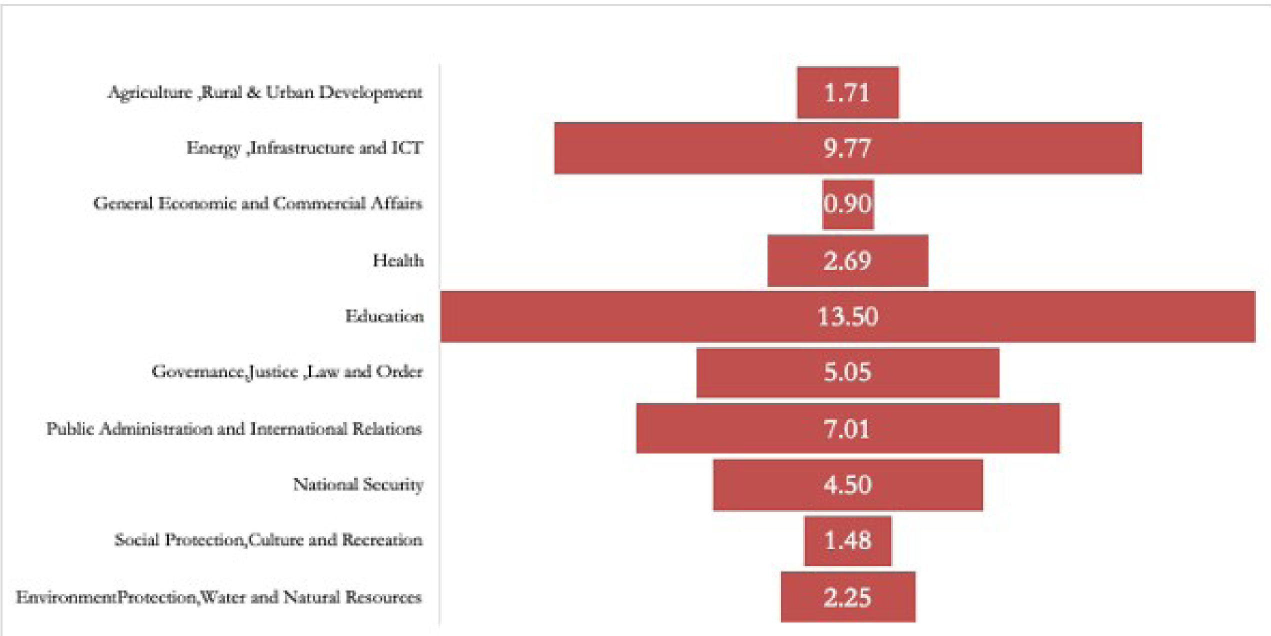
Source: The National Treasury

5.0 Sector Budget

The total expenditure for the FY 2024-2025, is 4,063 trillion. The executive arm of government was allocated a total of Ksh 2,392 billion comprising Ksh. 1,608.7 billion in recurrent expenditure, Ksh.747.4 billion in development expenditure. Ksh. 2,056.7 billion was allocated to Consolidated Fund Services (CFS) which include debt roll-over of kshs843 billion and Ksh 444.5 billion allocation to county government. Other allocation includes judiciary Ksh 24.6 billion, parliament ksh 44.6 billion and equalization fund of ksh 8 billion. The executive arms of government comprises of various MDAs which are classified into ten sectors; (i) Agriculture, Rural and Urban Development (ARUD), (ii) Education, (iii) Energy, Infrastructure and Information Communications Technology (EI & ICT), (iv) Environment Protection, Water and Natural Resources (EWNR) (v) General Economic and Commercial Affairs (GECA) (vi) Governance, Justice, Law, and Order (GJLO) (vii) Health (viii) National Security (ix) Public Administration and International Relations (PAIR) (x) Social Protection, Culture and Recreation (SPCR) Sectors. The figure below summarizes the budget estimates by the sectors in FY 2023/24 against FY 2022/23.

Education sector is set to receive the highest budgetary allocation of 13.5 percent of the total budget followed by Energy, Infrastructure and ICT and Public administration and international relations sectors which will receive 9.77 and 7.01 percent of the total budget respectively.

