STEALING THE FUTURE

TISA
THE INSTITUTE FOR SOCIAL ACCOUNTABILITY

OKOA UCHUMI!

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Foreword

Stealing the Future is not just a title — it is a painful truth and a call to action. This report lays bare the systemic plunder of Kenya's present and future, driven by ballooning debt, the looting of public resources, and the steady collapse of essential services like healthcare, education, and access to dignified livelihoods. What was once promised as development has become a betrayal, where public funds are siphoned to fuel extravagance, empower private interests, and protect the architects of impunity.

At the heart of this crisis is a generation whose dreams have been stolen. Kenya's youth, vibrant and ready to lead, are instead met with joblessness, shrinking opportunities, and rising inequality. The wage burden of the state grows, not to serve the people, but to sustain an overfed elite that has expanded the cabinet, multiplied advisors, and entrenched itself in power with no regard for the suffering it leaves in its wake.

This report also uncovers the darker underbelly of irregular dealings — the use of security budgets for shadowy transactions, the linkages between arms, minerals, and conflict, and the strategic neglect of institutions meant to protect the republic. Instead of building a resilient country, resources are poured into hollow ICT systems, extravagant procurement, and the enrichment of politically connected private hospitals at the expense of public health. When citizens raise their voices, they are met not with dialogue, but with violence, abductions, and death. The youth are not just unemployed — they are under siege.

Parliament, the supposed voice of the people, has devolved into an enclave of silence and complicity, shielding corruption rather than challenging it. Oversight institutions are weakened daily, and devolution — our best hope for people-centred development — is starved and sabotaged. The state has robbed the farmer, the processor, the artists and the small industrialist of the capital they need to grow, as high interest borrowing drains the economy and stifles local investment.

Despite the darkness, this report is also a declaration of resilience. As we prepare the People's Governance Diagnostic, we call on Kenyans to stay woke and stay vigilant. The struggle for justice, for a lean and accountable government, and for institutions that serve the people is far from over. The waters may be murky now, but they will clear. From them, we will recover our strength, our dignity, and build a nation anchored in hope, truth, and prosperity for all.

Let this be a record of what was, a mirror of what is, and a compass for what must be.

Diana Gichengo
Executive Director
The Institute for Social Accountability (TISA)
and Convenor of The Okoa Uchumi Campaign

The Africa Centre for Open Governance (AfriCOG) is pleased to collaborate with the Okoa Uchumi Campaign on the production of a People's Governance and Corruption Diagnostic report. The Campaign is a civil society platform convened by The Institute for Social Accountability (TISA) committed to addressing Kenya's public debt crisis. The shadow Governance and Corruption Diagnostic is an alternative to the officially agreed process between the Government of Kenya and the International Monetary Fund regarding the assessment of governance vulnerabilities—including corruption—that are critical to the country's macroeconomic performance.

Civil society's objective in this process is to ensure the inclusion of a people-centred perspective by producing its own report to inform the public, the IMF, government and key stakeholders on what should change in the governance of Kenya. Righting the many wrongs cannot merely be an exercise in ticking the boxes of agreed technical "reforms". Kenyans, and particularly the young - who see their future being stolen before their eyes - demand an end to the corruption that drives unsustainable debt. As this report shows, the IMF bears its share of the blame for the morass that Kenya finds itself in, having long enabled the governing elite's ravenous appetite for debt. It must reflect on its role.

AfriCOG is proud to place its increasing body of work at the service of the campaign for accountability and a better future for the majority of Kenyans. The current report combines a memorandum delivered by the Okoa Uchumi Campaign to the Board of Directors of the IMF and other stakeholders at the Spring meetings of the Bretton Woods Institutions in April 2025, updated with a preliminary analysis of the Budget Estimates and Finance Bill 2025/26 recently tabled in the National Assembly by government. The insights contained will flow into the final report, which is in preparation. We are grateful to TISA and the OUC leadership for their guidance to this process.

We look forward to your engagement and feedback.

Gladwell Otieno
Executive Director
Africa Centre for Open Governance (AfriCOG)

Abbreviations and Acronyms

AG	Attorney-General
BETA	Bottom-Up Economic Transformation Agenda
BPS	Budget Policy Statement
CDF	Constituency Development Fund
COP28	The 28th United Nations Climate Change Conference
DNFBP	Designated Non-Financial Businesses and Professionals
DPMS	Dealers in Precious Metals or Precious Stones
EIPL	Export and Investment Promotion Levy
EU	European Union
FATF	Financial Action Task Force
FOCAC	Forum on China-Africa Cooperation
FY	Financial Year
GDP	Gross Domestic Product
Gen Z	Generation Z
GoK	Government of Kenya
HNWIs	High Net-Worth Individuals
IDF	Import Declaration Fee
IFF	Illicit Financial Flows
IMF	International Monetary Fund
IT	Information Technology
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
KSh	Kenyan Shilling
KYEOP	The Kenya Youth Employment and Opportunities Project
MCA	Member of County Assembly
MDAs	Ministries, Departments, and Agencies
MP	Member of Parliament
MTDS	Medium Term Debt Management Strategy
MTP-IV	Fourth Medium Term Plan 2023-2027
NHIF	National Health Insurance Fund
OAG	Office of the Auditor-General
OUC	Okoa Uchumi Campaign
PBO	The Parliamentary Budget Office
RDL	Railway Development Levy

