

**REPUBLIC OF KENYA**  
**Parliamentary Budget Office**

**UNPACKING OF THE BUDGET POLICY STATEMENT FOR FINANCIAL  
YEAR 2026/2027 AND THE MEDIUM TERM.**

**FEBRUARY, 2026**

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## I.0 Introduction

1. Section 25 of the Public Finance Management Act, Cap. 412A requires the National Treasury to prepare and submit to Parliament a Budget Policy Statement (BPS) outlining the current state of the economy and the medium-term financial outlook, including macroeconomic forecasts, overarching government policies, the resource envelope, and proposed expenditure ceilings. In compliance with this provision, the 2026 BPS was submitted to Parliament on Wednesday, 11th February 2026, and subsequently committed to the relevant Departmental Committees and the Budget and Appropriations Committee in accordance with Standing Order 232.
2. The 2026 Budget Policy Statement is the fourth to be prepared by the current administration and is intended to consolidate and accelerate the gains realized so far under the Bottom-Up Economic Transformation Agenda (BETA). It builds on the progress made in stabilizing the macroeconomic environment, strengthening revenue mobilization, enhancing fiscal consolidation, and prioritizing investments in key value chains such as agriculture, MSMEs, housing, healthcare, and the digital and creative economy.
3. The Budget Policy Statement sets expenditure ceilings for the national government, including Parliament and the Judiciary, and provides indicative transfers to county governments for the upcoming financial year and the medium term. Once reviewed and approved by Parliament, these ceilings will guide the preparation of the national budget for the 2026/2027 financial year and subsequent years. They will also serve as the foundation for the Division of Revenue Bill, 2026, and inform the county fiscal strategy papers, which must align with the national development agenda.
4. Total revenue, including appropriations-in-aid, for FY 2026/27 is forecasted at Ksh. 3,588.1 billion (equivalent to 17.1% of GDP). This compares to the Ksh. 3,368.6 billion (17.5% of GDP) projected for FY 2025/26 at the time of budget estimates approval. These projections are supported by ongoing tax administration reforms, investments in technology, and efforts to expand the tax base.
5. Total expenditures and net lending for FY 2026/27 are projected at Ksh. 4,737.5 billion, up from Ksh. 4,301.9 billion in the approved FY 2025/26 budget. Indicative expenditure ceilings for the three arms of government (Executive, Parliament, and Judiciary), shareable revenue to county governments, and Consolidated Fund Services for FY 2026/27 are outlined in **Error! Reference source not found.**

Table 1 Budget Ceiling for 2026/27 FY

Budget Ceiling for 2026/27 Financial Year (Ksh. Billion)							
	2022/23	2023/24	2024/25	2025/26	2026/2027		
Item	Prel Actual	Prel Actual	Prel Actual	Approved Budget (A)	BPS (B)	Change (B-A)	% Change
<b>Recurrent Estimates</b>	1,474.3	1,659.6	1,742.2	1,804.7	2,021.1	216.4	12%
<b>Capital Estimates</b>	497.5	554.7	589.6	744.8	846.3	101.5	14%
<b>National Government</b>	<b>1,971.8</b>	<b>2,214.4</b>	<b>2,331.8</b>	<b>2,549.5</b>	<b>2,867.4</b>	<b>317.9</b>	<b>12%</b>
o/w Parliament	41.2	37.3	41.6	48.0	48.8	0.8	2%
o/w Judiciary	19.8	21.0	23.0	27.8	29.9	2.2	8%
<b>Pensions &amp; Other CFS</b>	120.4	143.9	176.8	205.2	207.5	2.3	1%
<b>Interest</b>	687.3	840.7	995.1	1,097.7	1,203.1	105.4	10%
<b>Contribute to pension fund</b>	29.6	34.2	34.3	34.4	39.6	5.1	15%
<b>Net lending</b>	12.3	17.4	19.7	-	-	-	-
<b>Consolidated Fund Services</b>	<b>849.6</b>	<b>1,036.3</b>	<b>1,225.9</b>	<b>1,337.3</b>	<b>1,450.1</b>	<b>112.8</b>	<b>8%</b>
<b>County Equitable Share</b>	<b>399.6</b>	<b>354.6</b>	<b>418.3</b>	<b>415.0</b>	<b>420.0</b>	<b>5.0</b>	<b>1%</b>
<b>Total</b>	<b>3,221.0</b>	<b>3,605.2</b>	<b>3,975.9</b>	<b>4,301.9</b>	<b>4,737.5</b>	<b>435.7</b>	<b>10%</b>

## 1.1 Evaluation of Budget Policy Statement

6. The unpacking of the 2026 Budget Policy Statement was subjected to the following evaluation criteria:
  - i. Alignment to the National Development Agenda
  - ii. Credibility of the Macroeconomic Framework
  - iii. Linking Sector Priorities to Hard Budget Constraints
  - iv. County Resource Allocation

## Criterion I

### 2.0 Alignment to the National Development Agenda

*This criterion evaluates the policies underpinning the Budget Policy Statement and whether they are aligned with the medium-term policy and strategic priorities of the government as provided for in the policy documents.*

7. **The National Development Agenda under the current administration is anchored on the Fourth Medium Term Plan (MTP IV).** The plan clusters government functions into five sectors, viz. Finance and Production, Infrastructure, Social, Environment and Natural Resources, and Governance and Public Administration. Policy interventions are structured across these sectors using a value-chain approach to promote coherence, efficiency, and long-term sustainability. The envisioned interventions aim to lower the cost of living, strengthen food security, create jobs, broaden the tax base, improve foreign exchange reserves, and promote inclusive economic growth.
8. **The 2026 Budget Policy Statement (BPS) is the fourth to be prepared by the current administration.** Policy pronouncements are aimed at delivering the Fourth Medium Term Plan, anchored on the Bottom-Up Economic Transformation Agenda (BETA). The Statement seeks to accelerate gains achieved under BETA to promote inclusive and sustainable economic growth. Overall, the BPS positions itself as a vehicle for promoting broad-based, sustainable economic growth that advances national development goals.

#### 2.1 Finance and Production Sector

9. **The Finance and Production Sector under the Fourth Medium Term Plan (MTP IV) brings together functions that drive economic growth, revenue generation, and productive capacity of the economy.** It focuses on macroeconomic stability, domestic resource mobilization, industrialization, agriculture, trade, tourism, mining, and enterprise development. The sector's overarching objective is to enhance productivity, expand the tax base, promote value addition and exports, support job creation, and strengthen economic resilience through efficient financial management and a competitive production base.

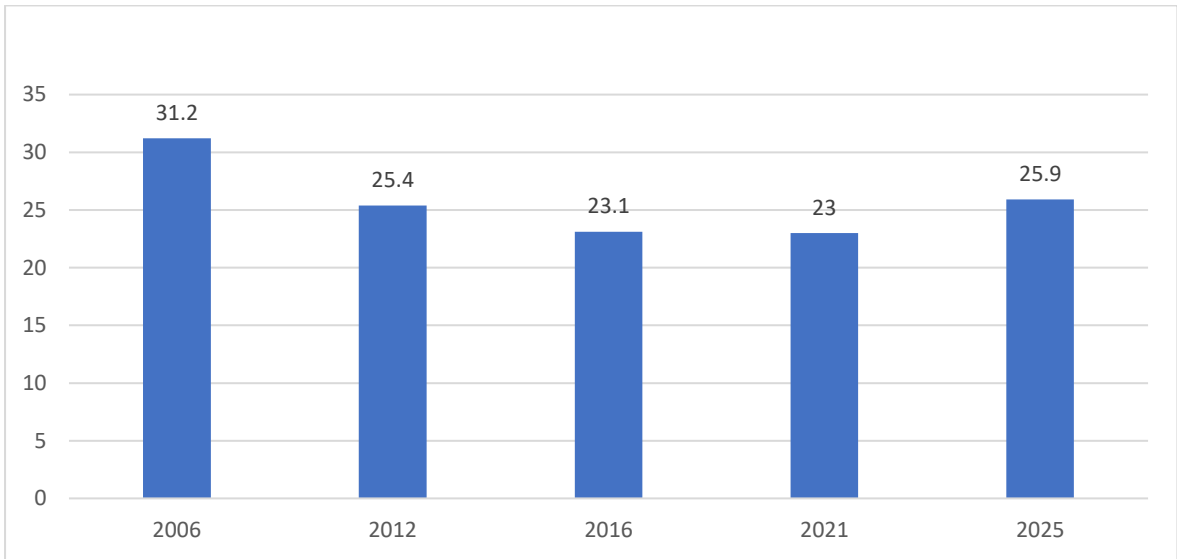
##### 2.1.1 Agriculture and Agricultural Value Chains

10. **The 2026 Budget Policy Statement underscores agriculture as a central pillar for economic growth and food security.** It outlines several achievements largely concentrated at the input and primary production levels. Notable milestones include the registration of 7.1 million farmers into the Kenya Integrated Agriculture Management Information System (KIAMIS), distribution of subsidised fertilizer to 3.15 million farmers, and reported increases in sugar, rice, and tea production. These measures signal strengthened government support in

improving farmer targeting, lowering input costs, and boosting short-term productivity across key sub-sectors.

**11. However, when viewed against recent food-security indicators, the adequacy of these interventions becomes less certain.** Trends in the Global Hunger Index indicate that while the country experienced gradual improvement over the past decade, recent deterioration suggests that earlier gains have not been firmly consolidated. This reversal raises questions about the resilience and sustainability of the current policy direction, implying that improvements in production have not fully translated into stable household food security outcomes.

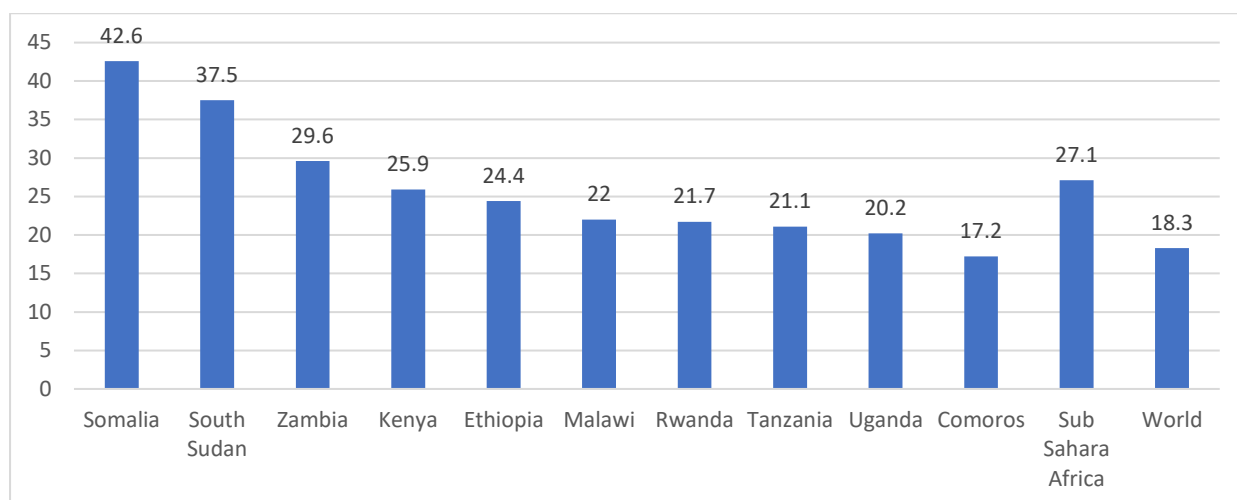
Figure 1 Global Hunger Index for Kenya 2006-2025



Source: Global Hunger Index Report, 2025

**12. The comparative Global Hunger Index data indicate that Kenya performs better than several countries in the region but still lags behind the global average.** This underscores persistent food-security vulnerabilities despite ongoing policy attention to agriculture. While Kenya’s score is better than those of countries such as Somalia and South Sudan, it remains below the world average and regional peers such as Tanzania, Uganda, and Rwanda. This relative positioning suggests that although national interventions have yielded incremental improvements, they have not been sufficiently transformative to move the country closer to low-hunger benchmarks.

Figure 2 Global Hunger Index for Select Countries



Source: Global Hunger Index Report, 2025

- 13. Some of the reported achievements may not be wholly attributable to deliberate policy interventions but rather to favourable climatic conditions experienced in preceding years.** The below-normal performance of the October–November–December rainfall season has raised legitimate concerns about the extent to which the achievements reported in the Budget Policy Statement can be directly attributed to deliberate policy interventions rather than favourable climatic conditions experienced in preceding years. Given that the country benefited from relatively good and consistent rainfall over the past three years, part of the observed increases in crop output and productivity may reflect weather-related dividends rather than the effectiveness of government programs. This uncertainty underscores the need to distinguish between climate-driven gains and policy-driven outcomes, as reliance on favourable rainfall patterns risks overstating progress and masks underlying structural vulnerabilities.
- 14. There are concerns over the continued dominance of input subsidies and short-term production support relative to deeper structural investments.** Input provision represents only the most basic and upstream segment of the value chain, and while it is essential for boosting immediate production, its repeated prioritization risks limiting broader sector transformation. Given that this is the fourth year of BETA implementation, it would be expected that policy emphasis gradually shifts toward downstream and cross-cutting interventions such as value addition, post-harvest handling, agro-processing, and market access systems. Without this progression, the sector may continue to record incremental output gains without adequately addressing persistent structural and market-related constraints that ultimately determine sustainability, competitiveness, and farmer incomes.

- 15. The MTP IV places significant priority on the livestock and livestock products value chains as a strategic avenue for industrialization, employment creation, and export growth.** Key focus areas include increasing livestock productivity, strengthening sub-sector competitiveness, and undertaking a comprehensive overhaul of the leather and leather products value chain. This transformation agenda extends beyond primary production to manufacturing, including the targeted production of shoes and boots for disciplined forces and school-going children, thereby linking agriculture to domestic industry and public procurement.
- 16. To realize these objectives, several enabling interventions were envisaged.** notably improving the quality and grading of hides and skins, establishing feedlots and animal feed banks, strengthening extension and animal health services, and enhancing processing capacity. Central to this strategy is the completion and operationalization of the Kenanie Leather Industrial Park, which is intended to anchor value addition, attract private investment, and integrate small producers into formal supply chains.
- 17. Despite these policy commitments, livestock production remains a highly challenging economic activity, largely constrained by persistent structural and climatic vulnerabilities.** Drought continues to pose severe risks, frequently resulting in acute water scarcity and pasture depletion that depress animal productivity, heighten susceptibility to disease outbreaks, and in extreme cases trigger elevated mortality and distress sales by farmers.
- 18. The magnitude of this vulnerability was evident during the 2022–2023 drought period, when livestock keepers reportedly lost over 2.5 million animals.** This underscores the limited resilience of existing farmer support and risk-mitigation systems. Such shocks not only erode household wealth but also create additional fiscal and household expenditure pressures for restocking, sometimes contributing to heightened cattle-rustling activities as herders attempt to rebuild depleted herds.
- 19. While dairy marketing structures are relatively organized through cooperatives and formal milk collection networks, the marketing of livestock for meat remains largely informal and weakly structured.** Prices are frequently determined by brokers through visual appraisal rather than standardized grading systems or live-weight measurement, significantly weakening farmers' bargaining power and exposing them to exploitation. Paradoxically, once animals are slaughtered, meat is sold using weighing scales, revealing a clear inconsistency in value determination along the value chain. This imbalance suppresses producer incomes, discourages investment in quality improvement, and ultimately constrains the commercialization and competitiveness of the livestock sub-sector.

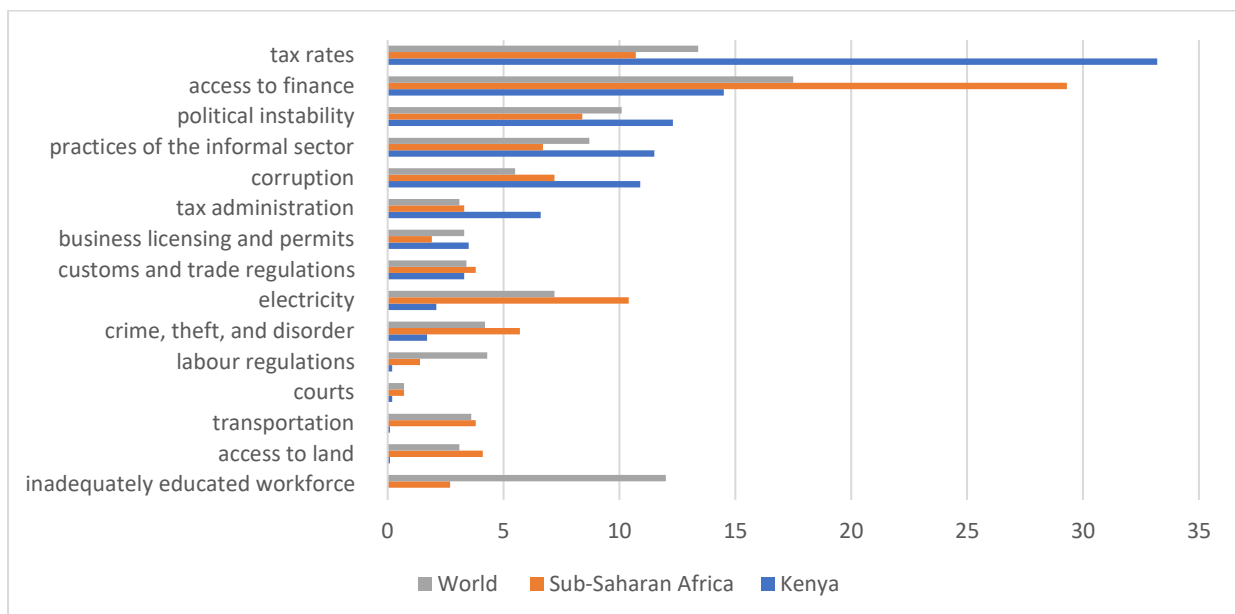
20. **The Kenanie Leather Industrial Park was conceptualized around 2015, its yet to be operationalized ten years later.** This was envisioned as a flagship industrial hub for tanning, processing, and export promotion. However, fragmented financing, prolonged implementation timelines, and escalating project costs have slowed progress and generated uncertainty among potential investors. Establishing a clear completion roadmap, supported by ring-fenced funding, transparent governance structures, and defined operational frameworks, would be critical to restoring investor confidence and unlocking the park's anticipated industrial, employment, and export-earning potential.
21. **A critical component of the agricultural and livestock value chains is the role of extension officers who support value chain actors in the adoption of modern technologies, innovations, and management practices.** While the BPS acknowledges its importance, it provides no concrete policy guidance on the actual delivery and operationalization of extension services. Given that agriculture is a devolved function, there is a pressing need for clear policy direction to avoid duplication of efforts and the attendant inefficiencies in service provision.

### **2.1.2 MSME Development and Manufacturing**

23. **To promote MSME development, the Government has made notable progress in addressing several longstanding bottlenecks.** This is particularly in improving the ease of enterprise registration, enhancing access to land, expanding the availability of skilled labour, streamlining labour regulations, and strengthening the functionality of the judicial system in resolving business-related disputes. These interventions have collectively contributed to a more enabling business environment for micro, small, and medium enterprises.
24. **Over the years, there has been a multiplicity of government interventions aimed at improving MSMEs' access to affordable financing.** This has been characterized by virtually every new administration introducing a dedicated financing instrument. These initiatives include the Youth Enterprise Development Fund, Women Enterprise Development Fund, Uwezo Fund, the Kenya Industrial Estates incubation financing programmes, the Kenya Development Corporation, and, more recently, the Hustler Fund, the Credit Guarantee Scheme, the Rural Kenya Financial Inclusion Facility, and the Nyota Initiative. While these programmes demonstrate sustained policy attention toward MSME financing, their proliferation has at times led to fragmentation, overlap in mandates, and administrative inefficiencies, thereby limiting the overall effectiveness and scalability of support to businesses.

