Policy Brief

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A vehicle to articulate development issues and foster dialogue

Analysis of the Government of Kenya Financial Year 2023/24 budget and implications for the Sustainable Development Goals[1]

1. Executive Summary

The national budget for the fiscal year 2023/24 was presented on 15 June 2023 under the theme "Bottom-up economic transformation and climate change mitigation/adaptation for improved livelihoods of Kenyans". The budget focuses on policy priorities and structural reforms under the Bottom–Up Economic Transformation Agenda (BETA) by increasing investments in five strategic sectors which are deemed to have greatest impact on the economy, namely: agricultural transformation; micro, small and medium enterprise economy; housing and settlement; healthcare; digital superhighway, and creative industry.

The budget preparation took place within the context of global shocks leading to economic slowdown and domestic shocks including political uncertainties, drought, and high levels of inflation. Notwithstanding, the economy has remained resilient with real Gross Domestic Product (GDP) expanding by 4.8% in 2022, a decrease from 7.5% in 2021. While growth in 2021 and 2022 has contributed to overall poverty reduction, poverty remains high at 38.6%, with disparities between rural areas (40.7%) and urban (34.1%) and more than half of the population (53% or 23.4 million) being multi-dimensionally poor. The inflation rate has been above the Central Bank's upper bound limit of 7.5% with food inflation above 10%, which has negatively impacted people living in conditions of poverty as they spend more than 60% of their income on food consumption. The cost of living has been exacerbated by Kenya's shilling depreciation which has resulted in increased commodity and service prices in the domestic economy, inflicting more pain on already overburdened poor and vulnerable households and increased economic insecurity.

The total budget for the FY2023/24 is Kes. 4,449.4 billion comprising of Kes. 1,508.7 billion and Kes. 718.9 billion in recurrent and development expenditures respectively, Kes. 1,836 billion in Consolidated Fund Services (CFS) and Kes. 385.4 billion in county equitable share. The budget is an increase of 6.4% from FY2022/23. The National Government is allocated 48.7% of total budget which comprises of Kes 1.449 trillion (32.6%) and Kes 714.7 billion (16.1%) in recurrent and development budget respectively. Parliament was

[1] This policy brief is an output of the UN agencies (UNRCO, OHCHR, UNDP, UN WOMEN, UNFPA, and UNICEF) Kenya. The brief was prepared to inform stakeholders on how the FY2023/24 Kenya budget sets the path for transformation agenda in the country and how the budget furthers the agenda 2030 for all in Kenya, in particular targeting those most at risk of being left behind.

The views expressed in this policy brief are those of the authors and do not represent the views of the United Nations or any of its affiliate organizations.

allocated Kes 38.3 billion and Kes 2.07 billion in recurrent and development expenditure respectively. Constituency Development Fund (CDF) was allocated Kes 53.5 billion making a total parliamentary allocation to about 2.3%. The Judiciary was allocated Kes 22.1 billion accounting for 0.65% of the total budget.

The five priority sectors under BETA approach were allocated Kes 278.7 billion although there is a variance of Kes 26.4 billion between the stated allocation and the total amount (Kes 252.3 billion) to the sectors. The priority sectors will be supported by "enablers" to achieve economic turnaround. Implementation of strategic interventions under the enablers focuses on: Infrastructure; Manufacturing; Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women Agenda; Youth Empowerment and Development Agenda; Social Protection; Sports, Culture and Arts; and Governance.

The government allocated 21.3% of the total budget to social sectors (education, health, and social protection), an equivalent of 5.8% of GDP, which represents a slight reduction as a share of total budget and GDP from the FY2022/23 allocation. In nominal terms, social spending increased by 11% from Kes 704.95 billion in FY2022/23 to Kes 782.75 billion in FY2023/24. The current social spending in Kenya continues to be below the recommended minimum social spending levels at the international and regional level for the health sector, education, and social protection. The low investment in social sectors has implications for poverty reduction and addressing inequalities and advancing the realization of the 2030 Agenda and enjoyment of economic, social, and cultural rights, particularly rights to education, health, and social protection, whilst leaving no one behind.

The taxation measures are intended to realize Kes 2.57 trillion from ordinary revenue equivalent to 15.8% of GDP, A-In-A at Kes 348.7 billion and grants at Kes 42.2 billion (equivalent to 0.3% of GDP). This leaves a fiscal deficit of Kes 718.0 billion equivalent to 4.4% of GDP. The total revenues are projected at Kes 2.96 trillion, equivalent to 18.2% of GDP. The deficit will be financed by net external and domestic financing at Kes 131.5 billion and Kes 586.5 billion respectively. Financing the budget through public debt is a concern as the country's stock of public debt was Kes 9.182 trillion as of January 2023, representing 62% as a share of GDP against a Public Finance Management Act 2012 threshold of 55%. The country has already been classified as a high risk of debt distress going by the 2022 IMF debt sustainability analysis.

The Finance Act 2023 which operationalizes taxation measures has reduced take-home pay for Kenyans employed in the formal sector through different measures including the affordable housing levy at 1.5% and higher taxes for higher income earners. High-income earners will pay higher taxes as Kenyans earning over Kes 800,000 per month will pay 35% from 30% while those earning upwards from Kes 500,000 will pay 32.5%. The Act increases taxes for the very small businesses that pay turnover tax at 3% from one percent. This is even as the Act had the effect of moving SMEs earning over Kes 25 million per year to the corporate tax band, which would make them pay higher tax rates at 30% on their income but also make it more expensive and difficult to become tax compliant. It is easier for Kenya Revenue Authority (KRA) to collect more from direct tax but from an indirect perspective, there will be less money to spend as Kenyans grapple with reduced disposable income and there may be a dip in terms of collection from an indirect perspective.

The expansionary optimistic budget focuses on the 5 priority areas to drive economic growth and transformation although achieving envisaged objectives will require serious implementation and follow-up of programmes. The balance of risks is weighed to the downside due to continued appetite for public debts, political disturbances, the re-emergence of COVID-19 variants, possible adverse weather conditions, continued war in Ukraine that has disrupted goods and services supply chains among others. External factors including imported inflation, energy prices and increased inflationary pressures will have an adverse impact on discretionary income with negative consequences on businesses, employment, poverty, food security, economic growth, and transformation trajectories.

2.0 Introduction

Kenya's budget for the FY2023/24 – themed "*Bottom-up economic transformation and climate change mitigation/adaptation for improved livelihoods of Kenyans*" – is geared towards economic turnaround and inclusive growth while at the same time navigating through emerging external and domestic shocks. The budget is presented against a background of uncertainties, including the ongoing war in Ukraine, growing inflation and currency depreciations that have all fed to a slowdown in the global economy. Domestically, the pending recovery from the severe drought situation has also contributed to the increasing inflation and the below average performance of the agriculture sector.

The FY 2023/24 budget focuses on policy priorities and structural reforms under the Bottom–Up Economic Transformation Agenda (BETA), by increasing investments in five strategic sectors that are deemed to have the largest impact on both the economy and household welfare. These strategic sectors include agricultural transformation, micro, small and medium enterprise economy, housing and settlement, healthcare, digital superhighway, and creative industry. Through a special focus on these sectors, the government plans to reduce the cost of living, create jobs and achieve an equitable income distribution.