RSF	Rapid Support Forces
SHIF	Social Health Insurance Fund
SRC	Salaries and Remuneration Commission
TDB	The Trade and Development Bank
TISA	The Institute for Social Accountability
UN	United Nations
US	United States
USD	United States Dollar
VAT	Value Added Tax

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Memorandum from the people of Kenya to the International Monetary Fund Board of Directors April-May 2025

Introduction

The crisis stalking Kenya's economy deepened in the aftermath of the Gen Z uprising of June 2024[1]- a movement that explicitly accused the IMF of playing a key role in supporting the government as it ran the economy into the ground. Kenyans, in other words, want the IMF to take responsibility for its role in a country that it has called a 'remarkable economic story' and one of the regions 'successful frontier economies'.[2]

This not just important for Kenya. The local and global causes that triggered the Gen Z 'youthquake' are strikingly similar to other movements across Africa, which have arrived in the form of coups, uprisings or rebellions. Young, educated people are now the bulk of the population, but 'growth' economies are not creating them jobs. This has caused despair and desperation. Every African country declares jobs are being created in the informal sector - but when the youth set up there, they are not considered a work force. They are instead treated as a public order problem, living with uncertainty and risk as their kiosks and shops are patrolled and bulldozed. It is not a coincidence that the protest that sparked the Arab Spring in Tunisia in 2010 was the result of a young man, Mohamed Bouazizi, in the informal sector, setting himself on fire[3]. We ignore the economy of the 'youthquake' at our peril.

The IMF Board of Directors is invited to note that Kenya is now in a profound social and economic crisis, and the Government of Kenya has abandoned necessary reform. The general public is hurting and the future is uncertain. The failure of the IMF to properly analyse the situation in Kenya enables a predatory government to mismanage the economy and mire Kenyans in an unpayable national debt. This requires critical self-reflection by the IMF.

1 https://africog.org/africog-the-gen-z-uprising-in-kenya-and-africas-youthquake/

2 https://www.imf.org/en/Blogs/Articles/2014/01/08/a-new-frontier-for-kenya-and-africa

3 Wachira Maina, "The Roots and Meaning of the Generation Z Protests in Kenya ", unpublished memo, July 2024.

1. Overview

Political survival, not fiscal discipline

The March 2025 suspension of the 9th IMF Kenya programme review confirms the Government of Kenya (GOK)'s abandonment of substantive reform, which will not happen in the period preceding the national election scheduled for August 2027. Political survival, not fiscal discipline, is now the imperative. Public debt is a mass popular concern, and senior government insiders have stated that interest and principal repayments falling due are rapidly spiralling to unsustainable levels. Government revenue is extremely fragile, and past Finance Bills (2023, 2024) have been rejected by court rulings and protests.

But the GOK has doubled down rather than responding to the public calls to end corruption, and for transparent and responsible debt acquisition. It has insisted instead on reintroducing the hated proposals that sparked the Gen Z revolt. Outrightly illegal self-enriching budget lines have been quietly reinstated - like funding offices of spouses of the President, Deputy President, and the 'Prime Cabinet Secretary' (an office unknown to the constitution) - which were initially cancelled because of the protests.

Government has resorted to the familiar stratagem of co-opting political opponents, which further bloats its swollen ranks and neutralises opposition oversight and has created seven new departments with an attendant rise in costs.

As the electoral campaigning season looms, the scramble to complete stalled projects to gain public support begins. Short-term loans are being secured at onerous rates to complete projects which were already financed but never implemented, accelerating the risk of international litigation by the original contract holders[4]. Kenyans anxiously await the tabling of budget proposals and the Finance Bill 2025, anticipating even more punitive and regressive taxes.

Accountability architecture failing

Despite Kenya's exemplary array of institutional and legal reform measures adopted over the years, corruption and looting continue to thrive. Unsustainable levels of public debt spiral with little transparency. Constitutional guardrails which should secure accountable public financial management and meaningful public participation are weakened or dismantled, and reforms to facilitate transparent public procurement and public-private partnerships have been subverted for corrupt ends.

Impact of IMF-approved reforms

The IMF should note it approved of the GOK's reforms in these areas, and reflect on the fact that the biggest scandals since this government took office revolve around public-private-partnerships, notably:-

- The Adani Group concessions over the Jomo Kenyatta International Airport and parts of the National Electricity Grid
- The concessioning of the Bomas of Kenya national heritage site to a Turkish entity
- The importation of edible oils from Malaysia through the Kenya National Trading Corporation
- The concessioning of the management of the health information system underlying the Social Health Insurance Fund to a Dubai controlled syndicate.

4 https://thekenyatimes.com/business/ruto-gives-chinese-ksh60-billion-received-from-bank-loans/

Kenya's fiscal problems arise from systemic failures across the core budget institutions in the budget cycle. The Constitution gives the National Assembly a powerful role to direct budget making and public debt management. But far from using its constitutional power to shape expenditure, control public debt, and ensure meaningful public participation, Parliament is subservient to the Executive. It has even colluded with the Executive in weakening its own oversight capacity[5]. For example, the Constituency Development Fund (CDF) - which is unconstitutional - grants MPs funds to implement "development projects" in their areas. This amounts to 2.5% of the annual budget, and disincentivises MPs in reducing the expenditure size of the overall budget.

The job of independent institutions intended to support Parliament's debt oversight has become increasingly difficult, critically the Auditor General and the Controller of Budgets. These institutions have become targets for budget reduction[6], harassment and reprisals for courageous exposures of national government and county level misappropriation and mismanagement of funds. As a result, audit processes are often incomplete or thwarted so that they fail to yield complete or reliable information[7].