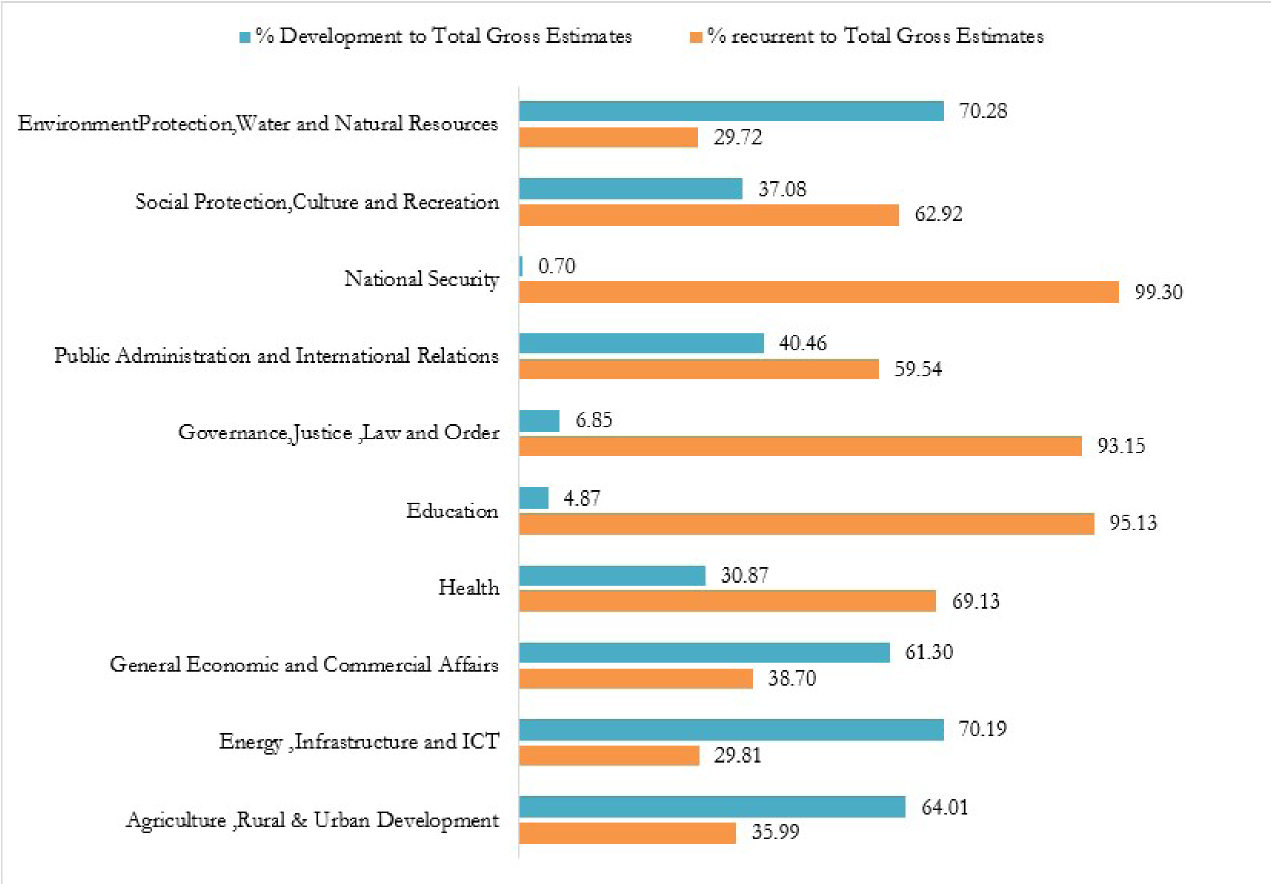
Chart 9: Sector Expenditure Estimates as a share of the Total Expenditure Estimates (%)



Source: The National Treasury

GECA, social protection and ARUD sectors will receive the least share of allocations averaging at 0.9, 1.5 and 1.7 percent respectively.

Chart 10: Sectors' share of allocation to Recurrent and Development Expenditure



Source: National Treasury/Estimates of expenditure FY2024/2025

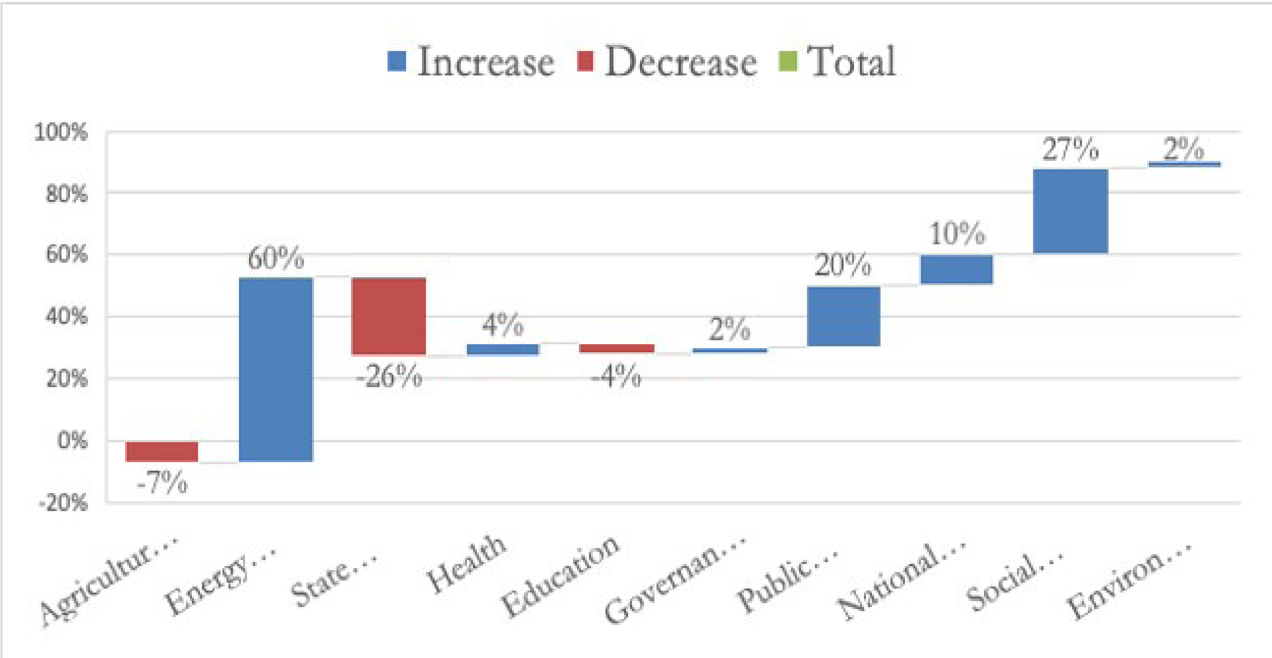
The sector's allocation to development expenditure is generally very low. Only three out of ten sectors have more budgetary allocations to development than recurrent expenditure. Sectors such as National security, GJLO and Education have less than 10 percent of their total budgets allocated to development.

Chart 11.0 shows that the budget estimate for 2024/25 has significantly shifted its focus by increasing total expenditure on social sectors like social protection and Energy, Infrastructure and ICT with substantial decrease in the State Department for ASALs and Regional Development and Agriculture and rural development. These sectors' whose share of the budget has gone up means that they have been allocated additional resources while the vice versa is true for the other sectors.

