Pro-poor analysis of Kenya's 2018/19 budget estimates: what do the numbers tell us?

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1. Introduction

- Kenya's 2018/19 budget is an opportunity to analyse government investment and how they contribute to ending poverty and inequality, as well as support national development plans

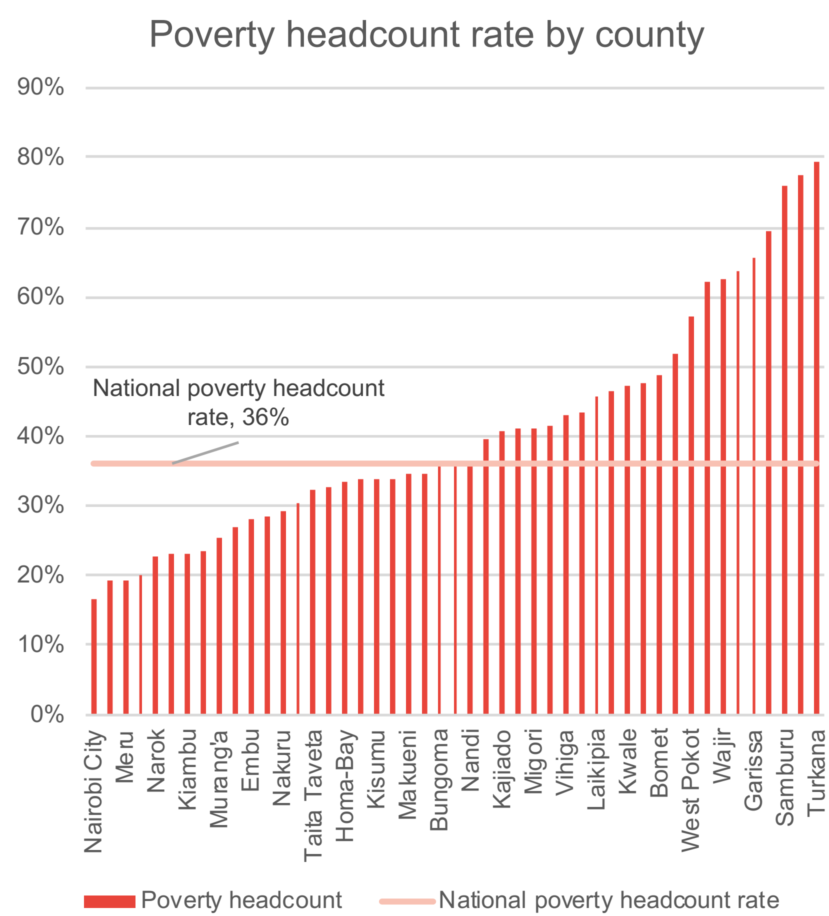
- The poorest are at risk of being left behind if:
    - their needs are not well targeted by govt. resources
    - insufficient tax is raised or raised in ways that penalise the poor
    - support systems are under or inefficiently financed

- This analysis looks at the extent to which the 2018/19 budgetary allocations are aligned to the needs of the poorest people in Kenya.

- It focuses on sectors that make direct investments to reach the poor: education, social protection, health, agriculture & electricity