25. **Despite these numerous interventions, access to affordable financing remains one of the most frequently cited bottlenecks to enterprise development in Kenya.** According to the 2025 Enterprise Survey by the World Bank, the leading obstacles to doing business in Kenya include high tax rates, limited access to finance, political instability, practices of the informal sector, corruption, and challenges related to tax administration—in that order. This indicates that while policy and institutional measures have expanded over time, structural and systemic constraints continue to hinder the growth and competitiveness of micro, small, and medium enterprises.

Figure 3 Percentage of Firms Citing Barriers to Business in 2025



Source: World Bank Enterprise Survey 2025

26. **The BPS does not present a comprehensive strategy for addressing the broader spectrum of constraints facing the MSME sector.** On the contrary, it places disproportionate emphasis on interventions aimed at improving access to affordable financing. While credit access is important, it represents only one dimension of enterprise development and is insufficient on its own to unlock sustained growth. Critical bottlenecks such as regulatory inefficiencies, complex tax compliance procedures, high tax rates and multiple levies, political vulnerabilities, limited market access, inadequate business development services, and the continued dominance of the informal economy receive limited policy attention.

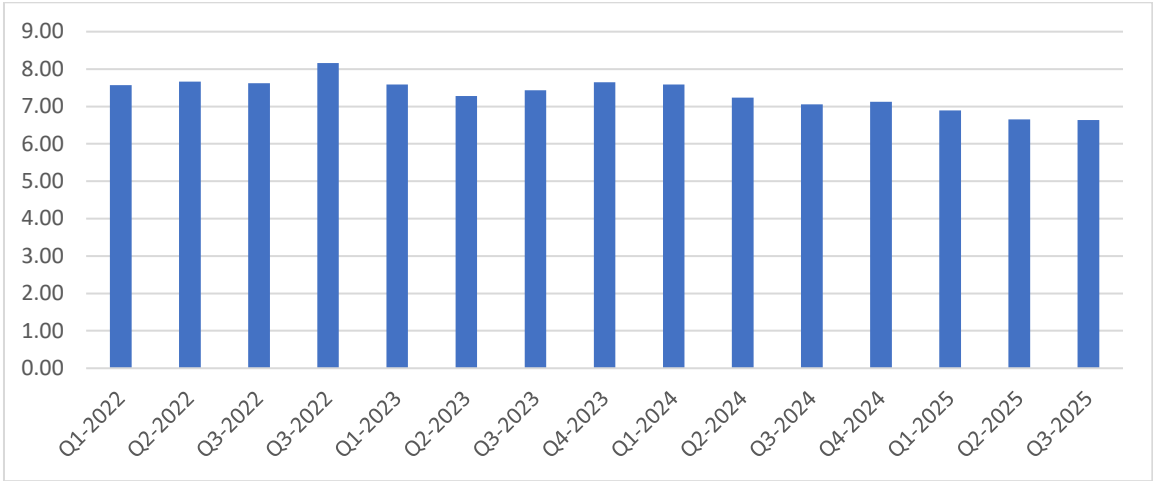
27. **Pending bills continue to pose a significant challenge to MSME development, constraining cash flow, investment, and business expansion.** While the Budget Policy Statement partially addresses the settlement of pending bills primarily in the road sector, which is dominated by multinational and large enterprises, it does not provide a clear framework or

roadmap for addressing arrears owed to MSMEs across other sectors of the economy. This gap leaves many smaller enterprises vulnerable to prolonged payment delays, undermining their financial stability, limiting access to credit, and reducing their capacity to scale operations, despite the broader policy focus on supporting enterprise growth.

28. **The Fourth Medium-Term Plan envisaged a significant expansion of the manufacturing sector's contribution to GDP.** This was projected to increase from 7.8 percent in 2022 to 13.6 percent by 2026 and further to 15 percent by 2027, reflecting an ambitious industrialization agenda anchored on value addition and job creation. In contrast, the Budget Policy Statement largely situates manufacturing and agro-processing growth within selected priority value chains, linking industrial performance to outcomes in agriculture and related supply systems.
29. **The Strength of a Value Chain is determined by the weakest link.** A weakness in any single node of a value chain can undermine the functionality of the entire chain. Each stage is interdependent on the efficiency and reliability of the others. When one segment, whether input supply, production, processing, logistics, or market access, underperforms, the resulting inefficiencies are transmitted through the value chain, leading to supply disruptions, increased costs, quality inconsistencies, and reduced competitiveness. Without balanced and coordinated development across all nodes, gains achieved in one segment can easily be neutralized by failures in another, ultimately constraining sectoral growth and sustainability.
30. **Consequently, the persistent bottlenecks observed across the value chains pose significant risks to the realization of the projected manufacturing targets.** Inefficiencies at one specific node of the chain, such as the delayed completion of the Kenanie Leather Industrial Park, have a ripple effect that constrains complementary interventions, including the effective aggregation and processing of hides and skins. Where anchor infrastructure and coordination mechanisms lag, other value chain activities struggle to achieve scale and efficiency. Without deliberate, well-sequenced, and coordinated interventions to address these systemic weaknesses, the anticipated expansion in manufacturing output and its overall contribution to GDP is likely to fall short of planned targets.
31. **The share of manufacturing in GDP has been on a declining trend, which raises further concern about the realism of the current policy frameworks.** This concern is reinforced by recent performance patterns showing a gradual erosion in the sector's contribution from approximately 8 percent in 2022 to the mid-6 percent range by 2025, with only brief and unsustainable quarterly recoveries in between. The trajectory suggests that

manufacturing growth has lagged behind overall economic expansion, pointing to persistent policy failures and weak value-chain linkages that continue to dilute the sector’s capacity to drive employment creation, export diversification, and long-term industrial transformation.

Figure 4 Percentage Contribution of Manufacturing to GDP



Source: KNBS Data

- 32. **Another key avenue for boosting manufacturing in both MTP IV and the BPS is the development of County Aggregation and Industrial Parks (CAIPs).** Although the BPS indicates that 13 CAIPs have been completed and are operational, it is important to note that, while the National Government has fully disbursed its financial commitment, the parks still face significant operational constraints, including inadequate access roads, unreliable electricity, and limited water connectivity. These challenges are further compounded by the absence of clear provisions in the BPS for the parks’ operationalization and long-term sustainability.
- 33. **Additionally, the MTP IV target aimed for the completion of 47 CAIPs across all counties by FY 2026/27.** With only a year remaining, progress has fallen significantly short of this goal, with only 13 parks nearing completion and some yet to begin. This delay not only undermines the broader objective of promoting value addition and industrialization at the county level but also risks slowing job creation, limiting private sector investment, and constraining the anticipated economic spillovers from fully operational industrial parks.

**2.2 Social Sector**

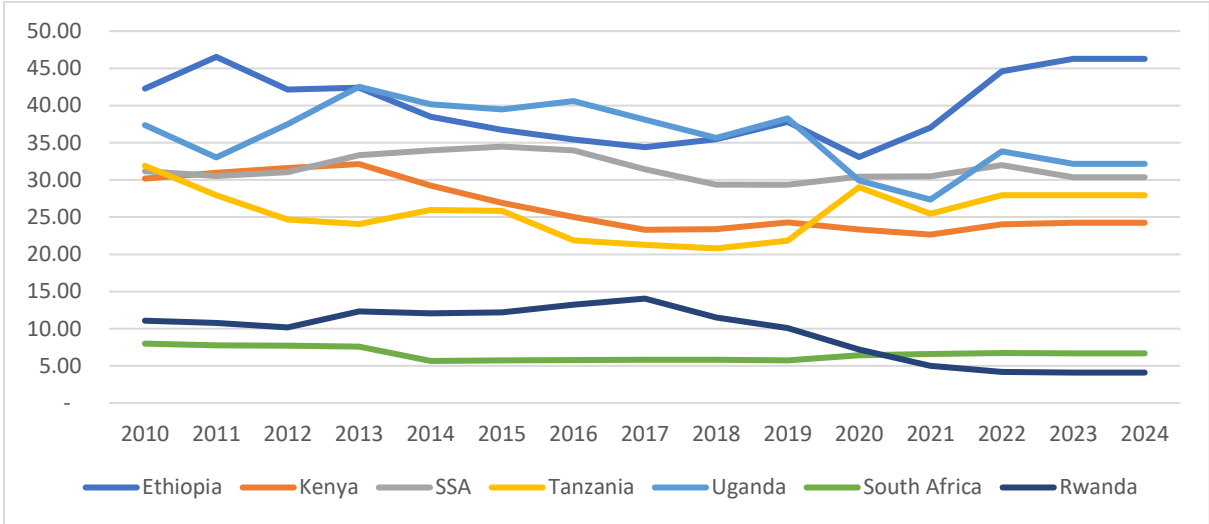
- 34. **The social sector comprises six subsectors that are aimed at enhancing social welfare and quality of life.** There are Health, Education, Labor, and Social Protection, Public Service Delivery and Management, Gender, Culture, and Arts, and Youth and Sports. The sector aims to improve the quality of life of all Kenyans by accelerating human capital

development and social welfare. The health sector is equally one of the pillars of the bottom-up economic transformation agenda.

**2.2.1 Universal Health Coverage**

**35. Health sector reforms over the years have largely aimed to reduce the financial burden of healthcare on households.** However, these efforts have yielded only modest gains, as out-of-pocket (OOP) expenditure declined marginally from about 30 percent to approximately 25 percent over fifteen years. While Kenya’s OOP share remains below the Sub-Saharan Africa average, it is still higher than that of some regional peers, notably South Africa and Rwanda. This underscores the need for sustained efficiency and strengthened administration of the social health insurance fund to enhance financial protection and deliver improved health outcomes at an affordable cost.

*Figure 5 Trend in Out-of-pocket expenditure (% of health expenditure)*



Source: World Development Indicators, World Bank

**36. While significant gains have been realized in mobilizing healthcare financing through enhanced contributions to the Social Health Insurance Fund, service delivery outcomes remain uneven.** The sector continues to grapple with structural human-resource constraints, including remuneration disparities, management of UHC personnel, delayed implementation of collective bargaining agreements, and the slow rollout of digital health records and integrated information systems. These bottlenecks limit efficiency and weaken the translation of increased financing into improved health outcomes.

**37. The BPS does not provide for a child-centric approach to health care delivery.** This includes the training of community health promoters and healthcare workers on tracking, preventing, and mitigating violence against children. This omission represents a critical gap, as

it limits the health system's capacity to protect vulnerable populations and address child-specific health and safety needs.

38. **Persistent overlaps in mandates between the national and county levels of government continue to create inefficiencies in healthcare delivery.** This is particularly in primary healthcare services, such as the management of community health promoters and vaccination programmes. These duplications often result in fragmented planning, inconsistent funding, and blurred accountability, ultimately undermining service coordination and the effectiveness of frontline health interventions.
39. **Greater emphasis has been placed on the construction and establishment of new health facilities, often with limited attention to their operationalization.** There is therefore a need for a more structured and coordinated approach to healthcare facility expansion that adequately considers human resource requirements, availability of medical equipment, and the sustainable provision of medicines and medical supplies to ensure that these facilities are functional and responsive to public needs.
40. **Intergovernmental coordination in the health sector is not clearly articulated in the BPS.** Key areas such as cost-sharing arrangements and the transfer or deployment of health staff to counties remain ambiguous, creating potential gaps in service delivery. Without clearly defined roles, responsibilities, and frameworks for collaboration between the national and county governments, the proposed interventions may not be optimal in delivering quality healthcare services.
41. **The BPS highlights a notable achievement in the health sector, noting that KEMRI developed 638 research proposals and published 1,501 papers.** While this reflects significant research activity, the actual impact of these outputs on advancing universal health coverage remains unquantified. Without evidence demonstrating how the research has informed policy decisions, improved service delivery, or contributed to better health outcomes, it is difficult to assess the practical value of these efforts.

### **2.2.2 Competency-Based Education and Training**

42. **The government has made notable progress in rolling out competency-based education and training (CBET).** Key achievements include the hiring of additional teachers, the provision of learning materials, and the construction of additional facilities, including classrooms, laboratories, and sanitation infrastructure. These efforts are expected to contribute to an improved learning environment and the implementation of a skills-focused

curriculum, which is central to enhancing student outcomes and preparing the future workforce.

43. **The proposal in the BPS to review the legal and regulatory framework and align it with competency-based education and training (CBET) is a welcome development.** Such a review will help ensure that policies, standards, and regulations support the effective implementation of CBET, address existing gaps, and provide clarity on roles, responsibilities, and accountability within the education sector.
44. **Despite these achievements, the education sector continues to face multiple challenges.** Key issues include the adequacy of capitation funds, delays in their disbursement, persistent infrastructure gaps, and the misalignment of teaching resources with students' actual needs. These constraints risk undermining the effective implementation of competency-based education and training, limiting the sector's ability to deliver quality, inclusive, and skills-oriented learning outcomes.
45. **Given the ongoing drought, there is an urgent need to scale up the school feeding programme to support vulnerable learners.** Prolonged food insecurity threatens children's nutrition, cognitive development, and overall health, which in turn can lead to higher absenteeism and poor learning outcomes. Expanding and strengthening the programme would help ensure that students receive at least one nutritious meal per day, maintaining their energy levels, concentration, and capacity to participate actively in learning. In addition, a robust school feeding programme can provide an economic stimulus to local communities by sourcing food from local farmers, thereby supporting agricultural livelihoods.
46. **In view of the ongoing reforms to implement competency-based education, there is a need to optimize existing teaching resources, particularly teachers.** Ensuring that teachers are effectively deployed, aligned with subject and student needs, and supported through continuous professional development is critical to maximizing learning outcomes. Proper utilization of existing human resources can also help address gaps in curriculum delivery, reduce inequities across schools, and strengthen the overall impact of competency-based education without necessarily requiring additional staffing.
47. **Continuous retooling of teachers is essential for the effective delivery of competency-based education and training.** This includes not only subject-specific pedagogical training but also capacity building in areas such as psychosocial support, enabling teachers to address learners' emotional, social, and mental health needs. Equipping teachers with these skills ensures a holistic learning environment, enhances student engagement, and

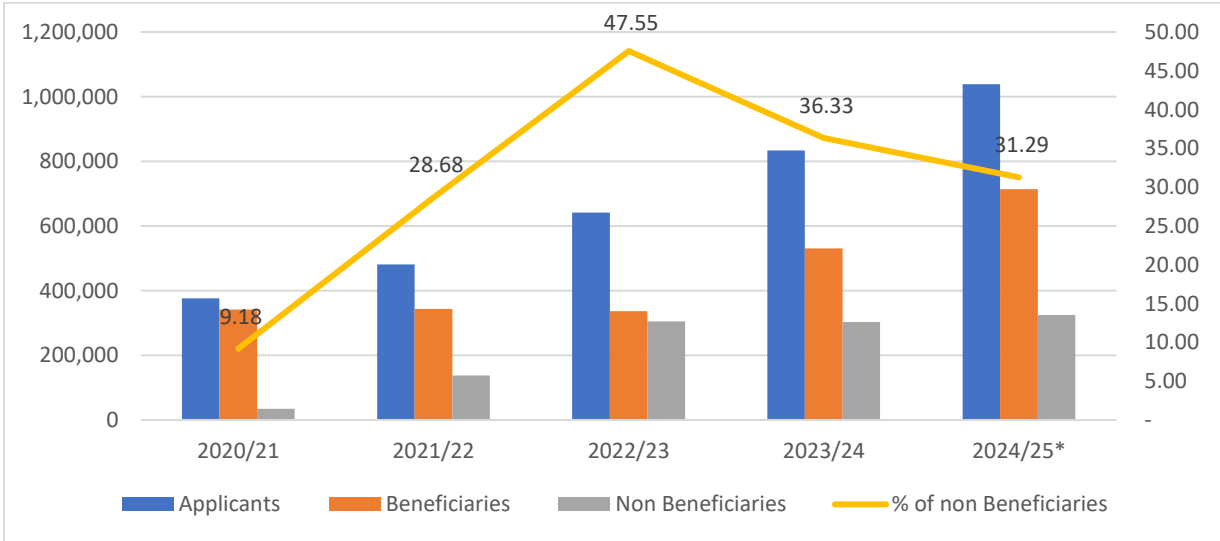
improves overall learning outcomes, particularly for learners facing personal or socio-economic challenges.

**48. Learning institutions have been struggling with delays in the disbursement of capitation funds.** This hampers the smooth functioning of institutions and the timely delivery of education programs. A key factor contributing to these delays is the misalignment between the education calendar and the fiscal year calendar, creating planning and cash-flow challenges for schools. Addressing this issue requires improved coordination and forward planning to ensure that funds are disbursed promptly.

**49. Some institutions, particularly primary schools, have been struggling with low capitation funds that are inadequate to sustain basic school operations.** This highlights the need for policy consideration of introducing a minimum baseline allocation required to run a school, ensuring that essential functions such as staffing and utilities are adequately funded. Additional allocations could then be determined based on enrolment numbers, creating a more equitable and predictable funding framework that supports both operational stability and scalability as student populations grow.

**50. The number of applicants to the Higher Education Loans Board continues to rise while the resources available have remained relatively stagnant.** Consequently, the proportion of eligible students who do not receive support has increased significantly, from about 9 percent in FY 2021/22 to approximately 31 percent in FY 2024/25. This widening gap highlights growing pressure on higher education financing and raises concerns about equitable access to tertiary education, particularly for students from low-income households.

Figure 6 HELB Loan Applicants and Beneficiaries



Source: Economic Survey, 2025

**51. The MTP IV conceptualized the Talanta Hela Programme to promote youth talent in sports, the creative industry, and the digital space.** This was to be achieved through structured identification, nurturing, and monetization of talent. It also aimed to streamline royalty collection and distribution and reform the inter-county licensing regime. However, despite its significance for youth empowerment and job creation, the programme appears to have lost momentum, and the 2026 Budget Policy Statement does not refer to it, raising concerns about policy continuity and prioritization.

### **2.2.3 Social Protection**

**52. Social protection plays a critical role in supporting vulnerable households by providing income security and access to essential services, thereby reducing inequality and poverty.** Through instruments such as cash transfers, social insurance, public works programmes, capitation grants to schools, and targeted subsidies, it cushions households against economic shocks, unemployment, disability, and old age.

**53. Evidence indicates that cash transfer programmes are among the most progressive social protection instruments.** They are more effectively targeted toward the poorest and most vulnerable households in society and also give beneficiary households the flexibility to allocate resources according to their most pressing needs, whether food, healthcare, education, or small-scale investments. This autonomy enhances household welfare, promotes dignity, and often leads to more efficient and context-specific use of available resources<sup>1</sup>.

**54. Currently, the Government is implementing several cash transfer programmes.** These include the Nutrition Improvement through Cash and Health Education (NICHE), the Cash Transfer for Orphans and Vulnerable Children (CT-OVC), the Cash Transfer for Older Persons (Inua Jamii), and the Cash Transfer for Persons with Severe Disabilities (CT-PWSD). These programmes provide income support to vulnerable groups, enhance household consumption, and improve access to essential services such as education, nutrition, and healthcare.

**55. The major bottlenecks facing cash transfer programmes are the low benefit levels and limited coverage.** The BPS does not address this adequately, even though, in many cases, the transfer amounts are too modest to fully shield beneficiaries from rising living costs. At the same time, constrained fiscal space and administrative challenges have resulted in many eligible and vulnerable households remaining excluded from the program.

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<sup>1</sup> Impact of Kenya's Fiscal Choices on Poverty and Inequality, UNICEF, 2025

**56. Greater focus should be placed on households with Orphans and Vulnerable Children to more effectively address child poverty and its long-term consequences.**

Targeting these households can significantly improve nutritional outcomes, enhance school retention and attendance, and reduce the risk of child labour and early dropout. Thereby, safeguarding human capital development, breaking intergenerational cycles of poverty, and contributing to inclusive and sustainable socioeconomic progress.