The social protection, culture and recreation sectors with positive increase in budget allocation has proposed allocation of Ksh 31.3 billion for social protection and affirmative actions out of this which an allocation of Ksh 18.6 billion will cater for cash transfers to elderly persons, Ksh 7.9 billion for Orphans and Vulnerable Children and Ksh 1.2 billion for persons living with severe disabilities. There is also a proposed allocation of Ksh 1.5 billion for the Kenya Hunger Safety Net Programme and Ksh 1.9 billion for the Kenya Social and Economic Inclusion Project. In addition, Ksh 815 million will go to the Child Welfare Society of Kenya, Ksh 400 million for the Presidential Bursary for the orphans, Ksh 600.1 million for National Council for Persons living with Disabilities; Ksh 100 million for the National Albinism Support Programme and Ksh 100 million for the National Autism Support Programme. the National Government Affirmative Action Fund should come up with a policy framework for the implementation of the Sanitary towels program in close collaboration with the Woman Members of Parliament in the country to enhance women economic initiatives in the country.

Education sector is the largest and consequently the largest budgetary allocation and biggest spender across the years. The Education sector accounts for the largest share of the National executive Government budget at 13.5 % with an allocation of Ksh 658.4 billion in 2024/2025.This allocation is partly for capitation, infrastructure, and staffing of schools, especially Junior Secondary Schools. The Teachers Service Commission is allocated half of the amount to the Education Sector for teacher resource management. Other areas in the sector with major allocations include free-day secondary school at Ksh 63.8 billion; Junior Secondary School Capitation at Ksh 30.6 billion; and scholarships as well as loans for University and TVET students at Ksh 55 billion. However, the sector allocation was reduced by 4 % as share of the budget to the sector compared with the previous year which had an allocation of ksh 684.4 billion.

Chart 11: Percentage change in the budget allocation by sector 2024/25 compared with 2023/24



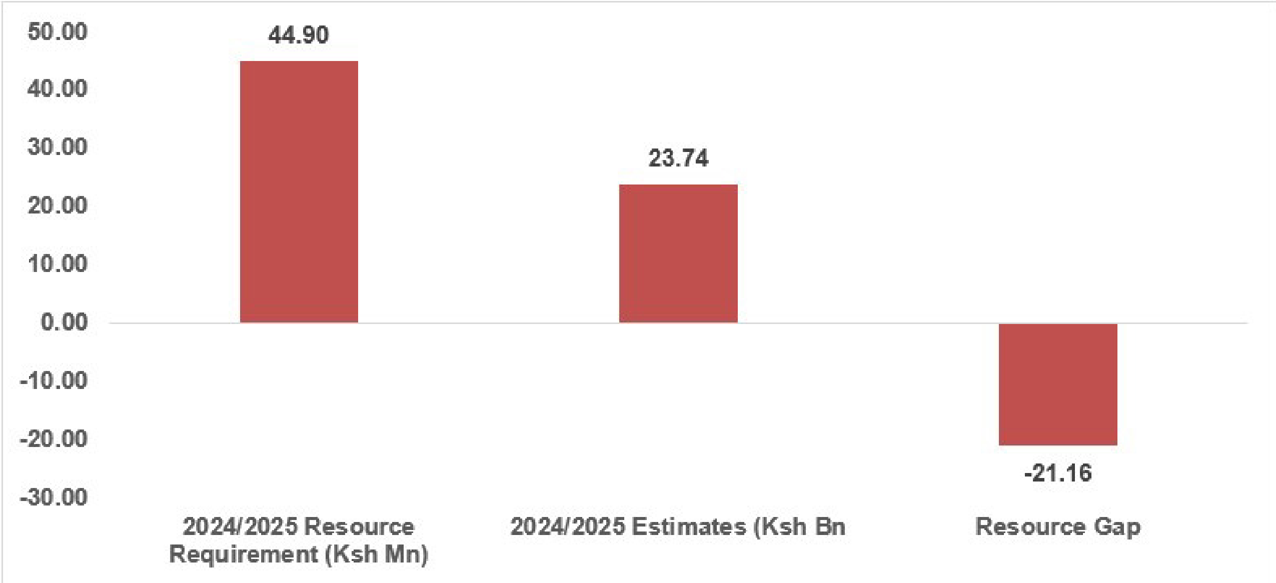
Source: National Treasury/Estimates of expenditure FY2024/2025

5.1 Judiciary, Constitutional Commissions, and Independent

Judiciary

The resource requirement for the Judiciary in the financial year 2024/2025 was Ksh 44 billion. However, the Judiciary was allocated an estimate of Ksh 23.74 billion, which leaves a resource gap of Ksh 21.16 billion. The resource shortfall was equivalent to Ksh 47.1% of the resource requirement, which implies that services offered by the Judiciary will be affected. This is in light of the case backlogs and historical issues that show court services are not provided in remote parts of Kenya.

Chart 12: 2024/2025 Judiciary Estimates (Ksh Bn)



Source: FY 2024/25 Judiciary Draft Report Budget, National Assembly Budget and Appropriation Committee

The severe underfunding of the Kenyan Judiciary presents a critical threat to access to justice, particularly for marginalized communities in remote areas who already face significant barriers. The existing case backlog is likely to worsen, resulting in increased costs and delays for litigants and potentially eroding public trust in the judicial system. Crucial plans for modernization, including digitization and improved court infrastructure, may be stalled due to the lack of resources. This will hinder efficiency and transparency within the judicial process, further exacerbating the challenges of ensuring timely and equitable access to justice for all Kenyans. A chronically underfunded Judiciary risks its independence. Without adequate resources to operate effectively, the Judiciary may become more susceptible to external pressures and influences, potentially undermining its role as a crucial pillar of democracy.