2. Poverty is reducing in Kenya, but regional disparities in progress and inequalities persist

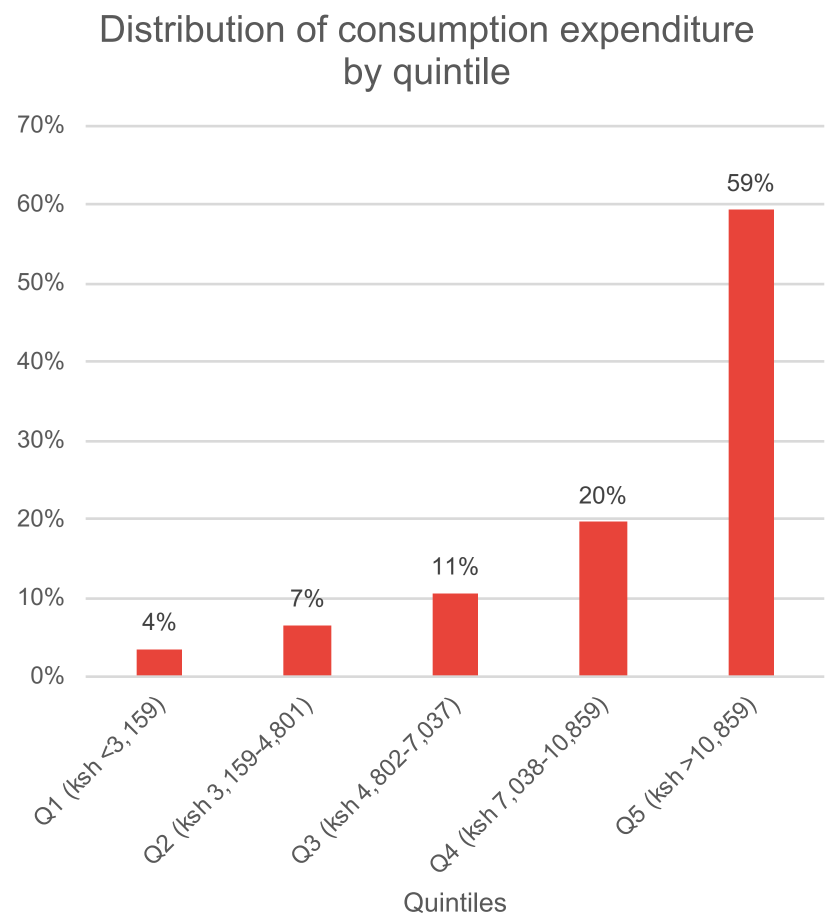
- The incidence of poverty reduced from 52% in 1997 to 46.6% in 2005/06 and to 36.1% in 2015/16
- But, due to pop. growth, the number of people living in poverty increased by 16.9% from 14.2 million in 1997 to 16.6 million in 2005/06 but declined by 1.2% to 16.4 million in 2015/16.
- While the national poverty headcount rate is 36.1%, in 10 counties over 50% of the pop lives in poverty



Data sources: KIHBS, 2005/06 and 2015/16

3. Inequality is higher in urban than rural areas in Kenya

- The poorest 20% of Kenya's pop controls only 4% of total consumption expenditure compared with 59% for the richest 20%
- In rural areas, the richest 20% control 32.6% of total consumption expenditure compared with 79.5% in core urban areas
- In Nairobi City County, the poorest 20% controls only 0.1% of total consumption expenditure compared with 86.4% for the richest 20%
- While access to drinking water from an improved source is almost universal (97%) in Nairobi, in Wajir only 22.5% of households have access



Data source: KIHBS, 2015/16

4. Budget priorities

- Budget priorities for the 2018/19 fiscal year have mainly been informed by the Big Four Agenda, being implemented under the third medium-term plan of Vision 2030, covering the period 2018/19 to 2021/22.

- Under this agenda, the government aims to achieve by 2022:
    - An increase in the share of manufacturing in national GDP to 15%
    - Food security and improved nutrition
    - Universal health coverage (UHC)
    - Construction of at least 500,000 affordable houses

