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Kenya's 2019/20 budget and the big four agenda: a pro poor analysis

report

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Executive summary

Introduction

The national budget is a crucial instrument for poverty reduction. It provides a framework in which public funds, sourced internally and externally, can be generated and disbursed. Spending volumes, and how these relate to national planning objectives, also indicate the priority allocated to different sectors.

Poverty is not a new phenomenon in Kenya; it has been the subject of policy debate since independence and has featured in several policy documents. Under the economic pillar of the Kenya Vision 2030, the government expects to achieve a sustained annual growth rate of 10% up to 2030. The vision expects this will result in increased incomes for everyone, including the poorest people, and therefore reduce poverty.

The national budget is a tool that can be used to reduce poverty through planning, budgeting, execution and monitoring and evaluation. While poverty reduction remains a key priority for developing and least developed countries, these countries face the challenge of ensuring adequate funding for priority sectors amid competing financial needs and limited financial resources.

The Government of Kenya priorities for 2019/20 are referred to as the ‘big four agenda’: universal healthcare, affordable housing, manufacturing and food security. The big four sectors are prioritised in the Third Medium Term Plan (MTP III) of the Kenya Vision 2030, the African Union Agenda 2063 and the Sustainable Development Goals (SDGs). To achieve this agenda, the government estimates to have a resource envelope (made up of ordinary revenue and appropriations in aid) worth Kenya shillings (KES) 2.1 trillion in FY2019/20. This is an 8.6% increase from the budgeted amount in FY2018/19. According to the budget statement 2019/20 the total expenditure for FY2019/20 that will enable the implementation of the big four and other sectoral goals is estimated to be KES 2.8 trillion; this has grown by 8.1% from FY2018/19.

The fiscal deficit in FY2019/20 is estimated to be KES 607.8 billion (including grants); this presents a decline from FY2018/19 when it was KES 635.5 billion. As a percentage of GDP, FY2019/20 fiscal deficit is projected to be 5.6%. This deficit is financed through external public debt stock (loans from multilateral, bilateral and commercial creditors). These make up 3.0% of GDP and domestic debt stock (treasury bills and bonds), which constitute 2.6% of GDP.

Key findings

The annual development expenditure resource requirement for the health sector is projected at KES 49.95 billion; however, the resource allocated is KES 36.67 billion, representing only 73% of that required. The health policy programme, which is to help achieve universal health coverage, has been allocated KES 16.1 billion in FY2019/20, a

31% increase from FY2018/19. This translates to 57% of the resources required. It is unlikely that the universal health coverage goal will be achieved with just 57% of the resources it needs.

Capital expenditure provides a good indicator of how a government entity is willing to invest capital goods that will improve the welfare of its citizenry. The capital expenditure allocation for the State Department for Early Learning & Basic Education as a percentage of total programme's expenditure is 7.8% for FY2019/20. This presents a decline since FY2018/19 when it was 10.5%. The success of education sector priorities depends on the adequacy of allocation of funds to them. In 2019/20, the whole sector projected a resource requirement of KES 608.6 billion; only KES 468.9 has been allocated, which represents 77% of resources required. A review of the education sub-programmes free primary education and free day secondary education indicated that they have received 77% and 47% of required development resources respectively. The health and nutrition programme (which includes school feeding) received 74% of required total resources. Not all programmes of interest, are being adequately funded. The implications of this for objectives, particularly over the medium term, will therefore have to be considered.

The affordable and social housing units sub-programme has set aside KES 7.0 billion to deliver affordable housing units. Unlike the other social sectors, capital as a percentage of total expenditure is 97% in FY2019/20, showing that this is a very capital-intensive sector. The Budget Policy Statement 2019/20 indicates that this funding is allocated to the Kenya Mortgage Finance Company. The company has further received KES 1.2 billion from banks and savings and credit cooperatives, with KES 400 million expected from the International Finance Corporation and Shelter Afrique. This implies that there is a shortfall of KES 4.4 billion.

The successful delivery of affordable housing units includes, among other areas, the development of a delivery framework and regulation of the fund. This development has resulted in production of the Housing Fund Act under the Legal Notice No. 238. This is already subject to litigation and the implementation was suspended by the High Court after hearing an application that there was no public participation (as required by law) in coming up with the 1.5% housing levy charge on workers' monthly pay.

By implication, the housing levy fund is expected to raise the shortfall of KES 4.4 billion. Yet neither has the KES 1.6 billion going to the Kenya Mortgage Finance Company has been included in the development expenditures, nor the KES 35 billion credit line from the World Bank and the Africa Development Bank.

The capital expenditure allocation for the manufacturing sector is cross-cutting and affects several programmes. The promotion of the industrial development sub-programme, which falls in the state department for industrialisation and enterprise development, has been allocated KES 1.1 billion in FY2019/20. This is only 12% of resources required. The blue economy initiatives, which have been allocated KES 3.7 billion in FY2019/20, up from KES 1.0 billion in FY2018/19, fall under the State Department for Fisheries, Aquaculture and the Blue Economy in the Ministry of Agriculture and Irrigation. In FY2019/20, the resource allocated as a proportion of that required is 32%.

Allocation of capital expenditure on social protection for vulnerable groups increased from KES 11.3 billion in FY2018/19 to KES 13.4 billion in FY2019/20. In FY2019/20 cash transfers to orphans and vulnerable children including those outside households amount to KES 6.6 billion, while transfers to older people was KES 5.1 billion. This allocation is similar to in FY2018/19. In both FY2018/19 and 2019/20, the sub-programme has been allocated 98% of the funds needed.

In FY2018/19 the food security allocation was KES 9.3 billion. This declined to KES 7.3 billion in FY2019/20. In FY2018/19 the food security initiatives received 100% of total resource required. The proportion declined in FY2019/20 to 40% despite the risk of food security situation worsening due to poor rains.

Conclusions

Expenditures have increased faster than revenues. The national budget has consistently, over the last five years, had a budget deficit of more than KES 500 billion. While all indicators show that the national debt is sustainable, it is susceptible to the risk of exchange rate depreciations.

Overall, the 2019/20 programme-based budget estimates are aligned to the big four agenda. In terms of priority setting – aligning priorities to the right programmes and sub-programmes – the Government of Kenya is therefore on track.

By setting education and health sectors as a priority and allocating relatively more resources (capital expenditure) in these sectors, there is commitment towards ending poverty by focusing on key sectors that have high impact on reducing poverty. However, the sectors experience the major challenge of inadequate budgetary allocation to cater for counterpart commitments in development programmes. This has affected the education, health, housing, manufacturing and food security sectors. Capital expenditure allocations, therefore, will not meet the needs of the big four.

There has been consistent allocation of funds under the cash transfer programmes for orphans and vulnerable children and older people in both FY2018/19 and 2019/20. The consistent capital expenditure allocation to social safety net programmes for older people, persons with disabilities and orphaned and vulnerable children ensures that these cohorts are not vulnerable to poverty.

The development of the industrial sector is important for achieving the Kenya Vision 2030. The Constitution of Kenya does not state whether industrial development is a national or county government function. Furthermore, the Kenya Industrial Transformation Programme, which has informed the manufacturing strategy, is not cognisant of the devolution framework. The programmes or sub-programmes that are geared towards manufacturing sector development are dispersed in labour, industry and agriculture. Therefore, its implementation as planned in the FY2019/20 budget has the risk of not being effective if there is no proper coordination between the sectors and more importantly the two tiers of governments.

Recommendations

1. The government needs to increase the resource mobilization efforts that will enable adequate funding for the health, education, manufacturing, food security and housing sectors.

2. The quality of data from the various budget documents of the National Treasury, the Office of Controller of Budget and county governments should be harmonised for consistency purposes.
3. Coordination between the county and national governments is paramount. This should be addressed through the Intergovernmental Relations Technical Committee, which is mandated to handle such frameworks. Further legislation is needed to address the lacuna created by the lack of clarity on the role played by national and county governments in the industrialisation agenda. Legislation should be developed that outlines a coordination framework where county and national governments share the industry function.
4. The establishment of the Public Investment Management Unit should also be backed by legislation and adequate resource through the national budget and should include accountability and enforcement clauses, which will ensure effective implementation of public investment programmes.

Introduction

Poverty and inequality in Kenya

Poverty is not a new phenomenon in Kenya. It has been the subject of policy debate since independence and has featured in several policy documents. Under the economic pillar of the Kenya Vision 2030, the government expects to achieve and sustain an economic growth rate of 10% up to 2030, which, it expects, in turn will result in increased incomes thus reducing poverty.[1] This target has not been achieved and the country is unlikely to be on track to achieving this goal. Kenya has experienced progressive reduction in various forms of poverty over the last 10 years (between 2005/06 and 2015/16) (Table 1). Extreme poverty measures the proportion of the population whose entire income cannot meet their food consumption needs. Overall poverty measures the proportion of households whose total income cannot meet their total consumption need (i.e. food and non-food). And food poverty measures the proportion of the population whose food expenditure cannot meet their food consumption needs.