Weak and underfunded rule of law

The Judiciary is under attack. Rule of law institutions are underfunded and weak - or, conversely, weaponized to attack political opponents and grant reprieves to supporters. The police, as primary law enforcers, are widely regarded as Kenya's most corrupt public institution. The Kenya National Commission on Human Rights[8], which has the mandate to monitor the progressive achievement of socio-economic and human rights guaranteed by Article 43 of the Constitution of Kenya, has been hamstrung by the failure to enact facilitative legislation requiring regular reports from the National and County Governments.

Politicians are not seen as useful representatives for the people or a way to channel change: they lack legitimacy, and political parties have become vehicles for personal ambition with manifestos that cannot be relied on to predict government policy.

How did Kenya get to this point?

Kenya is a classic case of state capture. It has a small, unaccountable elite which historically developed into an oligarchy, entrenched in government, finance and control of the Kenyan economy. It is self-recruiting and self-replicating, operating through a democratic façade, with regular elections and box-ticking reforms, but not subject to the accountability of a truly democratic system.

This entrenched system is characterised by inefficiencies, failures and violations. Impunity for corruption and human rights abuses is rampant; and public discontent had been successfully destroyed, suppressed or dissipated until the Gen Z uprising in June 2024.

Kenya's youthquake

The Gen Z uprising was the greatest challenge to the authority of government since the 2007/8 post-election violence and is mirrored in other African countries. If mismanaged, the 'youthquake' will be dangerously destabilizing.

5 See AfriCOG, Kenya's Debt Treadmill, December 2024, pp. 6-8 and https://nation.africa/kenya/business/ruto-uses-uhuru-script-to-evade-scrutiny-of-billions-from-abroad-5001822 and how Parliament colluded in amending the public finance management laws to introduce loopholes subverting their aims.

6 In the final Estimates for FY 2024-2025 both the Auditor General and the Controller of Budget had their budgets reduced.

7 Cf for example the failed attempt to conduct an audit of public debt, discussed below on p. 17

8 KNCHR has the mandate to monitor the progressive achievement of socio-economic and human rights guaranteed by Article 43 of the Constitution of Kenya.

Gen Z morphed and partly migrated to social media, but continues - there are frequent incidents on the streets, including heckling and chanting in the presence of the president and senior political leaders at public events. The government has adopted the ostrich position, trivialising the movement as 'civil unrest', despite its extraordinary impact - which included the storming of parliament on June 25 2024 in the 'seven days of rage' against the Finance Bill. The demonstrations have provoked a broad impetus for change and forced a new debate on governance. This portends instability and negative economic implications, in contrast to the rosy projections being made by Cabinet Secretary for Finance and National Treasury, John Mbadi.

Kenya's deteriorating economic performance and increased debt spells more hardship - particularly for the youth. The GOK is unlikely to adopt adequate pro -youth policies, despite its medium-term strategy focus on empowering women, including young women, youth and other vulnerable groups. These vulnerable groups, including youth, will be hard hit by the drastic reductions and delays in social expenditure, which is an abrogation of the constitutional requirement for the progressive attainment of Article 43 socio-economic rights. Areas which typically benefit youth, like sports, remain neglected, or are simply there as an opportunity for self-enrichment: in Kenya sport is notoriously preyed on by corrupt officials[9].

The state of the education system is also a major obstacle to youth satisfaction and advancement. Analysis of the Financial Year (FY) 2025 Budget Policy Statement[10] reveals a starkly underfunded education sector: *Critical areas that are not adequately funded include: capitation across all levels, the new higher education funding model, recruitment and promotion of teachers, and infrastructure development. Equally, given the transition to the Social Health Insurance Fund (SHIF), there is no clarity on the health coverage of learners that were previously covered by the NHIF*[11].

Growth vs Kenyans' lived experience

Kenya maintained fairly consistent growth over the past decades, driven by debt financed infrastructure projects, yet this growth has done little to improve the lived experiences of the people it should serve. The Kenyan public are very concerned that poverty is increasing and the quality of public goods and services is declining. Nevertheless, the GoK does not publish current data on poverty, and its forecasts using four-year-old data from the KNBS[12] are dubious. Kenya has little to no plan on dealing with the real problems of the larger portion of its population.

Staggering statistics: the youth unemployment challenge

The World Bank[13] estimates that by 2030, Kenya's overall population will reach 63.9 million, with 22.3 million aged 15-34. This age cohort will grow by over 1 million annually from now to 2030, which will intensify the youth unemployment challenge. The current overall youth unemployment rate is approximately 13.4%[14]; but underemployment - meaning those working in informal, low-paying, or part-time jobs - affects over 30% of Kenyan youth.

Out of these statistics, about 1.7 million are jobless university graduates, and 39% of unemployed youth have post-secondary education. Female youth face higher unemployment (17%) compared

9 https://eacc.go.ke/en/default/eacc-to-inquire-further-into-embezzlement-of-kenyas-afcon-championship-fund/

10 Parliamentary Budget Office, March 2025, "Unpacking of the Budget Policy Statement for Financial Year 2025/2026 and the Medium Term", p.vi

11 Ibid

12 Kenya National Bureau of Statistics, 2025. The National Economic Survey 2025 was published in May after presentation of the civil society advocacy document to the IMF.