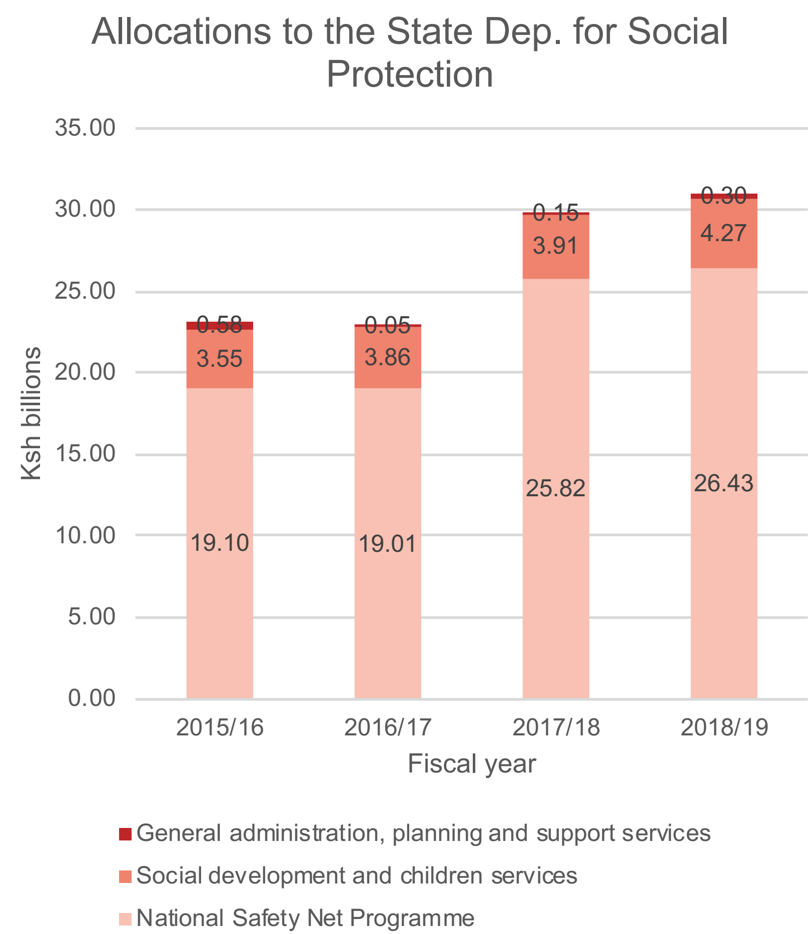
- Investment in these four areas will be ring-fenced and prioritised in annual budgets over the medium term to spur economic growth, alleviate poverty and catalyse creation of job opportunities

5. Revenue is expected to grow faster than expenditure to reduce fiscal deficit

- The government will spend Ksh 2.5 trillion (excluding domestic debt redemption of Ksh 490b) in 2018/19 – an increase of 8.8% from 2017/18 fiscal year.
- Of this, 657.3b is earmarked for development expenditure – an increase of 12.8% compared with 2017/18
- But development expenditure, currently equivalent to 26% of budget is less than the minimum threshold of 30% of the budget required by the Public Finance Management Act 2012.
- Transfers to the 47 county governments amounts to Ksh 372.7b – an increase of 15.1% (based on Division of Revenue Act, 2018)
- Revenue collection is projected at Ksh 1.92 trillion or 19.6% of GDP. To cover the deficit, the country will continue to borrow.
- Rising public debt (Ksh. 5 trillion as at June 2018 or 57.1% of GDP) has led to expenditure cuts to county governments and key programmes amounting to Ksh 37b, as well as sharp increase in taxes on goods and services that matter to the poor e.g. fuel and mobile money services in 2018.

6. Funding to social protection grew at a slower rate in 2018/19

- The overall goal of social protection in Kenya is to ensure all citizens live in dignity & exploit their capabilities for social and economic development
- Ksh 31b is earmarked for social protection in 2018/19 –an increase of 3.7% compared with 30.4% in 2017/18
- 85.3% (Ksh 26.4b) of this is earmarked for the National Safety Net Programme (NSNP)