Table 1: Poverty incidence in Kenya (%)

Poverty measure	2005/06	2015/16
Extreme poverty	9.1	8.6
Overall poverty	45.9	36.1
Food poverty	45.8	32.0
Gini Index (income inequality)	47.6	39.5

Source: Kenya Integrated Household Budget Survey, 2015/16[2]

The reduction in poverty in 2005/06 could be attributed to the implementation of the Economic Recovery Strategy for Wealth and Employment Creation (2003–2007). Some of the social sector initiatives implemented during this period included:

1. Free Primary Education, which increased enrolment by more than 1.5 million pupils.
2. An increase in the share of resources allocated towards priority development areas of agriculture and rural development and an increase in resources targeted at promoting regional development and reducing poverty in rural and urban areas. For instance, the Constituency Development Fund allocation increased from Kenya shillings (KES) 1.2 billion in 2003/04 to KES 10.0 billion in 2007/08, while the Local Authority Trust Fund more than tripled from KES 3.0 billion in 2002/03 to KES 9.2 billion in 2007/08.

3. Improvement in public sector efficiency and effectiveness, including by removing administrative barriers to trade, privatising and restructuring key public entities, and streamlining licences to reduce the cost of doing business and thereby make Kenya more competitive.
4. Construction and rehabilitation of more than 1,000 health facilities, deploying staff and medical supplies to improve access to medical care.[3]

Even though poverty has declined, there are regional disparities in poverty incidence. Counties such as Samburu and Mandera have high incidences of poverty of more than 75%, while others such as Nairobi (16.7%) and Nyeri (19.3%) have much lower incidences. Furthermore, in 2015/16, almost 46% of the income share was held by the richest quintile of the population. The lowest and second-lowest quintile held 17% of the income share. Inequality is still high in Kenya and therefore government development programming initiatives should be geared towards both poverty and inequality reduction.

The role of public finance in reducing poverty

The role of any government is to make optimal decisions on public spending, taxation and borrowing in a manner that ensures sustainable economic growth and sustainable long-term debt. For developing and least developed countries, reducing poverty remains a key priority. These countries also face the challenge of ensuring adequate funding for the priority sectors amid competing financial needs and limited financial resources. The national budget is a very important instrument for achieving poverty reduction; it provides a framework in which internal and external funds can be generated and spending in important sectors can be prioritised. The budget is not an end in itself but forms a key component of the public expenditure management cycle. Traditionally, budgeting in Kenya has focused on regulations and procedures of how to organise the budget.[4] However, the budget process is a key component of public finance management (PFM), and all government activities constitute PFM.

From the expenditure side of a PFM cycle, planning precedes budgeting, after which planned activities are implemented with the aim of ensuring efficiency and transparency. Monitoring the implementation of activities and expenditure performance against set objectives, and evaluating these through annual audits, ensures activities related to reducing poverty are implemented as planned. The review of poverty reduction strategies and targets set out in the PFM cycle against results achieved ensures fiscal discipline, allocative and operational efficiency. Aligning budgetary allocations to the needs of the poor/vulnerable populations – that is, pro-poor budgeting – ensures that this segment of the population benefits from the development outcomes emanating from the activities in any PFM cycle. Increased funding and efficient use of development funding are expected to redistribute more resources or increase resources to the poor and vulnerable segments of the population.

A key characteristic of pro-poor budgeting is a budgetary allocation for collection and maintenance of data and needs assessment of poor people. Various data sources are needed for assessing the impact of pro-poor budgets, including: household survey data with detailed consumption, labour and enterprises modules, accurate and reliable sectoral baseline data used in setting targets during planning and budgeting, and quality expenditure data aligned to the international classification of functions of government, which can enable an analyst to draw different types of data by sectors or economic classification.[5] In Kenya, household surveys have been produced periodically every 5 years, while Demographic and Health Surveys are produced every four years. The Kenya National Bureau of Statistics in collaboration with the World Bank is in the process of producing annual household consumption surveys. If this initiative is successful, it will be possible to undertake expenditure benefit incidence analysis on a more regular basis.

The role of the big four in poverty reduction

The big four agenda is the name given to the four pillars that the President Uhuru Kenyatta leadership plans to use to deliver on the promises made to citizens during his second term. These have been set as priority in the MTP III[6] and in summary are:

1. Support value addition and raise the manufacturing sector's share to 15% of GDP by 2022. This will accelerate economic growth, create jobs and reduce poverty.

2. Focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expanding food production and supply, reducing food prices to ensure affordability and supporting value addition in the food processing value chain. Food security will reduce food poverty incidence, while value addition along the food value chain will promote agribusiness development, which will in turn benefit the 80% of the population who rely on agriculture for their livelihood.

3. Provide universal health coverage thereby guaranteeing quality and affordable healthcare to all Kenyans. Poor health increases absenteeism at work, thus reducing incomes and increasing vulnerability to poverty.

4. Provide at least 500,000 affordable new houses by 2022 and thereby improve the living conditions for Kenyans. Improved housing is a key indicator of a non-consumption measure of improved welfare.

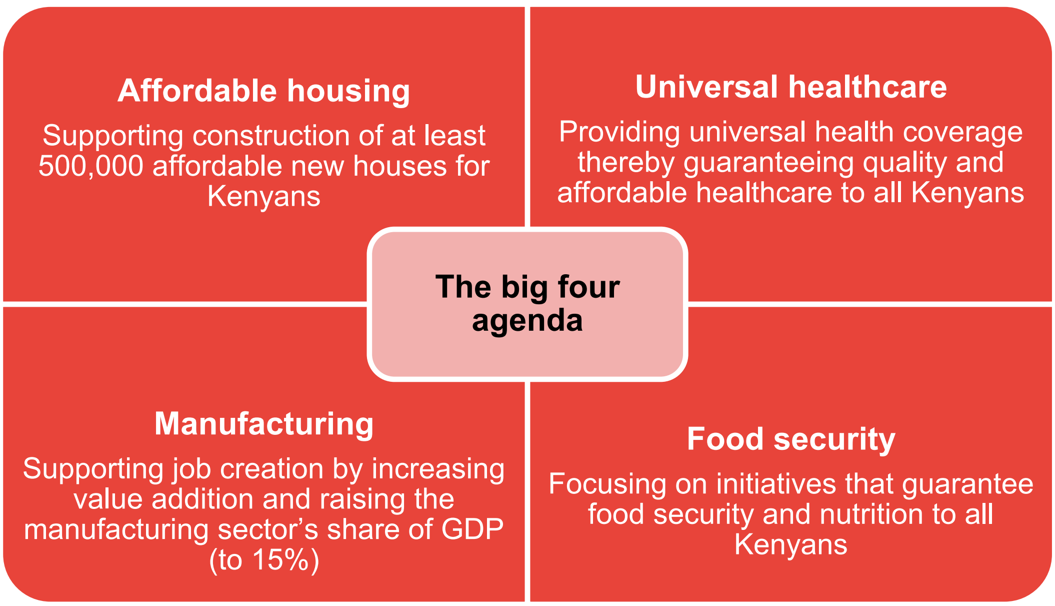
Infrastructure development is a key enabler of reducing poverty since it improves accessibility resulting in job creation or increased effective demand of goods and services. For successful impact on poverty reduction, infrastructure investment should be in road, rail, marine, air, energy and information and communications technology.[7] A reduction in the cost of doing business – especially the cost of energy, which is a key input in the manufacturing sector – will reduce the cost of goods and services which increase consumption opportunities for citizens.

Overview of the 2019/20 budget

Government of Kenya priorities

The national government priorities for 2019/20 fall in the policies and programmes of the big four agenda areas: universal healthcare, affordable housing, manufacturing and food security (Figure 1). Implementing these policies is expected to bring about accelerated and sustained inclusive growth, increase opportunities for productive jobs and ultimately reduce poverty and income inequality. Together these will enable all Kenyans to secure a future with hope and prosperity. The national government is facilitating several enablers to ensure the success of the big four agenda: legal and institutional reforms across the big four sectors, collaboration with county governments to create enabling environments that attract investments in the four priority sectors, and enactment of sector specific policies, programme and projects. Establishing the Public Investment Management Unit is further expected to enhance efficiency in the implementation of priority social and investment projects.