13 https://www.worldbank.org/en/news/feature/2024/11/26/ujasiriamali-self-employment-and-job-creation-for-youth-in-kenya

14 https://www.knbs.or.ke/wp-content/uploads/2024/10/The-Kenya-Poverty-Report-2022.pdf

to males (12%). The most staggering statistic comes from the informal sector, where nearly 91% of employed youth work[15]. Only 9% of youth secure formal employment. The Kenya Youth Employment and Opportunities Project (KYEOP) reports modest improvements in skills training but persistent job shortages. Although growing and much touted, the digital jobs sector still only absorbs 1% of job seekers.

Kenya's youth employment picture is consistent with the situation in many other African countries.

How we look at the problem matters

A people centred approach through the youth lens is necessary if the aims of development and fiscal discipline are going to be achieved. For example, Kenyan youth may not pay income tax, but they are nevertheless taxpayers - through multiple licenses, levies, service fees and consumption taxes like VAT. Attempts to collect turnover taxes are a major cause of discontent and simply encourage an underground 'off-the-books' economy – including a recent preoccupation with cryptocurrency.

It is unlikely that any fiscal consolidation or revenue mobilising efforts will be accepted by the general population without first addressing the issue of non-existent or poorly delivered services, disappearing public goods, corruption, inequality and impunity. Revelations of graft at the top, and the well documented recent human rights violations, has made the current government illegitimate in the eyes of many, particularly the youth[16], and the potential for unrest is clear. A sensible government would act on the basis of the sheer number of young people impacted - over 5 million are not in education, employment or training. By the time Kenya has its next general election, expected in August 2027, this will number will be around 8 million.

Guard against manipulation of GDP denominator

The Institute for Social Accountability (TISA) has raised serious issue with Kenya's GDP figures as presented in various government publications. In particular they question the figures provided for nominal GDP and the implications for target setting on, for example, the Fiscal Deficit. The deficit provided in the draft Budget Policy Statement by the National Treasury released for public participation was KSh 759.4 billion (3.9% of GDP). However, the Budget Policy Statement submitted to the National Assembly indicates that the deficit has grown to 831.0 billion (4.3% of GDP).

Okoa Uchumi Campaign's (OUC) calculation indicates that the real deficit will be even higher because, inter alia, the denominator (nominal GDP) used to compute the deficit is overestimated. OUC submitted to the Senate[17] that "nominal GDP used in computing deficit is KSh 19.272 trillion for FY2025/26. OUC noted that the projected nominal GDP by the end of FY 2024/25 is KSh 17.4 trillion[18]. With a projected GDP growth rate of 5.3%, the possible nominal GDP for FY 2025/26 should not exceed KSh 18.358 trillion. The denominator (nominal GDP) used to compute the deficit is overestimated. In this regard, the fiscal deficit of 4.3% presented in the BPS is underestimated. There is need for clarity on how the GDP size calculations are arrived at; the numbers claim that in three years, Kenya's GDP has grown from KSh 14 trillion to KSh 19 trillion."

Falling far below target

There are serious doubts that the GOK will bridge the KSh 1.37 trillion tax revenue gap before the close of the financial year 2024-2025, ending 30th

15 "Employment in the modern and informal sectors, excluding small-scale agriculture, went up from 20.0 million in 2023 to 20.8 million in 2024. A total of 782.3 thousand new jobs were created in the economy in 2024. The modern sector created a total of 78.6 thousand jobs in 2024, reflecting a growth of 2.4 per cent. The informal sector created 703.7 thousand new jobs compared to 720.9 thousand in 2023, accounting for 90.0 per cent of all new jobs created, excluding small-scale agriculture." KNBS 2025 Economic Survey.

16 Cf. for example https://www.amnestykenya.org/kenya-25-june-2024-end-police-use-of-unlawful-force-time-for-accountability-and-justice/

17 See Report of the Standing Committee on Finance on the 2025 Budget Policy Statement, http://www.parliament.go.ke/sites/default/files/2025-03/Standing%20Committee%20on%20Finance%20and%20Budget%20Report%20on%20the%202025%20Budget%20Policy%20Statements.pdf

18 The KNBS 2025 Economic Survey has this figure at KSh 16.2 trillion. This illustrates the point that nominal GDP is a floating number uncertain across GoK documents.

June 2025. Civil society research demonstrates that with just four months left in the financial year 24/25, the 2% tax revenue growth falls far below the 15% target. The Institute for Public Finance notes that *"revenue collections underperformed by KSh 93.2 billion in 2024, driven by VAT and income tax shortfalls."* [19] Non tax revenue has contributed to overall collections, but the gap remains significant.

There is particular concern that County governments own-source revenue is not growing as expected meaning there is a failure to generate revenue across the country. There are also inevitable questions about how realistic the projections made in the Budget Policy Statement 2025 regarding external grants in light of the evident US and EU policy shifts.

Service delivery at an extra cost

Fees for government services are collected in ever increasing volumes as the adequacy and quality of the services rapidly decrease. This angers the public, who are subjected to multiple forms of corruption, including 'speed money'[20] - facilitation fees and charges[21].

E-Citizen, the digital platform for collecting GOK fees, is now completely in private hands. The lopsided supplier contract[22] with GOK privileges these entities with the assurance that *"in the event of termination, howsoever occurring, the Suppliers shall be entitled to rescind, withdraw or otherwise uninstall all their proprietary infrastructure and resources, including all technical infrastructure whether software or otherwise, that may have been deployed in order to enable them to provide their services under this Agreement"*.