**57. The Childcare Reform Strategy aims at the phased closure of children’s homes and the transition of vulnerable children to Alternative Family-Based Care options.**

This is in line with best practices that prioritize family and community care over institutionalization. While the BPS commits to placing 50,000 children into Alternative Family-Based Care arrangements, progress has been considerably slow, with only about 1,500 children placed over the last three years. This gap raises concerns about the feasibility of the targets, the adequacy of funding, and institutional preparedness.

## **2.3 Infrastructure Sector**

### **2.3.1 Housing and Settlement**

**58. Housing and settlement remain a critical pillar of the Bottom-Up Economic**

**Transformation Agenda.** The Affordable Housing Programme is positioned as a key driver in efforts to reduce the housing deficit, expand access to homeownership, and stimulate construction-led economic growth. By promoting large-scale housing development, the programme is expected not only to improve living conditions for low- and middle-income households but also to create employment opportunities, strengthen local supply chains, and contribute to broader economic dynamism

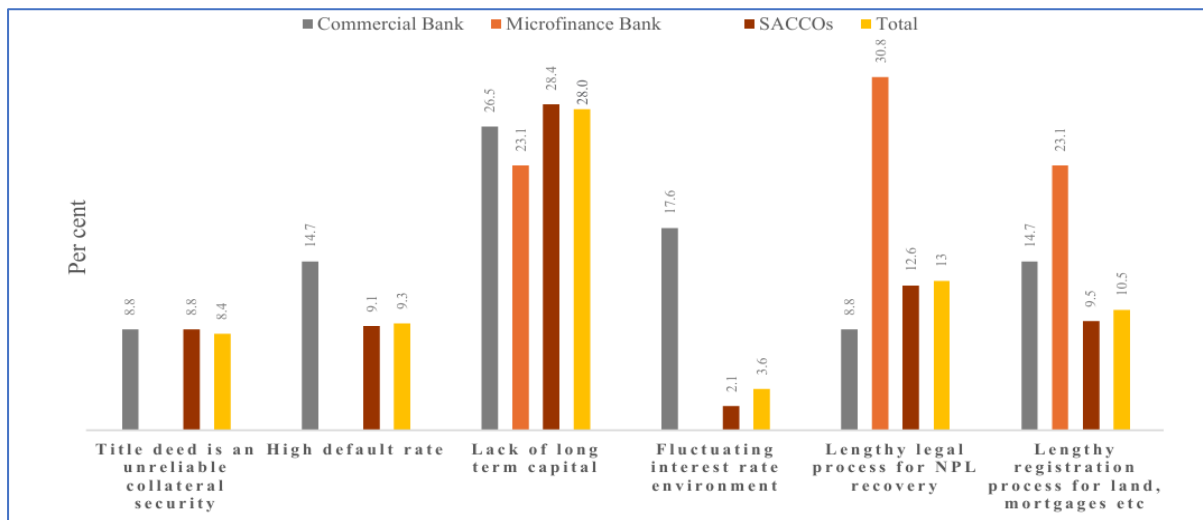
**59. The MTP IV envisaged the delivery of 200,000 housing units per year; however, between 2022 and 2025, progress has been limited.**

During this period, only 214,057 housing units were reported to be under construction, and just 1,189 units have been completed and handed over. This slow pace highlights challenges in project implementation and coordination, which continue to constrain the programme’s ability to meaningfully reduce the national housing deficit, ignite the construction industry, and create jobs.

**60. The Affordable Housing Fund, along with the ongoing construction of affordable houses, is**

designed to address supply-side constraints in the housing sector. By providing financing support to developers and facilitating large-scale housing projects, these initiatives aim to increase the availability of affordable homes, reduce the housing backlog, and make homeownership more accessible to low- and middle-income households.

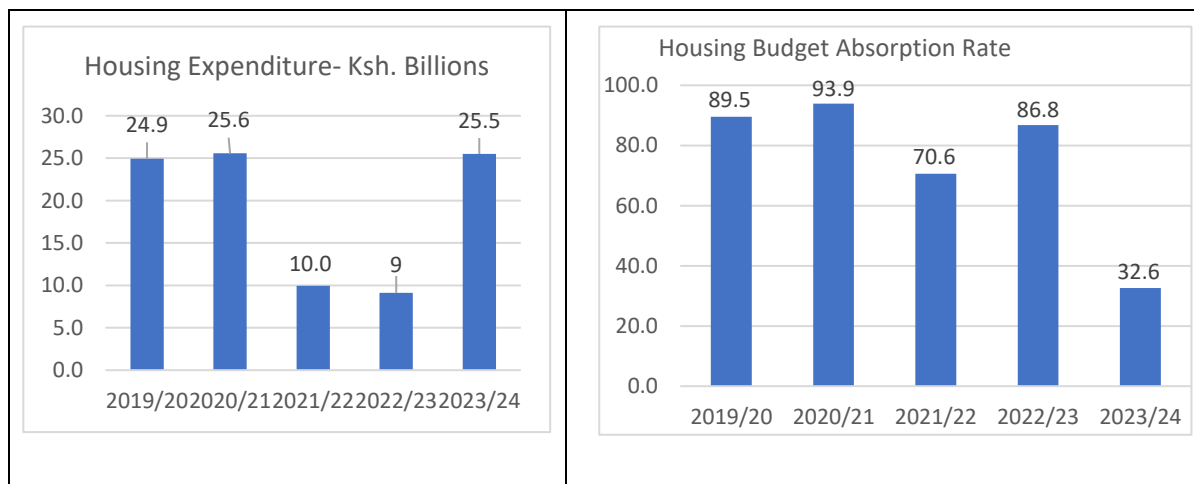
Figure 7 Barriers to Lending for Mortgage and Construction Financing



Source: Kenya Housing Survey, KNBS, 2024

61. The BPS does not specify how many new housing units are planned for initiation in FY 2026/27. The absence of a clear pipeline linking housing levy inflows to project initiation, progress, completion, and eventual occupancy undermines transparency and accountability, making it difficult to track performance, assess resource utilization, and ensure that the Affordable Housing Programme effectively addresses the housing deficit.
62. **The allocation and collection of funds for the Affordable Housing Programme have been increasing; however, absorption rates remain low.** This is limiting the effectiveness of the programme in delivering housing units and fully utilizing available resources. While the BPS 2026 aims to expand housing delivery, it does not outline measures to address these persistently low budget absorption rates, raising concerns about the efficient use of funds and the timely completion of projects.

Figure 8 Budget Allocation and Absorption of the Housing Sector

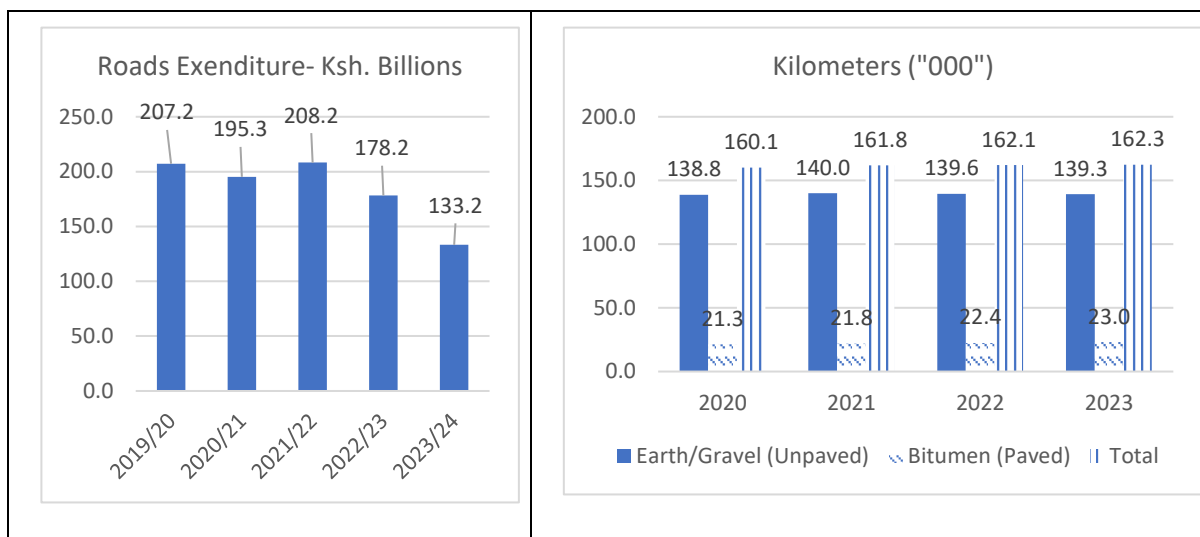


Source: KNBS Data (2025)

### **1.2.1 Roads and Energy**

- 63. The BPS recognizes the critical role that road and transport infrastructure play in the country's economic development.** Consequently, the Government plans to prioritize the construction and rehabilitation of road networks to enhance connectivity nationwide. Specifically, 1,891 kilometres of roads are slated for construction, 515 kilometres for rehabilitation, and 1,224 kilometres for periodic maintenance. In addition, 78,320 kilometres of roads will undergo routine maintenance.
- 64. The Government has committed to addressing the perennial challenge of pending bills in the road sector through the securitization of the Road Maintenance Levy Fund (RMLF).** However, there are no policy measures proposed in the BPS to prevent the accumulation of new pending bills. This gap risks undermining the sector's effectiveness, as unchecked arrears could delay project implementation, disrupt maintenance schedules, and hinder the overall contribution of road infrastructure to economic growth.
- 65. The infrastructure sector has been criticized for lacking a "face of Kenya," reflecting inequities in the distribution of development projects across regions.** The BPS, however, does not provide a strategic direction to address these disparities, leaving concerns about regional imbalances in access to infrastructure, equitable service delivery, and the inclusive contribution of infrastructure investments to national development.
- 66. Expenditure on roads has been declining, from a high of Ksh. 208.2 billion in FY 2021/22 to Ksh. 133.2 billion in FY 2023/24.** Over the four years from 2021 to 2024, the total road network increased by only 2,200 kilometres. The plan to construct 1,891 kilometres, rehabilitate, and maintain thousands of additional kilometres is highly ambitious, given historical implementation rates and the limited fiscal envelope.

*Figure 9 Road Sector Allocation and Kilometers Tarmacked*



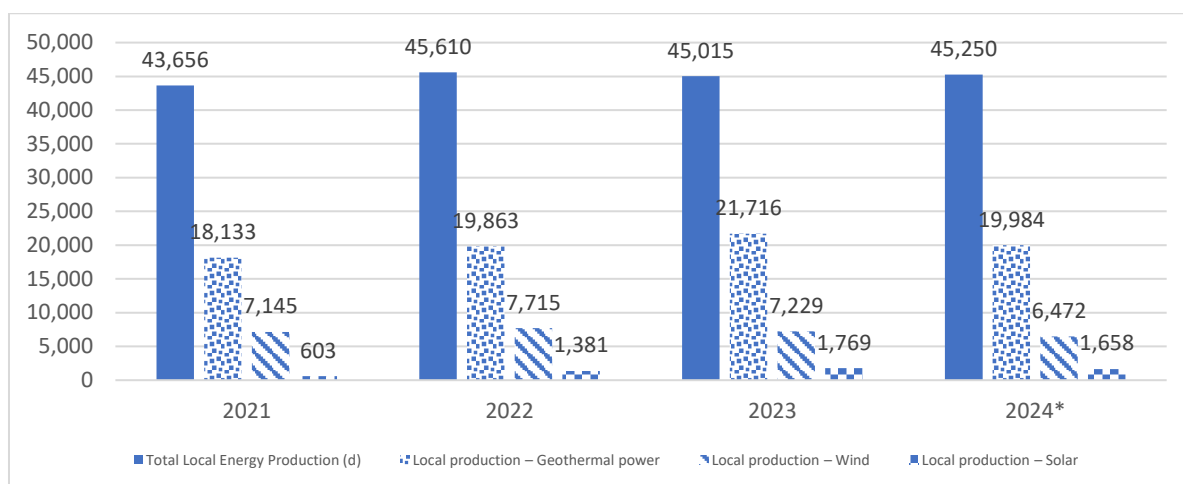
Source: KNBS Data (2025)

67. **To address financing constraints in the infrastructure sector, the BPS commits to the establishment of the National Infrastructure Fund and the Sovereign Wealth Fund.** These funds are intended to be leveraged by the Government to mobilize additional resources for infrastructure development, enhance project financing, and support the timely implementation of critical road, transport, and other public infrastructure projects.
68. **The Government has established multiple development funds over the years.** These include the Road Maintenance Levy Fund (RMLF), Railway Development Fund, Petroleum Development Fund, Sports Development Fund, and, more recently, the Affordable Housing Fund. However, the BPS does not clarify the fate of these existing funds with the introduction of the National Infrastructure Fund, creating uncertainty about their continued role, integration, or potential consolidation, and raising concerns about coordination, efficiency, and transparency in infrastructure financing.
69. **Some of the existing development funds have been criticized for lacking transparency and accountability.** This is particularly in determining project pipelines and in their operations outside the scrutiny of key oversight institutions such as the Controller of Budget and, at times, Parliament. This weak governance limits effective monitoring of resource utilization and raises concerns about the efficiency of the proposed infrastructure fund as a magical bullet to infrastructure financing and project implementation.
70. **The National Infrastructure Fund framework also lacks clarity on how it will coordinate infrastructure development with parent ministries and other specialized government agencies.** This raises concerns about potential overlaps,

fragmented planning, and inefficiencies, which could undermine the effectiveness of infrastructure investments and delay the implementation of priority projects.

71. **To reduce transmission losses across the national grid, the BPS notes that the Government aims to rehabilitate and modernize transmission assets.** This includes expanding high-voltage transmission lines and substations, and strengthening energy infrastructure. These measures are designed to enhance efficiency, reliability, and capacity, with the broader goal of achieving 100 percent electricity connectivity over the medium term, thereby supporting economic growth and equitable access to power across the country.
72. **The BPS notes that national power generation capacity is planned to be increased by an additional 10,000 megawatts (MW).** This is to be achieved through a mix of geothermal, wind, solar, and hydroelectric projects. This expansion aims to support industrial growth, improve energy security, and ensure a reliable and sustainable power supply to meet the country's growing demand.
73. **The BPS, however, does not address critical issues related to the high cost of power.** The high-power bill continues to hinder business competitiveness and industrial growth. Without measures to reduce tariffs or improve cost-efficiency in power generation and distribution, the expansion in generation capacity may have a limited impact on lowering production costs and supporting private sector development.
74. **There are no policy pronouncements in the BPS regarding the role of Independent Power Producers (IPPs) in the proposed expansion of generation capacity.** Yet, the high cost of power in the country has been partly attributed to tariffs and contractual arrangements with IPPs. Without clear guidance on how IPPs will be integrated, managed, or regulated, the planned expansion risks further increasing generation costs, potentially limiting the affordability of electricity for businesses and households.
75. **Total local energy production increased modestly from 43,656 GWh in 2021 to 45,250 GWh in 2024.** This reflects an overall growth of about 1,594 GWh over the four years. Geothermal production rose from 18,133 GWh in 2021 to a peak of 21,716 GWh in 2023 before declining to 19,984 GWh in 2024, while wind generation increased slightly between 2021 and 2023 but dropped significantly to 6,472 GWh in 2024, continuing a downward trend since 2022. Against this backdrop of modest and volatile growth in output, the target of adding 10,000 MW in the medium term appears highly ambitious relative to historical performance.

Figure 10 Trend Energy Generation in Kenya (MW)



Source: Economic Survey, KNBS, 2025

- 76. The BPS highlights that the Government has continued to enhance the country’s irrigation infrastructure, expanding coverage by an additional 108,210 acres.** This expansion has primarily been achieved through community-managed initiatives and smallholder irrigation projects, thereby supporting agricultural productivity and food security at the grassroots level. To scale these gains, the Government intends to realize additional key investments, including the Thwake Dam and the Galana-Kulalu Irrigation Project.
- 77. However, the Government appears to face recurring implementation challenges in delivering mega water infrastructure projects.** This is often characterized by cost overruns, delays, or stalled execution, while comparatively stronger results have been observed in small- to medium-scale, community-based water supply and irrigation initiatives. Consequently, policy and budget priorities may require recalibration toward scalable community-level investments supported by strengthened local governance, maintenance financing, and technical oversight where delivery capacity and social impact have proven more reliable and immediate.
- 78. The Government had previously expressed optimism about leveraging public-private partnerships (PPPs) to address persistent water shortages.** However, beyond limited measures such as amendments to the Water Act of 2016, there is little evidence of substantive progress in translating this optimism into large-scale, operational projects. This gap underscores the need for a more rigorous and transparent assessment of the feasibility, bankability, and institutional readiness of PPP models within the water sector.

## 2.4 Land and Natural Resources Sector

79. **The Fourth Medium-Term Plan is cognizant of the enormous underutilized potential of the blue economy.** The blue economy refers to initiatives aimed at harnessing the untapped potential of seas, coasts, and oceans for job creation and economic growth, while ensuring the sustainable management of marine ecosystems. This potential remains largely underexploited despite the positioning of Kenya to leverage maritime trade, fisheries, aquaculture, coastal tourism, and marine technology as drivers of economic growth, job creation, and diversification.
80. **Despite this recognition, the country has made limited progress in foundational activities necessary to unlock the sector's potential.** In particular, there has been insufficient consolidation of value chain actors into structured common interest groups to facilitate coordinated engagement and market access. The absence of strong value chain organizations and industry players constrains the ability to attract investment and scale interventions.
81. **While the BPS highlights progress across key activities in the mining value chain, these efforts appear largely administrative and regulatory in nature.** These include the issuance of 7,783 mineral export permits, 6,427 explosives licences, and 472 fireworks permits—alongside inspections of exploration sites, mining operations, and explosives handling facilities.
82. **However, despite these interventions, the transformative momentum envisioned under MTP IV appears to have slowed over time.** There is limited evidence of significant progress in downstream value addition, large-scale investment mobilization, or the operationalization of strategic mineral development projects. This suggests a need to recalibrate implementation efforts toward commercialization and stronger integration of the mining sector into broader industrialization and growth strategies.
83. **MTP IV set an ambitious target of planting 7.5 billion trees by 2027 as part of the national climate mitigation and environmental restoration agenda.** However, the BPS reports that only about one billion trees have been planted so far, suggesting that implementation is significantly off track relative to the set timeline. Moreover, there is no data provided on the survival rate of the planted trees, which is a critical metric in assessing the effectiveness and sustainability of the restoration programme.

## Criteria 2

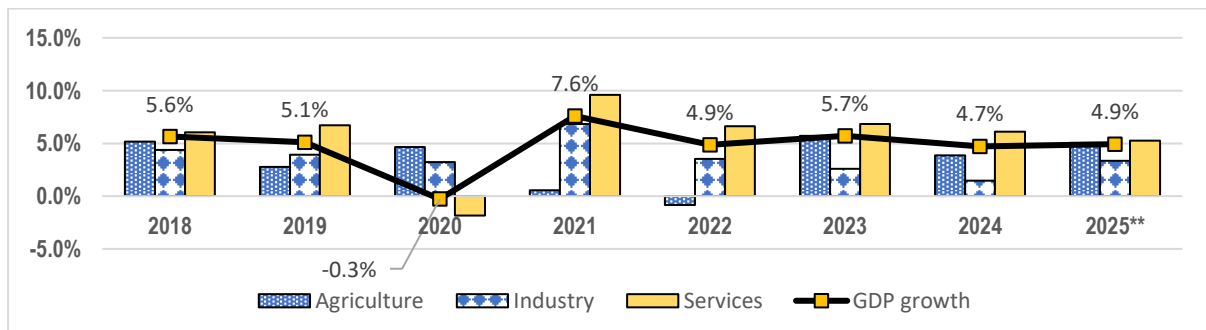
### 3.0 Credibility of the Macroeconomic Framework

*This criterion considers the realism of assumptions underpinning the macroeconomic outlook and the credibility of the outlook for the projected macro variables.*

#### 3.1 Economic Growth

84. **The National Treasury projects GDP growth at 5.0 percent in 2025 and 5.3 percent in 2026, up from 4.7 percent in 2024.** The projections are anchored on a rebound in agriculture supported by climate-smart investments, strengthened agro-processing linkages and assumptions of favourable weather conditions; recovery in construction, due to clearance of pending bills and resumption of stalled infrastructure projects, as well as lower production costs in industry and resilient performance in services, especially tourism and transport. However, while these assumptions are plausible, recent data show that GDP growth averaged 4.9 percent in the first three quarters of 2025, with agriculture exhibiting signs of vulnerability to climate-related shocks and services moderating in some key subsectors.
85. **The Parliamentary Budget Office projects growth at 4.9 percent in 2025 and 5.0 percent in 2026, reflecting a more cautious outlook.** The PBO forecast assumes sustained activity in services and gradual improvement in industry, driven by construction recovery and easing production costs, but factors in continued climate risks affecting agriculture<sup>2</sup>. While the Treasury's projections remain achievable under favourable conditions, attaining them will require stable weather patterns, sustained fiscal space to support infrastructure implementation, and continued strengthening of private sector demand as well as credit growth.