Figure 1: The big four agenda priorities



Revenues estimates

Total revenue is made up of ordinary revenue and appropriations in aid. Ordinary revenue is made up of several streams: income tax, import duty, excise tax and value added tax. In FY2019/20 the national government estimates to collect revenue worth KES 2.1 trillion, an 8.6% increase from the approved estimates in FY2018/19 (KES 1.95 trillion) according to the Budget Statement 2019/20. As Table 2 shows, for the FY2015/16 to 2018/19 period, estimated revenue increased by an annual average of 14%. The national government has not been able to achieve the revenue target over this period and has had shortfalls, which on average amount to KES 81 billion. The revenue target shortfalls are likely to have negative impacts on the national development priorities, which also imply higher budget deficits. Major reasons attributed to the shortfall are under-collection of revenue and a small tax base. In FY2018/19 around 3.2 million Kenyans filed their tax returns against 19 million registered voters.[8]

Table 2: Total revenue budget versus actual 2014/15–2019/20 (KES billions)

		Ordinary revenue	Appropriation in aid	Total revenue
2014/15	Approved estimates	839.5	147.9	987.4
	Actual	879.1		879.1
	Shortfall	39.6	-147.9	-108.3
2015/16	Approved estimates	1,184.4	115.5	1,299.9
	Actual	1,158.2	76.7	1,234.9
	Shortfall	-26.2	-38.9	-65.0
2016/17	Approved estimates	1,311.3	144	1,455.3
	Actual	1,305.8	94.8	1,400.6
	Shortfall	-5.5	-49.2	-54.7
2017/18	Approved estimates	1,549.4	155.1	1,704.5
	Actual	1,486.3	156.8	1,643.1
	Shortfall	-63.1	1.7	-61.4
2018/19	Approved estimates	1,769.2	180.0	1,949.2
	Actual	1,651.5	180.0	1,831.5
	Shortfall	-117.7	-0.0	-117.72

2019/20	Projected estimates	1,877.2	238.7	2,115.9

Source: Based on Budget Policy Statements, 2016-2019[9]

Expenditures estimates

The total expenditure estimates grew by 8.1% from KES 2.56 trillion in FY2018/19 to KES 2.76 trillion in FY2019/20 (Table 3). A review of the past five years shows that the approved expenditure estimates have been growing in absolute terms; however, certain years have had high growth rates. For example, for FY2014/15 to 2015/16, the approved estimates grew by 32% but in the subsequent financial year, the growth rate was 12%. The lowest growth in the total approved expenditure estimates was recorded from FY2016/17 to 2017/18 at 2.3%. Actual expenditures have also been on the rise in line with approved expenditure estimates; however, the actual expenditures surpassed the budgeted in FY2014/15 by KES 100.5 billion, largely driven by overspending in the development budget. Actual expenditure as a percentage of budget expenditure is 96% on average from FY2014/15 to FY2018/19.

Table 3: Total expenditure budget versus actual 2014/15–2019/20 (KES billions)

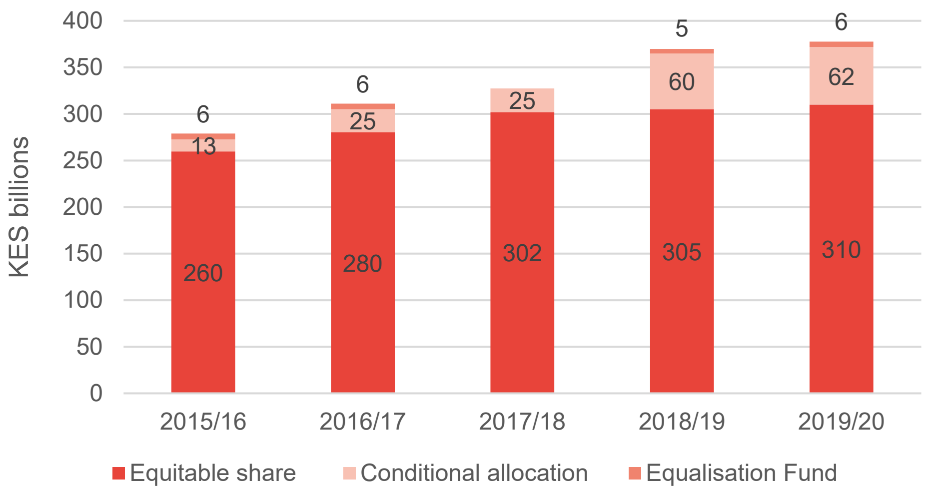
		Recurrent	Develop-ment	County allocation	Contin-gency fund	Total	Total expenditure /GDP (%)
2019/20	Projected estimates	1,663.30	670.70	371.90	5.00	2,710.80	23.80
2018/19	Approved estimates	1,550.00	625.70	376.40	5.00	2,557.10	25.10
	Actual	1,513.30	631.20	365.00	5.00	2,514.40	25.10
	Variable	36.80	-5.50	11.40	-	42.70	
2017/18	Approved estimates	1,336.20	640.30	345.70	5.00	2,327.20	26.50
	Actual	1,392.80	579.60	345.70	5.00	2,323.10	26.80
	Variable	-56.60	60.70	-	-	4.10	
2016/17	Approved estimates	1,168.50	817.30	284.80	5.00	2,275.60	31.30
	Actual	1,183.50	600.30	284.80	5.00	2,073.60	27.60
	Variable	-15.00	217.00	-	-	202.00	

2015/16	Estimates	1,085.30	678.00	264.20	5.00	2,032.50	30.60
	Actual	1,027.50	485.40	264.00	5.00	1,781.90	29.50
	Variable	57.80	192.60	0.20	-	250.60	
2014/15	Estimates	860.70	444.00	231.40	3.40	1,539.50	31.60
	Actual	895.20	510.10	229.70	5.00	1,640.00	28.70
	Variable	-34.50	-66.10	1.70	-1.60	-100.50	

Source: Based on Budget Policy Statements, 2016-2019[10]

For FY2019/20 the approved expenditure estimates as a proportion of GDP are at 23.8%, the lowest level in the last five years. The Government of Kenya is almost achieving the PFM principle of 70:30 ratio for recurrent and development expenditure ratio, which was at 71:29 in both FY2019/20 and 2018/19. Between FY2014/15 and 2016/17 the average ratio was 66:34. Article 203(2) of the Constitution of Kenya 2010 requires that at least 15% of the nationally raised revenue is allocated to county governments on an annual basis. This allocation to county governments (equitable share) has been growing in absolute terms from KES 260 billion in 2015/16 to KES 310 billion in FY2019/20 (Figure 2). In contrast, as a percentage of total expenditure, the FY2019/20 total county allocation constitutes 13.7% of total projected expenditure estimates. For the years FY2014/15 to FY2018/19, the allocation averaged 14%.

Figure 2: National government actual allocation to county governments 2015/16–2019/20



Source: Development Initiatives, based on Budget Policy Statements 2018 and 2019[11]

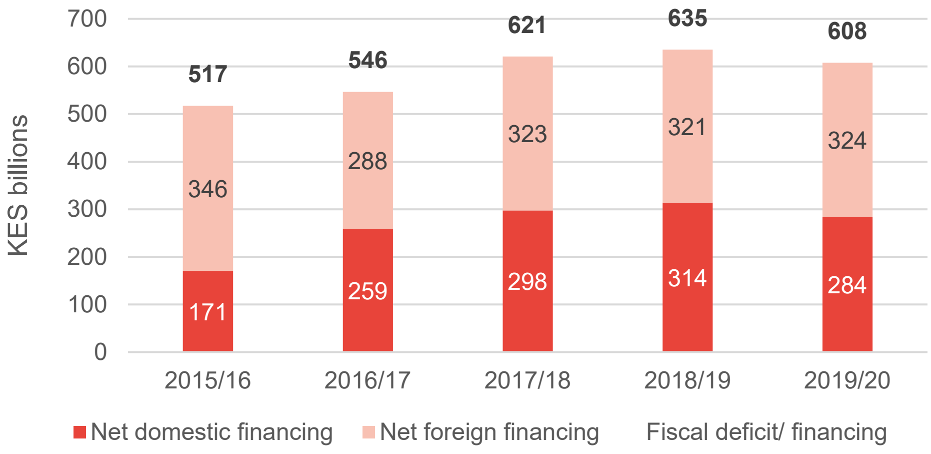
Deficit financing and public debt

The fiscal deficit in FY2019/20 is estimated to be KES 607.8 billion; this would be a decline compared with FY2018/19 when it was KES 635.5 billion. A major driver of the decline is high tax revenue and grants projection, which does not factor in the low tax base, of just 3.2 million taxpayers. From FY2014/15 to FY2018/19, the fiscal deficit has been in the range of KES 517–620. As a percentage of GDP, the fiscal deficit ratio from FY2014/15 to 2018/19 has been 6.8% on average. The national government remains optimistic that this ratio will decline to 3.1% by FY2022/23 to meet the East African Monetary Union protocol target ceiling of 3.0% of GDP.[12] Be that as it may, deficit financing, which is largely done through public guaranteed debt, has remained an area of great concern for the nation as a whole, more so because the current debt is estimated to be 53% of GDP. Secondly, a larger proportion of the deficit is financed from foreign sources – this ranges from 50% to 67% for FY2015/16 to 2019/20.