The estimates for the Judiciary in the 2024/2025 of Ksh 23.74 billion is an increase of 7% compared to Ksh 22.29 billion allocated to the Judiciary in the 2023/2024 financial year.

Table10: Judiciary Estimates

	Approved 2023/24 (Ksh bn)	2024/2025 Estimates (Ksh Bn)	% Change
Judiciary's Estimates	22.29	23.74	7%

Source: National Assembly Budget and Appropriation Committee

The IEA Kenya published a study on the cost of the mandate of the Judiciary in Kenya where researchers simulated the different types of models that Judiciary could be funded. The most optimum was the one shown in the chart below, which detailed the fixed infrastructure costs and operation and maintenance costs of running the courts. The IEA found that the cost indicative of running the Judiciary was Ksh 40 billion. This lends credence to the Judiciary's numbers.

Table 11: IEA's Simulation of the Indicative Cost of the Judiciary

	Amount (Ksh Bn)	Share of the total budget
Fixed Costs		
Compensation of Employees	16.4	41%
Use of Goods and Services	12.0	30%
One time Infrastructure costs		
Courts and other facilities	7.9%	20%
O & M Costs		
O & M Costs	3.6	9%
	40.0	

Source: IEA-Kenya[6]

A. Parliament

The total estimated budget for Parliament for the financial year 2024/2025 is Ksh 44.598 billion. Out of the entire budget, the National Assembly commands the lion's share of the budget, accounting for 60% of the total allocation (Ksh 26.775 billion) through its National Legislation, Representation, and Oversight function, and the number of legislators could explain this that the National Assembly has compared to the Senate. The Senate is allocated a considerably smaller portion, with its three sub-votes (Legislation and Oversight, Representation, Liaison and Intergovernmental Relations, and General Administration, Planning and Support Services) totalling approximately 18% of the overall budget. Parliamentary Joint Services, encompassing General Administration, Planning and Support Services, as well as Legislative Training, Research & Knowledge Management, receive a combined 19.4% of the budget.

Table 12: Parliament Estimates 2024/2025

Parliament Vote head	Sub-vote (Ksh Mn)	Sub vote share of the total budget
Senate Legislation and Oversight	3236.65	7.3%
Senate Representation, Liaison and Intergovernmental Relations	2178.20	4.9%
Senate General Administration, Planning and Support Services	2595.15	5.8%
PSC General Administration, Planning and Support Services	1127.00	2.5%
PSC Human Resource Management and Development	40.00	0.1%
National Assembly, National Legislation, Representation and Oversight	26775.00	60.0%
Parliamentary Joint Services General Administration, Planning and Support Services	8428.81	18.9%

[6]Kemboi, Leo Kipkogei, and Jackline Kagume. "Costing the Consumer Mandate of the Judiciary in Kenya." (2023).

Parliament Vote head	Sub-vote (Ksh Mn)	Sub vote share of the total budget
Parliamentary Joint Services Legislative Training Research & Knowledge Management	217.19	0.5%
Total	**44598.00**	

B. Constitutional Commissions and Independent Offices

The budget outlook for Independent Offices and Constitutional Commissions in Kenya presents a mixed picture, with some organizations experiencing increases while others face reductions for the 2024/2025 fiscal year. This mixed bag of budgetary adjustments reflects a complex set of priorities and constraints facing the government.

Several Constitutional Commissions and Independent Offices are facing significant budget cuts, raising concerns about their ability to fulfill their mandates effectively. The Independent Electoral and Boundaries Commission faces a substantial reduction of 21%, which is indicative of the financial year 2024/2025 not being an election year. The Commission on Revenue Allocation sees its budget shrink by 20%, which could affect equitable resource distribution among counties. The Office of the Registrar of Political Parties and the Salaries and Remuneration Commission face cuts of 18% and 14%, respectively. On the other hand, a few organizations experience modest budget increases. The Auditor General, Public Service Commission, and National Police Service Commission all see their allocations grow by 3%. These increases, while modest, suggest a prioritization of financial oversight, public service management, and police oversight within the broader budgetary context.

Table 13: Budget Outturn: Independent Offices and Constitutional Commissions

	Approved Estimates 2023/2024	Gross Estimates 2024/2025	% Change
Ethics and Anti-Corruption Commission	3,761.76	3,971.55	6%
Office of the Director of Public Prosecutions	4,062.04	3,907.52	-4%
Office of the Registrar of Political Parties	1,260.26	1,037.87	-18%
Witness Protection Agency	813.44	741.19	-9%
Kenya National Commission on Human Rights	539.80	478.07	-11%
Independent Electoral and Boundaries Commission	4,751.01	3,755.22	-21%
Judicial Service Commission	941.90	902.90	-4%
National Police Service Commission	2,805.87	2,876.99	3%
National Gender and Equality Commission	444.97	435.81	-2%
Independent Policing Oversight Authority	1,019.27	1,107.67	9%
The Commission on Revenue Allocation	516.82	413.47	-20%
Public Service Commission	3,565.54	3,667.53	3%
Salaries and Remuneration Commission	550.32	472.23	-14%
Auditor General	8,293.88	8,566.77	3%