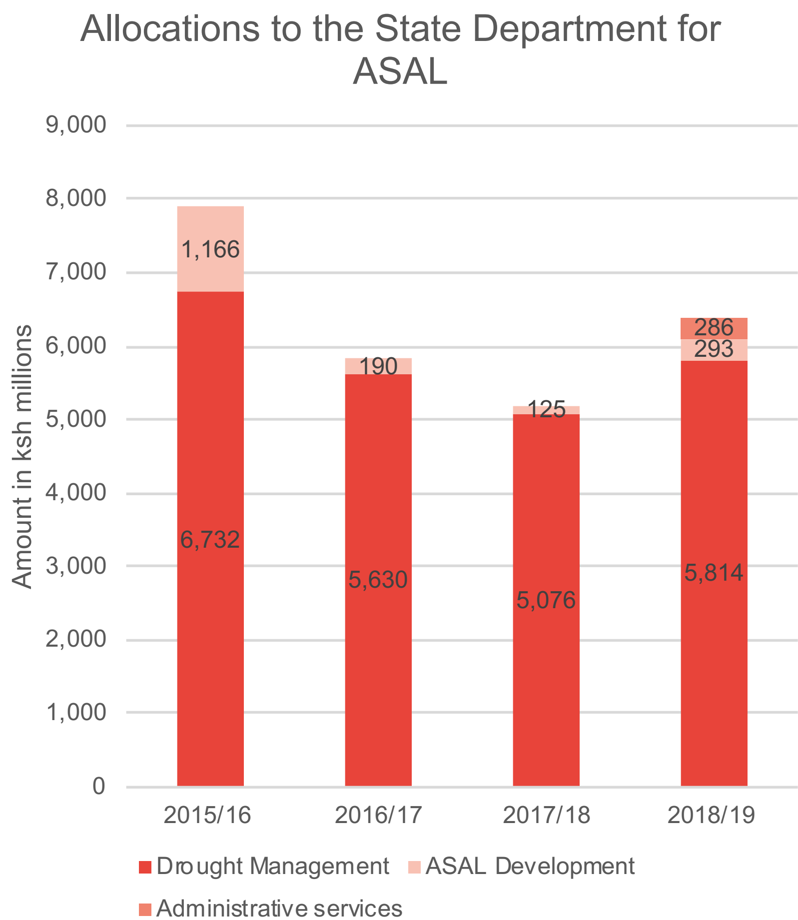


7. While funding to NSNP is increasing, absorption capacity is low

- The NSNP comprises cash transfer programmes (CTPs) targeting older people, orphans & vulnerable children and severely disabled people
- NSNP is expected to contribute to achievement of SDG 1- eradicating poverty in all its forms, particularly target 1.3.
- In 2016/17, 313,504 older people, 47,231 disabled people and 353,007 households with orphans and vulnerable children benefitted from these CTPs
- According to Auditor General's report (2015/16), the absorption rates for the CTP dedicated to older people and to orphans & vulnerable children stands at 55.3% and 64.3% respectively.
    - Low absorption capacities may impede the CTPs achieving their objectives

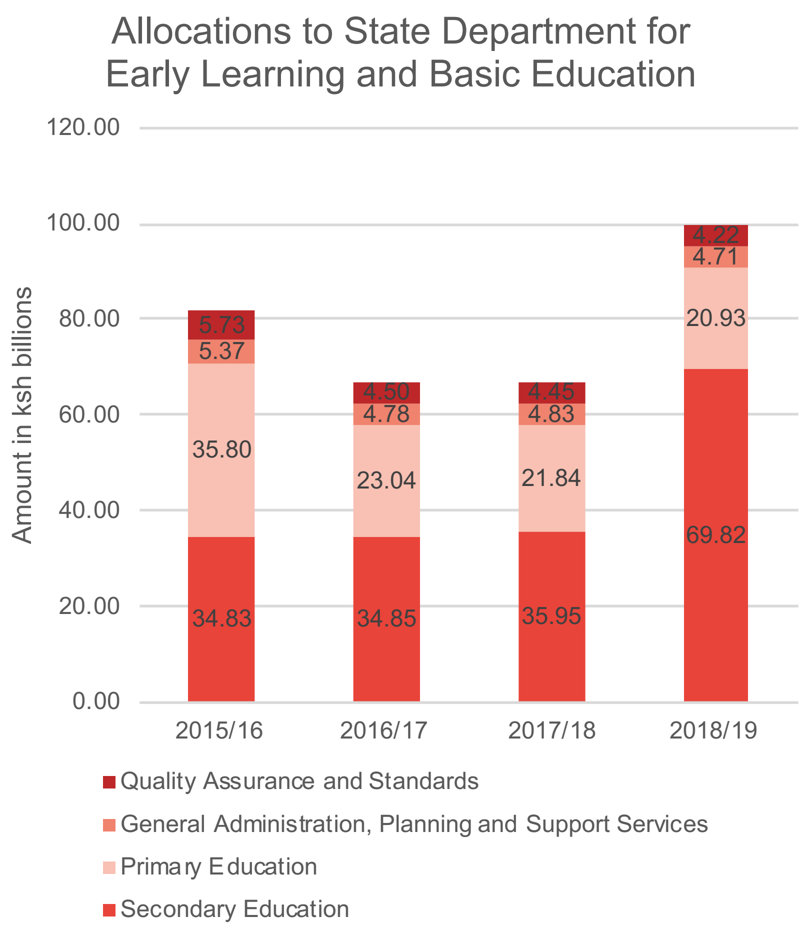
8. Funding to drought management and ASAL dev. increased 22.9% to Ksh. 6.4b in 2018/19 to mitigate extreme hunger and vulnerability