External public debt stock is principally comprised of loans from multilateral, bilateral and commercial creditors; these make up 25.6% of GDP. Domestic debt stock is made up of treasury bills and bonds, which constitute 24.7% of GDP. And other debts made up of suppliers credit, Central Bank of Kenya overdraft, performing guarantees and bank advances make up 2.3% of GDP and this debt is excluded from the medium-term debt strategy.[13] The International Monetary Fund debt sustainability analysis shows that Kenya's risk of external debt distress remains low, while overall public sector debt dynamics continue to be sustainable. The external debt stability is vulnerable to export shocks; however, this has minimal impact. A large exchange rate shock continues to represent a significant risk to external debt.[14]

To mitigate these risks, the national government is adopting a strategy of 38% gross external debt financing and 62% gross domestic financing. On the external debt, concessional lending is proposed at 26%, semi-concessional 8% and commercial 4%. Treasury bonds will be the main source of net domestic financing, while treasury bills are used for cash management. This strategy has been chosen because there is low risk associated with changes in exchange rates and interest rate shocks, and therefore costs that accompany the risks.[15]

Figure 3: Fiscal deficit and financing by source



Source: Development Initiatives, based on Budget Policy Statements[16]

This approach will ensure that the government is able to reduce debts to a sustainable level. However, another risk associated with increased borrowing is that if the loans are not put into productive use, income generated is unlikely to sustain the debt repayments in future; consequently, the high debt situation will likely worsen. Increased domestic borrowing will result in banks focusing on the 'risk free' lender, that is the government at the expense of private sector development.

Sectoral budget allocations

Universal health coverage

Achieving universal health coverage is a key priority in the MTP III 2018–2022 of the Kenya Vision 2030. The planned programmes seek to increase health insurance coverage, increase access to quality healthcare services and offer financial protection to people when accessing healthcare. The implementation of universal healthcare is supported by the Kenya Health Policy 2014–2030, which addresses prevention, diagnosis as well as curative healthcare. At the regional level, Kenya's universal health coverage priority programmes for FY2019/20 (Table 4) feed into the broader African Union's Agenda 2063, which seeks to have healthy and well-nourished citizens to attain inclusive and sustainable growth in the continent. The progress towards attaining universal health coverage will also lead to achieving Sustainable Development Goal (SDG) 3, which seeks to ensure healthy lives and promotion of well-being at all ages.

Table 4: Universal health coverage priority programmes FY2019/20

Priority policies/sectors	Government programmes
Providing universal health coverage thereby guaranteeing quality and affordable healthcare to all Kenyans	• Government launched the pilot phase of the universal health programme in four counties: Kisumu, Machakos, Nyeri and Isiolo. • Government has expanded the programme to cater for comprehensive medical cover for students in public secondary schools, older and vulnerable people in all the National Hospital Insurance Fund-accredited mission and private hospitals. • Government will also continue to implement and improve the Linda Mama programme. • Government, through the Transforming Health Systems for Universal Care Project, has sponsored more than 1,200 students from arid and semi-arid lands who are training in enrolled community health nursing. • Government will continue to avail and improve specialised medical equipment and infrastructure to hospitals across the country. • Government will Install advanced body scanning equipment in 37 county hospitals. Some hospitals have already been fitted with modern equipment: Iten Referral Hospital, Voi Level 5 Hospital, Narok County Referral Hospital, Kakamega County Referral Hospital and Thika Level 5 Hospital.

- Government will equip 21 additional hospitals with surgical theatres, radiology and dialysis equipment.

Source: Based on Budget Policy Statement, 2019[17]

The priorities presented in Table 4 are largely financed through the capital budget shown in Table 5. Total national health expenditure has grown in absolute terms from KES 59.2 billion in 2015/16 to KES 93.3 billion in FY2019/20. Increased funds have been allocated for health financing to cater for the universal healthcare initiative; the national government has also increased specialised medical equipment, which is leased to the counties for use in their respective level-five hospitals. The capital expenditure has remained mixed with increases in absolute terms only seen in FY2016/17 and FY2018/19. This means that it has declined as a proportion of total health sector expenditure, from 51.8% in 2015/16 to 37.8% in 2019/20. The decline can be explained by the health function being a totally devolved function to the county governments, with the national government handling only national health policy, capacity building and management of referral health facilities.[18] However, programme expenditures indicate that certain activities such as the preventive, promotive and reproductive maternal neo-natal child and adolescent health (RMNCAH) being handled by the national government should be county government functions.

Devolved health functions such as family planning services, maternity, free primary healthcare, communicable disease control, non-communicable disease prevention and reproductive maternal neo-natal child and adolescent health continue to be budgeted for at the national level. This also brings out the funds flow dynamics between the national and county governments on matters related to development planning, budgeting and funding. The development activities that receive donor funding, even if being implemented by the county government, must be budgeted for in the national budget and included in the County Allocation Revenue Bill and then approved by the National Assembly. On approval, the county government then requests for Exchequer release of the said funds through the Central Bank. At the same time, to receive funding, the county government must also include the same activities in its budget and have it approved in the County Assembly.

The original period as envisioned by Transition Authority for devolved government services – including capacity assessments and system audits – was three years from the beginning of devolution in March 2013. However, due to political pressure, the Transition Authority devolved health services to the counties in Gazette Notice No. 137 of 9 August 2013.[19] Certain initiatives such as ‘Linda mama’, which is being financed under the health financing sub-programme, are being implemented at national level. Even with this notice, it is clear that certain devolved functions are being carried out by the national government with little indication of whether there is a coordination mechanism with the county governments.

Table 5: Ministry of Health approved capital expenditure for health programmes and selected sub-programmes allocation (KES millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
Preventive, promotive and reproductive maternal neo-natal child and adolescent health	5,861	6,061	7,108	8,270	7,703
National referral and specialised services	7,151	7,032	10,255	17,510	9,061
Specialised medical equipment	-	-	6,000	16,435	6,205
Health research and development	267	209	98	746	703
General administration, planning and support services	9,452	9,940	2,744	1,900	980
Health policy, standards and regulations	7,933	8,038	10,762	12,480	16,794
Health policy, planning and financing	-	-	10,562	12,277	16,091
Social protection in health	-	-	-	-	500
Total capital expenditure	30,664	31,280	30,967	40,906	35,241
Total health expenditure	59,184	60,270	61,640	90,007	93,325
Growth of total health expenditure		1.8%	2.3%	46.0%	3.7%
Capital/total expenditure	51.8%	51.9%	50.2%	45.4%	37.8%

Source: Based on the National Programme Based Budgets, 2015/16–2019/20[20]

Healthcare financing, which is to help achieve universal health coverage as outlined in the 2019/20 government priorities, is funded under the health policy, planning and financing sub-programme. Its allocation grew from KES 10.6 billion in FY2017/18 to KES 16.1 billion in FY2019/20, translating to 31%. The National Hospital Insurance Fund is a key vehicle for achieving universal health coverage. Key activities under this sub-programme include expanding the benefit package to include outpatient cover for all members, introducing new packages related to addressing non-communicable conditions and instituting strategies to enrol more members. Meanwhile, Social Health Insurance, also falling under the National Hospital Insurance Fund, seeks to increase prepaid health insurance coverage especially for poor populations so they can obtain full benefits of the health insurance cover.

