development initiatives

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

what do the numbers tell us?

briefing

Highlights from Kenya's 2018/19 budget

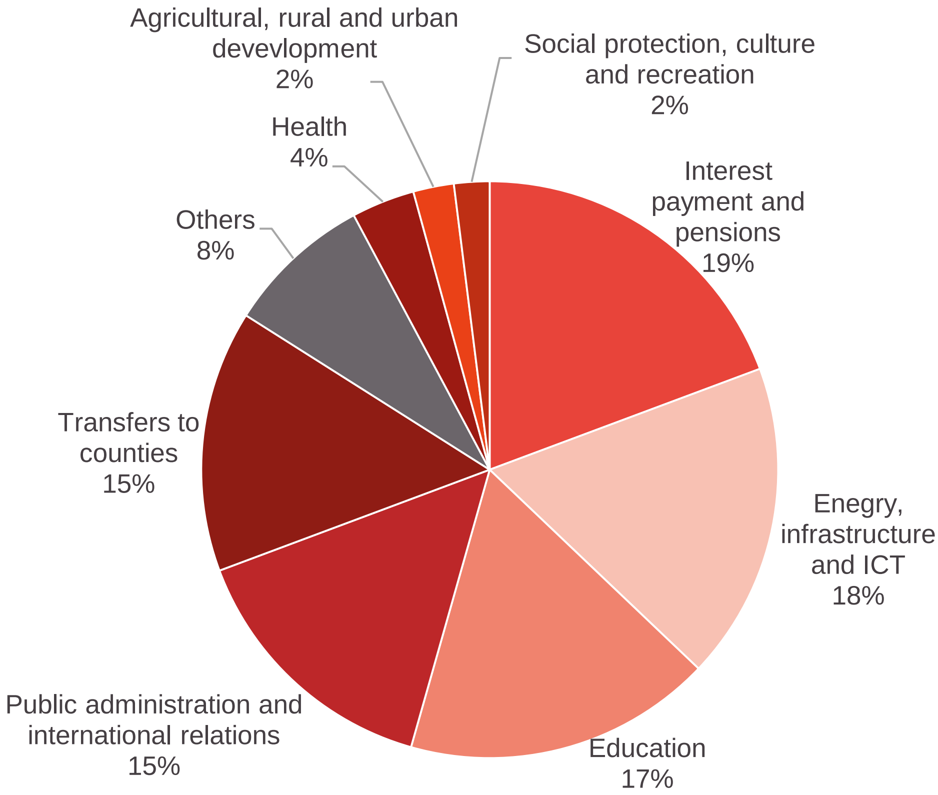
Kenya's 2018/19 budget is an opportunity to analyse government investments and how they contribute to ending poverty and inequality and support Kenya's national development plan. If the needs of the poorest people are not well targeted by government resources, or if insufficient tax is raised (or raised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

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

Overview of the 2018/19 budget

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

Figure 1: Budgetary allocations to various sectors



Source: Development Initiatives (DI) based on 2018/19 budget data[1]

Budgetary allocations to pro-poor sectors and programmes

Social protection

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

Education

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

Health

- The government is committed to providing equitable, affordable and high-quality health and related services for all citizens. This commitment is reflected in the substantial increase in health budgets.
- Ksh 90 billion or 3.6% of the budget has been allocated to the Ministry of Health – a 47.8% increase from the previous fiscal year. The increase is explained by planned expansion of health infrastructure, national referral services and free primary healthcare.
- Ksh 4.3 billion is earmarked for free maternity care. This is equivalent to allocations to the programme in 2015/16 and 2016/17 but 8.6% higher than allocations in 2017/18.
- The Programme for Basic Insurance for Poor and Informally Employed People will receive Ksh 800 million – a 14.3% increase since 2016/17.[4]
- Free primary healthcare will receive Ksh 5.2 billion. This amount is over five times higher than allocations in 2017/18. The increase is underpinned by planned expansion of access to primary health services.
- Overall allocations to social protection in health have increased by 808.3% to Ksh 10.9 billion from Ksh 1.2 billion in 2017/18 to support access to healthcare services among vulnerable groups.

Agriculture – food security

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

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

Energy – access to electricity

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

Emerging issues – flood control

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

Conclusion and recommendations

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

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

Recommendations

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

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

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

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

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

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

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

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

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

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

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

Notes

[1] The list of state departments, ministries, and agencies included in each sector can be provided upon request.
[2] This refers to the share of the State Department for Social Protection only. In Figure 1, the percentage is indicated as 2% since it includes allocations to state departments responsible for labour, sports, heritage, ASAL and gender, as well as National Gender and Equality Commission.
[3] This refers to the share of the State Department for Early Learning and Basic Education only. In Figure 1, the share for education is indicated as 17% because it includes allocations to Teachers Service Commission, as well as vocational and technical training, research and university education, and post training and skills development.
[4] Allocations to specific programmes such as crop insurance are available only in the line item budget, which was not provided in 2017/18. Because of this data limitation we compare with 2016/17 allocations where relevant.
[5] This refers to allocations to State Department for Crop Development only. In Figure 1, the share for agriculture is indicated as 2% because it includes allocations to state departments responsible for livestock, fisheries, aquaculture, blue economy, irrigation, and agricultural research.

Development Initiatives (DI) is an independent international development organisation working on the use of data to drive poverty eradication and sustainable development. Our vision is a world without poverty that invests in human security and where everyone shares the benefits of opportunity and growth.

We work to ensure that decisions about the allocation of finance and resources result in an end to poverty, increase the resilience of the world's most vulnerable people, and ensure no one is left behind.

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