- 77.5% (Ksh 4.5b) of the drought management budget is earmarked for the Kenya Hunger Safety Net Progamme (HSNP) –an increase of 28.6%
- HSNP provides regular unconditional cash transfers to households living in extreme poverty in four counties: Mandera, Marsabit, Turkana and Wajir
- The programme aims to reduce extreme hunger and vulnerability in these counties



9. Funding to basic education increased 48.6% to Ksh 99.7b, but the increase mainly went to secondary education

- Education is fundamental to a person's life chances
- The government of Kenya aims to create a transformed society where education and learning catalyse sustainable development
- The govt. provides free primary and fee day secondary education to achieve SDG 4, target 4.1
- It also provides a midday meal to primary school students in ASAL and urban informal settlements with high poverty levels



10. Funding gaps and reduced allocations to some education programmes may limit achievement of targets in 2018/19

- Allocations to free secondary education almost doubled to Ksh 68.7b, owing to increased capitation per student, planned infrastructure upgrade and 11.5% increase in students in 2018/19
  - Nonetheless the programme has a funding gap of Ksh28.6b

- Allocations to free primary education reduced by 4.2% to Ksh 18.3b, and the programme is facing a funding gap of Ksh3.4b
  - But the number of beneficiaries is expected to increase by 100,000 students

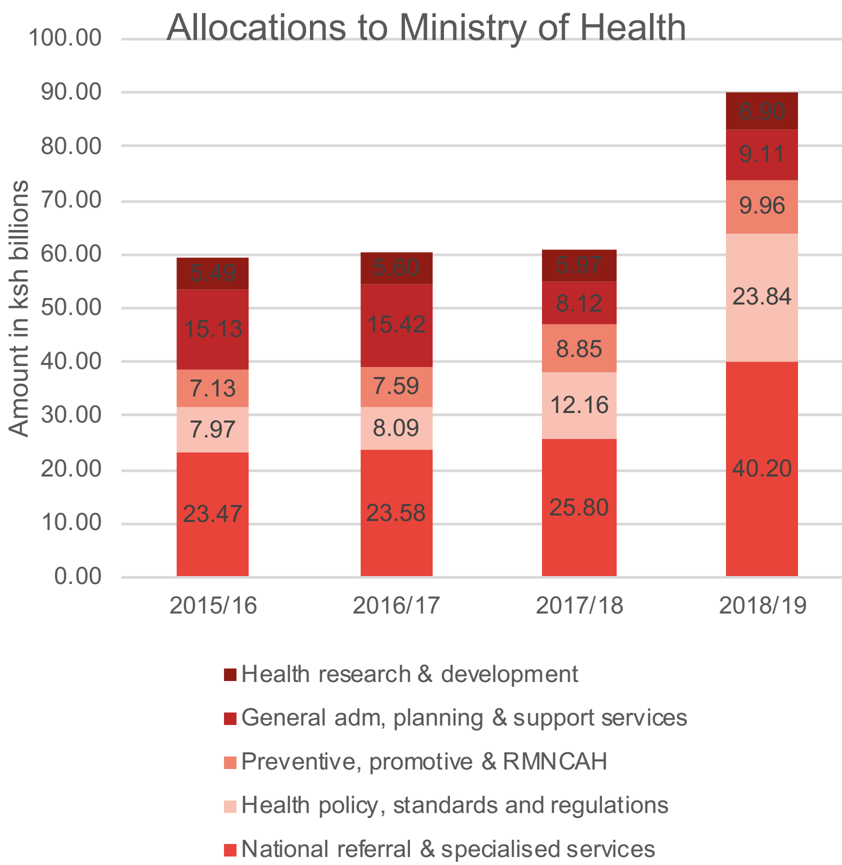
- Allocations to School Health Nutrition and Meals Programme reduced 7.4% to Ksh 2.5b and has a funding gap of Ksh.5b
  - But the number of beneficiaries is expected to increase by 6% to 1.59m students in 2018/19