2.1 Sequencing of the Budget and Plan

According to the Kenya's *Public Finance Management Act*, the budget process in any fiscal year needs to be an integrated development planning process. It is expected to include both long-term and medium-term planning perspectives. Transparency and alignment of the FY2023/24 budget to medium term objectives has been compromised by the sequencing of the budget and the medium-term plan, also infringing on the Public Finance Management Act. Notably both the 2023/24 Budget Review and Outlook Paper and the maiden budget of the Kenya Kwanza government came before the launch of the Medium-Term Plan (MTP) IV and its dissemination process to the general population to create the necessary awareness on medium term priorities.

3.0 Contextual Issues

3.1 Macro and socio-economic context

The global and domestic macroeconomic environment has been characterised by erratic slowdown recovery of economic growth from COVID-19 effects. The global economy is set to decelerate to 2.8% in 2023 from 3.4% in 2022, and in Sub-Saharan Africa to 3.6% in 2023 from 3.9% in 2022.[2] The slowdown is mainly attributed to increased inflationary pressures and the war in Ukraine that has caused major supply chains disruptions. In 2022, Kenya's economy remained strong despite political uncertainties, slowdown in the global economy, and global commodity shocks. The real Gross Domestic Product (GDP) expanded by 4.8%, a decrease following a strong rebound from the pandemic crisis where the economy had expanded by 7.5% in 2021.[3] With the economy expanding, the labour market has not fully recovered from the effects of the pandemic. The labour force participation (LPF) rate was around 66% at the end of 2022, slightly below the pre-pandemic period when LPF stood at 69% in 2019.[4] This reflects limited job creation with the informal sector—where jobs are often insecure and lack adequate social protection accounting for 83% of total employment and adding 702,900 new jobs (about 86% of total new jobs) in 2022 which is lower than 753,800 jobs created in 2021.[5]

[2] IMF (2023). World Economic Outlook 2023: A Rocky Recovery. April 2023.
[3] KNBS (2023). Kenya Economic Survey.
[4] KNBS (2023). Quarterly Labour Force Participation report.
[5] KNBS (2023). Kenya Economic Survey.

Heightened debt vulnerabilities: The debt to GDP ratio has increased from 63.0% in 2019 to 68.2% in 2022[6] —which is above the threshold for sustainable debt levels.[7] Increased debt vulnerabilities in the medium term could worsen the credit rating[8] and debt sustainability—with the country classified at high risk of debt distress.[9] Also, high debt levels will likely result in high debt servicing costs, which reduce fiscal space and likely result in low investments in social sectors in the medium term, potentially affecting enjoyment of economic, social, and cultural (ESC) rights and increasing the risk of additional people being left behind and rising poverty and inequalities.

Poverty and inequalities: The overall poverty rate stands at 38.6% with poverty higher in rural areas (40.7%) compared to urban (34.1%).[10] In terms of gender, female headed households have higher poverty rates at 38.8% compared to 32.7% for male headed households. More than half of the population (53% or 23.4 million) are multi-dimensionally poor, with rural areas experiencing more than twice (67%) the multi-dimensional poverty rates than urban areas (27%), implying geographic inequalities in accessibility to, and availability of, quality public services and lack of decent work.[11] With high levels of monetary and multi-dimensional poverty, inequality remains high. Inequality in the country stands at 0.408 (measured by Gini coefficient), with the share of income for the top 10% standing at 30.3% compared to 16% for the bottom 40%.[12]

Inflationary Pressure Risks: Increased inflationary risks are having dire consequences for poor and vulnerable households, compounding inequalities**.** Overall inflation and food inflation stand at 7.9% and 10.3% respectively in June 2023 —which is above the upper Central Bank of Kenya (CBK) inflation target of 7.5%. Increased prices, especially food prices, are impacting the poor and vulnerable households as they are experiencing reduced real incomes and spend a large share of their income (over 60%) on food consumption. Most poor and vulnerable groups are forced to adopt coping mechanisms such as: reducing food purchases and meals, or spending less on education and healthcare, which have multiplier effects on health and education outcomes. This is likely to exacerbate existing inequalities, including gender inequality, and affect progress towards the SDGs and increase risk of additional individuals and groups being left behind.

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[6] National Treasury, Annual Public Debt Report Fiscal Year 2020/2 (2021).

[7] IMF considers debt levels under 60% of GDP as sustainable.

[8] In the month of May, Moody credit rating agency downgraded Kenya from B2 to B3 driven by an increase in government liquidity risks: https://www.reuters.com/world/africa/moodys-cuts-kenyas-debt-currency-ratings-b3-b2-2023-05-12/

[9] World Bank/IMF Joint Debt Sustainability Assessment 2022. https://www.worldbank.org/en/programs/debt-toolkit/dsa

[10] Kenya National Bureau of Statistics (2023). The Kenya Poverty Report.

[11] KNBS, Comprehensive Poverty Report: Children, Youth, Women, Men & Elderly from National to County (2020).

[12] KNBS. (2020). Inequality Trends and Diagnostics in Kenya 2020: A Joint Report of the KNBS on Multidimensional Inequality.

Kenya Shilling has significantly depreciated: The shilling continues to depreciate[13] against major currencies, partly due to the tightening of monetary policy in advanced countries and inflationary pressures aggravated by the strong US Dollar and war in Ukraine, which is putting pressure on foreign exchange reserves. The depreciation of the shilling has largely contributed to increased commodity and service prices in the domestic economy, inflicting more pain on already overburdened poor and vulnerable households and increased economic insecurity. Further depreciation of the Kenya shilling will increase the external debt servicing costs and in turn reduce the available fiscal space.[14]

3.3 Government Priorities

The focus under the BETA approach is on five priority sectors that have been allocated Kes 278.7 billion although there is a variance of Kes 26.4 billion between the stated allocation and the total amount (Kes 252.3 billion) to the 5 sectors.

Agricultural Transformation and Inclusive Growth; The Government plans to implement interventions to ensure food security in the country through climate change mitigation and adaptation, thereby reducing the cost of living in the medium term. As part of the country's long-term food security plan, the government, working with the private sector, intends to continue to subsidize fertilizer to make it available and improve productivity in counties. To support food and nutrition security, the government has allocated Kes. 49.9 billion for relevant programmes in the budget. As a signatory to the 2003 Maputo Declaration on Agriculture and Food Security, Kenya committed to allocate at least 10% of the national budget to agriculture and rural development, the allocation falls short by almost 9% as the FY 2023/24 allocation to the sector is about 1.4%.

Micro, Small and Medium Enterprise (MSMEs) Economy; To tackle bottlenecks in MSMEs on limited access to credit, the government rolled out in November 2022 the Financial Inclusion Fund (Hustlers Fund) with an initial target budget allocation of Kes 20 billion. The programme aims to lift those at the bottom of the pyramid through structured products in personal finance that includes savings, credit, insurance, and investment. The government has allocated an additional Kes 10 billion towards the Hustlers Fund; Kes 300 million to SMEs in the Manufacturing Sector; Kes 182.8 million for Women Enterprise Fund; Kes 175 million for the Youth Enterprise Development Fund; and Kes 192 million for UWEZO Fund.

Housing and Settlement; To address the challenge of high cost of housing that is driving the proliferation of slums, the government intends to turn the housing challenge into an economic opportunity to create jobs for over 100,000 young people in the construction sector to be achieved through among other measures facilitating delivery of 250,000 houses per annum and enabling affordable housing mortgages. The government has allocated Kes 35.2 billion for the Housing Programme which includes Kes. 5.1 billion for construction of markets; Kes. 5 billion for Kenya affordable housing project; Kes. 3.2 billion for construction of affordable housing units; Kes. 5.6 billion for Kenya informal settlement improvement project; Kes. 1 billion for construction of housing units for national police and prisons; Kes. 7.2 billion for Kenya urban programme; and Kes.3.3 billion for construction of social housing units.