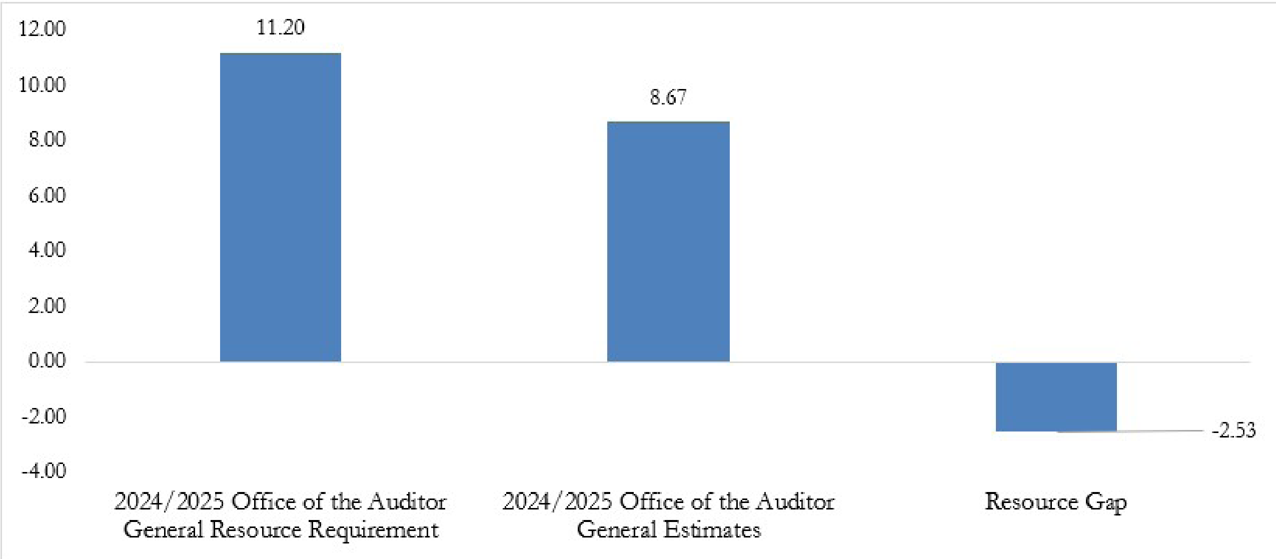
	Approved Estimates 2023/2024	Gross Estimates 2024/2025	% Change
Office of the Controller of Budget	707.37	652.22	-8%
The Commission on Administrative Justice	745.19	661.97	-11%

Source: National Assembly Budget and Appropriation Committee

C. Focus on the Office of the Auditor General

The Office of the Auditor General in Kenya faces a concerning funding gap for the 2024/2025 fiscal year. While the office requires an estimated 11.20 billion Kenyan Shillings to effectively carry out its mandate, the proposed budget only allocates 8.67 billion, resulting in a significant shortfall of 2.53 billion Kenyan Shillings. This substantial gap raises concerns about the office's ability to fulfill its crucial role in ensuring transparency and accountability in the use of public funds.

Chart 13: Office of the Auditor General Resource Gap



Source: National Assembly Budget and Appropriation Committee

The 2.53 billion Kenyan Shilling funding gap severely hampers the Auditor General's ability to conduct specialized audits, particularly those targeting procurement fraud, which are essential for tackling fiscal slippage. These audits demand significant resources, including specialized teams, in-depth investigations, data analysis, and potentially legal support. The lack of adequate funding restricts the Auditor General's capacity to effectively undertake these complex investigations, limiting their scope and effectiveness. This financial constraint forces the Auditor General's office to prioritize core functions like financial statement audits, leaving limited resources for specialized audits, even when suspicions of procurement fraud arise. This resource scarcity creates a perception of reduced oversight, potentially emboldening individuals or entities involved in fraudulent activities. The perceived lower risk of detection and accountability could lead to an increase in procurement fraud, further undermining fiscal discipline and transparency.

The inability to effectively investigate and expose procurement fraud due to resource constraints perpetuates a cycle of financial mismanagement. It hinders the recovery of misappropriated funds, weakens the pursuit of accountability, and limits the implementation of preventive measures. To empower the Auditor General to combat procurement fraud and reduce fiscal slippage, addressing the funding gap is paramount. Increased budgetary allocations, along with a focused effort on building capacity in specialized audit areas, are crucial steps towards a more proactive and practical approach to safeguarding public funds and promoting accountability.

Table 14.0 paints a stark picture of the chronic underfunding plaguing the Kenyan Office of the Auditor General. Year after year, the OAG faces significant budget shortfalls, with allocated funds falling dramatically short of its actual requirements. This disparity is clearly illustrated in the 2022/2023 fiscal year, where the OAG required Ksh. 8.7 billion but received only Ksh. 6.532 billion, resulting in a substantial shortfall of Ksh. 2.168 billion. These persistent budget shortfalls have a direct impact on the OAG's ability to spend effectively. While the OAG demonstrates commendable efficiency in utilizing the limited resources it receives, evidenced by a consistently high budget absorption rate averaging around 95%, the reality is that its actual expenditure remains significantly lower than what's truly needed to fulfill its mandate. These chronic underfunding cripples the OAG's capacity to operate at full potential, hindering its ability to audit government spending and ensure accountability effectively.

Table 14: Analysis of Budget Requirement by OAG versus Allocation

Year	Requirement (Kshs. Billions)	Budget Allocation (Kshs. Billions)	Budget Shortfall (Kshs. Billions)	Actual Expenditure (Kshs. Billions)	OAG Budget Absorption %
2018/2019	9.206	5.968	**3.238**	5.783	97
2019/2020	8.880	5.505	**3.375**	5.425	99
2020/2021	8.900	5.525	**3.375**	5.348	96
2021/2022	8.333	6.083	**2.250**	5.613	92
2022/2023	8.700	6.532	**2.168**	6.058	93

Source: Summary of the Auditor-General's Report on National Government 2022/2023

5.2 Rural and Urban Development (ARUD)

The table below shows the allocation in the previous financial year, 2023/2024, against the estimated allocation in the coming financial year, 2024/2025.