11. Funding to health increased by 47.8% to Ksh 90 billion to facilitate implementation of Universal Health Coverage (UHC)

- The overarching goal of the health sector in Kenya is to attain the highest possible standard of health in a responsive manner

- Every Kenya has a right to the highest attainable standards of health, including the right to healthcare services

- Thus, the government aims to provide equitable, affordable and high quality health services



12. Increase in the budget is underpinned by planned infrastructure expansion, improvement of national referral services and free primary healthcare

- Funding earmarked for specialised medical equipment increased threefold to Ksh 16.4b
- Funding earmarked for national referral services increased 21.6% to Ksh 20.3b

- Funding to the programme for basic insurance for poor and informally employed people increased 14.3% to Ksh 800m

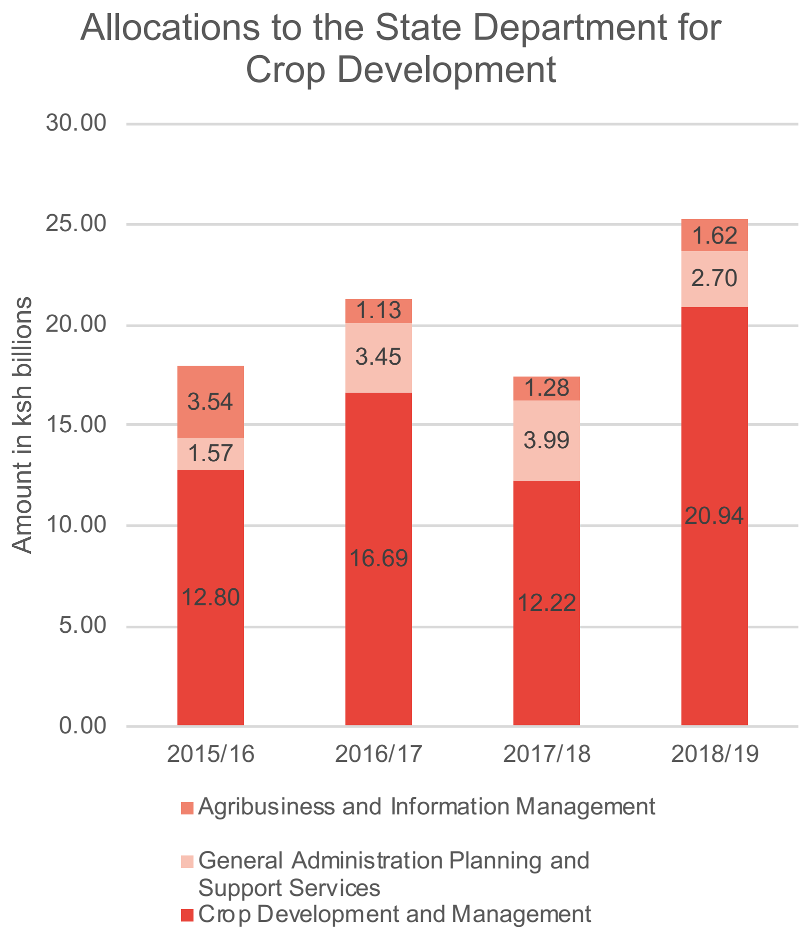
- Funding to free primary healthcare increased over five times to Ksh 5.2b.
  - However, the performance of this programme remains an area of inquiry given the lack of data/ information on the number of beneficiaries covered in last two fiscal years