Enhancing Quality and Affordable Healthcare: Universal Healthcare Coverage (UHC) is a key pillar under the BETA which emphasizes the need for deployment of various programmes to improve healthcare. To promote UHC, which entails promoting access to quality and affordable healthcare, the government has

[13] The Kenyan shilling has at June 2023 lost 13.5% of its value since the beginning of the year breaching the 140-unit mark trading against the US dollar.

[14] According to Central Bank Statistics (2023), at the end of 2022, the share of external debt to total debt is 51.1% and out of which 68% is denominated in US dollar.

allocated Kes 141.2 billion at the national level, an increase from Kes 122 billion in FY 2022/23 to the sector. This increase represents the Government's commitment to ensuring the highest possible standard of health through the provision of equitable, affordable, and high-quality health and related services for all. However, the allocation represents 3.9% of the total government budget which is far less than the 2001 Abuja Declaration set target of 15% for annual budget allocation to the health sector. However, it is noted that allocations to the health sector at the county level are yet to be established.

Digital Superhighway and Creative Industry: The government intends to promote digitization and automation in order to increase productivity and competitiveness by providing quick access to the market and reducing information asymmetry as well as improving risk management. Promotion of music, theatre, graphic design, digital animation, fashion and craft, among others will increase employment for the youth. This priority is allocated Kes 15.1 billion to fund initiatives in the Information, Communication and Technology sector which includes Kes 600 million for Government Shared Services; Kes 4.8 billion for the Horizontal Infrastructure Phase I of the Konza Technopolis City; Kes 1.2 billion for Konza Data Centre and Smart City Facilities; Kes 475 million for construction of Konza Complex Phase 1B; Kes 5.7 billion for the Construction of Kenya Advanced Institute of Science and Technology (KAIST) at Konza Technopolis; Kes 1.3 billion for maintenance and rehabilitation of the National Optic Fibre Backbone Phase II Expansion Cable; and Kes 583 million for maintenance and rehabilitation of Last Mile County Connectivity Network.

The priority sectors will be supported by "enablers" to achieve economic turnaround. Implementation of strategic interventions under the enablers focuses on: Infrastructure; Manufacturing; Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women Agenda; Youth Empowerment and Development Agenda; Social Protection; Sports, Culture and Arts; and Governance.

4.0 Financing and Spending Plan

4.1 Overall budget and financing

The Government budget for the FY2023/24 is estimated at Kes 4,449.4 billion of which Kes 1,508.7 billion is recurrent, Kes 718.9 billion is development, Kes 1,836 billion for Consolidated Fund Services (CFS) and Kes 385.4 billion earmarked for county equitable share. The Budget for FY2023/24 represents an increase of 6.4% in comparison with the previous FY2022/203 against an annual average increase of 12% annually over the last decade, which supports a new era of fiscal consolidation to limit spending growth. In comparison with the previous FY2022/23 a marginal increase of 0.7% (Kes 10 billion) increase in national Government recurrent expenditures was proposed against a 16.3% (Kes 118.3 billion) increase in development expenditures. The development expenditure increases are attributed to re-instatement of Kes 84.69 billion in project loans and Kes. 10.7 billion project grants that had been reduced under the supplementary budget 1 of FY2022/2023. The Consolidated Fund, which is the main national Government account, is set to grow by 13.6% (Kes 118.4 billion) and this is attributed to Kes 90.9 billion in domestic interest repayments, Kes 8.4 billion in interest repayments on foreign debt and additional Kes 16.5 billion in new pension payments. The County equitable share (allocation to counties) has reduced by 3.5% from last year's allocation which demonstrates the need for counties to strengthen their own resource mobilization strategies.

4.2. Resource allocation trends (Arms of Government)

A shift in allocations towards the Consolidated Fund Services (CFS) has been observed in the FY2023/24 budget. The National Government is set to spend 48.7% of the total budget. The next largest share of the budget has been allocated to the CFS which has grown from 38.5% in FY2022/2023 to 41.1% in FY2023/2024 mainly driven by public debt repayment which consists for 36.5% of total expenditure way higher than the total recurrent budget of the national government. Additionally, Kes 53.5 billion has been allocated for the Constituency Development Fund (CDF) bringing the total parliamentary allocations to about 2.3% of the total national budget. The Judiciary is earmarked to spend Kes 20.2 billion in recurrent and Kes. 1.9 billion in development expenditure which accounts for less than one percent of the total budget as shown on Table 1.

Table 1: Budgetary Allocations For 2023/2024

		FY2022/2023 (Millions)	% Share of Total	FY2023/2024 (Millions)	% Share of Total
National Government - MDAs	Recurrent	1,430,345	35.4%	1,449,629	32.6%
	Development	613,799	15.2%	714,681	16.1%
Parliament	Recurrent	48,255	1.2%	38,337	0.9%
	Development	2,465	0.1%	2,065	0.0%
Judiciary	Recurrent	20,119	0.5%	20,794	0.5%
	Development	1,900	0.1%	2,200	0.1%
Consolidated Funds Services	Public Debt Repayments	1,360,986	33.7%	1,625,274	36.5%
	Pension, Salaries	191,956	4.8%	211,019	4.7%
Overall	Recurrent	1,498,719	37.1%	1,508,760	33.9%
	Development	618,164	15.3%	718,946	16.2%
	CFS	1,552,942	38.4%	1,836,293	41.3%
	County Share	370,000	9.2%	385,425	8.7%
	Total	4,039,825		4,449,424	

Source: National Budget estimates 2023/24

4.3 Public debt and budget

Kenya's stock of public debt was Kes 9.182 trillion as of January 2023, representing 62% as a share of GDP against a Public Finance Management Act 2012 threshold of 55%. The present value of the debt stock is 92% of the prescribed Kes 10 trillion in the *Public Finance Management Act* debt limit, leaving a very narrow fiscal space. The country is at a high risk of debt distress going by the 2022 IMF debt sustainability analysis which outlined breach of four indicators of debt burden. The debt servicing to revenues ratio for the FY 2023/24 budget is 55.4%, which implies that for every Kes 100 collected, Kes 55.4 will be used for debt service and only Kes 44.6 of tax revenues will be available for the implementation of the government's Bottom-Up Economic Transformation Agenda (BETA). The external debt to exports ratio for the FY 2022/23 shows that Kenya consumed about 22.2% of its foreign earnings to service debt obligations. The World Bank and IMF debt sustainability analysis recommends a country like Kenya should spend between 15-20% in debt service as a percentage of exports. In the absence of deliberate policy decisions to ring fence and/or increase investments in social spending, debt service costs will reduce the fiscal space for social spending, which in turn might lead to increased inequalities and increase in the number of those left behind, impacting on the attainment of the SDGs as well as progressive realization of economic and social rights.