There is also believed to be a proposal to hand over the national payment system of Kenya's Central Bank to a Nigerian company - a bid said to be seeking the approval of State House. Should this happen, it would violate the independence of the Central Bank of Kenya.[23]

Paying with money that never arrives

From 2003, the expenditure side of the Kenya national budget grew from KSh 322 billion to KSh 4.2 trillion - but where are the developmental results of this massive change in income and spending? The reality is that the Government of Kenya always spends more than it earns, creating a perpetual borrowing cycle to 'plug the deficit'. Kenyans question whether this deficit is material or justified. Revenues collected daily are dwarfed by spending, based on a budget with an inflated spending plan. As of May 2025, this has resulted in a nearly 8 billion US dollar annual deficit.

Exchequer payments - known as 'issues' - are becoming unrelated to the allocations of funds set aside for a particular use and approved by the National Assembly[24]. This means both the National Government and the Counties enter into contracts on the basis of exaggerated, inflated spending plans, proposing to pay from money that never actually arrives during the financial year. GOK is in arrears in the dispersal of funds to Counties, with pending bills accumulating at national and county level.

Runaway Pending Bills

The Controller of Budget reports the accumulation of pending bills worth KSh 706 billion[25] indicating

19 https://ipfglobal.or.ke/wp-content/uploads/2025/04/Abridged-version-FINAL-2025-ANSB-1.pdf

20 Ironically, there is a proposal for what would amount to the legitimisation of speed money charges emanating from the revenue collection firm running the E-Citizen platform for the National Government: see https://www.businessdailyafrica.com/bd/corporate/companies/e-citizen-firm-proposes-premium-rates-for-expedited-services-4955808

21 At KSh 50 per transaction, with 120,000 transactions a day during the year ending June 2024. https://www.businessdailyafrica.com/bd/economy/state-collects-sh127bn-via-e-citizen-4784244

22 https://www.citizen.digital/news/e-citizen-platform-at-risk-of-collapse-amid-contract-controversy-n361086

23 https://www.businessdailyafrica.com/bd/economy/ruto-entangled-in-battle-for-new-payments-platform-4976374

24 Cf Ndindi Nyoro, MP speech 16th April 2025 mentioned above in footnote 3.

25 https://www.standardmedia.co.ke/national/article/2001513582/nyakango-decries-funding-cut-as-state-plans-to-clear-pending-bills. Different figures are in circulation, but the magnitude of the problem is clear.

widespread violation of existing law and endemic mismanagement. The spill-over to economic activity is extremely deleterious. Last year, GoK published a Strategy on Verification and Clearance of Pending Bills[26] - but this is not the first attempt to address this issue. Serious concerns around transparency, fairness and the perennial problems of implementation and enforcement persist.

The failure to settle pending bills effectively robbed Kenya's private sector of nearly KSh 706 billion.[27] - this being the value of pending supplier and contractor invoices and bills for work done for the National Government, the County Governments and State-Owned Enterprises.

In a court of law, and certainly in the court of public opinion, GoK's failure to pay domestic suppliers and contractors constitutes evidence of default. However, the GoK operates with impunity in this matter of pending bills because it has statutory immunity preventing enforcement of judgements for debt owed. Evidence is emerging of a shadowy broker market wherein bribe demands are made to large creditors by GoK officials with the capacity to prioritise debt settlements. In March 2025, the Pending Bills Verification Committee, led by a respected former Auditor General of Kenya, identified KSh 268 billion worth of unverifiable claims that had been prioritised by GoK officers for payment.[28]

The Annual National Shadow Budget FY 2025/26 by the Institute of Public Finance notes that *"this accumulation negatively impacts the liquidity of the private sector and the government's procurement process. Notably, the accumulation will attract penalties and interest and create additional public costs in litigation fees. It is imperative that the payment of outstanding pending bills be prioritized before the commencement of new projects."*[29]

Budgeted Corruption

Conspicuous consumption, corruption and extravagance contribute to the fiscal deficit - this is a form of State Capture[30]. In some predatory quarters, the very existence of a fiscal deficit makes budgeted corruption easier to perpetrate. Money approved by parliament materializes on the books, enabling systematic insertion of projects into an unfunded budget under the cover of parliamentary appropriations. It is the systematic deviation of project choice from public financial management value for money norms to divert the budget into predetermined hands. The failure of the National Assembly to control the appropriation process, and its routine granting of retrospective approval of unbudgeted spending in the order of up to ten percent of the budget every year – an abuse of Article 223 of the Constitution – perpetuates the ever-rising spending plan. In March 2024 the National Assembly was petitioned to investigate past Article 223 exchequer issues through a Judicial Commission of Inquiry, but the petition was perfunctorily dismissed[31].

Kenya's constitutional architecture is intended to confine government borrowing to planned development projects within the context of transparent annual budgets and rolling economic development plans. This is to prevent the Executive from contracting debt in its sole prerogative. But as with many constitutional guard rails, the two governments since the promulgation of the Constitution in 2010 have driven roughshod through the barriers.