- The free maternity healthcare programme is expected to facilitate an increase in the proportion of births attended by skilled personnel from 77.4% in 2016/17 to 80% in 2018/19.
  - However, funding to the programme in 2018/19 has been maintained at the level of 2016/17 (Ksh 4.3b)

13. Funding to agriculture increased 44.4% to Ksh 25.3b to facilitate achievement of food security

- Kenya is a food deficit country, meeting its food requirements through imports
- Ksh 11b is earmarked for food security initiatives – a 6.2% increase. These initiatives include:
- Kenya Agricultural Insurance Programme that provides insurance premium subsidies to small-scale farmers

  Funding increased 23.9% to Ksh 371.8m to cover 1.5m famers. But programme has a funding gap of Ksh 28.2m



14. Despite the overall increase in the budget, financing gaps in some programmes abound

- Fertiliser subsidy programme: number of beneficiaries is expected to increase by 19.1% to 250,000 farmers in 2018/19.
    - However, funding has reduced by 6.5% to Ksh4.3b from Ksh4.6b in 2016/17 when beneficiaries were 230,000 farmers
    - Auditor General's report for 2015/16 raised accountability concerns on expenditure to the programme, including wastages resulting from avoidable liability/ expenditure
- Kenya Cereal Enhancement Programme: funding increased 16% to Ksh 1.9b to expand production of staple cereals
- Small-scale Irrigation and Value Addition Project: allocated Ksh 1.5b- a 64.7% increase since 2016/17 to facilitate expansion of the area under irrigation by 784 acres.
    - But project faces a funding gap of ksh123.4m
- Irrigation & land reclamation: allocated Ksh 7.4b – an increase of only1.4%

15. Funding to the electricity connection subsidy programme has reduced by 14.1% to Ksh 6.7b

- Kenya aims to achieve universal access to electricity by 2020 to improve the wellbeing of its citizens
- To achieve SDG 7 – ensure access to affordable, reliable, sustainable and modern energy for all, Kenya is implementing the Last Mile Connectivity Project.
- The project accelerate connection of households to the national grid at a subsidised fee.
- In 2018/19 the government aims to increase access to electricity to 80% from 69.5% in 2016/17 by connecting one million new households.
- Reduced funding to this subsidy programme may impede achievement of electricity access rate targets in 2018/19

16. Conclusion

- Compared with the previous three fiscal years, there is strong increase in budget allocations for the majority of the pro-poor programmes and sectors
- However, these resources still do not adequately address the needs of the most vulnerable citizens
- Some key programmes such as free primary education, fertiliser subsidy and electricity subsidy have seen reductions that are likely to impact achievement of targets in these areas
- Financing gaps in many priority areas such as free day secondary and primary education may result in Kenya being off-track in meeting national development and SDG targets

17. Recommendations

- 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 financing gaps

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

- Expanding the Hunger safety Net Programme to other ASAL counties e.g. West Pokot, Tana River and Garissa which have high incidence of food and income poverty could help in eliminating hunger

- Improve data collection and analysis to demonstrate the impact increased budgetary allocations have on the lives of beneficiaries and ensure services are reaching those most in need

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