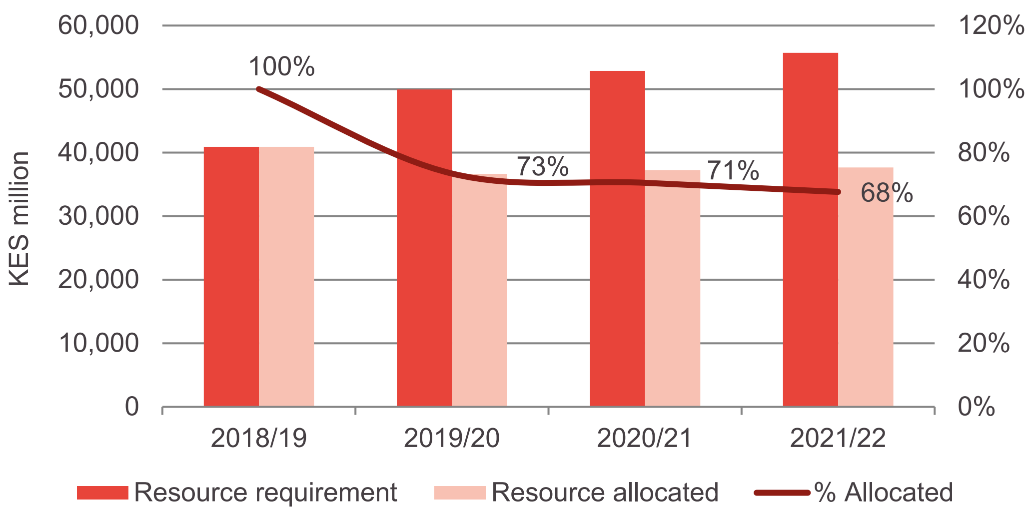
Older people and persons with severe disabilities who benefit from this cover have also been receiving cash transfers from the State Department for Social Protection, Pensions and Senior Citizens Affairs. The free maternity services (dubbed Linda mama programme), while initially covered on their own, are planned to be implemented under the National Hospital Insurance Fund. There have been several beneficiaries to the universal healthcare and health insurance programmes:

- The health insurance subsidy programme benefited 178,186 households representing about 111.3% of the target for FY2016/17.
- Between 2014 and 2016, there were 231,000 initial beneficiary households for the health insurance cover for older people and persons with disabilities. However, with increased National Hospital Insurance Fund premiums needed for the cover, total households decreased to 42,000.
- Through the Linda mama programme, the number of newborn deliveries at public health facilities increased from 925,716 in 2014/15 to 972,526 in 2016/17.

The total health sector development expenditure resource requirement is projected at KES 49.95 billion, however, the resource allocated is KES 36.67 billion. The percentage of resource allocated to the health sector as a proportion of that required to undertake the health sector priorities is on the decline from 100% in FY2018/19 to 73% in FY2019/20 (Figure 4).

Further scrutiny shows that the health policy sub-programme under which universal health coverage falls has received 98% of the resources required.

Figure 4: Development resource requirement versus allocation in the health sector



Source: Development Initiatives, based on sector working reports, 2018/19–2020/21[21]

Education

The objectives of the primary and secondary education sub-programmes are to enhance access, quality, equity and relevance in education. These sub-programmes aim to influence the overall education sector goal of achieving a globally competitive education, training, research and innovation system for sustainable development. Under the MTP III, priorities for the secondary education programme are to provide infrastructure in all public schools, provide capitation to the additional students in secondary schools beyond the current provision under free day secondary education, and recruit 125,480 additional teachers. The primary education sub-programme seeks to roll out competency-based curriculum designs and syllabuses and review the pre-primary teacher training curriculum and other levels of teacher education curriculum.[22]

The capital expenditure priorities for the education sector are presented in Table 6. Overall, this was highest in FY2015/16 in absolute terms and as a percentage of total expenditure (27.4%). It has declined since and in FY2019/20, constitutes 7.8% of total expenditure. Capital expenditure allocation for free primary education increased from KES 468.8 million to KES 4.3 billion (FY2015/16 to 2016/17); however, there was decline in 2018/19 to KES 3.7 billion. The increased funding in FY2016/17 was due to support to develop primary school infrastructure (construction and renovation of classrooms, toilets, book stores); this led to an increase in primary schools from 132 (in 2015/16) to 357 (in 2016/17). The school feeding programme (regular school meals programme) resulted in an increase in the number of learners from 568,925 in FY2014/15 to 1,143,548 in FY2016/17.[23] The school health, nutrition and meals sub-programme which includes a regular school meals programme, sanitary towels initiatives and school based de-worming initiatives has been allocated KES 4 million. This is an improvement from FY2017/18 and 2018/19 when there was no capital allocation to this sub-programme but recurrent expenditures of KES 1.0 and 0.8 billion respectively.

Table 6: State department of education capital expenditure allocation by programmes and selected sub-programmes (KES millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
Free primary education	468.6	3,948.0	4,262.7	3,678.1	365.5
School health, nutrition and meals	445.0	1,650.0		-	4.0
P1: primary education	18,857.8	5,960.2	4,600.6	4,100.4	2,277.9
Free day secondary education	570.0	1,217.6	1,317.6	5,468.3	4,598.6
P2: secondary education	1,323.7	1,632.1	1,732.6	5,918.9	5,049.0
P3: quality assurance and standards	902.6	430.2	302.0	257.0	314.4

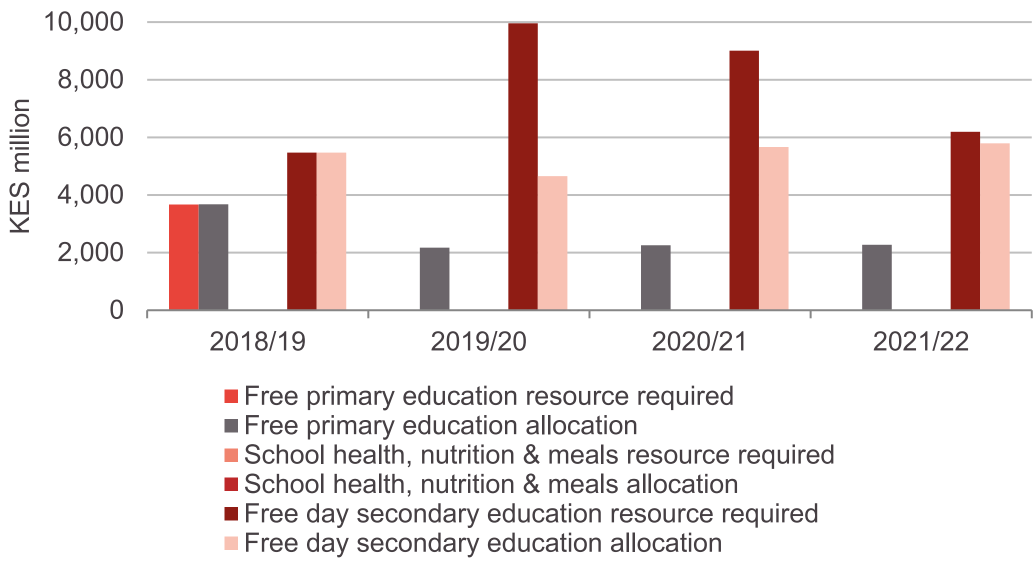
P8: general administration, planning	1,324.2	372.7	141.6	142.6	122.6
Total capital expenditure	22,408.3	8,395.2	6,776.7	10,418.8	7,763.9
Total expenditure	81,740.8	67,175.0	67,075.7	99,097.3	99,178.6
Capital/total expenditure	27.4%	12.5%	10.1%	10.5%	7.8%
Capital expenditure growth		-62.5%	-19.3%	53.7%	-25.5%

Source: Based on National Programme Based Budgets, 2015/16–2019/20[24]

The free day secondary education sub-programme seeks to increase the enrolment of students into secondary school to ensure continuity in education. In FY2014/15, capitation per student was KES 12,870;[25] this enabled purchase of adequate learning materials to students and therefore sustained the operations of schools. In 2019/20, the recurrent expenditure allocation for free day secondary education stands at KES 63.9 billion while capital expenditure is KES 4.6 billion. The government envisions that free day secondary education will lead to more than 200,000 additional learners transiting from primary to secondary school, resulting in increased demand for teachers and infrastructure. Another 12,626 teachers will be needed per year to effectively roll out the programme. One major issue that affects the implementation of the education sector budget is the demands of the collective bargaining agreement for teachers; the inability to meet the financial demands for this agreement has resulted in frequent teachers' strikes The sector experiences the major challenge of inadequate budgetary allocation to cater for counterpart commitments and operation of regular recurrent and development programmes. This has affected education infrastructure development and equipment improvement.