Figure 11 Economic growth for the period 2018 to 2025



Data Source: Kenya National Bureau of Statistics      2025\*\* Average for the first three quarters

<sup>2</sup> A stress test assuming a 1% decline in agriculture suggests overall GDP growth would fall by 0.2%, reflecting the economy's vulnerability to agricultural shocks and the importance of diversification to mitigate downside risks.

**86. In the third quarter of 2025, Kenya's growth profile indicates improving sectoral performance compared to the third quarter of 2024, although emerging vulnerabilities pose risks to growth projections.** The primary sector rebounded from 2.9 percent to 4.0 percent, largely driven by a recovery in mining and quarrying following increased demand for construction materials linked to major government infrastructure projects as well as supportive government policies geared towards mining activities. However, agriculture the dominant sub-sector slowed to 3.2 percent due to unpredictable weather patterns, exposing growth to climate-related shocks. The industry sector strengthened from 0.3 percent to 4.1 percent, supported by recovery in construction, settlement of pending bills in the road sector through funds raised by securitization of the Roads Maintenance Levy Fund, the affordable housing programme, and modest improvements in manufacturing. Meanwhile, the services sector decelerated slightly from 5.7 percent to 5.4 percent, reflecting softer demand in accommodation and food services, finance, real estate and ICT, despite improved wholesale trade and transport a likely indication of the transmission of lower interest rates improving credit access.

**87. GDP growth stabilized at 4.9 percent by the third quarter of 2025. However, looking ahead, there are downside risks to achieving the 2026 growth projections.** The risks include weather-related agricultural shocks, potential delays in infrastructure financing and implementation, fiscal constraints limiting continued construction momentum and risks in domestic demand affecting services. **Sustaining** projected growth will therefore depend on climate resilience in agriculture, fiscal space to maintain public investment, improved private sector credit expansion and stable macroeconomic conditions.

Table 2 Quarterly GDP growth rates for the period 2023 to 2025

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3
<b>1. Primary</b>	<b>5.4%</b>	<b>7.0%</b>	<b>4.8%</b>	<b>5.4%</b>	<b>4.5%</b>	<b>4.0%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>6.2%</b>	<b>4.9%</b>	<b>4.0%</b>
Agriculture	6.5%	7.9%	5.1%	6.3%	5.6%	4.5%	4.0%	4.3%	6.0%	4.4%	3.2%
Mining and quarrying	- 10.6%	-8.1%	0.6%	-7.5%	- 16.1%	-5.5%	- 12.2%	-2.3%	10.8%	15.3%	16.6%
<b>2. Industry</b>	<b>2.1%</b>	<b>1.9%</b>	<b>3.4%</b>	<b>2.9%</b>	<b>1.5%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>3.4%</b>	<b>2.6%</b>	<b>3.3%</b>	<b>4.1%</b>
Manufacturing	2.1%	2.0%	2.8%	1.8%	1.9%	3.2%	2.3%	3.9%	2.1%	1.0%	2.5%
Electricity and water supply	3.8%	3.1%	3.8%	2.0%	2.8%	1.2%	0.9%	2.7%	3.6%	5.7%	3.6%
Construction	1.4%	1.4%	4.1%	4.9%	0.4%	-3.7%	-2.6%	2.9%	3.0%	5.7%	6.7%
<b>3. Services</b>	<b>6.6%</b>	<b>6.4%</b>	<b>7.3%</b>	<b>7.0%</b>	<b>6.8%</b>	<b>6.2%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>4.8%</b>	<b>5.5%</b>	<b>5.4%</b>
Wholesale and retail trade	3.7%	2.8%	3.7%	3.0%	3.6%	2.5%	2.6%	6.4%	5.4%	4.1%	4.8%
Accommodation and food services	46.3%	42.3%	34.5%	18.9%	38.1%	35.0%	22.9%	10.9%	4.1%	7.8%	17.7%
Transport and storage	6.8%	3.8%	4.5%	7.2%	4.1%	3.4%	4.6%	5.6%	3.7%	5.4%	5.2%

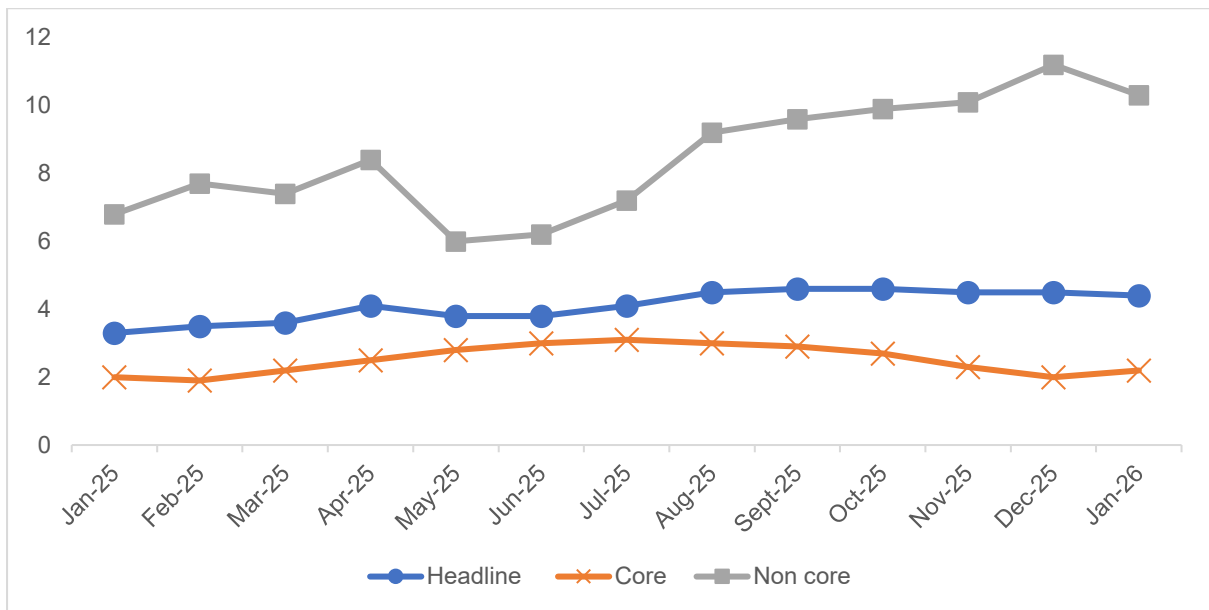
Information and communication	10.4%	8.4%	9.8%	12.5%	9.2%	6.7%	6.9%	5.6%	5.8%	6.0%	4.5%
Financial & insurance	4.7%	11.1%	13.7%	10.7%	9.6%	8.0%	7.3%	6.0%	5.2%	6.7%	5.4%
Public administration	8.4%	4.0%	5.0%	3.0%	7.5%	9.0%	7.3%	9.2%	6.5%	6.0%	5.1%
Professional admin and support services	8.6%	6.7%	10.1%	13.7%	9.4%	6.7%	4.5%	4.7%	4.6%	8.5%	6.1%
Real estate	6.6%	7.5%	7.8%	7.3%	6.9%	5.9%	4.8%	3.6%	5.3%	5.5%	5.7%
Education	3.6%	2.9%	2.6%	2.5%	2.4%	3.2%	4.8%	5.4%	2.9%	3.2%	3.4%
Health	4.8%	4.2%	4.5%	4.5%	5.4%	8.1%	6.2%	5.6%	4.8%	6.8%	4.1%
other services	4.1%	3.0%	6.3%	3.9%	5.1%	4.8%	4.9%	4.0%	3.0%	1.8%	6.2%
FISIM	0.4%	5.1%	8.2%	-2.0%	15.4%	10.3%	11.0%	0.7%	2.4%	1.8%	3.6%
<b>GDP at market prices</b>	<b>5.4%</b>	<b>5.5%</b>	<b>5.9%</b>	<b>6.1%</b>	<b>4.9%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>5.1%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>4.9%</b>

Data Source: Kenya National Bureau of Statistics

### 3.2 Inflation

- 88. Inflation has remained broadly stable and within the Central Bank’s target range of 5 percent (+) or (–) 2.5 percent.** Headline inflation increased gradually from 3.3 percent in January 2025 to 4.6 percent in both September and October, before easing slightly to 4.4 percent in January 2026. This reflects a continued but moderate rise in overall prices. Core inflation, which excludes the more volatile categories of **food** and **fuel**, remained subdued—reaching a peak of 3.1 percent mid-year before declining to 2.2 percent, as illustrated in Figure 2. These trends suggest that domestic demand pressures are contained and that monetary policy has been effective in anchoring inflation expectations.
- 89. Non-core inflation, driven by changes in food and energy prices, reached 11.2 percent in December 2025 and remained elevated at 10.3 percent in January 2026 (see Figure 2).** This increase is mainly due to supply-side factors like unstable weather, global commodity price swings, higher import costs, and external shocks such as supply chain issues and geopolitical tensions affecting oil prices. These supply-side shocks are largely beyond monetary policy control. Fiscal measures such as supporting agriculture and improving supply chains, are crucial for food security and stabilizing prices, alongside responsible monetary management. Supply disruptions quickly lead to higher food, fuel, transport, and household goods costs. While monetary policy is key for controlling inflation, it’s less effective against food or external price shocks; hence, fiscal policy plays an important complementary role.

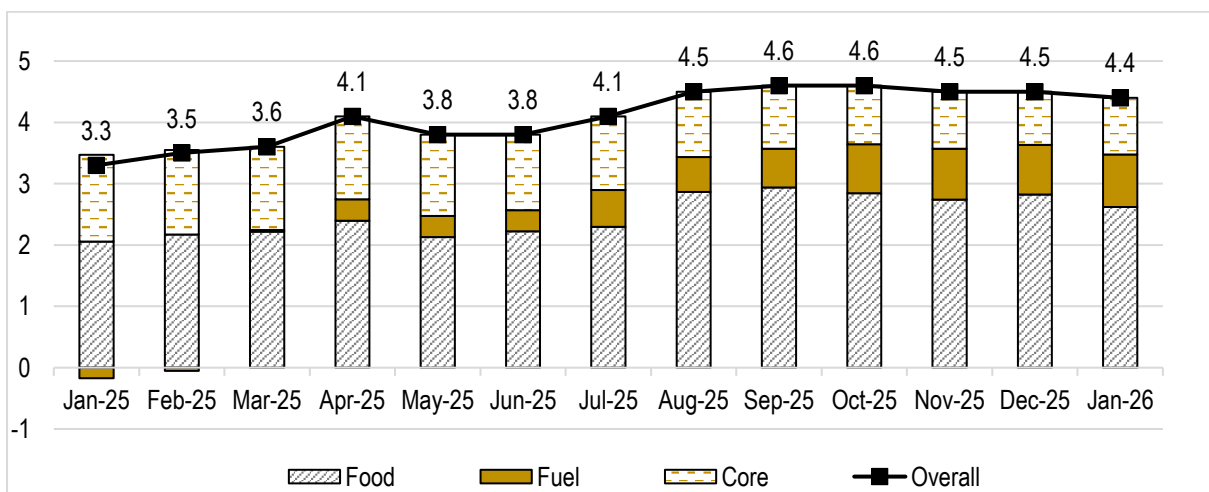
*Figure 12 Inflation rates for the period January 2025 to January 2026*



Data Source: Kenya National Bureau of Statistics

90. **The contribution of these components to overall inflation and food consistently made the largest contribution, peaking from August 2025 (Figure 3).** This is an indication of supply side pressures such as weather-related disruptions. The contribution of food to overall inflation rose from 2.1 percent in January 2025 to 2.6 percent in January 2026. Similarly, the contribution of fuel to inflation rose steadily **during** the year, indicating growing energy cost pressures, likely linked to global oil price movements. Notably, core inflation declined gradually, showing that underlying demand pressures remained moderate and that inflation was not driven by excessive consumer spending or credit growth. Despite potential increase in food and fuel inflation, overall inflation is likely to stay within the CBK’s target range.

Figure 13 Contribution to inflation for the period January 2025 to January 2026



Data Source: PBO diagnostics

### 3.3 Interest Rates and Credit

91. **In 2025, monetary conditions eased significantly as the Central Bank reduced the policy rate from 11.25 percent to 8.75 percent by February 2026, which was reflected in lower short-term Treasury bill rates.** According to Table 2, commercial lending rates also decreased, though at a **slower** pace. The gap between lending and deposit rates persisted at over 7 percentage points, highlighting ongoing challenges within the banking sector that prevent lending rates from falling as quickly as the CBR rate. Importantly, the economic effects of KESONIA have not yet fully materialized, and it is still unclear how this will impact liquidity and borrowing costs in the banking sector.

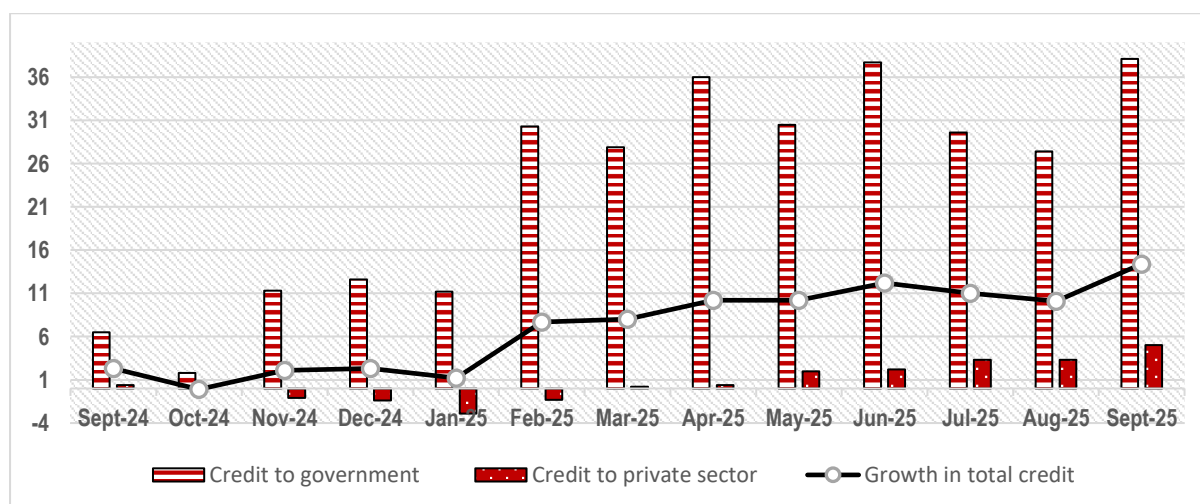
Table 3 Interest rates (%) for the period December 2024 to December 2025

	Deposit rate	Savings rate	Lending rate	Central Bank Rate	91-day T-bill	182-day T-bill	364-day T-bill
<b>Dec-24</b>	10.45	4.25	16.89	11.25	10.32	10.39	11.83
<b>Jan-25</b>	10.05	4.08	16.64	11.25	9.63	10.03	11.33
<b>Feb-25</b>	9.76	4.02	16.41	10.75	9.14	9.57	10.8
<b>Mar-25</b>	9.33	3.09	15.77	10.75	8.88	9.13	10.47
<b>Apr-25</b>	8.87	3.66	15.65	10	8.51	9.15	10.18
<b>May-25</b>	8.7	3.31	15.44	10	8.37	8.59	10.01
<b>Jun-25</b>	8.37	3.76	15.29	9.75	8.21	8.51	9.84
<b>Jul-25</b>	8.07	3.76	15.24	9.75	8.13	8.44	9.72
<b>Aug-25</b>	7.74	3.61	15.17	9.5	8.05	8.19	9.65
<b>Sep-25</b>	7.63	3.77	15.07	9.5	7.96	8.02	9.55
<b>Oct-25</b>	7.5	3.76	15	9.25	7.88	7.92	9.41
<b>Nov-25</b>	7.28	3.67	14.88	9.25	7.79	7.82	9.36
<b>Dec-25</b>	7.13	3.22	14.82	9	7.78	7.8	9.28

Data Source: Central Bank of Kenya

92. **Although monetary easing has improved liquidity and lowered government short-term borrowing costs, its benefits for the private sector remain limited.** Credit to the government surged from 6.5 percent in September 2024 to 38.1 percent in September 2025, while private sector credit only modestly grew to 5 percent by September 2025 (see Figure 4). This growth was mainly driven by increased government borrowing rather than private investment, raising concerns about crowding out businesses and households. The shift to greater domestic financing reflected tighter access to international markets. Higher domestic government borrowing may absorb banking sector liquidity, limit private sector credit, and slow investment and job creation. If this trend persists, it could undermine the impact of monetary easing and hamper economic growth. Strengthened fiscal consolidation, diversified financing, and lower-cost private-sector credit are essential for macroeconomic stability.

Figure 14 Growth in credit (%) for the period September 2024 to September 2025



Data Source: Central Bank of Kenya

**93. Credit recovery in the private sector was largely propelled by construction, agriculture, and manufacturing.** Although certain industries continue to face challenges, signalling that improved financial conditions have not yet fully reached all areas of the economy. Private sector credit growth rose from contraction levels in 2024 to 5 percent by September 2025, but results varied widely across different sectors. The construction and building sector experienced the most pronounced resurgence, expanding rapidly by 52.9 percent as of September 2025—a sign of increased infrastructure investment activity. Table 3 further illustrates that manufacturing has steadily regained ground, moving from ongoing declines to 11.1 percent growth by September 2025, while agriculture sustained robust, stable expansion, reaching 12.7 percent. Credit uptake also improved within trade and consumer durables. On the other hand, finance and insurance, mining and quarrying, and business services remained lagging. Credit to private households stayed low too, likely due to cautious lending from banks and limited household income. This trend may curb domestic demand and slow economic growth by reducing private consumption.