26 https://www.treasury.go.ke/wp-content/uploads/2024/08/Strategy-on-Verification-and-Clearance-of-Pending-Bills-May-2024.pdf

27 Ibid. Footnote 24.

28 https://www.businessdailyafrica.com/bd/economy/pending-bills-committee-rejects-sh268bn-in-supplier-claims-4952888

29 https://ipfglobal.or.ke/wp-content/uploads/2025/04/Abridged-version-FINAL-2025-ANSB-1.pdf

30 https://africog.org/highway-robbery-budgeted-corruption-as-state-capture-a-case-study-of-infrastructure-spending-under-the-jubilee-administration/

31 http://parliament.go.ke/sites/default/files/2024-06/Report%20of%20Public%20Petitions%20Committee%20on%20petition%20no.4%20of%20 2022%20regarding%20funds%20spend%20by%20the%20National%20Government%20contrary%20to%20the%20provisions%20of%20article%20 223%20of%20the%20CoK%20by%20Mr%20Stephen%20Mutoro.pdf

2. An insider look at President Ruto's government

Damaging allegations of corruption have increasingly emerged as politically motivated fallouts multiply within the beleaguered government.

Odious Commercial Debt?

In September 2022, the Auditor General reported to The Senate - after an eleven-year study of the records - that commercial loans were being taken and utilized in violation of Kenyan law.[32] Her conclusion was that "the proceeds of commercial borrowings are not being utilized exclusively for development expenditure contrary to the provisions of Section 15(2)(c) of the Public Finance Management Act 2012. […] The due borrowing process is not consistently being adhered to. For instance, some loans were being contracted before the legal opinion of the Attorney General was rendered."

Specifically, the Auditor General pointed out the following issues that could impair the legality of certain commercial debts.

- Loans contracted without the Attorney General's Legal Opinion (26 commercial loans)
- Loan proceeds used for non-development expenditure (39 commercial loans)
- Syndicated loans and sovereign bonds amounting to KSh 1.1297 trillion wherein the National Treasury did not maintain a schedule of expenditure (13 commercial loans)
- Loans without draw down information (3 commercial loans)
- Discrepancies in loan balances indicating a lack of rigour in reconciliation.

There is no evidence that these practices have stopped.

Allegations of serious corruption

In April 2025 President Ruto's former Attorney General Justin Muturi told journalists he was being coerced to approve loans in an irregular manner and called President Ruto "irredeemably corrupt".[33] He alleged Ruto pushed for a KSh 129 billion agreement with a Russian firm to fund a tree-planting campaign during COP28 in Dubai. Muturi declined to sign the agreement due to the deal's bypassing of the National Treasury, in the absence of due diligence or feasibility studies and the lack of a legal framework. He described it as a financial trap disguised as environmental policy. This raises concern about the impact of corruption on Kenya's commitment to its undertakings under the Resilience and Sustainability Facility.

The government should be called upon to clarify the truth.

President Ruto has also been accused by his former AG that he insisted on reviving the controversial Arror and Kimwarer Dams projects - previously halted because of proven financial irregularities[34] - because he wanted to fast-track the approvals despite inflation in costs and incomplete audits. Muturi said he was pushed to approve an overpriced terminal renovation project at the Jomo Kenyatta International Airport, despite procurement experts recommending against it - the project had clear legal and cost irregularities. According to the former AG, he refused to approve the deal, calling it a misuse of state procurement systems.

32 See https://www.oagkenya.go.ke/wp-content/uploads/2024/07/Utilization-of-Commercial-Loans-in-Kenya-1.pdf

33 See https://www.citizen.digital/news/irredeemably-corrupt-justin-muturi-drops-bombshell-linking-president-ruto-to-shady-multi-billion-deals-n360433

34 Cf https://africog.org//wp-content/uploads/2020/11/Highway-Robbery-Final.pdf, p. 25ff

Former deputy president makes allegations

President Ruto's own former stalwart deputy, Rigathi Gachagua, has accused the president of scheming to remove the justices of the Supreme Court of Kenya in order to co-opt the court ahead of the 2027 election. Gachagua has made a number of concerning claims about the president, including that he:

- Has gold trading related business relationships with UN-sanctioned Hemedti Burhan, leader of the Sudanese rebel group, the RSF.
- Is manipulating government policy for corrupt ends, specifically the Affordable Housing programme and Social Health Insurance Fund as schemes designed to benefit financial backers. These include the largest cement, iron and steel conglomerate in Kenya; a leading healthcare provider network; and banks owned by allies and foreign businessmen.
- That insider shares have been secretly acquired in the company running E-Citizen, the online platform through which all government services are applied and paid for.
- President Ruto manipulated the climate policy of Kenya to corruptly benefit from investments within the context of carbon trading[35].

It is not easy to dismiss allegations made by senior officials with such extraordinary insider knowledge. It requires investigation.

The context is in itself compelling. In FY 2023-2024 the Government took out 36 new foreign loans amounting to KSh 898 billion - 27 were from multilateral lenders, 6 from commercial banks and 3 from bi-lateral lenders. Last year Kenya paid over half a trillion shillings in external principal repayments; in 2024 over 330 billion falls due. Between 2025 and 2027, the National Treasury must repay over 1.5 trillion shillings to foreign creditors.[36]

The general public is neither consulted nor is there any concerted effort to inform them on the logic and details of the massive debt being incurred. Not only are the public kept in the dark about Executive borrowing, even their representatives in the Kenyan Parliament are kept out of the loop. The constitutional principle of 'no taxation without representation' should surely translate to 'no borrowing without representation'.