4.4 Revenue generation and implications

In the FY2023/24, the national Government has proposed several tax measures and reforms aimed at increasing domestic resource mobilization by Kes 379 billion of 2.3% of GDP to finance the budget. The total revenue is estimated to increase by 11% from Kes 2.6 billion in FY2022/23 to Kes 2.9 billion, while revenue from taxes is estimated to increase by 14% from Kes 2.19 billion to Kes 2.57 billion as shown on Table 2. The share of total revenue is 17.9% of GDP in the FY2023/24, comprising of Kes 2.6 trillion (15.8% of GDP) in ordinary revenue and Ministerial appropriation-in-aid at Kes 322.5 billion (2.1% of GDP). Despite being in Lower Middle-Income Country (LMIC) category and expected to be collecting over 20% in revenues, the country is still struggling with domestic revenue mobilization and is likely to be caught in the Middle-Income Trap.

Table 2: Sources of Tax Revenues since FY2020/21 to FY2023/24

Sources	**FY2020/21**	**FY2021/22**	**FY2022/23**	**FY2023/24**	**Share**
Ordinary Revenue	1562.0	1917.9	2192.0	2571.2	88.9
Income Tax	694.1	876.7	1004.3	1198.5	41.4
Import Duty	108.4	118.3	145.9	173.3	6.0
Excise Duty	216.3	252.1	297.2	352.7	12.2
Value Added Tax	410.8	523.1	587.7	703.3	24.3
Investment Income	45.1	43.7	35.5	33.1	1.1
Other	87.4	104.1	121.4	110.3	3.8
Appropriations-in-Aid	241.5	281.9	336.8	322.5	11.1
Total Revenue	**1803.5**	**2199.8**	**2528.8**	**2893.6**	**100.0**

Source: The National Treasury (2023)

Twelve laws have been amended with an objective to increase government revenues while promoting the BETA sectors. For instance, the income tax increases personal income tax for high income earners up to 35%; gross sales from 1% to 3%. The Act also introduces a digital assets tax of 3% and 1.5% housing levy deductions. Kenyans earning upwards from Kes 500,000 will pay 32.5%, while those earning over Kes 800,000 per month will pay 35% from 30%. The Value-Added Tax (VAT) Act amendments increased the rate of petroleum products from 8% to 16%. The Excise Duty Act has been amended to recognize additional excisable products and services over and above increasing duties for selected imported products. Excise on mobile money services has been increased by 3% points to 15%. Some of the tax reforms have some immediate negative impacts as they are likely to translate to an increased burden on people's livelihoods and businesses. It is easier for KRA to collect more from direct than indirect tax. However, the new tax measures will result in less money to spend as Kenyans grapple with reduced disposable income.

The Finance Act has displayed a strong support towards the agriculture industry and green transition activities. VAT Act amendments are giving major tax concessions towards the agriculture sector through zero rating of locally produced and imported inputs of animal feeds and tea exports. On the other hand, zero rating of petroleum gas, supply of motorcycles, electric bicycles, solar lithium batteries, electric buses and bioethanol stoves combined with levying a standard VAT rate on petroleum products all contribute to the green transition and reduction of carbon emissions by 32% by 2030 in line with the revised Nationally Determined Contribution (NDC) aspirations.

However, the lack of sufficient welfare safeguards will continue to be challenge for the low-income groups that already have suffered erosion of disposable income due to the high food prices induced by the war in Ukraine and the appreciated US Dollar. The tax reforms have both direct and indirect impact on the cost of goods and services in the country. For instance, the increase in VAT has resulted an increase in fuel prices and transport fares, which will have negative effects on poor and vulnerable households through increased cost of living and retrogression in adequate standard of living. Omission of compensation for fiscal drag on the minimum taxable income of Kes. 2,400 per month, last adjusted in 2020, the 1.5% housing levy on gross earnings all contribute to the reduction of disposable incomes for the low-income groups. For MSME's, the reduction of the lower band of the turn-over tax implies a steeper effective tax for MSMEs at the entry level as turn-over-tax does not allow for deduction of business-related costs by MSMEs. In summary, with the existing gaps in the country's social protection system, the approved tax reforms are likely to exacerbate inequalities by increasing the tax burden of low income groups, at a time when households-- particularly poor and vulnerable households-- are already grappling with increased costs of living, which is likely to set back the progressive realization of ESC rights and advancement of the SDGs, particularly for those most left behind.[15]

4.5. Social sector allocations and expenditures, and implications

Social sector spending is crucial for the fulfilment of economic and social rights, reducing poverty and inequalities and advancing the attainment of Agenda 2030. The obligation to ensure the realisation of Economic, Social, and Cultural (ESC) rights through adequate public spending is contained within key human rights treaties[16] and reflected in the Agenda 2030 framework as a key indicator 1. a.2, *the proportion of total government budgets allocated to social spending* (defined as education, health, and social protection spending).

In FY2023/24, **the Government allocated 21.3% of the total budget to social sectors (education, health[17], and social protection[18]), an equivalent of 5.8% of GDP**. The allocated resources to the social sector spending represents a slight reduction from the FY2022/23 allocation to social spending, which was 21.2% of the total budget. This reflects the continued decrease in social spending (before adjusting for inflation). Since pre-pandemic (2019), the share of social spending to total budget decreased by 2% from 23.3% in 2019 to 21.3% in 2023, and as a share of GDP decreased from 6.7% in 2019 to 5.8% in 2023 as indicated in Figure 1. In nominal terms, the social spending increased by 11% from Kes 704.95 billion in FY2022/23 to Kes 782.75 billion in FY2023/24, which is an equivalent of a 3% increase in real terms (adjusting for inflation).[19] Even though there are no international binding benchmark for social sector spending, the current social spending in Kenya is below the recommended minimum social spending levels at the international and regional level for the health sector, [20]education[21] and social protection.[22] The low investment in social sectors has implications for poverty reduction and addressing inequalities. This in turn has implications on the realisation of the Agenda 2030 and progressive realisation of economic, social and cultural rights, particularly rights to education, health and social protection, especially for marginalized and vulnerable

[15] More specifically groups at risk of being left behind: persons with disability, older persons, elderly, orphaned children, displaced persons and refugees outside of camps, unemployed youth without income, people with albinism, PWDs, especially in the informal sector as identified in the UN Kenya (2022) *Leave No One Behind Peace and Conflict Analysis*.

[16] Universal Declaration of Human Rights, art. 22; Convention on the Rights of the Child, art. 4; International Covenant of Economic, Social, and Cultural Rights, arts. 11, 12, 13.

[17] This only represents allocation at the national level and does not include county level allocations to health. Total health expenditure (national and county) is discussed in detail in the health expenditure analysis.

[18] This mainly comprises spending on the different national social safety nets.

[19] After adjusting for inflation which according to KNBS (2023) annual inflation rate as measured by the Consumer Price Index (CPI) was 7.9% in June 2023.