Table 15: Spending for FY 2023/24 Vs Allocation for FY 2024/2025

		Approved Estimates 2023/2024	Gross Estimates 2024/2025	% Change
1112	State Department for Lands and Physical Planning	8,789.98	8,557.04	-3%
1162	State Department for Livestock Development	10,684.18	10,584.35	-1%
1166	State Department for the Blue Economy and Fisheries	11,148.21	11,354.43	2%
1169	State Department for Agriculture	57,550.90	47,761.43	-20%
2021	National Land Commission	1,595.92	1,609.72	1%

		Approved Estimates 2023/2024	Gross Estimates 2024/2025	% Change
	TOTALS	89,769.20	79,866.96	-12%

Source: Estimates of Expenditure 2024/2025

Table 15 shows that the gross estimates for the financial year 2024/25 will realize a massive reduction in the total amount allocated by a whopping Ksh. 9,902.23 Billion, (from Ksh. 89,769.2 to 79,866.96) which represents a 12 percent reduction from the previous year's approved expenditure value. The State Department for Agriculture is the biggest loser, accounting for 99 percent of this amount, which translates to Ksh. 9,789.48. Second to this is the State Department for Lands and Physical Planning which will realize a reduction from an expenditure of Ksh. 8,787.98 to Ksh. 8,557.04 in the allocation for FY 2024/25. This is a reduction by Ksh. 232.95, which is a negative three percent reduction.

On the other hand, the State Department of Blue Economy and Fisheries has been allocated an increase by Ksh. 206.22 Mn, which is a 3-percentage point increment from Ksh. 11,148.21, the previous financial year's expenditure amount. It, therefore, becomes important to isolate the key priorities that the government of the day seeks to accomplish with the funds it has allocated for this sector.

The overall allocation as presented in Table 16 is composed of both recurrent and development figures. The development estimates are as per table below;

Table 16: Recurrent Allocation- Spending for FY 2023/24 Vs Allocation for FY 2024/2025

		Recurrent			
Vote	Details of Vote	Approved Gross Expenditure 2023/2024 (Ksh. millions	Gross Estimates 2024/2025 (Ksh. millions)	Change	% Change
1112	State Department for Lands and Physical Planning	3,889.98	4,166.40	(276.42)	-7.1%
1112	State Department for Lands and Physical Planning	3,889.98	4,166.40	(276.42)	-7.1%
1166	State Department for the Blue Economy and Fisheries	2,821.15	2,316.50	(504.65)	-17.9%
1169	State Department for Agriculture	18,627.50	16,140.70	(2,486.80)	-13.4%
2021	National Land Commission	1,489.92	1,506.26	16.34	-1.1%
	TOTAL	32,506.73	28,189.76	(4,869.81)	

Source: Estimates of Expenditure 2024/2025

The recurrent expenditure for the ARUD sector for the FY 2023/24 was Ksh. 32,506 million, with the highest spending being by the State Department of Agriculture at Ksh. 18,627 million, which is 57 percent of the total. The recurrent estimates for the FY 2024/2025 have been downsized by Ksh. 4,869 million, to Ksh. 28,189 million. This could signal a need to downsize on recurrent expenditure and instead focus more on development initiatives in the sector, or other supporting sectors.

The largest reduction is in the State Department for Livestock Development whose estimates have been reduced by Ksh. 1,618 million, which is a 28.5% cut.

Table 16: Recurrent Allocation- Spending for FY 2023/24 Vs Allocation for FY 2024/2025

		Development			
Vote	Details of Vote	Approved Gross Expend. 2023/2024 Ksh. millions	Gross Estimates 2024/2025 (Ksh. millions)	Change	% Change
1112	State Department for Lands and Physical Planning	4,900.0	4,390.6	(509.4)	10%
1162	State Department for Livestock Development	5,006.0	6,524.5	1,518.5	30%
1166	State Department for the Blue Economy and Fisheries	8,327.1	9,037.9	710.9	9%
1169	State Department for Agriculture	38,923.4	31,620.7	(7,302.7)	-19%
2021	National Land Commission	106.0	103.5	(2.5)	-2%
	TOTAL	57,262.5	51,677.2	(5,585.26)	

Source: Estimates of Expenditure 2024/2025

The sector spent a total of Ksh. 57,262 million in the FY 2023/2024 for development purposes in the five sub-sectors. The State Department for Agriculture had the largest share at 68 percent (Ksh. 38,923 million). In the coming FY 2024/2025, the developments in the sector have been allocated estimates of Ksh. 51,677 million, a reduced amount by a whopping Ksh. 5,585, a reduction by 10 percent. This notwithstanding, the State Department for Livestock Development and State Department for the Blue Economy and Fisheries each have additional estimates for development of Ksh. 1,518 million and Ksh. 710 million respectively. This speaks to the need to ensure continued exploration of the livestock sector as well as fisheries for enhanced food and nutrition security.

However, as this is the case, the State Department for Agriculture has had its estimated allocation for the FY 2024/25 reduced by a massive Ksh. 7,302 million, a 19 percent reduction from its approved spending in the previous financial year, 2023/2024. The agriculture sector takes a hit against a backdrop of increasing food production initiatives fronted by the government and the need to push more to the sector for enhanced agricultural practices for increased productivity on the one hand, but also on the other, to increase inputs that could lead to the growth of the manufacturing sector in the country.

As noted by the economic survey 2024, the agricultural sector increased maize production from 34.3 million bags in 2022 to 47.6 million bags in 2023. The reduction in the amount allocated for development expenditure may well negate the gains already made.

The sectoral report states that the Sector will need Ksh. 44,399.87 million in recurrent funding and KSh.118,938.00 million in development vote to effectively carry out the outlined sector priorities. Noting the estimates herein, the allocation falls far short of the requirement and puts at risk the ambition to attain any meaningful development in the sector.

The overall reduction for the sector is a bad sign and there is a need to take a look at the resource envelope and allocate more resources, more specifically to development initiatives in the various programmes under each state department in the sector.