Refinancing corruption

In September 2024, Kenya contracted two new credit agreements with the China Development Bank on the sidelines of the Forum on China-Africa Cooperation (FOCAC).[37]

The first was a US$ 279 million concessional loan to fund the completion of 16 road projects which had stalled because money to pay contractors had run out. These 16 projects were also financed by loans from China - but project mismanagement, diversion of funds and embezzlement resulted in the Government failing to pay Chinese construction firms which triggered abandonment of the project sites. Contractual claims against the government by the contractors increased every day of no work. In October 2024 the Cabinet Secretary of the National Treasury explained to Parliament that a significant portion of the debt was due to interest and penalties charged by the contractors. In effect, Kenya was borrowing a second time for the same roads.

35 Cf https://nation.africa/kenya/news/politics/gachagua-fights-off-ruto-claims-reveals-secret-deals--4994332

36 https://africog.org/kenyas-debt-treadmill-the-china-portfolio-2000-2024/

37 Ibid. Footnote 36.

But that is not all. The China Development Bank agreed to lend Kenya a further US$ 281 million to build 15 new rural roads. Kenyans have no information on the new roads, and details of the borrowing and the financed projects are a challenge to find outside technical and governmental circles. The President announced at a church service in Marakwet County in April[38] that the loan from the China Development Bank had been taken over by the Trade and Development Bank; yet there are no related press releases on the National Treasury website, it has not been debated by the legislature, and no legal opinion from the Attorney General is evident.

Resistance to reform and rights

A recent civil society report documents subversion of the rule of law and its effect on the commitment and ability of anti-corruption institutions.[39] Resistance to anti-corruption has taken the form of capture and control of institutions.

In June 2023, opposition MP Peter Kaluma sought to amend the Anti-Corruption and Economic Crimes Act by deleting the provision providing for a 10-year disqualification of persons convicted of corruption or economic crimes offences from being elected or appointed as public officers. In 2024, MP George Kiringa Ruku[40], from the ruling party, sought to delete two provisions of the Anti-Corruption and Economic Crimes Act that make public officials accountable for safeguarding public funds. A Conflict of Interest Bill[41] has stalled in the Senate, as has the 2022 Dignity Bill[42], which would empower the Kenya National Commission on Human Rights to enforce compliance with the socio-economic rights article of the Constitution by requiring the National and County Governments to report on progress made in attaining Article 43 rights, and ensuring public budgets and plans are designed to empirically achieve Article 43 attainment - rather than the scattergun approach currently in use. Other reforms face similar challenges, or capture by bad actors.

Signs of cross-party leadership resistance to reform are evident, and an intent to unwind or reverse progress towards greater accountability. There is clearly resistance to transparency of procurement, despite past presidential directives and, recently, a new E-Procurement system.[43]

Undermining beneficial ownership transparency

The GOK's beneficial ownership register should be a public portal, but it's not. The register is only searchable at a fee of KSh 600 per name[44].

The Registrar of Companies is documented as refusing to disclose to the Energy Committee of the National Assembly the beneficial owners of nine independent power producer companies. The committee was told by the Business Registration Service Director General, Kenneth Gathuma, he could not disclose the information because the firms were registered before 2015, when the new Companies Act came into effect. In reality - under the new Companies Act - all companies in existence at the time it commenced are, and can be, compelled by law to provide the identity, address and other

38 https://thekenyatimes.com/business/ruto-gives-chinese-ksh60-billion-received-from-bank-loans/

39 https://africog.org/wrong-direction-corruption-in-kenya-2022-2024/

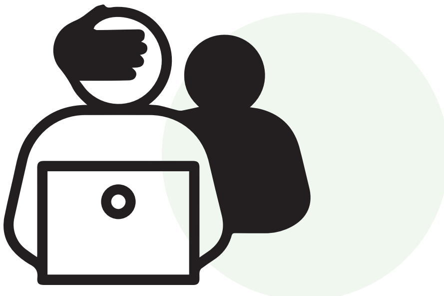
40 He has since been appointed as the Cabinet Secretary, Ministry of Public Service, Human Capital Development and Special Programmes, Republic of Kenya.

41 The President declined to assent to the Bill on 28th April 2025, referring it back to the Speaker of the Senate or re-consideration of his recommendations http://www.parliament.go.ke/sites/default/files/2025-05/Presidential%20Memorandum%20of%20Referral%20of%20the%20Conflict%20of%20Interest%20Bill%202025.pdf

42 http://www.parliament.go.ke/sites/default/files/2022-12/The%20Preservation%20of%20Human%20Dignity%20%26%20Social%20Rights%20Bill%2C%202022.pdf

43 https://www.treasury.go.ke/wp-content/uploads/2025/03/Notice-to-the-Public-Final.pdf

44 https://www.businessdailyafrica.com/bd/corporate/companies/private-companies-beneficial-owners-search-fee-at-sh600-4486176#google_vignette



contacts of all beneficial owners. In October 2023, the Attorney General confirmed to the committee there was no reason the Registrar could not supply the information required.[45]

Bloated Government

In March 2025, President Ruto increased the number of Principal Secretaries running state departments to 58 - the highest number since the promulgation of the Constitution in 2010 - and created seven new state departments, each of which will require offices, officers, new budgets, vehicles, and equipment. They add to an already overloaded bureaucracy, for political rather than prudent administrative reasons[46] - and despite the presidents promise during the Gen Z revolt to halve the hiring of advisers[47].

In April 2025 proposals to enhance Parliamentary salaries became public, to the outrage of the public.[48] For years now, MPs have exploited their veto position over passage of the budget to extract ever higher salaries and allowances.