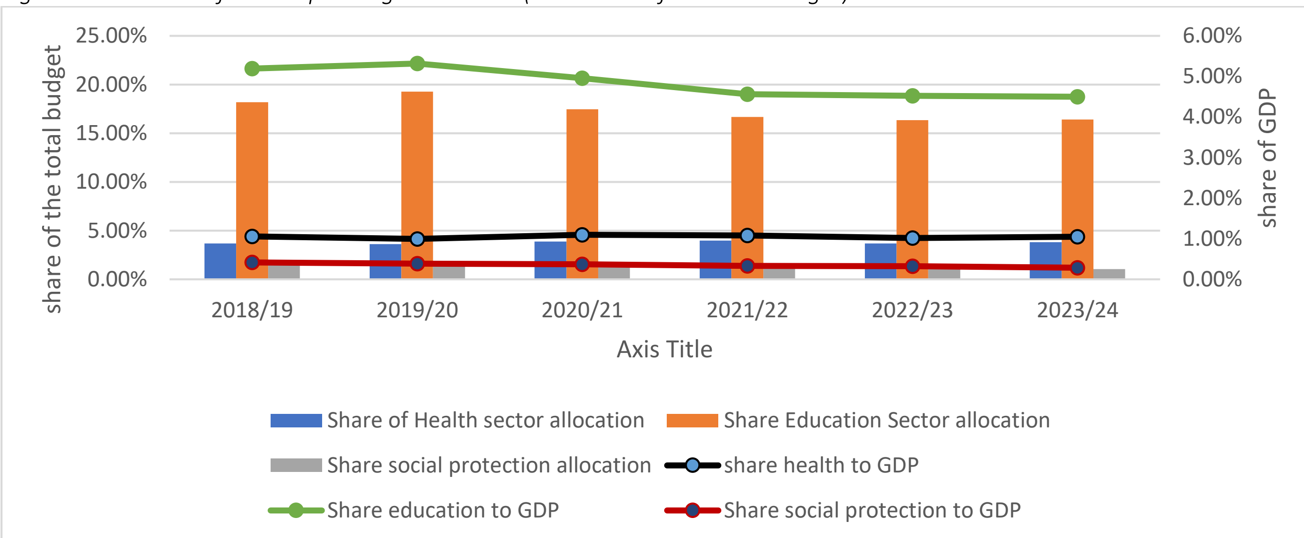
[20] the Abuja Declaration and the World Health Organisation (WHO) stipulate investments of 15% of the national budget and 5% of GDP

[21] the Incheon Declaration stipulates an investment of 20% of the total budget and/or an investment of 6% of GDP.

[22] the International Labour Organization (ILO) (2020) estimates that low- and middle-income countries such as Kenya need to invest 3.3% of GDP in order to provide a universal package of social protection. This covers the following benefits: children, maternity, disability, old age, as well as administrative costs. This benchmark refers to basic social protection measures only and does not represent the full cost of social security coverage.

groups. In 2020, Kenya had accepted Universal Periodic Review (UPR) recommendations to increase investment in social sectors to reduce poverty and inequality.[23]

Figure 1: Evolution of social spending 2018-2023 (as a share of national budget)



Source: Author's computation from the National Budget 2018/19-2022/23

Specific social sector spending

4.5.1. Health spending

Health is recognized as a basic human right in several international instruments including Article 25(1) of the Universal Declaration of Human Rights (UHDR)[24] and Article 12 of the International Covenant for Economic, Social, and Cultural Rights (ICESCR) which the country has ratified, and in the Agenda 2030 framework. The right to health is also a fundamental human right guaranteed in the Constitution of Kenya.[25] Despite health being a basic human right, the majority of Kenyans are unable to access quality health care due to financial constraints.[26] Only 26% of Kenyans had access to health insurance coverage in 2022.[27] The majority of Kenyans reported funding their health expenditures through out-of-pocket spending, which accounts for 27% of health expenditure and is twice the recommended WHO target of 12-15%.[28] Out of

[23] For example: 142.189 Continue the implementation of poverty eradication programmes, including by allocating sufficient national budget for those programmes that impact directly on the lives of vulnerable groups (South Africa); 142.207 Continue to increase investment in education, and improve education in rural areas (China); 142.47 Enhance mobilization of resources for the realization of the Big Four national plan (Ethiopia); 142.180 Continue to elaborate the development plan of the country and dedicate the resources necessary to improve the living standards of Kenyans, particularly in the areas of health and housing (Barbados); 142.183 Strengthen and expand existing policies and resources aimed at alleviating poverty (Zimbabwe).

[24] Everyone has the right to a standard of living adequate for the health of himself and of his family, including food, clothing, housing and medical care and necessary social services.

[25] Article 43 (1) (a) of the Constitution provides that every person has the right to the highest attainable standard of health, which includes the right to health care services, including reproductive health care.

[26] KNBS (2022). Kenya Demographic and Health Survey

[27] Ibid

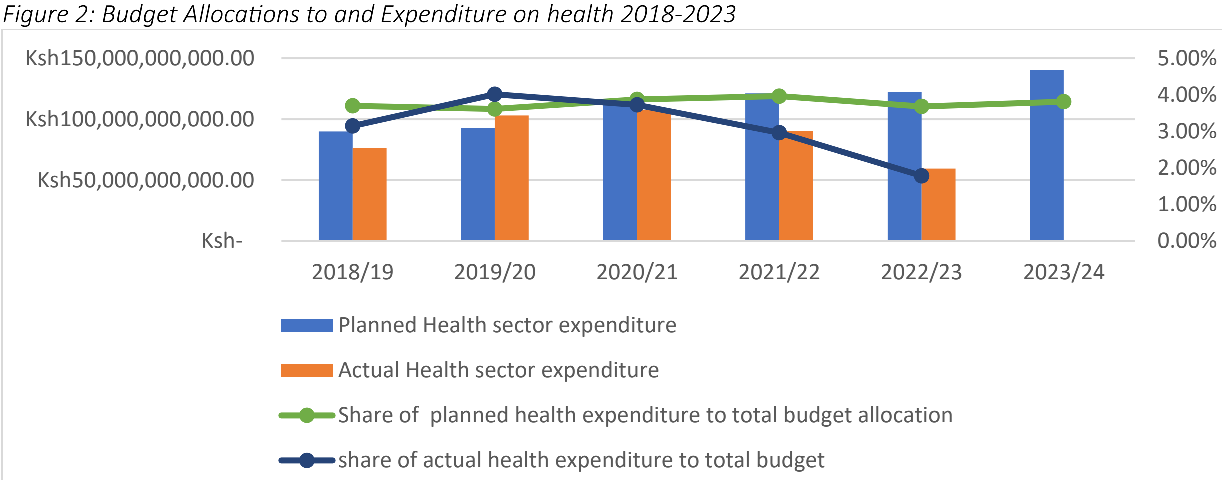
[28] Ministry of Health, Kenya national health accounts 2015/2016 (2019).

pocket expenditure presents an additional burden to vulnerable groups and exacerbates existing inequalities, deepens households poverty[29], and household indebtedness.

In the FY2023/24, the national Government plans to spend Kes 140.4 billion-- an equivalent of 3.8% of the total budget and 1.1% of GDP as indicated in Figure 2. This a marginal increase from the FY2022/23 allocation of 3.7% of the total budget. In nominal terms, the allocations increased by 14% from Kes 122.5 in FY2022/23 to Kes 140.3 in FY2023/24, which in real terms (adjusting for inflation) is a 6.1% increase. Despite the increase in health spending, there are critical sectors in health that remain sub-optimally funded. For instance, only 14% of the total allocated funds in health sectors have been earmarked for reproductive health and maternal health which are critical for gender equality. Around 11% of women have no access to skilled providers during delivery.[30] The lack of skilled providers increases the likelihood of infections that could potentially lead to death or serious illness to the mother and child.[31] Maternal health investments are not only good in generating economic returns through productive healthy people but also reduce maternal and child mortality that are considered as minimum essential levels in the human rights framework.[32]

Even though budget allocations in the health sector have increased, health budget expenditures on the other hand have significantly decreased. The health budget execution rate has decreased from 85% in FY2019/20 to 74% in FY2021/22. For the FY2022/23, in the first 9 months, only 48% of the approved budget was spent. This low execution rate affects healthcare service delivery, especially for the poor and vulnerable groups who are forced to finance their healthcare through out-of-pocket expenditures, as well as affecting the realisation of universal health coverage by 2030 and the right to health for all Kenyans.