Table 4 Sectoral Growth in credit to Private Sector

% Growth per sector	Sep -24	Oct -24	Nov -24	Dec -24	Jan- 25	Feb -25	Mar -25	Apr -25	May -25	Jun- 25	Jul- 25	Aug -25	Sep -25
<b>Credit to private sector</b>	<b>0.4</b>	<b>0</b>	<b>-1.1</b>	<b>-1.4</b>	<b>-2.9</b>	<b>-1.3</b>	<b>0.2</b>	<b>0.4</b>	<b>2</b>	<b>2.2</b>	<b>3.3</b>	<b>3.3</b>	<b>5</b>
Agriculture	7.2	8.9	4.2	5.1	-1.1	2.6	8.4	12.1	9.7	12.6	10.3	10.2	12.7
Manufacturing	-14.3	-11.6	-10.5	-9.4	-10.7	-5.1	-6.3	-0.9	1	3.1	2.4	1.7	11.1
Trade	6.5	4.7	2.2	2.3	1	2.4	5.8	5.6	7.7	10.1	12	10.1	3.9
Building and construction	-13.4	-16.7	-2.2	-6.1	-0.2	-3.4	12	6.1	19.8	25	38.8	49.6	52.9
Transport & communications	1.4	8	1.2	1.6	3.2	6.5	4.8	-0.7	1.3	-2	-0.6	0.4	-1.3

Finance & insurance	0.3	-5.2	-9.1	-21.2	-9.4	-14.9	-18.8	-8.3	-6.3	-6.7	0.2	-3.3	-1.3
Real estate	2.3	2.8	2.2	1.3	-0.1	1.4	2.4	1.8	0.1	1.6	2.1	2.8	1
Mining and quarrying	96.7	26.3	6.4	-22.9	-25.1	-26.5	-44.3	-39.5	-38.4	-47.1	-	-59	-56.3
Private households	7	5.9	4.7	9.2	0.2	-2.1	-0.9	-1.6	-0.4	-0.2	0.8	-0.3	-0.7
Consumer durables	2.7	3.3	2.2	3.3	3.8	5.2	8.1	7.9	8.7	9.6	10.3	9.1	12.2
Business services	-2.8	-3.8	-1.6	-4.5	-5.8	-1.8	-13.1	-7.1	-9	-10	-8.9	-5.1	-4.2
Other activities	-7.4	-16.1	-18.6	-18.2	-30	-26.5	-0.8	-20.6	-12.6	-24.8	-	-20.3	11.4
											27.8		

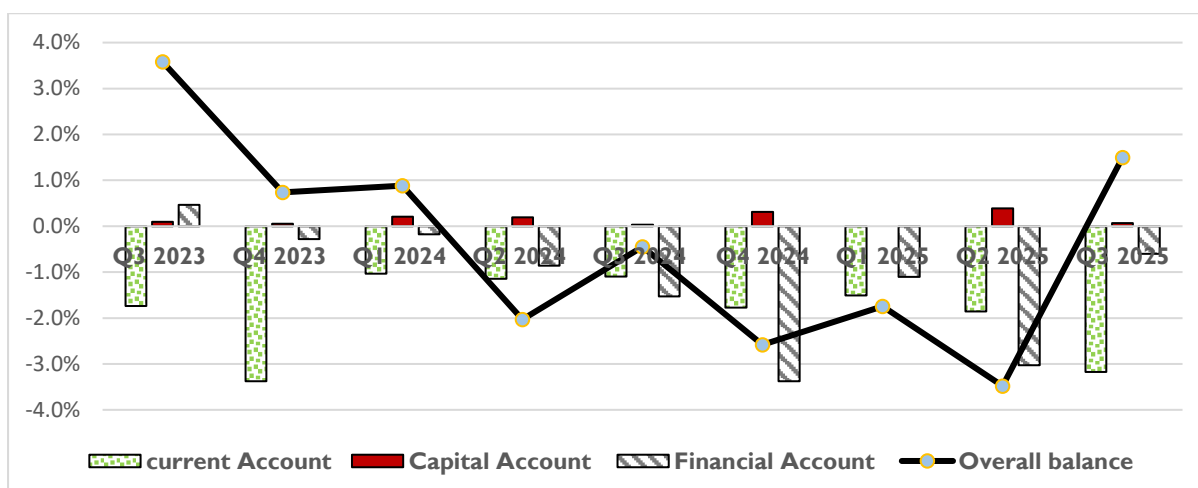
Data Source: Central Bank of Kenya

### 3,4 Balance of payments

94. **The balance of payments data indicate persistent external sector deficits over recent years.** Throughout 2023 and into 2025, the current account has remained in deficit, indicating that the value of imports of goods and services consistently exceeds the value of exports and incoming transfers, which include diaspora remittances. For instance, in the third quarter of 2024, the current account was –1.1 percent of GDP deficit, but by the third quarter of 2025, this deficit widened to –3.2 percent of GDP. A widening current account deficit generally signals stronger import demand relative to export growth, weaker external competitiveness or both. Gradually, this persistent deficit has implications for external sustainability and reliance on foreign financing to bridge the gap.

95. **The capital account has remained modest throughout the period, typically recording small positive inflows.** In the third quarter of 2025, it was slightly positive at 0.1 percent of GDP, indicating limited levels of capital transfers and other non-financial external inflows. The financial account, which captures cross-border investments and loans, has been more volatile. In the period leading up to the third quarter of 2025, the financial account reflected lower net inflows of investment and other financial flows. In particular, the financial account position weakened compared to earlier periods, contributing to pressures on foreign exchange reserves. These developments underscore that while Kenya continues to attract external financial flows, the volume and composition of financial inflows may not be sufficient to fully offset the current account deficit without reserve adjustments.

*Figure 15 Quarterly Balance of payments for the period 2023 to 2025*



Data Source: Kenya National Bureau of Statistics

96. **Kenya's external position deteriorated markedly in 2025, with the current account deficit soaring to Ksh 135.3 billion in the third quarter—the largest quarterly shortfall in two years.** Table 4 shows that this decline was mainly caused by a rapid increase in imports that surpassed export growth, as well as ongoing net income outflows from external borrowing, reduced donor support, and decreased foreign investment. Imports surged largely due to nearly double the importation of industrial machinery, pointing to robust demand for production equipment and investment goods, likely tied to construction, manufacturing, and infrastructure development in Kenya. Other commodities with notable import growth included iron and steel, as well as motor vehicles.

97. **Tourism earnings and diaspora remittances offer important foreign exchange but cannot fully offset Kenya's growing trade deficit.** Strengthening export competitiveness is crucial to address this imbalance and reduce external risk. Although tariff removals by China and improved EU market access may boost exports, domestic production constraints, limited value addition, logistics issues, and compliance challenges must also be resolved. Kenya's exports remain concentrated in a few agricultural **commodities**, making them sensitive to price shifts and demand changes. Non-tariff barriers, stricter standards in the EU, and geopolitical tensions may further restrict export growth.

Table 5 Current account components for the period 2024 to 2025

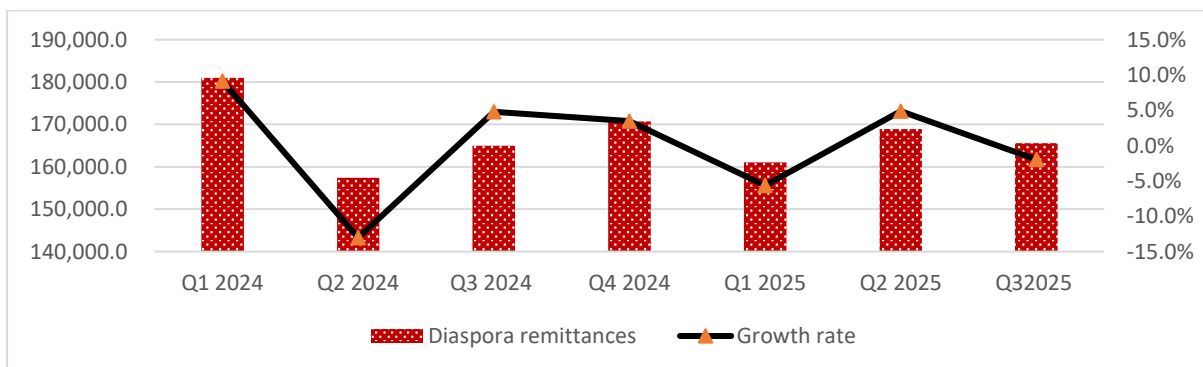
	2024				2025		
	Jan- March	Apr-Jun	Jul-Sept	Oct -Dec	Jan-Mar	Apr-Jun	Jul-Sept
<b>Current Account</b>	<b>(42,098.1)</b>	<b>(47,369.5)</b>	<b>(43,484.8)</b>	<b>(75,996.2)</b>	<b>(66,646.1)</b>	<b>(83,667.2)</b>	<b>(135,303.2)</b>
<b>merchandise trade</b>	<b>(313,302.5)</b>	<b>(311,799.4)</b>	<b>(321,061.3)</b>	<b>(360,564.0)</b>	<b>(306,060.9)</b>	<b>(348,390.0)</b>	<b>(355,815.2)</b>
Exports f.o.b	458,558.5	420,218.5	422,711.7	382,780.1	417,616.4	351,047.0	470,683.80
Imports f.o.b	771,861.0	732,017.9	743,773.1	743,344.0	723,677.4	699,436.9	826,498.90

<b>service Net</b>	<b>83,793.2</b>	<b>70,810.3</b>	<b>100,578.0</b>	<b>69,182.4</b>	<b>82,295.0</b>	<b>65,469.9</b>	<b>57,218.40</b>
services :credit	276,153.0	253,219.9	289,643.7	265,515.6	255,757.3	259,844.3	283,311.50
services :debit	192,359.7	182,409.7	189,065.7	196,333.1	173,462.3	194,374.3	226,093.10
o/w Travel account	86,766.2	76,989.6	103,690.3	86,867.4	86,697.2	70,491.9	76,293.00
credit	113,736.6	103,765.2	133,988.4	119,935.8	116,966.5	112,512.6	137,053.40
debit	26,970.3	26,775.6	30,298.1	33,068.4	30,269.3	42,020.7	60,760.40
Goods and services exports	(199,565.9)	(208,034.2)	(187,072.9)	(240,628.2)	(189,094.4)	(235,877.4)	(218,761.8)
Goods and services imports	734,711.5	673,438.4	712,355.4	648,295.7	673,373.7	610,891.3	753,995.3
<b>primary income</b>	<b>(89,006.5)</b>	<b>(45,221.3)</b>	<b>(80,750.6)</b>	<b>(37,317.8)</b>	<b>(73,791.9)</b>	<b>(43,802.9)</b>	<b>-76,535.40</b>
credit	8,233.0	7,963.2	9,966.9	12,823.6	12,767.4	13,835.2	13,077.20
debit	97,239.5	53,184.5	90,717.5	50,141.4	86,559.3	57,638.1	89,612.60
<b>secondary income</b>	<b>276,417.7</b>	<b>238,841.0</b>	<b>257,749.1</b>	<b>252,703.1</b>	<b>230,911.7</b>	<b>243,055.7</b>	<b>239,828.90</b>
o/w Diaspora remittances	181,022.5	157,428.8	164,941.3	170,697.0	161,043.7	168,881.5	165,560.90

Data Source: Kenya National Bureau of Statistics

98. **Diaspora remittances remained generally robust but became more unpredictable, with growth shifting from a 9.1 percent increase in the first quarter of 2024 to declines, including –5.7 percent in the first quarter of 2025 and –2.0 percent in the third quarter of 2025.** As part of secondary income in the current account, these remittances are crucial for offsetting the trade deficit, maintaining foreign exchange reserves, and stabilizing the exchange rate. They also help sustain household spending on essentials like education, healthcare, and housing across the country. The recent slowdown in remittance growth, as illustrated in figure 6, underlines their susceptibility to global economic trends impacting Kenyans abroad. To maximize their benefits, policies should aim to deepen diaspora engagement and develop ways to direct remittance inflows into productive investments, increased savings, and long-term capital growth.

Figure 16 Growth in diaspora remittances for the period 2024 to 2025

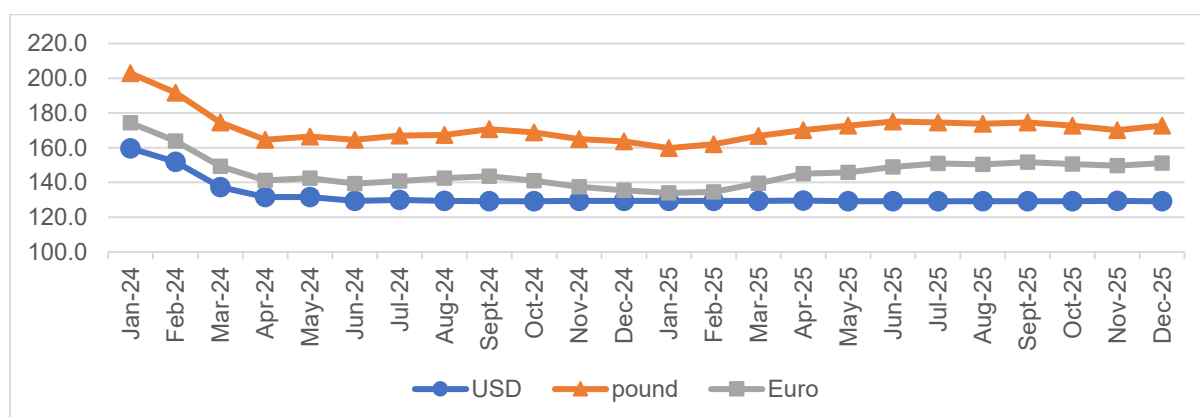


Data Source: Kenya National Bureau of Statistics

### 3.5 Exchange rate

99. The Kenya Shilling saw a sharp appreciation in early 2024, strengthening from Kshs. 159.7 to Kshs. 129 against the US dollar and showing similar gains against the Pound and Euro. Throughout 2025, the Shilling stayed stable versus the US dollar but gradually weakened against the Pound and Euro, reflecting global market trends. Figure 7 shows that exchange rates suggest improved foreign exchange liquidity and stronger external buffers since mid 2024, contributing to exchange rate stability. Exchange rate stability remains vulnerable to several downside risks. Any slowdown in export growth, volatility in global commodity prices or weaker demand from key trading partners could reduce foreign exchange inflows. Similarly, a decline in diaspora remittances or foreign direct investment would tighten foreign currency supply. Rising external debt obligations could also increase pressure on reserves if external financing conditions remain constrained. In addition, if foreign exchange reserves are not accumulated at a sufficient pace, the economy may have limited buffers against external shocks, exposing the exchange rate to depreciation pressures.

Figure 17 Exchange Rate for the period 2024 to 2025



Data Source: Central Bank of Kenya

## Criterion 3

### 4.0 Linking Sector Priorities to Hard Budget Constraints

*This criterion reviews the fiscal framework and considers whether the priority areas identified in the BPS have been reasonably funded within the hard budget constraints*

#### 4.1 Fiscal Framework for FY 2026/27

100. **Total revenue and grants collected stood at Ksh. 1,506.3 billion, falling short of the targeted Ksh. 1,654.6 billion as of December 2025.** This resulted in a shortfall of Ksh. 148.3 billion, primarily driven by underperformance in key revenue streams: income tax was Ksh. 84.5 billion below target, VAT short by Ksh 28.4 billion, appropriations-in-aid (A-in-A) underperformed, and excise duty missed the mark by Ksh. 20.8 billion.
101. **The revenue shortfall suggests that the National Treasury may have overestimated revenue potential during the preparation of the FY 2025/26 Budget.** In the absence of commensurate downward adjustments to expenditure, the fiscal deficit for FY 2025/26 is likely to exceed the original projections, thereby exerting additional pressure on borrowing requirements and overall fiscal sustainability.
102. **On the expenditure side, actual spending in the first half of FY 2025/26 was Ksh. 72.6 billion below target.** Despite this underspending, the fiscal deficit for the period was Ksh. 75 billion higher than anticipated, reflecting the combined impact of revenue shortfalls outweighing the expenditure restraint. If expenditures are not revised downward through the supplementary budget process, the overall fiscal deficit for FY 2025/26 is likely to be higher than originally planned.
103. **The National Treasury projects that ordinary revenue (primarily tax collections) will rise by 5 percent, or Ksh 147.1 billion, from Ksh 2,754.7 billion in the approved FY 2025/26 budget to Ksh 2,901.9 billion in FY 2026/27.** This projected growth remains modest and trails the anticipated nominal GDP growth of over 9 percent. However, the baseline figure from the approved 2025/26 budget may itself be overstated. The Parliamentary Budget Office (PBO) estimates that ordinary revenue collection for FY 2025/26 could end up closer to Ksh 2,648.2 billion, implying a more cautious outlook for sustained revenue momentum into the next fiscal year.

Table 6 Fiscal Performance as at December 2025

<b>First Half of FY 2025/26 Fiscal Performance (Kshs. Billion)</b>					
	<b>FY 24/25-Dec 24</b>	<b>FY 25/26-Dec 25</b>			
	<b>Pre. Act</b>	<b>Target</b>	<b>Pre. Act.</b>	<b>Dev.</b>	<b>% Growth</b>
<b>Total Revenue and Grants</b>	<b>1,342.2</b>	<b>1,654.6</b>	<b>1,506.3</b>	<b>(148.3)</b>	<b>12.2%</b>
<b>Total Revenue</b>	<b>1,334.7</b>	<b>1,636.7</b>	<b>1,500.6</b>	<b>(136.1)</b>	<b>12.4%</b>
<b>Ordinary Revenue</b>	<b>1,157.8</b>	<b>1,351.9</b>	<b>1,236.5</b>	<b>(115.4)</b>	<b>6.8%</b>
<b>Import Duty</b>	71.5	83.7	84.7	1.0	18.5%
<b>Excise Duty</b>	141.3	167.6	153.6	(14.0)	8.7%
<b>Income Tax</b>	530.8	626.9	542.4	(84.5)	2.2%
<b>VAT</b>	<b>304.1</b>	379.4	351	(28.4)	15.4%
<b>Other Revenue</b>	110.0	94.3	104.8	10.5	-4.7%
<b>AiA</b>	176.9	284.9	264.1	(20.8)	49.3%
<b>External Grants</b>	7.5	17.9	5.8	(12.1)	-22.7%
<b>Total Expenditure and Net Lending</b>	<b>1,795.8</b>	<b>2,097.0</b>	<b>2,024.4</b>	<b>(72.6)</b>	<b>12.7%</b>
<b>Recurrent Expenditure</b>	1,372.1	1,541.3	1,552.2	10.9	13.1%
<b>Development</b>	232.0	325.7	292.7	(33.0)	26.2%
<b>County Allocation</b>	191.6	229.9	179.5	(50.4)	-6.3%
<b>Contingency fund</b>	-		-		
<b>Balance Exclusive of Grants</b>	<b>(464.0)</b>	<b>(460.3)</b>	<b>(523.8)</b>	<b>(63.5)</b>	12.9%
<b>Balance inclusive of Grants</b>	<b>(456.5)</b>	<b>(442.4)</b>	<b>(518.1)</b>	<b>(75.7)</b>	13.5%
<b>Discrepancy</b>	(51.9)		(1.1)	(1.1)	-97.9%
<b>Total Financing</b>	<b>404.6</b>	<b>442.4</b>	<b>517.0</b>	<b>74.6</b>	<b>27.8%</b>
<b>Net Foreign Financing</b>	<b>(6.6)</b>	<b>(43.2)</b>	<b>7.8</b>	<b>51.0</b>	<b>-218.2%</b>
<b>Net Domestic Financing</b>	<b>411.2</b>	<b>485.6</b>	<b>509.2</b>	<b>23.6</b>	<b>23.8%</b>
<b>Nominal GDP</b>	<b>18,054.3</b>	<b>19,272.8</b>	<b>19,272.8</b>		