5.3 Education Sector

Table 18: Estimates for Education Sector FY 2024/25 (Ksh. Million)

	Recurrent	Developme nt	Total	Share of Total
State Department for Technical,Vocational Education and Training	23,129.04	7,559.60	30,688.64	4.73
Satte Department for Higher Education and Research	123,611.55	4,374.64	127,986.19	19.73
State Department for Basic Education	121,927.56	20,335.56	142,263.12	21.93
Teachers Service Commision	347,281.13	404.33	347,685.46	53.60
Total Sector Estimates	615,949.29	32,674.13	648,623.42	100.00
Share of Recurrent vs Developmemt	94.96	5.04	100.00	
Source: Budget Estimates, NT and Approved Estimates, Parliament				

The approved budget for the education sector in the financial year 2023/24 was Ksh.684.36 billion. The printed estimates for the financial year 2024/25 were Ksh.642.18 billion. But then, the approved estimates for 2024/25 for the sector are 648.62 billion. Comparably, estimates for the financial year 2024/25 are less by Ksh.35.74 billion to the approved estimates for 2023/24 in nominal terms, equivalent to 5.2%.

A larger share of the projected allocation for the sector will go to recurrent expenditure. A scrutiny of the estimates shows that Ksh.615.95 billion, or 95% of the estimates, is for recurrent expenditure. Development expenditure is allocated Ksh.32.67, which is 5% of the estimates for the sector.

The Teachers Service Commission as usual gets the biggest share of the allocation to the sector, which is Ksh.347.698 billion, equivalent to 53.6%. The State Department for Technical, Vocational Education and Training receives the least share, Ksh.30.69 billion, which is a share of 4.7%.

Recurrent Expenditure

The largest share of the education sector spending is the recurrent vote. In the 2024/25 fiscal year, Ksh.615.95 billion is allocated for recurrent expenditure. This is about 95% of the share of total allocation to the sector. In nominal terms, TSC has the largest amount for recurrent expenditure at Ksh. 347.28 billion while TVET has the least at Ksh.23.13 billion. Presented by a share of the allocations per department, on the one hand, TSC allocates 99.9% of its resources to recurrent expenditure. On the other hand, the State Department for TVET allocates 75.4% of their estimates to recurrent.

Development Expenditure

The total sector allocation for development is Ksh.32.67 billion. This is 5% of all the resources for the education sector. In terms of the total amount, the State Department for Basic Education has the most development resources, 20.34 billion, and TSC has the lowest, 404.33 million. However, by share, TVET allocates 24.6% of their resources to development projects while TSC allocates less than 1% for development projects.

State Department for Basic Education

The state department runs four programmes. These are; primary education, secondary education, quality assurance and standards and general administration, planning and support services. The primary education programme implements free primary education, special needs education, primary teachers training and in-servicing and adult and continuing education sub-programmes.

The secondary education programs consist of free day secondary school education, secondary teachers' education services and in-servicing sub-programmes. The mandate of the quality assurance programme includes curriculum development, examination and certification, and co-curricular activities. The general administration programme exists to enhance accountability, efficiency, and effectiveness in service delivery.

In the financial year 2023/24, the total allocation for the state department was 158.57 billion. This has been reduced to 142.26 billion in the financial year 2024/25. This is a reduction of Ksh.14.51 billion, equivalent to 10%, which is very significant. This reduction could affect the implementation of running programmes like CBC, including the construction of classrooms in junior schools.

The State Department for Basic Education gets the second largest share in terms of nominal values, of the allocation to the sector after the Teachers Service Commission. At least 86% of the resources are allocated for recurrent expenditure, with the remaining 14% being meant for development.

State Department for Technical, Vocational Education and Training

The State Department for Technical, Vocational Education and Training implements three programmes. These are technical vocational education and training, youth training and development and the general administration, planning and support services.

In the financial year 2023/24, the department was allocated Ksh.30.06 billion. In the financial year 2024/25, the estimates show an increase of Ksh.600 million (nominal). Thus, the State Department has been allocated 30.69 billion, which is a 2% increase compared with the allocation for the 2023/24 financial year. The State Department gets 4.7% of the share of resources for the sector.

In the financial year 2024/25, an amount of Ksh.23.13 billion, equivalent to 75.4% of the total resource is allocated to recurrent expenditure while Ksh 7.56 billion, which is 24.6% goes to development expenditure. The justification for the increase includes among other things, an investment into infrastructure, and scholarships to trainees. Allocation towards infrastructure is projected to increase by 76%.

State Department for Higher Education and Research

The mandate of the state department includes university education policy and standards, public universities management, education research and policy among others. The state department implements three programmes namely: university education; research, science, technology, and innovation; and the general administration, planning and support services.

In the financial year 2024/25, the State Department is expected to get Ksh.127.97 billion. This is a 21.9% share of the total estimates for the education sector. However, it is a significant reduction when compared to the approved budget for the financial year 2023/24. This is a drop of Ksh.25.99 billion, equivalent to 20%, making it the state department with the biggest drop, both in nominal and percentage terms as compared to FY 2023/24.

The state department allocates 96.6% of its resources to recurrent expenditure and 3.4% for development. The amounts required for loans advanced to students in both universities and TVETs are expected to increase, partly due to the implementation of the New Funding Model.

Already, one major challenge for the department is insufficient resources. Therefore, a reduction in allocations as presented in the estimates is likely to deepen the financing gaps, with the possibility of compromising the efficiency of the department in achieving the sector targets.

Teachers Service Commission (TSC)

This is a constitutional commission established under Article 237 of the Constitution of Kenya. The commission recruits, employs and deploys teachers to public and secondary schools, as well as teacher training colleges. It is also charged with the mandate to transfer and discipline teachers. Furthermore, it advises the national government on matters relating to the teaching profession.