Figure 2: Budget Allocations to and Expenditure on health 2018-2023



Source: Author's computation from the National Budget 2018/19-2022/23 and Budget Implementation review report 2018-2022.

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[29] According to a study by Salari, *et.al* (2018) on catastrophic and impoverishing effects of out-of-pocket healthcare payments in Kenya: approximately one million Kenyans are pushed into poverty because of catastrophic health expenditures.

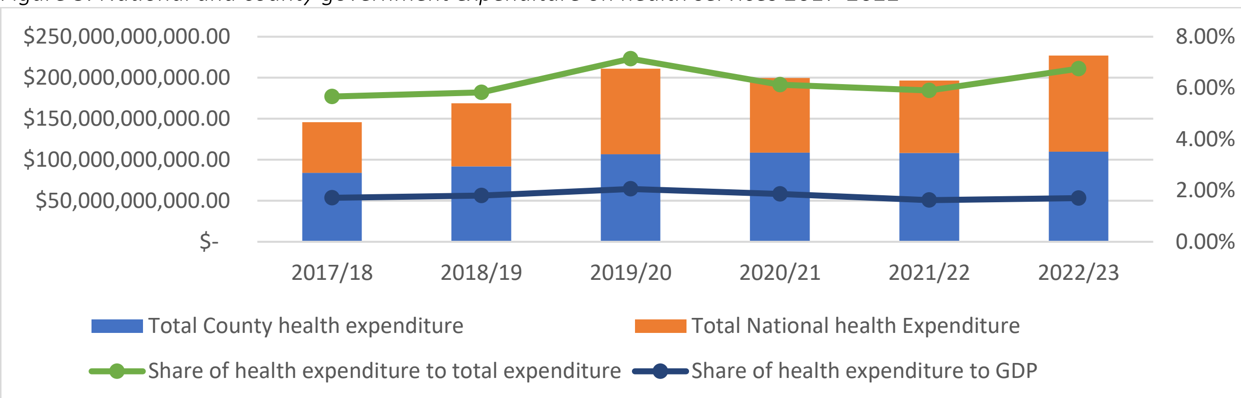
[30] KNBS (2023). Kenya Demographic and Health Survey 2022.

[31] According to the recent KDHS report (2022), neonatal mortality rate stands at 21 deaths per 1,000 live births, the infant mortality rate was 32 deaths per 1,000 live births, and the under-5 mortality rate was 41 deaths per 1,000 live births.

[32] See General Comment 14, UN Committee on Economic, Social, and Cultural Rights on Article 12

With the health sector being a devolved function, the total share of health expenditures (national and county level) has marginally increased from 5.7% in 2017 to 6.8% in 2022 and has marginally decreased as a share of GDP from 1.72% in 2017 to 1.70% in 2022 as indicated in Figure 3. The current health expenditures over the last five years significantly fall below the Abuja Declaration and the recommended World Health Organisation (WHO) health investment of 5% of GDP. At current health levels, for the Government to meet the Abuja Declaration, it would need to double the current total health expenditures of Kes 227 billion. This increase in investment should be in line with the accepted UPR recommendations related to the right to health.[33]

Figure 3: National and county government expenditure on health services 2017-2022



Source: Author's computation from the Kenya Economic Survey 2023.

4.5.2. Education spending

Education is a basic human right and is guaranteed in article 13 of ICESCR and in the Agenda 2030. The 2010 Constitution also recognises that "every person has the right to education" (Article 43(1)) and stipulates that "every child has the right to free and compulsory education" (Article 53(1)). Education is essential for human capital formation and capabilities as it empowers individuals, particularly those facing persistent and multiple forms of discrimination, to lift themselves out of poverty and participate fully in their communities.

The country has made good progress in education through increased enrolment at all levels, improved learning outcomes, and increased public spending. Enrolment at primary education has steadily increased and is almost universal, while secondary education enrolment has increased by more than 30% in the last 5 years.[34] According to World Bank estimates, a child in Kenya is expected to complete 11.6 years of education on average, and after adjusting by the level of learning, the expected years of education is 8.4 years which is relatively high compared to other African countries.[35] To improve on quality of education, the country has embarked on education reforms that seek to modify the curriculum to competency based learning.

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[33] For example: 142.193 Further implement national laws and policies on health services, with particular attention on the right to health of women and children, including through collaboration with other States (Indonesia); 142.194 Step up efforts to increase access to health facilities to cover remote areas and all sectors of its society (Eritrea); 142.196 Continue the measures necessary to extend access to health insurance and quality health services to all citizens without discrimination (Djibouti); 142.199 Continue to protect and promote the right to health for all, through strengthening universal health coverage (Japan).

[34] KNBS (2023). Kenya Economic Survey 2023.

[35] World Bank (2020) Human Capital Index.

The progress in education outcomes is in large part due to increased public spending in education by the government. In the FY 2023/24, **the Government allocated Kes. 604 billion-- an equivalent of 16.4% of the total spending and 4.5% of the GDP**. In nominal terms, the allocations increased by 11% from Kes 544 billion in FY 2022/23 to Kes 604 billion in FY 2023/24-- which in real terms is a 3.1% increase. Overall public spending in education for the last 5 years (2018-2023) has remained within the Incheon Declaration and Dakar Commitment on Education for All by the African Union as shown on Figure 4. The Declaration and commitments stipulate that an investment of 15-20% of the total national budget to education and/or investment of 4-6% of GDP to the education sector is required. However, the distribution of resources between recurrent and development expenditures remains a key concern. For instance, in FY 2023/24 development budget only accounts for 5% of the total education budget. This disparity has resulted in challenges in improving learning outcomes and reducing inequalities between and within groups. In FY 2022/23, 12.3% of pupils who enrolled in school were unable to complete their education and 21.4% of students enrolled in primary education did not transit to secondary education.[36] Inequalities still persist, with low learning outcomes witnessed in rural areas especially in Arid and Semi-Arid (ASAL) Counties and low-income households.[37] For households at the top 20% of the income distribution, enrolment rates for pre-primary, primary and secondary education are much higher compared to the bottom 20%, and tertiary education enrolment for non-poor households stands at 22% compared to 3% for the poorest households.[38] Education spending for disability only accounts for a small fraction of the total education budget-- an equivalent of 0.16% of the total education budget in FY 2023/24 and 0.26% for the FY 2022/23.[39] The inequalities in education across gender, income, disability and region, if not addressed, could further increase the gaps and, in turn, increase the number of individuals and groups left behind. To address the inequalities, it would be important for the country to implement the accepted UPR recommendations related to education.[40]

Despite public allocation in the education sector meeting agreed international and regional benchmarks, actual expenditures have deviated from approved budgets. The education budget execution rates have reduced from 99% in FY 2018/19 to 92% in FY 2021/22. For the FY2022/23, in the first 9 months, only 68% of the approved budget was spent. Low execution rates could potentially hamper efforts to realise quality education as stipulated in SDG 4 and the right to education for all, especially vulnerable groups.

[36] KNBS (2023). Kenya Economic Survey Report.