Table 7 Fiscal Framework for the FY 2026/27 budget

Fiscal Framework in Ksh. Billion							
	2022/23	2023/24	2024/25	2025/26	2026/27		
	Prel Actual	Prel Actual	Prel Actual	Budget Est (E)	BPS (B)	Change (B-E)	% Change
Revenue and grants	2,383.6	2,724.7	2,956.9	3,368.6	3,588.1	219.5	7%
<b>Total Revenue</b>	<b>2,360.5</b>	<b>2,702.7</b>	<b>2,923.6</b>	<b>3,321.7</b>	<b>3,533.7</b>	<b>212.0</b>	<b>6%</b>
Ordinary Revenue	2,041.1	2,288.9	2,420.2	2,754.7	2,901.9	147.1	5%
Income tax	941.6	1,043.1	1,093.0	1,284.8	1,321.6	36.8	3%
VAT	550.4	645.5	660.7	771.7	833.4	61.7	8%
Import duty	130.1	133.9	157.1	162.9	185.2	22.3	14%
Excise duty	264.5	276.7	292.5	335.5	349.9	14.3	4%
Other tax revenue	154.5	189.7	216.8	199.9	211.9	12.0	6%
Appropriation-in-Aid	319.4	413.7	503.4	566.9	631.8	64.9	11%
Grants	23.1	22.0	33.3	46.9	54.4	7.5	16%
<b>Total expenditures &amp; net lending</b>	<b>3,221.0</b>	<b>3,605.2</b>	<b>3,975.9</b>	<b>4,301.9</b>	<b>4,737.5</b>	<b>435.7</b>	<b>10%</b>
Recurrent expenditure	2,311.6	2,678.5	2,948.4	3,134.1	3,456.9	322.8	10%
Wages & salaries National gvt	539.6	575.3	624.7	657.3	720.7	63.4	10%
Pensions & Other CFS	120.4	143.9	176.8	205.2	207.5	2.3	1%
Interest	687.3	840.7	995.1	1,097.7	1,203.1	105.4	10%
On domestic debt	533.1	622.5	784.1	851.4	956.4	105.0	12%
On foreign debt	154.2	218.2	211.0	246.3	246.6	0.4	0%
O&M and other recurrent	873.7	1,026.1	1,053.0	1,055.8	1,193.1	137.4	13%
Contribution to pension fund	29.6	34.2	34.3	34.4	39.6	5.1	15%
Development & net lending	493.7	546.4	578.4	681.0	783.2	102.2	15%
Development expenditure	481.3	528.9	570.4	671.4	768.0	96.6	14%
Net lending	12.3	17.4	19.7	-	-	-	-
Contingency Fund	-	-	-	2.0	2.0	-	0%
Transfer to Counties	415.8	380.4	444.6	484.8	495.5	10.7	2%
Equitable Share	399.6	354.6	418.3	415.0	420.0	5.0	1%
Conditional Allocation	16.2	25.8	26.3	69.8	75.5	5.7	8%
Parliamentary service	41.2	37.3	41.6	48.0	48.8	0.8	2%
Judicial Service	19.8	21.0	23.0	27.8	29.9	2.2	8%
Equalization Fund	-	-	-	9.6	15.2	5.6	58%
Overall balance, including Grants	(837.4)	(880.6)	(1,019.1)	(933.3)	(1,149.5)		
Overall balance excluding grants	(860.5)	(902.6)	(1,052.4)	(980.2)	(1,203.9)		
Adjustment to cash basis	37.0	45.4	-	-	-		
Deficit incl grants cash basis	(800.4)	(835.2)	(1,019.1)	(933.3)	(1,149.5)		
Revenue and grants	16.7%	17.4%	17.2%	17.5%	17.1%		
Total Revenue	16.6%	17.3%	17.1%	17.2%	16.9%		
Ordinary Revenue	14.3%	14.6%	14.1%	14.3%	13.9%		
Total expenditures and net lending	22.6%	23.1%	23.2%	22.3%	22.6%		
Overall balance including grants	(5.9%)	(5.6%)	(5.9%)	(4.8%)	(5.5%)		
Overall balance excluding Grants	(6.0%)	(5.8%)	(6.1%)	(5.1%)	(5.7%)		
Primary Balance incl grants	(0.8%)	(0.3%)	(0.1%)	0.9%	0.3%		
Nominal GDP	14,262	15,629	17,144	19,273	20,947		

\*

104. The National Assembly approved a total expenditure of KSh 4,301.87 billion for the FY 2025/26 budget. Of this approved amount, the national government's recurrent expenditure—covering Parliament, the Judiciary, and the Executive—amounted to KSh

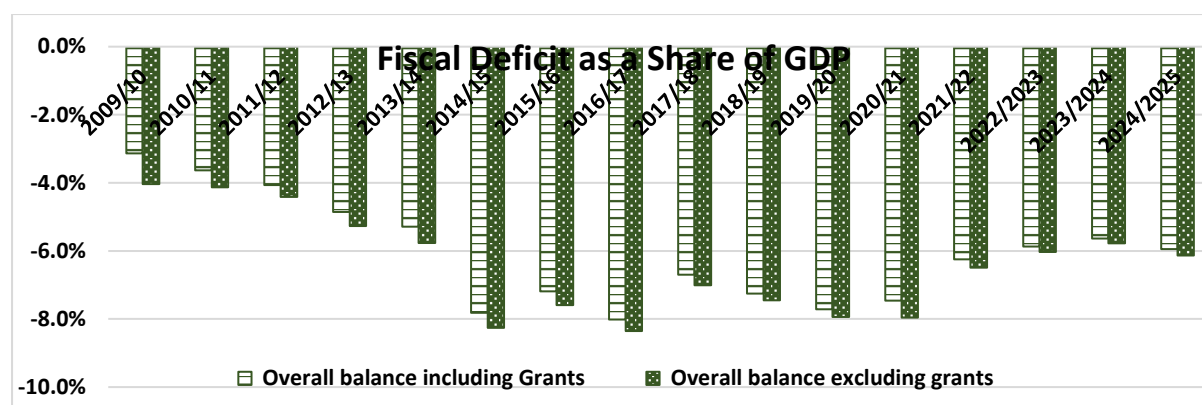
1,804.71 billion. Development expenditure for FY 2025/26 stands at KSh 744.84 billion, marking a substantial 26 percent increase (KSh 155.3 billion) from the Ksh. 589.56 billion allocated to development projects in the previous FY 2024/25.

**105. There have been persistently low absorption rates of development expenditure in recent years, which has led to stalled progress on key projects despite overall budget increases.** For example, actual development spending in FY 2018/19 was Ksh. 586.14 billion out of a Ksh 2.4 trillion budget, while in FY 2024/25 it was Ksh 589.56 billion against a much larger Ksh 3.98 trillion total budget, highlighting ongoing inefficiencies in project implementation.

**106. Interest payments on public debt have increasingly constrained fiscal flexibility, limiting resources available for essential service delivery and development initiatives.** The amount required for interest service as a share of the total budget has increased from 15 percent in 2018/19 FY to **over 25 percent** (Ksh. 1,097.69 billion) in FY 2025/26. The fiscal pressures arising from past excessive borrowing underscore the urgent need for alternative financing mechanisms to support the development agenda.

**107. Overall expenditure for the upcoming period is projected to rise by 10 percent (Ksh 455 billion), from the approved Ksh 4,301.9 billion in FY 2025/26 to Ksh 4,737.5 billion.** Within this, **ministerial** recurrent expenditure is set to increase by Ksh 216.4 billion, from Ksh 1,804.7 billion to Ksh 2,021.1 billion, while ministerial development expenditure is expected to grow by 14 percent (Ksh 101.5 billion), from Ksh 744.8 billion to Ksh 846.3 billion. Interest payments on public debt are forecasted to rise further by Ksh 105 billion, reaching Ksh 1,203.1 billion. This continued escalation in debt-servicing costs is crowding out development spending and stems largely from sustained fiscal deficits averaging 7.4 percent of GDP between FY 2014/15 and FY 2020/21.

Figure 18: Fiscal Deficit as a share of GDP



108. **The fiscal deficit (including grants) is projected to widen by Ksh 216 billion.** Rising from the approved level of Ksh 933 billion in FY 2025/26 (4.8 percent of GDP) to Ksh 1,149.5 billion (5.5 percent of GDP) in FY 2026/27. This increased deficit is expected to be financed through a combination of external and domestic sources: Ksh 225.5 billion from foreign disbursements and Ksh 924 billion from domestic borrowing.

109. **The substantial reliance on domestic borrowing to cover the larger deficit raises concerns.** Given that it could crowd out private sector access to credit, potentially constraining investment and economic activity in the medium term. Further, given the historic trend of revenue over projection, coupled with possible loss of revenue if some of the proposed tax reliefs materialize, the actual revenue may be higher than what is projected for FY 2026/27.

Table 8 Financing of the Fiscal Deficit (Ksh. Billion)

	2023/24	2024/2025	2025/26	2026/27	
	Prel Actual	Prel Actual	Appr Budget	BPS	Change
<b>Fiscal Balance (incl. grants) Cash Basis</b>	(835.2)	(1,019.1)	(933.3)	(1,149.5)	
<b>TOTAL FINANCING</b>	<b>818.3</b>	<b>1,034.6</b>	<b>933.3</b>	<b>1,149.5</b>	<b>216.2</b>
<b>NET FOREIGN FINANCING</b>	222.7	179.7	287.7	225.5	(62.2)
<b>Disbursements</b>	760.5	527.0	627.9	564.5	(63.4)
<b>Commercial Financing</b>	286.9	253.1	221.2	145.6	(75.5)
o/w Export Credit- Commercial Financing	-	-	-	-	-
Sovereign Bond, other Commercial Financing	286.9	64.7	221.2	145.6	(75.5)
<b>External Debt Operations - Refinancing</b>	-	188.3			
<b>Semi concessional Loans</b>					
Project Loans AIA	68.3	65.6	86.5	100.8	14.3
Project Loans Revenue	87.4	85.8	124.9	126.2	1.3
Project Loans SGR_Phase I_AIA				-	
Project Loans SGR_PHASE 2A_AIA				-	
Use of IMF SDR Allocation	-	-		-	
<b>Programme Loans</b>	317.8	113.7	195.3	191.8	(3.5)
O/W P for R Programme Loans	18.2	-	3.5	-	(3.5)
IMF - RCF/ECF/EFF	135.1	-	-	-	-

Development Policy Operations - WB	154.1	-	170.5	170.5	-
Support for COVID-19 Vaccine Purchase	-	-	-	-	-
Development Policy Operations - ADB	10.4	-	21.3	21.3	-
Debt repayment - Principal	(537.8)	(347.3)	(340.2)	(339.0)	
<b>NET DOMESTIC FINANCING</b>	<b>595.6</b>	<b>854.9</b>	<b>645.6</b>	<b>924.0</b>	<b>278.4</b>
Discrepancy	(16.8)	15.6			

**I 10. The ministerial expenditure is projected to increase by a total of Ksh. 317.9 billion in the forthcoming period.** The largest single increase, amounting to Ksh. 64.2 billion is directed to the Education sector. This rise is primarily driven by an additional Ksh. 34.9 billion allocated for teacher resource management and Ksh. 16.4 billion for university education.

**I 11. The 2026 BPS prioritizes full implementation of Competency-Based Education (CBE).** This includes teachers retooling, expansion of Junior Secondary, and continued investment in classrooms, laboratories, and equity programmes. TVET reforms focus on scaling enrolment, accrediting institutions, enhancing teacher recruitment, promotions, and digital record management.

**I 12. The Energy, Infrastructure, and ICT sector receives the next largest boost of Ksh 59.9 billion. Key contributors to this increase include Ksh. 11.8 billion for railway transport, Ksh. 10.3 billion for road transport, Ksh. 15 billion for housing, and Ksh. 14.8 billion for power generation and transmission.** Within the Energy, Infrastructure, and ICT sector, the major flagship initiatives include: rollout of large-scale road modernisation, including upgrading 28,000 km to bitumen standards over the medium term, construction of affordable housing units to address the housing deficit and stimulate employment; addition of 275.5 MW of power generation capacity alongside geothermal development and expanded electricity connections.

**I 13. The Governance, Justice, Law and Order sector sees an additional Ksh. 46.9 billion.** This reflects targeted enhancements across several institutions, especially those involved in the conduct of general elections. Some of the additional resources include: Ksh. 15.6 billion for the Independent Electoral and Boundaries Commission (IEBC), Ksh. 12 billion for the National Police Service, Ksh. 7 billion for the State Department for Internal Security and National Administration, Ksh. 5 billion for prison services, and Ksh. 2 billion for the Judiciary. Further, the National Security sector is allocated an extra Ksh. 46.2 billion, with Ksh. 37 billion going to Defence and Ksh. 7 billion to the National Intelligence Service (NIS).

**I 14. The Health sector receives an increase of Ksh. 29.3 billion, the bulk of which—Ksh. 20 billion is earmarked for the National Referral and Specialized Services**

**programme. The 2026 BPS highlights** five key priority reforms; expansion of **Primary Health Care Networks** and deployment of over 107,000 Community Health Promoters to strengthen preventive and household-level care, rollout and scaling up of major health financing reforms, including the Social Health Insurance Fund (SHIF), Primary Health Care Fund (PHCF), and the Emergency, Chronic and Critical Illness Fund (ECCIF), aimed at expanding financial protection to over 25 million Kenyans and strengthening of the health workforce and regulatory framework, including increased training capacity, intern deployment, and formalization of previously unregulated professionals.

115. The Agriculture and Rural Development Sector has an increase of Ksh. 14.6 billion of which Ksh 10 billion is for the crop development programme and Ksh. 5 billion is for the Livestock Resources Management and Development.

Table 9 Sector Budget Allocation (Kshs. Million)

		2025/26 Approved Budget (A)	% of Ministeria I Expenditu re	2026/27 Propose d Ceilings (B)	% of Ministeria I Expenditu re	Chang e (B-A)	% Chang e
1	Agriculture, Rural & Urban Development	82,408	3.2%	97,007	3.4%	14,599	17.7%
2	Energy, Infrastructure and ICT	534,628	21.0%	594,597	20.7%	59,970	11.2%
3	General Economic and Commercial Affairs	58,160	2.3%	62,193	2.2%	4,033	6.9%
4	Health	138,106	5.4%	167,407	5.8%	29,302	21.2%
5	Education	703,066	27.6%	767,314	26.8%	64,248	9.1%
6	Governance, Justice, Law and Order	283,042	11.1%	329,989	11.5%	46,947	16.6%
7	Public Administration and International Relations	321,503	12.6%	354,999	12.4%	33,496	10.4%
8	National Security	253,770	10.0%	299,983	10.5%	46,213	18.2%
9	Social Protection, Culture and Recreation	78,994	3.1%	87,225	3.0%	8,230	10.4%
10	Environment Protection, Water & Natural Resources	95,867	3.8%	106,708	3.7%	10,841	11.3%
	<b>Total NG Budget</b>	<b>2,549,544</b>	<b>100%</b>	<b>2,867,423</b>	<b>100%</b>	<b>317,879</b>	<b>12.5%</b>

Table 10 Sector Budget Allocation Changes (Kshs. Million)

SECTOR		2025/26 Approved Budget (A)	2026/27 Proposed Ceilings (B)	Change (B-A)	State Department & Programmes with major Increases
1	Agriculture, Rural & Urban Development	82,408	97,007	14,599	Crop Development & Mgt Ksh. 10 billion. Livestock Ksh. 5 billion
2	Energy, Infrastructure and ICT	534,628	594,597	59,970	Rail Transport Ksh. 11.8 billion. Road Transport Ksh. 10.3 billion Housing Development Ksh. 10.6 billion Power transmission Ksh. 9 billion Marine transport Ksh. 5.5 billion Power generation Ksh. 3.6 billion
3	General Economic and Commercial Affairs	58,160	62,193	4,033	Investment Dvpt & promotion Ksh. 1.2 billion. Promotion & Dvpt of MSMEs Ksh. 1.1 billion Tourism development Ksh. 0.7 billion
4	Health	138,106	167,407	29,302	National Referral & specialised services Ksh. 20.9 billion. Curative & reproductive maternal newborn child adolescent health Ksh. 3.9 billion
5	Education	703,066	767,314	64,248	Teacher resource management Ksh. 34.8 billion. University education Ksh. 16.3 billion.
6	Governance, Justice, Law and Order	283,042	329,989	46,947	Independent Electoral and Boundaries Commission (IEBC) Ksh. 15.6 billion. National Police Service Ksh. 12 billion. State Department for Internal Security and National Administration Ksh. 7 billion. Prison Services Ksh. 5 billion. The Judiciary Ksh. 2 billion.
7	Public Administration and International Relations	321,503	354,999	33,496	The National Treasury Ksh. 25.6 billion. State House affairs Ksh. 3 billion.
8	National Security	253,770	299,983	46,213	Defence Ksh. 37 billion National Intelligence Service (NIS) Ksh. 7 billion
9	Social Protection, Culture and Recreation	78,994	87,225	8,230	Sports Ksh. 8 billion
10	Environment Protection, Water & Natural Resources	95,867	106,708	10,841	Water and Sanitation Ksh. 2.9 billion. Forest development and conservation Ksh. 5 billion Irrigation Ksh. 0.9 billion
<b>Total NG Budget</b>		<b>2,549,544</b>	<b>2,867,423</b>	<b>317,879</b>	

116. Some of the key fiscal strategies in 2026/27 and the medium term include:

- i. Fostering fairness and equity in personal income tax. The income tax burden is currently mostly borne by the around 3 million Kenyans in formal employment who pay PAYE. To enhance equity, the BPS proposes expansion of the tax base by enhancing compliance among the self-employed and the informal sector. However, the BPS does not provide concrete steps that will be taken to expand the tax base,

including costs associated with the enforcement of compliance in the informal sector.

- ii. There is a proposal to deepen tax administration reforms through sustained investment in technology to modernise the tax framework, improve compliance, broaden the tax base, strengthen customs valuation, and seal revenue leakages. Whereas this is a welcome step that could enhance revenue collection without adjusting tax rates, past attempts to raise revenue through administrative reforms have not been successful.
- iii. To enhance the implementation of the Treasury Single Account -During the FY 2025/26, the National Treasury will continue implementing the remaining TSA features, notably the automation of County Government exchequer processes, which is expected to be completed by the end of the financial year. In addition, inclusion of State Corporations and SAGAs daily cash balances in the TSA system through the CBK's Granular Data Integration (GDI) system enables visibility of bank accounts in commercial banks.
- iv. Zero-based budgeting. – The BPS states that the Government has entrenched Zero-Based Budgeting in budget preparation for the FY 2026/27. However, a similar claim was made during the preparation of the 2025/26 budget but was never fully implemented. Further, zero-based budgeting requires comprehensive costing of functions and programmes across all MDAs which may not have been adequately done.
- v. To enhance efficiency, transparency, and accountability in public investment management, the government has rolled out the Public Investment Management Information System (PIMIS) across all National Government Ministries, Departments, and Agencies (MDAs). Expansion to County Governments is actively underway, with full deployment targeted to cover both levels of government. However, it should be noted that despite this rollout, the use of the system in the budget cycle has yet to be fully implemented.
- vi. Key reforms in management of the rising public service pension bill include the digitisation and re-engineering of pension administration processes, anchored on the deployment of an end-to-end Enterprise Resource Planning (ERP) solution. These reforms may improve service delivery for existing pensioners, however, resource constraints and delays in onboarding new pensioners are yet to be fully addressed.
- vii. To operationalize procurement reforms and eliminate manual inefficiencies, the Government has prioritized the rollout of an end-to-end e-Government Procurement (e-GP) System. The system that was officially launched in July 2025 has shifted procurement processes from fragmented and manual processes to a fully digitised procurement platform. This system has the potential to improve efficiency in the deployment of resources for development projects as well as create significant savings for the Kenyan taxpayers.

## 4.2 Variance in the Total Budget for 2026/27 FY Presented in BPS

117. **There is a variance between the total budget presented in the fiscal framework and the summation of sector ceilings.** The total budget presented in Table 3.1, on page 58 of the BPS, is Ksh. 4,737.55 billion. This is the Budget that corresponds to the sum of the sector, vote, and programme ceilings presented in Table 3.2, page 60, and Annex Table 4, page 115 onwards. However, the budget presented in Table 2.7 on page 49 and Annex Table 2 on page 113 is Ksh. 4,703.96 billion.

118. **The difference between the two budgets is Ksh. 33.59 billion development expenditure.** This is missing from the fiscal framework tables in Table 2.7 on page 49 and Annex Table 2 on page 113. Consequently, if the difference is financed by net exchequer issues the fiscal deficit, including grants, is presented in the fiscal framework of Ksh. 1,115.9 billion (5.3 percent of GDP) may be understated by Ksh. 33.59 billion. As a result, the fiscal deficit for FY 2026/27 may be Ksh. 1,149.5 billion (5.5 percent of GDP).