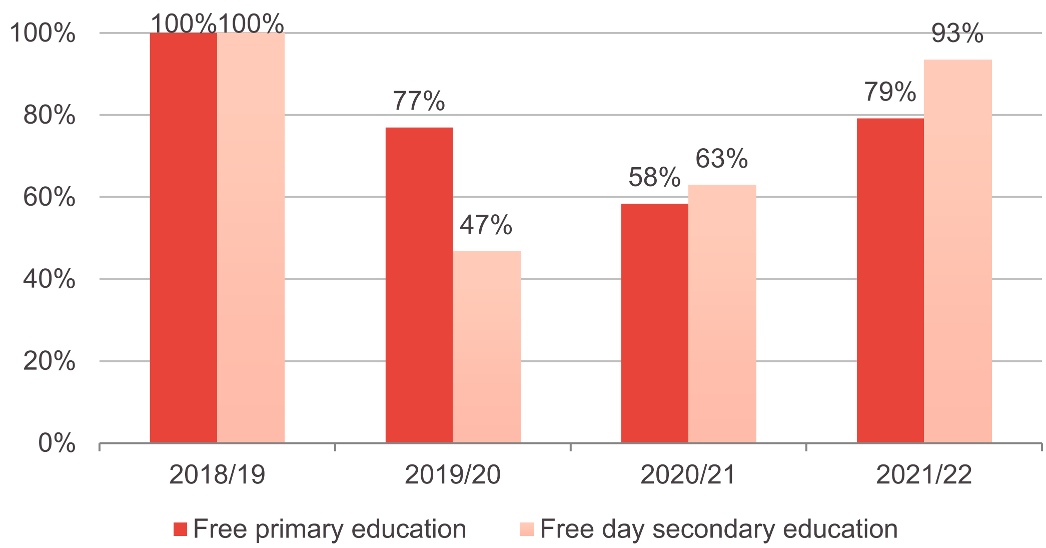
The success of the education sector priorities depends on the adequacy of allocation of funds that would enable them to be implemented. In 2019/20, the whole sector projected a resource requirement of KES 608.6 billion; yet only KES 468.9 has been allocated, representing 77% of resources required. A review of the education sub-programmes (Figure 5) shows that free day secondary education resources required are increasing while resources allocated are declining. The resource allocated as a proportion of that required has been on the decline for all programmes (Figure 6). This implies that no programmes of interest are adequately funded hence the set objectives are not likely to be achieved.

Figure 5: Development resource required versus allocation



Source: Development Initiatives based on Education Sector Report/Medium Term Expenditure Framework 2019/20-2021/22[26]

Figure 6: Proportion of development resource allocated to resource required



Source: Development Initiatives, based Education Sector Report/Medium Term Expenditure Framework 2019/20-2021/22[27]

Affordable housing

The affordable and decent housing initiative seeks to fulfil Article 43(1)(b) of the Constitution of Kenya, which states that each citizen has a right to accessible and adequate housing and to reasonable standards of sanitation. This objective is further articulated in the MTP III (2018–2022), acknowledging that Kenya's population is projected to increase to 50.8 million people by 2022. This is expected to lead to rapid urbanisation due to the high rate of rural–urban migration and increased demand for housing. The national government estimates that over 240,000 houses will be needed annually. The affordable housing initiative fulfils SDG 11 that seeks to make cities and human settlements inclusive, safe, resilient and sustainable. The African Union goal 1 on "High standard of living, quality of life and well-being for all citizens" has set affordable housing as one of the priority areas of action. Hence the affordable housing policy resonates with the regional and national agenda that Kenya is party to.

Table 7: Affordable housing priorities for FY2019/20

Priority policies/sectors	Government programmes
Supporting construction of at least 500,000 affordable new houses to Kenyans	• Government established the Kenya Mortgage Refinance Company, whose purpose is to address housing funding constraints. • Government set up the National Housing Development Fund for mobilising capital to finance the affordable housing project. • Government already identified 7,000 acres of land for rolling out the universal housing programme. • National government and county governments (36) made agreements to extend the housing project. The county governments are expected to provide land while the national government will provide infrastructure (power, water, and roads). • Government will lift some levies in the housing sector to reduce the business costs and provide land to housing projects. • Operationalised 92 appropriate building technology centres through research and training.

Source: Based on Budget Policy Statement, 2019[28]

In FY2019/20, the housing development and human settlement programme has been allocated KES 13.1 billion, which also includes estate management and housing development (Table 8). The delivery of the affordable and social housing units sub-programme has set aside KES 7.0 billion. Unlike the other social sectors, capital as a percentage of total expenditure was 97% in FY20109/20, showing that this is a very capital-intensive sector (Table 7). This sub-programme is the result of a new policy initiated in 2018 and so far, little information is available on its implementation framework under the sector working group on urban development. The successful delivery of the affordable housing units programme includes developing a master plan, delivery framework and regulations of the fund. The latter has resulted in production of the Housing Fund Act under the Legal Notice No. 238. This is already subject to litigation and the implementation was suspended by the High Court after hearing an application that there was no public participation (as required by law) in coming up with the 1.5% housing levy charge on workers' monthly pay.

Table 8: State Department of Land Housing and Urban Development allocation by programmes and selected sub-programmes (KES millions)

	2015/16	2016/17	2017/18	2018/19	2019/20
Land policy and planning	4,620.8	-	-	-	-
Housing development	6,719.8	-	-	-	5,175.0
Estate management	465.0	-	-	-	963.0
Delivery of affordable and social housing units	-	-	-	-	7,010.0
Housing development and human settlement	7,184.8	7,270.1	5,959.0	7,571.0	13,148.0
Government buildings	1,360.9	-	-	1,564.2	-
Coastline infrastructure and pedestrian access	395.5	-	-	339.2	-
Safety and emergency	-	-	-	-	-
Urban and metropolitan development	14,013.6	12,018.9	8,183.0	19,435.4	17,371.0
General admin, planning and support	543.0	-	-	55.6	-
Regulation and development of the construction	-	-	130.0	136.0	-
Total capital expenditure	28,118.6	19,289.0	14,272.0	29,101.4	30,519.0
Total capital/total expenditure	87.7%	95.7%	89.2%	90.3%	96.8%
Growth total capital expenditure		-31.4%	-26.0%	103.9%	4.9%

Source: Based on National Programme Based Budgets, 2015/16–2019/20[29]

If this initiative is to be successful, there must be cross-consultation between citizens and national government and between the national government, which develops the housing policy, and county governments, whose function is to provide the housing under schedule

4 of the Constitution of Kenya 2010. The ongoing discourse is that county governments will provide lands while the national government will facilitate the development. It is not clear from the affordable housing framework what role both governments will play.[30]

The affordable housing project has not presented any resource requirement in the sector working group reports; however, a review of the development expenditure estimates shows a KES1.0 billion allocation. The Budget Policy Statement 2019/20 indicates that this funding is allocated to the Kenya Mortgage Finance Company. The company has also received KES 1.2 billion from banks and savings and credit cooperatives while KES 400 million is expected from the International Finance Corporation and Shelter Afrique. The other sources of funding under the human development and settlement programme include KES 35 billion credit line from the World Bank and the Africa Development Bank; these were presented in the 2019/20 budget policy statement but have not been included in the development expenditures.

Manufacturing

The manufacturing sector is a very important sector in promoting value addition; it has the potential of moving the country to competitive status if the industrialisation trajectory of contribution of 15% of value added to GDP is achieved. The Constitution of Kenya 2010 has not explicitly assigned the manufacturing role to either national or county government, and the two tiers seem to be working independently on their industrialisation agendas. At national level, the Kenya's Industrial Transformation Programme, which provides the National Industrialisation strategy, is not cognisant of the operational context of the strategy within the devolution framework. County governments have included value addition in their county integrated development plans. For example, Makueni County has developed its first fruits processing plant and Nyandarua County is developing its first potato processing plant.

Promotion of the manufacturing sector affirms SDG 9, which seeks to build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation. Furthermore, the African Union Agenda 2063 goal 4 seeks to transform economies through science, technology and innovations-driven manufacturing/industrialisation and value addition.[31] The manufacturing agenda is also crosscutting since it affects the agricultural and manufacturing sectors (Table 9). The manufacturing priorities have been drawn from the Kenya Industrial Transformation Programme, which seeks to drive the country towards becoming the primary industrial hub of Africa and create meaningful jobs.[32]

Table 9: Manufacturing priorities for FY2019/20

Priority policies/sectors	Government programmes
Supporting job creation by increasing value addition and raising the manufacturing sector's share of GDP	Leather and textiles • Set up 15 agro-processing projects across the country. • Promote "buy Kenya build Kenya" philosophy. • Support youth through innovation in buying new solutions, building their own and partnering with others to innovate.

- Approve commercialisation of genetically modified cotton such as *Bacillus thuringiensis* (Bt) cottonseeds.
- Allocate 100,000 acres at the Galana Kulalu Complex and the National Irrigation farm to the National Youth Service to revive the cotton sector.
- Improve infrastructure at the Athi River textile hub, Kinanie Leather Park, KIRDI Kisumu, South B Branches and Rivatex.