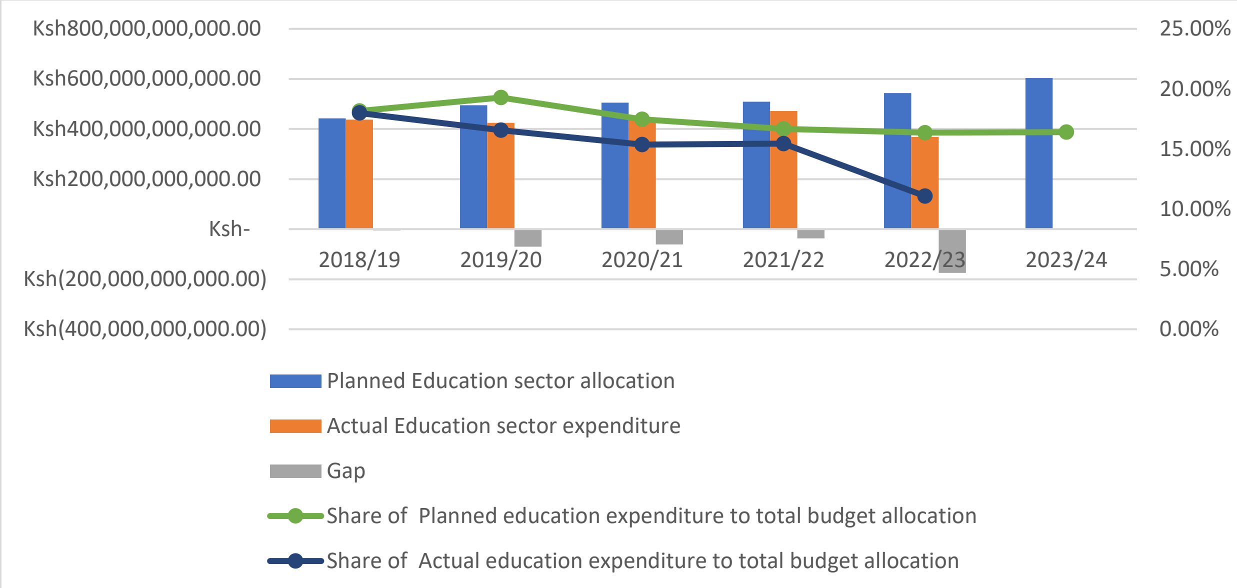
[37] World Bank (2022). Kenya Economic Update Report.

[38] Ibid.

[39] Authors calculation from the programme-based budget for 2023/24

[40] For example, 142.207 Continue to increase investment in education, and improve education in rural areas (China); 142.208 Intensify efforts in the field of education to ensure access to quality education for all, especially for rural populations (Djibouti); 142.211 Ensure equal access to education through the full integration of refugees and asylum seekers into national education policies by 2020, in accordance with the 2017 Djibouti declaration on refugee education (Canada); 142.212 Consider taking further measures to increase the number of girls and women in secondary and higher education, including through specific measures aimed at ensuring adequate access to education for girls with disabilities (Bulgaria).

Figure 4: Budget Allocations to and Expenditure on education 2018-2023



Source: Author's computation from the National Budget 2018/19-2022/23 and Budget Implementation review report 2018-2022.

4.*5.3. Social protection spending*

The right to social security is of central importance in guaranteeing human dignity and is recognized in article 9 of ICESCR and article 43 of the 2010 Constitution. The Agenda 2030 and other policy documents such as Vision 2030 and the BETA recognized the role of social protection in reducing poverty and inequality and improving standard of living, particularly the poor and vulnerable. Kenya has made some progress in advancing social protection with a key focus placed on targeted social safety nets for the poorest and most vulnerable people, rather than on providing comprehensive social protection floors as envisaged in the SDGs.[41]

In FY 2023/24, **the Government allocated a total of Kes 38.3 billion to social protection-- an equivalent of 1.04% of total spending and 0.29% of GDP** as shown in Figure 5. The allocations comprise cash transfers for: orphans and vulnerable children (Kes 7.9 billion); elderly persons (Kes 18 billion); presidential bursary for orphans (Kes 0.4 billion); persons with severe disability (Kes 1.2 billion); Kenya Hunger Safety Net Programme (Kes 5.7 billion); Fund for Persons Living with Disabilities (Kes 0.5 billion); social and economic inclusion projects (Kes 3.3 billion); National Drought Emergency Fund (Kes 0.3 billion); and children welfare society (Kes 0.9 billion). In addition to the social safety spending, the Government allocated Kes 15 billion, an equivalent of 0.41% of total budget, to empower and support businesses owned by youth, women, and persons with disability.[42] Additionally, government allocated Kes 67.4 billion-- an equivalent of 1.83% of the total budget- to promote regional equity, reduce poverty and enhance social development.[43]

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[41] For example, SDGs: 1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable; and 10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.

[42] Allocations to Kenya youth empowerment and opportunities project; National Youth Service; Uwezo Fund; Youth empowerment centres; VIVA Youth Programme; Support Film Industry; and Youth Fund.

[43] Allocations to Constituency Fund; Equalization Fund; and Government Affirmative Action Fund.

The FY 2023/24 budget on social safety net represents a slight reduction from FY 2022/23 spending of Kes 38.8 billion-- an equivalent of 1.2% of total spending. Despite the progress made in expanding social safety net coverage, Kenya's spending remains significantly below global and regional spending on safety nets. For instance, for the period 2018-2023, Kenya has invested an average of 0.35% of GDP on social safety nets,[44] which is relative low when compared to spending on safety nets in sub-Saharan countries which average 2.1% of GDP.[45] Also, the current spending levels are significantly below the International Labour Organization (ILO) recommended spending of at least 3.3% of GDP for provision of universal package of social protection for low and middle-income countries like Kenya.[46] With low spending levels, there are significant gaps in coverage and adequacy of the existing social safety nets particularly for the poor and most vulnerable, including persons working in the informal sector (who account for 83%). The World Bank estimates that social assistance coverage remains low, reaching around 12.5% of the bottom quintile.[47] In terms of adequacy, the cash transfers all offer a similar transfer value of Kes 2,000 per month,[48] which has remained unchanged since 2012 and the real value (adjusted for inflation) has declined by 32%, which means this accounts for less than one-eighth of the consumption needs of households in the poorest quintile[49] and is not adequate to provide an adequate standard of living. In addition, only 20% of the labour force have some form of social security, with the majority particularly those in the informal sector and those out of the labour force having no access to any form of social protection across their lifecycle.[50] From the perspective of the right to social security, there is need for the social safety nets to be extended vertically and the level of benefits needs to be adjusted in order for the targeted population to stay afloat.

On the expenditure side, the actual expenditure deviates from the approved budgets. The social safety net budget executions have significantly decreased from 98.1% in FY 2018/2019 to 93.5% in FY 2021/2022, and for the first nine months of FY 2022/23 only 65.2% of the allocations were spent as shown in Figure 5. The low execution rates imply that planned allocations are not utilized in a timely manner, affecting the poor and vulnerable groups who depend on cash transfers for their wellbeing and survival.

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[44] Calculation based on the approved budget for the period 2018-2023.

[45] ILO (2021). World Social Protection Report 2020–22: Social protection at the crossroads – in pursuit of a better future International Labour Office – Geneva.

[46] Ibid.