Table 11 Budget Ceiling for 2026/27 Financial Year

Budget Ceiling for 2026/27 Financial Year (Ksh. Billion)							
	2022/23	2023/24	2024/25	2025/26	2026/2027		
Item	Prel Actual	Prel Actual	Prel Actual	Approved Budget	BPS Table 2.7	BPS Table 3.1	Difference
<b>Recurrent Estimates</b>	1,474.3	1,659.6	1,742.2	1,804.7	2,021.1	2,021.1	-
<b>Capital Estimates</b>	497.5	554.7	589.6	744.8	812.7	846.3	33.6
<b>National Government</b>	<b>1,971.8</b>	<b>2,214.4</b>	<b>2,331.8</b>	<b>2,549.5</b>	<b>2,833.8</b>	<b>2,867.4</b>	<b>33.6</b>
o/w Parliament	41.2	37.3	41.6	48.0	48.8	48.8	-
o/w Judiciary	19.8	21.0	23.0	27.8	29.9	29.9	-
<b>Pensions &amp; Other CFS</b>	120.4	143.9	176.8	205.2	207.5	207.5	-
<b>Interest</b>	687.3	840.7	995.1	1,097.7	1,203.1	1,203.1	-
<b>Contr to pension fund</b>	29.6	34.2	34.3	34.4	39.6	39.6	-
<b>Net lending</b>	12.3	17.4	19.7	-	-	-	-
<b>Consolidated Fund Services</b>	<b>849.6</b>	<b>1,036.3</b>	<b>1,225.9</b>	<b>1,337.3</b>	<b>1,450.1</b>	<b>1,450.1</b>	-
<b>County Equitable Share</b>	<b>399.6</b>	<b>354.6</b>	<b>418.3</b>	<b>415.0</b>	<b>420.0</b>	<b>420.0</b>	-
<b>Total</b>	<b>3,221.0</b>	<b>3,605.2</b>	<b>3,975.9</b>	<b>4,301.9</b>	<b>4,704.0</b>	<b>4,737.5</b>	<b>33.6</b>

Table 12 Fiscal Framework for the FY 2026/27 budget

Fiscal Framework in Ksh. Billion							
	2022/23	2023/24	2024/25	2025/26	2026/27		
	Prel Actual	Prel Actual	Budget Est	Budget Est	BPS Table 2.7 (A)	BPS Table 3.1 (B)	Change (B-A)
Revenue and grants	2,383.6	2,724.7	2,956.9	3,368.6	3,588.1	3,588.1	-
<b>Total Revenue</b>	<b>2,360.5</b>	<b>2,702.7</b>	<b>2,923.6</b>	<b>3,321.7</b>	<b>3,533.7</b>	<b>3,533.7</b>	-
<b>Ordinary Revenue</b>	<b>2,041.1</b>	<b>2,288.9</b>	<b>2,420.2</b>	<b>2,754.7</b>	<b>2,901.9</b>	<b>2,901.9</b>	-
Income tax	941.6	1,043.1	1,093.0	1,284.8	1,321.6	1,321.6	-
VAT	550.4	645.5	660.7	771.7	833.4	833.4	-
Import duty	130.1	133.9	157.1	162.9	185.2	185.2	-
Excise duty	264.5	276.7	292.5	335.5	349.9	349.9	-
Other tax revenue	154.5	189.7	216.8	199.9	211.9	211.9	-
<b>Appropriation-in-Aid</b>	<b>319.4</b>	<b>413.7</b>	<b>503.4</b>	<b>566.9</b>	<b>631.8</b>	<b>631.8</b>	-
<b>Grants</b>	<b>23.1</b>	<b>22.0</b>	<b>33.3</b>	<b>46.9</b>	<b>54.4</b>	<b>54.4</b>	-
<b>Total expenditures &amp; net lending</b>	<b>3,221.0</b>	<b>3,605.2</b>	<b>3,975.9</b>	<b>4,301.9</b>	<b>4,704.0</b>	<b>4,737.5</b>	<b>33.6</b>
<b>Recurrent expenditure</b>	<b>2,311.6</b>	<b>2,678.5</b>	<b>2,948.4</b>	<b>3,134.1</b>	<b>3,456.9</b>	<b>3,456.9</b>	-
Wages & salaries National gvt	539.6	575.3	624.7	657.3	956.4	956.4	-
Pensions & Other CFS	120.4	143.9	176.8	205.2	207.5	207.5	-
Interest	687.3	840.7	995.1	1,097.7	1,203.1	1,203.1	-
On domestic debt	533.1	622.5	784.1	851.4	956.4	956.4	-
On foreign debt	154.2	218.2	211.0	246.3	246.6	246.6	-
O&M and other recurrent	873.7	1,026.1	1,053.0	1,055.8	957.3	957.3	-
Contribution to pension fund	29.6	34.2	34.3	34.4	39.6	39.6	-
<b>Development &amp; net lending</b>	<b>493.7</b>	<b>546.4</b>	<b>578.4</b>	<b>681.0</b>	<b>749.6</b>	<b>783.2</b>	<b>33.6</b>
Development expenditure	481.3	528.9	570.4	671.4	734.4	768.0	33.6
Net lending	12.3	17.4	19.7	-	-	-	-
Contingency Fund	-	-	-	2.0	2.0	2.0	-
Transfer to Counties	415.8	380.4	444.6	484.8	495.5	495.5	-
Equitable Share	399.6	354.6	418.3	415.0	420.0	420.0	-
Conditional Allocation	16.2	25.8	26.3	69.8	75.5	75.5	-
Parliamentary service	41.2	37.3	41.6	48.0	48.8	48.8	-
Judicial Service	19.8	21.0	23.0	27.8	29.9	29.9	-
Equalization Fund	-	-	-	9.6	15.2	15.2	-
<b>Overall balance, including Grants</b>	<b>(837.4)</b>	<b>(880.6)</b>	<b>(1,019.1)</b>	<b>(933.3)</b>	<b>(1,149.5)</b>	<b>(1,149.5)</b>	<b>(33.6)</b>
<b>Overall balance excluding grants</b>	<b>(860.5)</b>	<b>(902.6)</b>	<b>(1,052.4)</b>	<b>(980.2)</b>	<b>(1,203.9)</b>	<b>(1,203.9)</b>	<b>(33.6)</b>
Adjustment to cash basis	37.0	45.4	-	-	-	-	-
<b>Deficit incl grants cash basis</b>	<b>(800.4)</b>	<b>(835.2)</b>	<b>(1,019.1)</b>	<b>(933.3)</b>	<b>(1,149.5)</b>	<b>1,149.5)</b>	<b>(33.6)</b>
Revenue and grants	16.7%	17.4%	17.2%	17.5%	17.1%	17.1%	
Total Revenue	16.6%	17.3%	17.1%	17.2%	16.9%	16.9%	
Ordinary Revenue	14.3%	14.6%	14.1%	14.3%	13.9%	13.9%	
Total expenditures and net lending	22.6%	23.1%	23.2%	22.3%	22.5%	22.6%	
Overall balance including grants	(5.9%)	(5.6%)	(5.9%)	(4.8%)	(5.3%)	(5.5%)	
Overall balance excluding Grants	(6.0%)	(5.8%)	(6.1%)	(5.1%)	(5.6%)	(5.7%)	
Primary Balance incl grants	(0.8%)	(0.3%)	(0.1%)	0.9%	0.4%	0.3%	
Nominal GDP	14,262	15,629	17,144	19,273	20,947	20,947	

\*

## Criterion 4

### 5.0 County Resource Allocation

*This criterion evaluates proposed resource allocation to counties as well as other proposed interventions to facilitate county resourcing and financial management.*

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#### 5.1 County Governments' Adherence to Fiscal Responsibility Principles

119. **The BPS correctly anchors county fiscal management to statutory fiscal responsibility principles outlined in the Public Finance Management Act and County Regulations.** Under these principles, counties are required to adhere to the following fiscal rules in the formulation and execution of their annual budget: a minimum of 30% of the County Governments' budgets be allocated to and expended on development expenditure; recurrent expenditures not exceed total revenue; compensation of county employees not exceed 35 percent of the County Government's total revenue borrowed funds should be used only for development expenditure, and county public debt shall not exceed twenty percent (20 percent) of the total revenue of the County Government at any given time. Furthermore, there should be a level of predictability with respect to the level of tax rates and tax bases, and fiscal risks should be managed prudently. Annex I shows a summary of the key county government Fiscal Responsibility Principles.

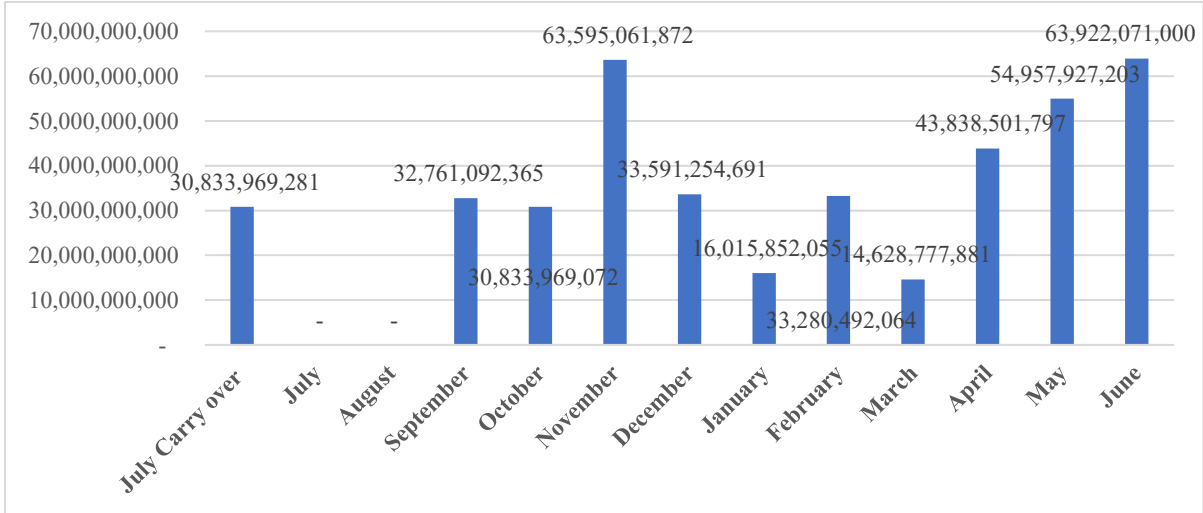
120. **The BPS treats Fiscal Responsibility Principles as a compliance checklist while the issues they reveal remain unaddressed.** Counties are admonished to comply but other factors such as delayed disbursements and specific county rigidities are not integrated into the compliance analysis. The BPS is therefore heavily diagnostic but lacking in enforcement. It does not provide strategy to address the non-adherence to fiscal responsibility, including proposing legal reforms.

##### 5.1.1 County Governments' Overall Expenditure for FY 2024/25

121. **Revenue underperformance and delayed disbursement are affecting the implementation of the county budgets.** The BPS indicates that county governments collectively absorbed 78.23% of their total annual budget. That is, out of a total budget of Ksh.601.69 billion, only Ksh.470.74 billion was spent. This is partly attributed to revenue underperformance (County governments collected 76.8% of their OSR target) and delayed disbursement of equitable share. Analysis indicates that, in FY 2024/25, counties received Ksh.162.72 billion of the total Ksh.387.425 billion equitable share allocation during the final

quarter of the year, equivalent to 42 percent of expected revenues. The trend has continued into FY 2025/26, with disbursements already falling short of the target. By the end of the first half of the year, arrears had reached Ksh. 33.2 billion. The delay in disbursement of revenue to counties is illustrated in Figure 19 and Table 13.

Figure 19 Actual disbursement of the equitable share for FY 2024/25.



Source: National Treasury.

Figure 20 Disbursement of equitable share for H1 of FY 2025/26

Month	Approved CDS	Actual Disbursement	Discrepancy
July	32,931,125,000	-	(32,931,125,000)
August	33,200,000,000	32,931,125,000	(268,875,000)
September	35,275,000,000	33,200,000,000	(2,075,000,000)
October	35,543,875,000	35,275,000,000	(268,875,000)
November	35,275,000,000	35,543,875,000	268,875,000
December	33,200,000,000	35,275,000,000	2,075,000,000
<b>Total</b>	<b>205,425,000,000</b>	<b>172,225,000,000</b>	<b>(33,200,000,000)</b>

Source: National Treasury.

**5.1.2 County Governments’ Recurrent expenditure**

122. **Despite overall compliance with the recurrent expenditure limit, there is still a tendency for the recurrent expenditure to crowd out development expenditure in some counties.** Total county recurrent expenditure was Ksh.346.98 billion, equivalent to 65.1 percent of total revenue received by the counties and 73.7 percent of total expenditures for FY 2024/25. Notably, however, the recurrent expenditure of some counties was above the overall average, indicating potential crowding out of development expenditure. The following counties had high recurrent expenditures above the overall average of 73.7 percent: Nairobi-81.7%, Bungoma-77.9%, Kajiado-76.4%, Machakos-76.2%, Bomet-75.6%, Tharaka Nithi-75%, and Baringo-74.5%.

123. **While recurrent heavy budgets are a risk to development spending, the BPS does not unpack the drivers and therefore fails to prescribe policy options.** Inherited staffing rigidities, asymmetric service delivery burdens, low revenue bases amidst high fixed costs, and health personnel and urban services all serve to increase recurrent expenditure, and this scenario varies from county to county. Thus, the high recurrent budget may be more of a structural non-compliance rather than a behavioral non-compliance.

### 5.1.3 County Governments' Development Expenditure

124. **Even though all county governments complied with the requirement of budgeting at least 30% of their total budget towards development expenditure, the actual outturn indicates that only 26.3 percent of the total expenditure was actually spent on development.** In FY 2024/25, out of the total budget of Ksh.601.69 billion, counties allocated Ksh.218.99 billion to development expenditure (36.4% of the total budget). However, the actual total expenditure was Ksh.470.74 billion, with the development budget accounting for only Ksh.123.76 billion (26.3 percent of the total actual expenditure).

125. **Although not all counties contravened the legal provision, the level of compliance stood at 38.3 percent, demonstrating weak fiscal responsibility.** Eighteen (18) counties complied with the 30% expenditure on development, with Kilifi, Trans Nzoia, and Siaya counties performing significantly above target at 42.1%, 36.3%, and 35.6 %, respectively. Majority of the counties (23) were below the 30% threshold, but above the 20% mark, while six counties performed way below a fifth of the total budget, with Nairobi County trailing at 12.2%.

126. **Beyond compliance checks, the BPS does not interrogate the efficiency of the development budget.** Discussions on allocative efficiency, stalled projects, thinly spread capital budgets, and execution constraints such as delayed exchequer releases or procurement challenges are lacking, yet these are the critical points that may influence county contribution to economic growth.

### 5.1.4 County Governments' Expenditure on Wage Bill

127. **The BPS identifies high wage burden as a potential risk to spending flexibility and development expenditure, noting that only eight (8) counties complied with the fiscal rule on wages (17 percent overall compliance rate).** In FY 2024/25, personnel emoluments accounted for Ksh.220.64 billion, representing 41.4% of the total revenue of Ksh.533.11 billion, significantly exceeding the recommended ceiling of 35%. The counties that complied with the threshold were: Kilifi (24.2%), Tana River (26.9%), Siaya (27.1%), Nakuru (29.7%), Kwale (31.2%), Nandi (32.7%), Nyandarua (33.0%), and Narok (34.8%). On the other hand, ten counties expended more than half (over 50%) of their total revenue to employee compensation. These were; Bungoma (56.5%), Nyeri (54.7%), Machakos (54.3%), Baringo (53.4%), Tharaka-Nithi (53.1%), Kajiado (51.2%), Taita-Taveta (50.9%), Embu (50.8%), Nairobi (50.8%), and Homabay (50.5%).

128. The BPS treats wage pressures as a county fiscal discipline issue while downplaying national policy drivers such as health worker harmonization and national Collective Bargaining Agreements (CBAs). This has significantly increased expenditure on health personnel. At the same time, the national government continues to devolve labour-intensive programmes such as Community Health Promoters (CHPs) and Universal Health Care workers while simultaneously warning counties about wage pressures. Some counties, like Nairobi City, inherited a huge wage bill and, without proposals for staff rationalization frameworks, will continue to struggle to meet this requirement.

129. Summary of the FY 2024/25 county governments' outturn and adherence to key fiscal responsibility principles is shown in Tables 2 and 3, respectively.

Table 13 County Government Budget Outturn for FY 2024/25.

Revenue Stream	Project amount	Actual	% Performance
Equitable share for FY 2024/25	387.43	387.43	100.0%
Arrears for the equitable share for FY 2023/24	30.83	30.83	100.0%
Own Source Revenue	87.67	67.3	76.8%
Facility Improvement Financing (FIF)-A.I.A	20.77	24.59	118.4%
Ordinary OSR	66.9	42.71	63.8%
Additional Allocations	70.84	24.86	35.1%
unspent balances from FY 2023/24	24.92	22.69	91.1%
Total revenue	601.69	533.11	88.6%
			<b>performance</b>
			<b>fiscal</b>
			<b>requirement</b>
Recurrent expenditure	382.69	346.98	65.1%
OW Wages -Limit -35%	0	220.64	Breached -41.4%
OW Other recurrent	0	126.34	
Development expenditure -Least 30%	218.99	123.75	Breached-26.3%
<b>Total</b>	<b>601.68</b>	<b>470.73</b>	

Source: Controller of Budget (COB).

Table 14 Compliance check to adherence to key fiscal responsibility principles.

Fiscal responsibility requirement	Overall adherence level of the 47 counties	Number of Counties		2026 BPS Policy Recommendation.
		In breach	Adhered	
Recurrent expenditures not exceeding total revenue.	100%- No county spent above its total revenue on recurrent.	0	47	Counties need to reduce recurrent costs in favour of development priorities.
A minimum of 30% of the County Governments' budgets should be allocated to and expended on development expenditure.	38.3 % compliance level: 26.3% of the total budget was spent on development	29	18	Counties to continue to limit recurrent expenditures to free up resources for development.

Fiscal responsibility requirement	Overall adherence level of the 47 counties	Number of Counties		2026 BPS Policy Recommendation.
		In breach	Adhered	
Expenditure on wages and benefits for county employees does not exceed 35 percent of the County Government's total revenue	17 % compliance rate; 41.8 % of total revenue was spent on salaries	39	18	Warns on the risk of High wage burden in counties.

## 5.2 Performance of County Governments' Own Source Revenue (OSR)

130. **County OSR performance in FY 2024/25 shows strong improvement driven by administrative and institutional reforms, but these gains mask continued underperformance in the core OSR base.** In FY 2024/25, county governments generated a total of Ksh.67.3 billion as own-source revenue (76.8% of the annual target of Ksh.87.67 billion). This was an improvement of 62.5% (Ksh.25.9 billion) compared to the Ksh.41.4 billion realized in FY 2023/24. However, this enhancement was disproportionately driven by the Facility Improvement Financing (FIF), which exceeded targets while ordinary OSR (rates, fees, licences) underperformed by 36.2 %.

131. **Outperformance by a subset of counties is largely driven by administrative reforms, suggesting that institutional capacity could potentially be the binding constraint in enhancing OSR.** Twelve counties outperformed their annual target (collection above 100%): Kisii-178%, Tana River-133%, Mandera-123%, Wajir-123%, Kirinyaga-122%, Garissa-120%, Vihiga-117%, Samburu-110%, Meru-106%, Elgeyo-Marakwet-104%, Homa Bay-101%, and Turkana-100%. The BPS attributes these performances to revamped revenue streams, especially the implementation of the Facility Improvement Fund (FIF), automation of revenue collection processes, and the routine capacity building exercises on public finance management.

132. **Despite these improvements, OSR remains small relative to total county budgets, implying continued dependence on national transfers.** Sustaining gains will therefore require a shift from one-off administrative fixes to structural reforms to guard against over-reliance on FIF as a substitute for comprehensive OSR reform. The 2026 BPS identifies several strategies that the National Government will employ to enhance the collection of OSR in County Governments. Analysis of the proposed policies, expected impact, and potential challenges is provided in Table 4

Table 15 Proposal on County Government OSR in the BPS.