As pointed out earlier, TSC receives the largest share of resources for the education sector. It is projected to get Ksh.347.66 billion in the financial year 2024/25. This is an increase of Ksh.4.13 billion based on the allocations for FY 2023/24, equivalent to a 1% increase. At Ksh.347 billion, this means that TSC gets a share of 53% of the total allocation to the sector.

In FY 2024/25, 99.9% of the resources under the management of TSC are meant for recurrent expenditures. About Ksh.404.33 million, which is 0.1% of the estimates, is for development expenditure.

As the education sector continues to implement CBC and the recommendations of the Presidential Working Party on Education Reforms, resource requirements for the sector are expected to increase. It is expected that the Teachers Service Commission will recruit and deploy teachers for junior schools on permanent and pensionable terms in the financial year 2024/25.

Generally, investment into the education sector seems to have slowed down even though the implementation of CBC is underway and now in advanced stages, and different state departments in the sector continue to implement recommendations of the Presidential Working Party on Education Reforms, including the implementation of the New Funding Model by the Higher Education Loans Board, which is entering into the second year. Initially, approved estimates for the sector for FY 2023/24 were Ksh.680 billion. This was reduced in the Supplementary I budget to Ksh.675 billion and further slashed in the Supplementary II. The 2024/25 estimates again show further disinvestment in the sector through further cuts in budgetary allocations. This trajectory could lead to more resource gaps and greater challenges in the implementation of CBC and other reforms which might greatly impact the plans for the sector, and the overall vision.

5.4 Social Protection Sector Budget Analysis

The total national budget allocation to the social protection sector for the fiscal year 2024/25 is Ksh 70.864 billion, representing 1% of the total estimated government budget. This allocation marks a 26% increase from the fiscal year 2023/24, an increment of Ksh 14,411.13 billion. For FY 2024/25, the allocation includes Ksh 45,076.95 billion for recurrent expenditure, accounting for 63%, and Ksh 25,787.67 billion for development expenditure, making up 36.3%. Over the two years examined, recurrent expenditure saw a notable decrease of 6%, while development expenditure grew by a significant 199%. In terms of the budget distribution within the sector, the State Department for Social Protection and Senior Citizens Affairs receives the largest share at 49% of the entire budget. On the other hand, the State Department for Culture and Heritage received the smallest portion, accounting for just 4%, as illustrated in Table 19 below.

Table 19: Budget Allocation for the Social Protection Sector for the FY 2024/25 in Ksh Billion

	Recurrent	Development	Total	Percentage Allocation
Sports and Arts	1085.29	16,638.40	17,723.69	25%
Culture and Heritage	2922.85	132.84	3,055.70	4%
Youth Affairs and Creative Economy	1,843.51	2,044.96	3,888.47	5%
Labour and Skills Development	4,219.53	1,512.89	5,732.42	8%
Social Protection and Senior Citizen Affairs	33,064.93	1,939.88	35,044.81	49%
Gender and Affirmative Action	1,940.84	3,518.70	5,459.54	8%
Total	**45,076.95**	**25,787.67**	**70,864.62**	**100%**

Source: Estimates of Expenditure 2024/2025

Furthermore, the state departments that have undergone the most significant changes are the State Department for Sports and Arts, which saw an increase of 91%, and the State Department for Labor and Skills Development, which experienced a 21% rise between FY 2023/24 and FY 2024/25. Under the State Department for Sports, establishing the Sports, Arts, and Social Development Fund (SASDF) marks a significant development. This fund, which was not budgeted for in FY 2023/24, has been allocated Ksh 16.46 billion for FY 2024/25. The SASDF is established under the Public Finance Management (Sports, Arts, and Social Development Fund) Regulations, 2018. Its mandate is to provide funding to support the development and promotion of sports and arts and promote social development, including universal healthcare. The proceeds of the Fund are apportioned as follows: an amount not exceeding sixty percent to social development including universal healthcare; an amount not exceeding thirty-five percent to the promotion and development of sports; an amount not exceeding twenty percent to the promotion and development of arts; and an amount not exceeding five percent to government strategic interventions, with expenditure subject to Cabinet approval.

Three main projects have been introduced for the State Department for Labor and Skills Development. These include the construction of the National Employment Promotion Centre in Kabete, allocated Ksh 245.9 million, the Kenya Youth Empowerment and Opportunities Project, allocated Ksh 100 million, and the National Youth Opportunities Towards Advancement (NYOTA) Project, allocated Ksh 1.049 billion.

In contrast, in the same years, the State Department for Social Protection and Citizen Affairs and the State Department for Gender and Affirmative Action experienced declines of 9% and 3%, respectively. This undermines the concerned state departments to have gender-responsive interventions in the budget for Fy 2024/2025 implementation.

Annexure

Vote	Description	Recurrent: Approved Gross Expend. 2023/2024	Recurrent: Gross Estimates 2024/2025	Development: Approved Gross Expend. 2023/2024	Development: Gross Estimates 2024/2025	Total: Approved Gross Expend. 2023/2024	Total: Gross Estimates 2024/2025	% change of Total Expend. from 23/24 to 24/25	% share of Total Budget 2024/25
[illegible]	Agriculture, Rural & Urban Development								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Energy, Infrastructure and ICT								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	General Economic and Commercial Affairs								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Health								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Education								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Governance, Justice, Law and Order								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Public Administration and International Relations								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	National Security								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Social Protection, Culture and Recreation								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Environment Protection, Water and Natural Resources								
	Sub Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total Recurrent Budget	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	County Allocation	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Contingency Fund	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	Equalization Fund	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]
	Total Ministerial Expenditure	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Add Consolidated Fund Services (CFS)	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]
	TOTAL EXPENDITURE OUTLAY	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: [illegible]

BUDGET GUIDE

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