Agro-processing

- Invest in local value addition for tea, coffee, meat, dairy, fruits, nuts and oils.
- Invest in warehousing and cold chain sites, aquaculture and fish feed mills and fish processing industries.

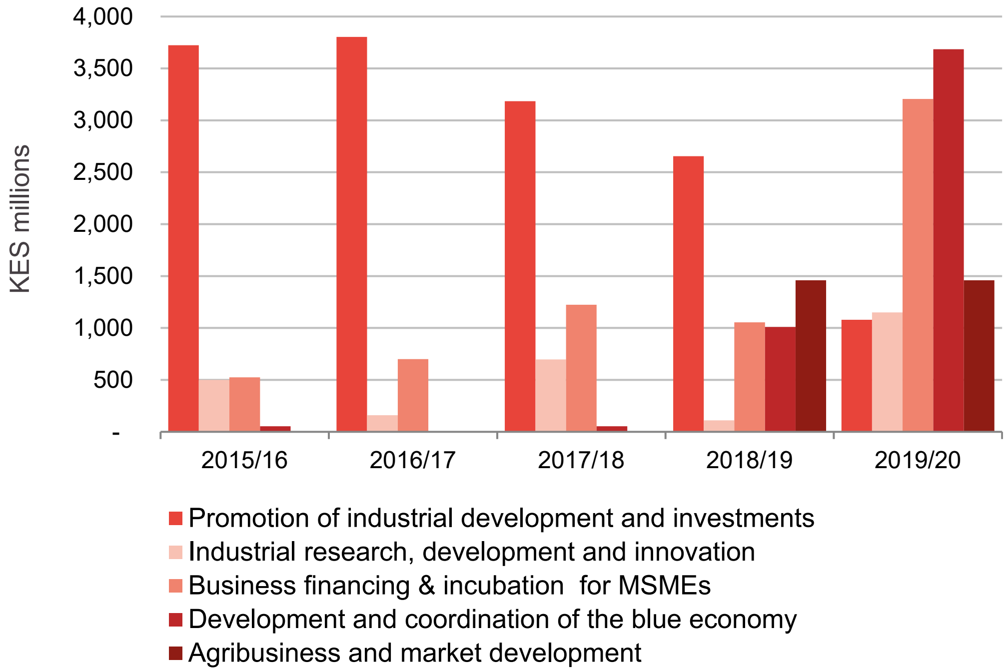
Blue economy

- Set up Kenya Coast Guard Service to guard Kenya's territorial waters and provide maritime security.
- Develop the Kenyan fishing fleet through joint ventures
- Operationalise the Liwatoni Fishing Complex.
- Invest in Education and Training in each of the 290 constituencies to meet local industrial needs and become internationally competitive.
- Strengthen innovation and entrepreneurship through financing the Kenya Industry and Entrepreneurship Project.
- Support micro, small and medium-sized enterprises through technology incubation and common manufacturing facilities.
- Implement the Kenya Youth Employment and Opportunities Project for more than 2,000 youths.

Source: Based on Budget Policy Statement, 2019[33]

The capital expenditure allocation for the manufacturing sector is cross-cutting and affects several programmes. The promotion of industrial development sub-programme, which falls in the state department for industrialisation has been allocated KES 1.1 billion in FY2019/20 (Figure 7). The activities in this sub-programme include developing the Kinanie leather park, constructing the textile hubs in Athi River and modernising Rivatex. In FY2018/19 this sub-programme received 100% of the resources required; however, in FY2019/20, the funding allocated is only 12% of that required. The allocation of capital spending for this sub-programme on business financing and incubation of Medium Sized Enterprises (MSEs) increased three-fold between FY2018/19 and FY2019/20, from KES 1.1 billion to KES 3.2 billion.

Figure 7: Manufacturing related sub-programme capital expenditure allocation 2015/16–2019/20



Source: Development Initiatives, based on National Programme Based Budgets, 2015/16–2019/20[34]

The Ministry of Labour implements training of youths through the Kenya Youth Employment and Opportunities Project; this falls under the industrial skills programme. The allocation of capital spending for this sub-programme increased three-fold between FY2018/19 and FY2019/20, from KES 1.0 billion to KES 2.8 billion, now representing 92% of resources required. The blue economy initiatives, which have been allocated KES 3.7 billion in FY2019/20, up from KES 1.0 billion in FY2018/19, fall under the State Department for Fisheries, Aquaculture and the Blue Economy in the Ministry of Agriculture and Irrigation. The initiatives in this sector are expected to enable the development of the Kenyan fishing fleet through joint ventures and promote sustainable fishing on and offshore. In FY2019/20, the resource allocated as a proportion of resource required is 32%.

The implementation of the manufacturing agenda under the big four is likely to face several challenges: first, the Kenya Industrial Transformation Programme, which provides the industrial strategy for implementing the industrialisation agenda, is not cognisant of the two-tier system of governance in the country, and the need to coordinate the industrialisation agenda between the 48 governments. Second, the industrialisation function has neither been assigned to the national nor the county government in the Constitution of Kenya 2010; as a result, both levels of government implement the industrial agenda in a vacuum. This is evidenced by counties developing industries according to their needs, for example the fruit processing plant in Makueni and plans to put up the potato processing plant in Nyandarua County.

Such initiatives have increased and guaranteed prices of products such as mangos for famers in the case of Makueni, and this is very positive. However, coordinating with policymakers in the national government would make the development of the manufacturing sector much more effective. Agro-processing requires input from the agricultural sector, and agricultural function (apart from policy) is a responsibility assigned to the county governments. Investing in value addition of crops and livestock might not yield effective results if not coordinated with the county government.

Food security

The development of the agricultural sector plays an important role in ensuring food security for the country because it ensures availability of food through adequate production and supply of crops, livestock and fisheries. Agricultural policies must therefore be geared towards ensuring this availability as well as the development of markets that enable both financial and physical access to food. Food security is an outcome of a set of intricate policies, plans and budgets and execution of the same plans that ensure availability, access, affordability and use of food resources, as reflected in the priorities for FY2019/20 (Table 10). Irrigation and land reclamation was allocated KES 15.7 billion in FY2015/16, this increased to KES 6.9 billion in FY2019/20. In FY2018/19 the food security allocation was KES 9.3 billion, this declined to KES 7.3 billion in FY2019/20 (Figure 8). In FY2018/19 the food security initiatives received 100% of total resource needed. However, in FY2019/20 the allocation declined to 40% despite the risk of the food security situation worsening due to poor rains.

Table 10: Food security priorities for FY2019/20

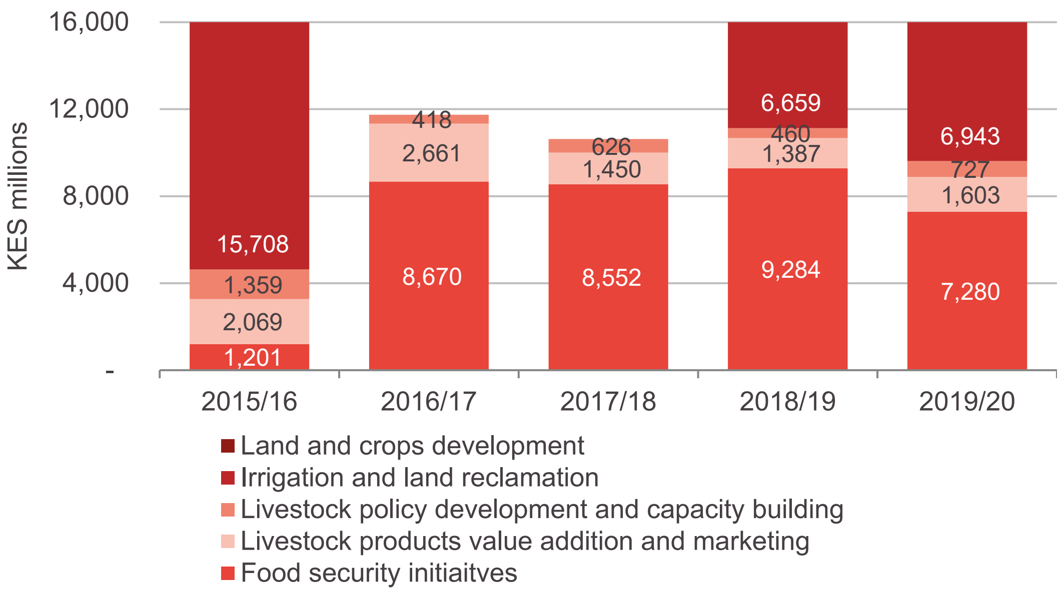
Priority policies/sectors	Government programmes
Focusing on initiatives that guarantee food security and nutrition to all Kenyans	• Subsidise fertiliser to farmers • Initiate multi-institutional technical team to provide technical support in eradicating fall armyworm. • Expand Mwea Irrigation Scheme by 10,000 acres through constructing dams and improving roads and other infrastructure. • Develop a national livestock policy; enact Livestock Feeds Policy and Regulations, enact the Dairy Industry Bill, increase market for processed milk and expand veterinary services to all counties. • Produce 182 million doses of assorted vaccines for livestock disease control, procure and install 120 milk coolers in 15 counties and establish 36 feedlots. • Review the Fisheries Policy, develop regulations on fisheries laws and national oceans and fisheries policy, operationalise the Kenya Fisheries Service, establish the Kenya Fish Marketing Authority • Upscale crop and livestock insurance.