SN	Policy – (proposal or in place) /recommendation	Expected impact	Assessment
I	Enactment of the National Rating Act 2024	Increase collections from property rates	<ul style="list-style-type: none"> <li>Counties are yet to customize the law to fit individual needs.</li> <li>No regulations in place yet to operationalize the Act.</li> </ul>

2	Development of the County Governments (Revenue Raising Process) Bill	Enhance streams of revenue for counties	<ul style="list-style-type: none"> <li>Continuous deferment of the development of the Bill in previous years and delay in the consideration of the draft Bill by Parliament.</li> </ul>
3	Development of a model Tariffs and Pricing Policy	Provide a standard and customized county-specific guide for their service charges.	<ul style="list-style-type: none"> <li>The model Tariffs and Pricing Policy was developed by CRA but counties have expressed low uptake.</li> </ul>
4	Framework for Contribution in Lieu of Rates (CILOR)	Create a new revenue stream from the national government to counties -	<ul style="list-style-type: none"> <li>Delayed development of regulations to operationalize the CILOR payment framework;</li> </ul>
5	Development of Integrated County Revenue Management System (ICRMS)	Enhance revenue collection through ceiling revenue leakages	<ul style="list-style-type: none"> <li>Slow development of the system- 4 years delay in finalization.</li> <li>Resistance from county governments to adopt the system.</li> </ul>
6	Development of a Revenue Forecasting Model for County Governments	Enhance the setting of realistic event targets	<ul style="list-style-type: none"> <li>Yet to be developed-4 years delay.</li> </ul>

133. Further, although the BPS promotes OSR autonomy, care should be taken to ensure systems are not recentralizing through the national government strategies to enhance OSR in counties. There is a need for clear guard rails to ensure national support does not morph into fiscal control in counties.

### 5.3 County Government Pending Bills

134. The persistent accumulation of pending bills constitutes a breach of the fiscal responsibility principles. Section 94 (1) (a) of the PFM Act CAP 412A places a serious or persistent material breach on government entities that fail to honor or make any payments as and when they fall due. The remedy provided for such actions is stoppage of financing of the government entity or county pursuant to Article 225 of the Constitution and Sections 95 and 96 of the PFM Act, CAP 412A.

135. The BPS indicates that all 47 counties had accumulated outstanding pending bills amounting to Ksh.183 billion by the end of FY 2024/25. Of this amount, Ksh.177.9 billion is owed by county executives, while county assemblies account for Ksh.5.1 billion. Further analysis shows that Ksh.127.5 billion is for recurrent activities, and Ksh.56.3 billion is for development expenditures. On average, these arrears accounted for 30 percent of the total county government-approved budgets in FY 2024/25.

136. Nairobi city county accounted for nearly half (47.4%) of the total pending bills, with an outstanding bill of Ksh.86.77 billion out of the total arrears of

**Ksh.183 billion.** This amount was twice the total budget (Ksh.43.56 billion) of Nairobi City County for FY 2024/25. The BPS does not give a policy resolution to assist Nairobi city county in settling these bills, which may not be fiscally accommodated within the county budgets in the medium term.

137. **The BPS acknowledges that the growing stock of pending bills in county governments poses a fiscal indiscipline and sustainability risk and highlights how is being addressed.** Specifics include transitioning from cash basis to accrual accounting and development of Pending Bills Action plans through the support of the second Kenya Devolution Support Programme (KDSP II). These plans have already been approved and adopted, and county governments are urged to customize and implement their respective Pending Bills Action Plans.
138. **It is noted that the accrual accounting system may not necessitate payment of pending arrears, as it is more of a tool to improve record keeping under the financial statement.** Further, according to the Controller of Budget, counties have not adhered to their own proposed pending Bills Action Plan. Although a clear remedy is provided for in Article 225 of the Constitution and Section 96 of the PFM Act, CAP 412A, the BPS is silent on sanctioning the relevant authorities to enforce these provisions.
139. **The BPS further indicates that the government has developed a Human Resource Information System – Kenya (HRIS-Ke).** The system is expected to automate payroll processing and facilitate the simultaneous computation and remittance of pension contributions and other statutory deductions, hence reducing the accumulation of unremitted statutory deductions, especially pensions of county government employees. However, the BPS has not provided timelines for integrating the system with IFMIS, and the strategy for fast-tracking the previously unremitted pension funds.

#### **5.4 Division of revenue for FY 2026/27**

140. **In FY 2026/27, the total shareable revenue is estimated at Ksh.2,901.9 billion, of which Ksh.2,472.3 billion is allocated to the national government, Ksh.420 billion to county governments and Ksh.9.6 billion to the equalization fund.** The proposed allocation to counties is based on the audited and approved revenues for FY 2021/22 (Ksh.1,920.4 billion) similar to what was used in FY 2025/26; and is in line with Article 203(2) and (3) of the constitution which provides that county equitable share should not be less than 15 percent of the most recent audited accounts of revenue received, as approved by the National Assembly. The Ksh.420 billion is a 0.3 percentage points increase, from 21.6% to 21.9% of the most recent audited revenues.
141. **Although the BPS does not suggest fast-tracking of the approval of the audited account of revenue to improve the accuracy in determining the yearly county equitable share, it is imperative for the revenue figure applied to be as recent as possible.** This will ensure counties get their fair share of revenue as per the Constitution. Table 4 shows the audited and approved accounts of revenues and the percentage of the county government's share.

Table 16 Equitable share as a percentage of the audited & approved revenue

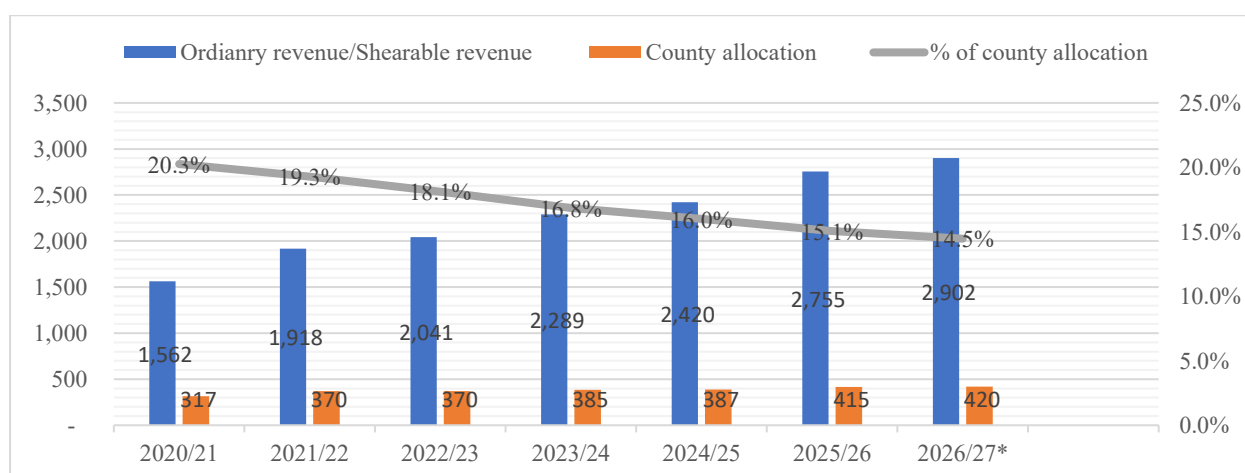
	201/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27*
audited and approved accounts of revenue	1,038.0	1,357.7	1,357.7	1,413.7	1,673.7	1,570.6	1,920.4	1,920.4
County Equitable share	316.5	316.5	370.0	370.0	385.4	387.4	415.0	420.0
% of the audited & approved revenue	30.5%	23.3%	27.3%	26.2%	23.0%	24.7%	21.6%	21.9%

Source: Various DORA.

142. According to the BPS, shareable revenue (*ordinary revenue*) has grown by over 100 percent in the last 10 years, from an actual collection of Ksh.1,152.5 billion in FY 2015/16 to Ksh.2,420 billion in FY 2024/25. Despite this growth, ordinary revenue collection has been missing the target throughout the same period, except for FY 2021/22 when revenues exceeded the target.

143. The BPS highlights that between FY 2020/21 and FY 2025/26, the county governments' equitable share increased from an allocation of Ksh.317 billion to Ksh.415 billion in (Ksh.98 billion increase). However, it is noted that **county allocations as a percentage of the total revenue raised nationally in the last five years has been declining from 20.3% in FY 2021/22 to 15.1% in FY 2025/26**. The proposed FY 2026/27 allocation of Ksh.420 billion is 14.5% of the total shareable revenue and is a Ksh.5 billion increase (1.2% growth) from the previous year's allocation of Ksh. 415 billion.

Figure 21 Shareable revenue compared to county equitable share.



Source: National Treasury & DORA

144. The BPS highlights increasing revenue underperformance and the growing debt servicing costs as the key attributable reasons for the allocation of the **Ksh.420 billion to counties**. Public debt-related costs are estimated to reach Ksh.1,542.1 billion in FY 2026/27, equivalent to 53.1 percent of the projected shareable revenue. Other mandatory expenses, such as pension contributions and payments, financing for constitutional offices, have also been cited as some of the fiscal pressures in

the government's fiscal framework. Further, the BPS indicates that, out of the national government's share of revenue, Ksh.18.3 billion is set aside as additional support to counties.

### 5.5 Allocation Among Counties in FY 2026/27

145. **The county equitable share of Ksh.420 billion will be shared among the 47 counties through the Fourth Basis approved by Parliament in June 2025, according to the provisions of Article 217 of the Constitution.** The Fourth Basis has three main parts: Baseline allocation (*sharing of Ksh.387.425 billion as allocated in FY 2024/25*), Affirmative Action allocation (*equal sharing of Ksh.4.46 billion to 12 counties*), and allocation based on four identified parameters.
146. **The baseline allocation of Ksh.387.425 billion is based on the FY 2024/25 allocation and ensures counties are held harmless and maintain predictability in their budgets.** This is the largest component of the Fourth Basis, accounting for approximately 92 percent of the total proposed equitable share. The second part of the formula sets aside Ksh.4.46 billion to be shared equally among 12 counties as affirmative action allocation. These 12 counties are considered to be vulnerable to all factors adopted in the previous sharing of revenue. The allocation per county under these two components will remain unchanged in the entire period of implementation of the 4<sup>th</sup> basis up to FY 2029/30.
147. **The third component of the 4<sup>th</sup> Basis is the application of the indices derived from four parameters, which is applied to any additional amount above Ksh.391.89 billion, being the ring-fenced amount for the first two components.** The additional amount is Ksh.28.12 billion, representing an increase of Ksh.5 billion from the previous shared revenue of Ksh.23.12 billion. This implies that any additional shareable revenue under the division of revenue will be shared using the parameters. The four parameters are: Population (45%), Basic Share index (35%), Poverty Index (12%), and Geographical Size (8%). Analysis indicates that, almost all the counties have a growth of 1.2 percent from the previous FY 2025/26 allocation, with a few having an increase of 1.1% and 1.3%.

### 5.6 Additional Allocations to County Governments in FY 2026/27

148. **Above the equitable share, county governments are entitled to additional support from the national revenues either through conditional or unconditional allocation as provided for in Article 202(2) of the Constitution.** Over time, the government has categorized these allocations into two: additional allocations from the national government's share of revenue and additional allocations from loans and grants from development partners. In FY 2026/27, the National Treasury proposes a total of **Ksh.75.69 billion** as additional allocations to counties, of which Ksh.18.3 billion is from the National government's share of revenue and Ksh.57.4 billion is from Development Partners.
149. **The BPS sets aside an unconditional additional allocation amounting to Ksh.1,981.** This comprises court fines, which account for Ksh. 148 million and Ksh.1,833

million are from the 20% share of mineral royalties. The court fines accrue from the judiciary charged fines on contravention of the county laws and are shared among 29 counties, while the mineral royalties are divided among 30 counties that have active mining activities. Despite the anticipated mineral exploration in the medium term in Kenya, the BPS does not give the fiscal implications of the same to counties as per the Mining Act, 2016. The conditional allocations amount to Ksh.16.3 billion and are shared under five programmes as summarized in Table 5.

Table 17 Additional allocations from the National government's share of revenue

SN	Project name	Amount (Ksh.Mns)	No.of counties
1	Conditional Additional Allocations for the Community Health Promoters (CHPs) Programme	3,235	47
2	Conditional Additional Allocations to Supplement Construction of County Headquarters	523	5
3	Conditional Additional Allocations for the County Aggregation and Industrial Parks (CAIPs) Programme	3,250	
4	Conditional Additional Allocations from 0.5% of Housing Levy Fund to the County Rural and Urban Affordable Housing Committees	366	47
5	Conditional Additional Allocations for the Remuneration of Universal Health Coverage (UHC) Workers	8,938	47
	<b>Total</b>	<b>16,312</b>	

- i. **The Community Health Promoters (CHPs) programme has a total allocation of Ksh.3.24 billion shared among all the 47 counties as per the number of CHPS per county.** The CHPs programme is part of the government agenda on the implementation of Universal Health Coverage through integrated Primary Healthcare Networks, expansion of community health services, and deployment of sufficient medical personnel. The BPS indicates that the government plans to expand the number of CHPs to 120,000 from the current deployed 107,801. However, the allocation to the programme remains at Ksh.3.24 billion, raising concerns about the commitment.
- ii. **Construction of County Headquarters is allocated Ksh.523 million shared among 5 counties that didn't receive substantial infrastructure that would host county offices.** The completion of these projects has been long overdue since 2018, and the commitment of 70% support by the national government has not been honored on time, raising concerns on the value for money.
- iii. **The County Aggregation and Industrial Parks (CAIPs) Programme has been allocated a proposed Ksh.3.25 billion,** set to be distributed across thirteen counties. According to the BPS, the first phase of 13 CAIPs has been developed and is now fully operational, with the next phase covering 34 counties targeted for completion by 2027. However, the BPS falls short of assessing the adequacy of essential enabling infrastructure—such as water connections, electricity, and access roads—within the initial 13 CAIPs. Given the programme's core objective of strengthening value chains, guaranteed utility support is a critical component that cannot be overlooked.

- iv. **Remuneration of Universal Health Coverage (UHC) Workers amounting to Ksh.8.94 billion, to be shared among the 47 counties as per the number of health workers under the UHC programme.** The primary objective of this allocation is to facilitate the transition of these UHC workers from contractual positions to permanent and pensionable terms. Despite this financial commitment, the BPS lacks a clear framework governing the transfer of these workers to the counties. Furthermore, it omits a status report regarding the audit of UHC staff numbers nationwide.

150. **The additional allocation from proceeds of loans and grants from Development Partners accounts for 75 percent of the total additional allocations.** In FY 2026/27, a total of Ksh.57.4 billion is proposed to counties across 15 programmes in various sectors. The projects and the donors are summarized in Table 6.

Table 18 Additional Allocations from Proceeds of Loans and Grants

<b>S N</b>	<b>Project Description</b>	<b>Donor</b>	<b>Allocation (Ksh.mns)</b>
1.	Kenya Informal Settlement Improvement Project (KISIP2)	AFD	400
2.	Building Resilient & Responsive Health Systems (BREHS)	IDA	7,800
3.	KfW (German Financial Cooperation) Credit Co- Financing of Financing Locally- Led Climate Action Program, (FLLoCA) CCRI- A GRANT	KfW	1,200
4.	Financing Locally- Led Climate Action Program (FLLOCA) CCRI Grants	IDA (World Bank)	6,187.5
5.	Food Systems Resilience Project (FSRP)	IDA (World Bank)	3,900
6.	National Agricultural Value Chain Development Project (NAVCDP)	IDA (World Bank)	3,560
7.	Water and Sanitation Development Project (WSDP)	IDA (World Bank)	850
8.	Kenya Urban Support Project- Urban Development Grant (KUSP) UIG	IDA (World Bank)	954.7
9.	Kenya Urban Support Project - Urban Institutional Grant (KUSP) UDG	IDA (World Bank)	16.703
10.	Kenya Livestock Commercialization Project (KELCOP)	IFAD	378.7
11.	Drought Resilience Programme (DRP)	KfW	853.6
12.	Integrated Natural Resources Management Programme (INReMP)	IFAD	812
13.	Kenya Devolution Support Program (Level 1 Grant) (KDSP)	IDA (World Bank)	1,762.5
14.	Kenya Devolution Support Program (Level 2 Grant) (KDSP)	IDA (World Bank)	7,755
15.	Kenya Water, Sanitation and Hygiene K-WASH	IDA (World Bank)	4,282
<b>Total</b>			<b>57,400</b>

151. **By the end of June 2025, cumulative transfers of External Loans and Grants to county governments reached Ksh.143.5 billion.** However, the Budget Policy Statement (BPS) lacks a corresponding impact assessment regarding the effectiveness of

these funds in advancing devolution. A detailed evaluation of how these resources are utilized is essential. Such analysis would provide development partners with critical insights to guide future decisions on county-level support.

152. **The National Treasury indicates that to ensure seamless implementation of conditional allocations, there is a need to repeal Section 191 A-E of the Public Finance Management Act (CAP 412A), which was introduced in 2022 to facilitate intergovernmental agreements.** The said amendments have since been transmitted to parliament for consideration. This implies that, if the sections are repealed, the conditions and frameworks for the management of the projects will be used during the implementation of the Projects.
153. **Further, to fast-track the enactment of the yearly County Governments Additional Allocations Bill (CGAAB), the National Treasury proposes to isolate development partners' funds from GoK funds for Additional Allocations.** To effect this, amendments to Sections 42 and 191 of the Public Finance Management Act (CAP 412A) have been prepared and will be transmitted to parliament for consideration. The expected impact of the two bills is to ensure the timely absorption of financing from Development Partners, hence avoiding additional costs.

### 5.7 Equalisation Fund

154. Marginalized areas across the country are entitled to additional support from the national exchequer as per provisions of Article 204 of the Constitution. The Equalisation Fund allocation is set aside during the yearly Division of Revenue using the criteria set in Article 204(1), where 0.5 percent of the most recent and audited account of revenue is to be set aside. In FY 2026/27, the revenue used in the division of revenue is Ksh.1,920.4 billion for FY 2021/22 of which 0.5 percent is equivalent to Ksh.9.6 billion.
155. There have been challenges in the implementation and operationalization of the Equalisation Fund in the 34 counties across the 1,424 identified marginalised areas. Every year, disbursements to the fund have most of the time been delayed or not disbursed at all by the end of the financial year. As a result, **the fund has unremitted arrears of Ksh.57.4 billion as at the end of FY 2024/25.** The BPS does not give a clear roadmap on how the accrued Equalization Fund arrears shall be addressed given there are only four years remaining to the sunset of the fund. Further, there is no policy direction to limit the Equalisation Fund allocation to the Division of Revenue as per Article 204(1), as opposed to the current practice of further including it in the allocation of the voted budget.

## Annex I: County Fiscal Responsibility Principles

SN	Fiscal Rule	Section of the law	Limits provided/Requirement
1	County government's recurrent expenditure	PFM Act CAP 412A Section 107 (2) (a)	Recurrent expenditures should not exceed total revenue.
2	Development allocation and actual expenditure	PFM Act CAP 412A Section 107 (2) (b)	A minimum of 30% of the County Governments' budgets should be allocated to and expended on development expenditure.
3	Expenditure on wages and benefits for county employees	PFM Act CAP 412A Section 107 (2) (c) & Regulation 25(1) (a) and (b) of the PFM (County Governments) Regulations 2015	Compensation of county employees shall not exceed 35 percent of the County Government's total revenue.
4	County government's borrowings	PFM Act CAP 412A Section 107 (2) (d,e ), Section 107(3and 4) & Regulation 25 (1) (d) of the PFM (County Governments) Regulations 2015	Borrowed funds shall be used only for development expenditure, and county public debt shall not exceed twenty percent (20 percent) of the total revenue of the County Government at any given time
5	Levying of taxes	PFM Act CAP 412A Section 107 (2) (g)	Exercising a level of predictability with respect to the level of tax rates and tax bases.
6	Management of Fiscal Risks	PFM Act CAP 412A Section 107 (2) (f)	Fiscal risks shall be managed prudently.