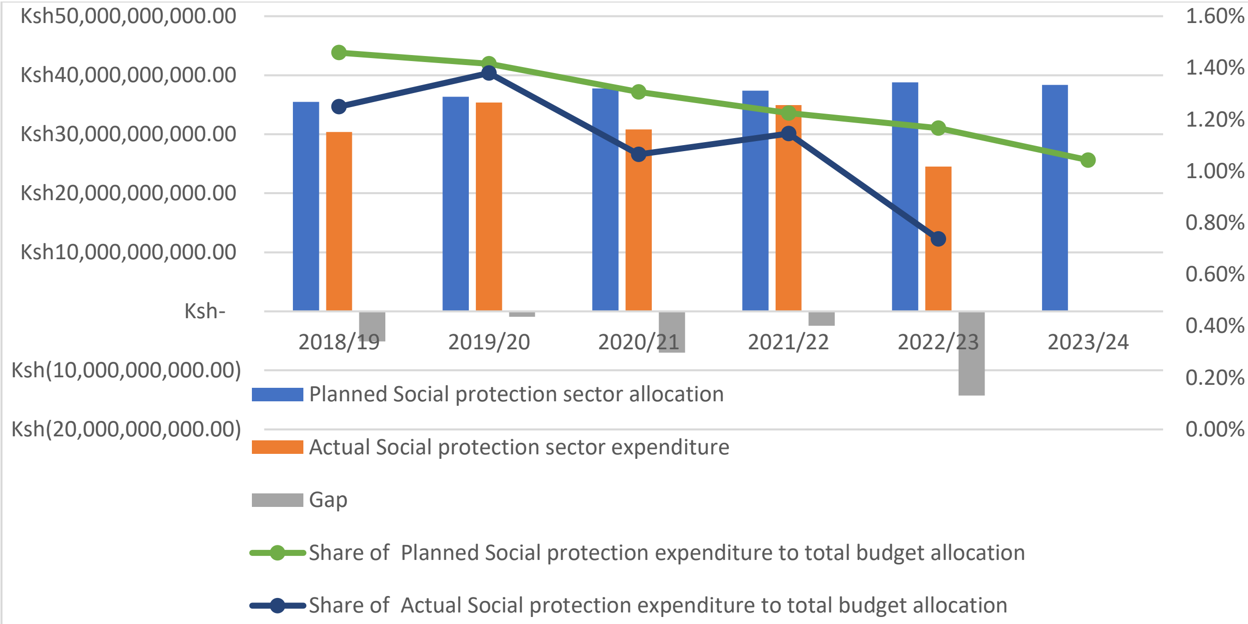
[47] World Bank (2022). Kenya Economic Update. December Edition.

[48] Apart from Hunger Safety Net Program which is unconditional cash transfer programme targeting households living in conditions of extreme poverty in Mandera, Marsabit, Turkana and Wajir Counties that offers Ksh. 2700.

[49] World Bank (2022). Kenya Economic Update: December Edition

[50] Ibid.

Figure 5: Budget Allocations to and Expenditure on social safety nets 2018-2023



Source: Author's computation from the National Budget 2018/19-2022/23 and Budget Implementation review report 2018-2022

5.0 Implications for UN support to national development priorities and the SDGs

The presentation of the FY 2023/24 budget was done when the United Nations Sustainable Development Cooperation Framework (UNSDCF), which articulates the collective vision of the UN system in Kenya for 2022-2026, had already commenced implementation in July 2022. The UNSDCF was prepared in the context of a system-wide response to development challenges and COVID-19 Pandemic in the country. The UNSDCF seeks to address among other things the socio-economic inequalities that have threatened economic growth and the realization of the 2030 Agenda pledge to Leave No One Behind (LNOB).

The UNSDCF responds to myriads challenges to support the country build back better that require continued collaboration and partnerships and shared intent between the UN, the GOK, development partners, the academia, the private sector, civil society and other key stakeholders, as well as between UN agencies.

The FY 2023/24 budget identifies priority sectors; agriculture transformation, micro, small and medium enterprise economy, housing and settlement, healthcare, digital superhighway, and creative industry and enablers where investments are to be reoriented to have the greatest impact to the economy and welfare to the Kenya citizens. The UN Kenya articulation of focus areas through the UNSDCF, which is an integrated and multidimensional programming approach in line with the "five Ps" of the 2030 Agenda (people, prosperity, planet, peace, and partnerships) resonates with the government budget priority focus areas and more broadly with Vision 2030. The UN's priority I: *Prioritizing People and Safeguarding Peace* seeks to address human capital development to achieve a peaceful and inclusive Kenyan society for sustainable development with access to justice for all and with effective, accountable, and inclusive institutions at all levels is a top priority in Kenya's development agenda as stipulated in the priority sectors on health and enabler sectors under governance. Similarly, priority II: Accelerating Prosperity and Protecting the Planet recognizes the importance of biodiversity conservation, green transition and climate change which are articulated in the government development policies and strategies. This falls within the 5 priority sectors under agriculture transformation but also cuts across enabler sectors.

The implementation of the UNSDCF, which will largely be through Joint Programmes recognizes the importance partnerships and coordinated resource mobilization strategy for the UN but also important aspect to support the government in coming up with an Integrated National Finance Framework (INFF) strategy. This is in recognition of the importance of having the full range of financial resources available for sustainable development from public, private, domestic, and international finance sources given shrinking fiscal space. The support will facilitate increasing investment, managing risks, and achieving sustainable development priorities, as identified in BETA.

6.0 Conclusion and Policy Recommendations

The FY 2023/24 budget marks the beginning of the Kenya Kwanza government fiscal year and has been formulated amidst considerable uncertainties. These uncertainties include the ongoing war in Ukraine, the turbulent financial market, Kenya shilling depreciation and dollar scarcity, increases in energy costs, inflationary pressures among others that threatens to slow down the economy. The government has responded to these challenges through increased investments in five focus sectors that are deemed to have the largest impact on both the economy and household welfare. These strategic sectors include agricultural transformation, micro, small and medium enterprise economy, housing and settlement, healthcare, digital superhighway, and creative industry. Through a special focus on these sectors, the government plans to reduce the cost of living, create jobs and achieve an equitable distribution of income.

The Government continues to remain committed to the IMF programme, meaning that fiscal consolidation will reduce the budget deficit from a projected 5.8% of GDP in FY 2022/23 (July 1st-June 30th) to 4.4% of GDP in FY 2023/24. The Government aims to boost tax collection, curb wasteful spending, and strengthen debt management, with the goal of shrinking the large stock of public debt and making repayments sustainable in the medium term. For FY 2023/24, the Treasury is targeting a deficit of 4.4% of GDP, a multi-year low, based on revenue growing faster than expenditure, but the target will be hard to meet, given substantial underlying spending pressures. Sustained deficit reduction will require public-sector wage restraint, increasing the efficiency of government expenditure, rationalizing tax expenditures and better management of capital outlays, and expansion of the tax base. It is important that social sector budgets are ring-fenced to protect development gains made to date. Combined with this improved targeting, and utilization rates of allocated budgets could assist generate the much-needed impact from social spending.

In the medium term, the government will need to continue taking steps that are geared towards realizing universal access to social services, including education, health, and social protection, in line with human rights commitments and the Agenda 2030, with a particular focus on those at risk of being left behind. This would support the implementation of Kenya’s Vision 2030 and the UNSDCF 2022-2026, which focuses on addressing inequalities that hinder achievement of the SDGs. In the short to medium term, the main fiscal risks are domestic policy slippage and external shocks.