- Provide affordable energy to reduce the cost of production, enhance market distribution infrastructure to reduce losses by use of cold storage for production and storage of seeds, and avail incentives for post-harvest technologies to reduce post-harvest losses.
- Reduce over-reliance on rain-fed agriculture.
- Develop 85,000 acres of irrigation area under the National Expanded Irrigation programme.
- Increase area under smallholder irrigation by 1,617 acres.
- Increase water storage for irrigation by 125 million cubic metres through developing water pans under household irrigation water harvesting project.

Source: Based on Budget Policy Statement, 2019[35]

The livestock products value addition and marketing entails support to manufacturing and industrialisation in the leather industry. The capital expenditure allocation in this sub-programme is much lower than other sub-programmes; however, it did increase from KES 1.4 billion in FY2018/19 to KES 1.6 billion in FY2019/20. As food security is a priority in the national agenda, there has been increasing allocation on capital allocation since FY2016/17 when it was KES 8.7 billion; this decreased to KES 8.6 billion in FY2017/18, rose to KES 9.3 billion in FY2018/19 and fell to KES 7.3 billion in FY2019/20. The allocation also depends on emergencies caused by unreliable weather resulting in drought and the need for food relief services.

Figure 8: Food security related sub-programme capital expenditure allocation 2015/16–2019/20



Source: Development Initiatives, based on National Programme Based Budgets, 2015/16–2019/20[36]

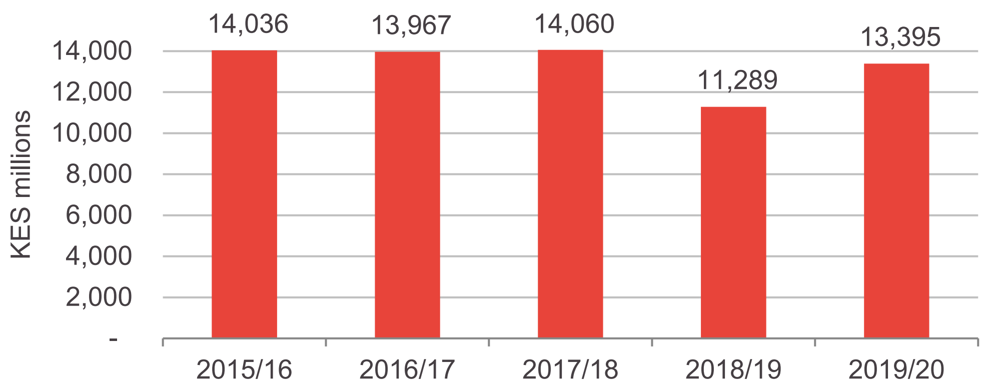
Several initiatives under this food security sub-programme work at improving welfare through increased production:

- The Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa, which seeks to increase water access for small-scale irrigation, livestock and domestic use. In FY2019/20 a total of 120 hectares of irrigation infrastructure is to be rehabilitated.
- The crop insurance project, which seeks to ensure that agriculture-related risk is managed – through this a total of 2 million farmers should be reached and trained.
- Increased production of maize seed and certified potato seed: in FY2019/20, 3,750 metric tonnes of certified seeds and 14 million kilograms of maize seed should be produced.
- An E-voucher financing system, to increase access to financial tools and services for 61,000 smallholder farmers in FY2019/20.
- 200,000 metric tonnes of fertilisers subsidised under the fertiliser subsidy programme, which is expected to benefit 250,000 farmers.
- 1 million metric tonnes of maize procured for the national food reserve.

Social protection

Allocation of capital expenditure on social protection for vulnerable groups is presented in Figure 9. In FY2018/19, capital expenditure allocation was at its lowest at KES 11.3 billion; in FY2019/20 this increased to KES 13.4 billion. In FY2019/20 cash transfers to orphans and vulnerable children including those outside the households amounted to KES 6.6 billion, while transfers to older people were KES 5.1 billion. This capital expenditure allocation is similar to the amount in FY2018/19. The increase in FY2019/20 is due to allocation in other sub-programmes dealing with social protection. In both FY2018/19 and FY2019/20, the sub-programme has been allocated 98% of the funds required.

Figure 9: National safety net capital expenditure allocation 2015/16–201920



Source: Development Initiatives based on National Program Based Budgets, 2015/16–2019/2020[37]

Based on the most recent data, the following are some of the achievements of the national safety net programmes in FY2017/18:

- 783,089 older persons were supported with cash transfers against a target of 833,000.
- 42,633 persons with disabilities were supported with cash transfer against a target of 47,000 people.
- 340,087 households with orphaned and vulnerable children were supported with cash transfers against a target of 353,000 people; however, these targets are not being met even with the budgetary allocation.

Conclusions

Expenditures have increased faster than revenues over the last five years, resulting in consistent budget deficits of more than KES 500 billion. While all indicators show that the national debt is sustainable, it is susceptible to the risk of exchange rate depreciations.

Overall, the FY2019/20 programme-based budget estimates are aligned to the big four agenda. In terms of priority setting – aligning priorities to the right programmes and sub-programmes – the Government of Kenya is therefore on track.

Setting education and health sectors as priority and allocating relatively more resources (capital expenditure) in these sectors, suggests there is commitment towards ending poverty by focusing on key sectors that have high impact on reducing poverty. However, the sectors experience the major challenge of inadequate budgetary allocation to cater for counterpart commitments in development programmes. This has affected the education, health, housing, manufacturing and food security sectors. Capital expenditure allocations, therefore, will not meet the needs of the big four.

There has been consistent allocation of funds under the cash transfer programmes for orphans and vulnerable children and older people in both FY2018/19 and FY2019/20. The consistent capital expenditure allocation to the social safety net programmes for older people, persons with disabilities and orphaned and vulnerable children ensures that these cohorts are not vulnerable to poverty.

Developing the industrial sector is very important for achieving the Kenya Vision 2030. The Constitution of Kenya does not state whether industrial development is a national or county government function. Furthermore, the Kenya Industrial Transformation Programme, which has informed the manufacturing strategy, is not cognisant of the devolution framework. The programmes or sub-programmes that are geared towards manufacturing sector development are dispersed in labour, industry and agriculture. Therefore, its implementation as planned in the FY2019/20 budget has the risk of not being effective if there is no proper coordination between the sectors and more importantly the two tiers of governments.

Recommendations

1. The government needs to increase the resource mobilisation efforts that will enable adequate funding for the health, education, manufacturing, food security and housing sectors.
2. The quality of data from the various budget documents of the National Treasury, the Office of Controller of Budget and county governments should be harmonised for consistency purposes.
3. Coordination between the county and national government is paramount. This should be addressed through the Intergovernmental Relations Technical Committee, which is mandated to handle such frameworks. Further legislation is needed to address the lacuna created by lack of clarity on the role played by national and county governments in the industrialisation agenda. Legislation should be developed that outlines a coordination framework where county and national governments share the industry function.
4. The establishment of the Public Investment Management Unit should also be backed by legislation and adequate resource through the national budget and should include accountability and enforcement clauses, which will ensure effective implementation of public investment programmes.

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Annexes

Methodology

The study undertook literature review and data analysis of the various programme-based budget estimates for the capital expenditures for the big four agenda (universal healthcare, affordable housing, manufacturing and food security) together with the social protection and education sectors.

Limitations of the study and areas for future analysis and research

1. The study could not establish the tax benefit incidence associated with the tax proposals, hence it is recommended that this is done.
2. From the budget policy statement and expenditure allocation, it is not clear to what extent the manufacturing agenda addresses the challenges in both textile and leather value chains. This area requires further investigation.
3. While the social protection initiatives are commendable and seek to protect vulnerable people, a more disaggregated analysis of the activities within this sub-programme and the actual capital/development expenditure would ensure a much richer analysis.

Acronyms

KES	Kenya shilling
MTP III	Third Medium Term Plan
PFM	Public finance management
SDG	Sustainable Development Goal

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