Discomfort in the Counties

Kenyans support devolution, but are increasingly frustrated by its implementation at County level. The Cabinet Secretary for Finance noted that devolved functions are still being carried out by the National Government causing duplication with County Government work.[49] There are also 'legacy staff' at headquarters whose functions were long devolved - like directors of fishing and directors of music, who still have deputies, offices, buildings, staff, vehicles and infrastructure in the capital Nairobi.

More controversially, in political terms, the number of Counties created by the Constitution is regarded by the incumbent Cabinet Secretary for Finance as a contributor to government bloat. He says the situation is "unsustainable".[50] National and County recurrent expenditure and overhead expenses have progressively rendered development a redundant budget line. In no county is the recurrent budget less than 118%, and only seven of the 47 counties have recurrent budgets that are less than 150% of the development budget. Nairobi spends 400% more on overheads than on development. Its development spending per capita is KSh 677 per resident per annum.[51]

Many Kenyans query the intentions of County government in delivering the benefits of devolution when they spend so little per capita on development spending. County level expenditure on the personal comfort of high officials dominates capital or development spending decisions to an absurd level. Ostentation and self-aggrandisement of officials and politicians has been a major trigger for the youth movement.

45 cf https://africog.org/wp-content/uploads/2024/12/CORRUPTION-REPORT-1.pdf, p. 39

46 https://www.the-star.co.ke/news/infographics/2025-03-21-seven-newly-created-state-departments or https://citizen.digital/news/kenyans-to-shoulder-more-costs-as-ruto-creates-7-new-ps-positions-n359629

47 https://nation.africa/kenya/news/politics/inside-ruto-s-expanding-list-of-advisers--4866200

48 https://nation.africa/kenya/news/greedy-mps-get-sh4-4bn-extra-mileage-allowance-4982910

49 The 4th Schedule to the Constitution lists the functions of government that have been devolved to the County Governments

50 https://www.citizen.digital/news/47-counties-are-too-many-treasury-cs-mbadi-laments-over-bloated-govt-n359532 To reduce them will require a constitutional referendum

51 Unpublished AfriCOG study

Staggering loss to county residents

A study[52] of reports by the Controller of Budget revealed that Development Budgets are exaggerated for public relations. The actual spending on development is quite a different story - a practice that robs County residents of services when development budgets are ranked below recurrent budgets in importance. The scale is staggering. In 2023-2024 the difference between budgeted development funds and development funds actually spent was KSh 80.9 billion. This is the loss to residents of all counties in Kenya. Recurrent budgets perform at 90% plus whilst Development Budgets perform at an average of 58%. The average amount spent on development in all 47 counties is a miserable KSh 2,459 per resident per year. The lowest per capita development spend is Nairobi County with KSh 677 per resident per year, and the highest is Tana River at KSh 5,679 per capita per annum.

The appendices are a snapshot of the situation in the Counties. There is also concern about the high levels of misplaced spending disguised or hidden within the development budgets at County level, designed for the personal comfort of officials rather than benefits for its people. Development expenditure per capita is juxtaposed with the expenditure on relatively few individual citizens. For example, in 11 Counties where the mean development spend per capita was KSh 4,400 per annum, some of the highest development expenditure projects were residences for the Governor, Deputy Governor and Speaker, or facilities for the comfort of Members of County Assemblies (MCAs).

This situation at the county level reflects the voluminous wastage and mismanagement of the economy by the National Government.

Dwindling exports and foreign policy swings

Exports need to increase to generate growth domestically. However, in the recent past, regional trade is being affected by geo-politics and uncanvassed foreign policy swings[53]. For instance, export of Kenyan tea to Sudan has been halted; Uganda and Kenya frequently clashed over petroleum transit charges to Uganda; Tanzania and Kenya have banned exports of chicken and other cross-border items. Domestic agricultural sector regulations limit farmers' export opportunities (e.g. seasonal harvesting windows and export limitations in the avocado and macadamia product sectors). Regulatory stifling of direct farmer to consumer coffee[54] and tea exports have created the well documented (and yet unaddressed) phenomenon of intermediate broker cartels. The African Growth and Opportunities Act is imperilled by new policy emerging from Washington DC. The Central Bank of Kenya Governor's downplaying of the likely impact of these measures on balance of payments[55] ignores the potential impact on employment.

Of concern in terms of foreign and regional policy and its geo-political consequences is what appears to be the privatisation of parts of that policy and its apparent subjection to the commercial interests of prominent political figures with negative impacts on Kenya's regional standing and trade relationships[56].

52 Unpublished AfriCOG study

53 In February, 2025, the Sudan government accused Kenya of violating its sovereignty by hosting the paramilitary RSF in Nairobi https://apnews.com/article/kenya-sudan-war-rsf-nairobi-hemedti-2bc5122812ad58d4a6cac8be2e371513

54 https://www.scribd.com/document/444885980/Protecting-farmers-Why-Coffee-Auction-is-a-scam

55 https://www.businessdailyafrica.com/bd/economy/cbk-sees-kenya-exports-drop-as-trump-tariffs-take-effect-4996870

56 cf https://www.voanews.com/a/sudan-s-accusations-of-kenya-siding-with-rsf-are-likely-true/8003408.html

Money laundering and transnational crimes

A legislative proposal which was intended to raise the cash transaction reporting threshold of USD 10,000 legislated in the Fourth Schedule of the Proceeds of Crime and Anti Money Laundering Act to USD 15,000 was approved by Cabinet in July 2023[57], but has not appeared in the latest draft amendments to the legislation[58]. However, while the amendments expanded the ambit of the law to more widely cover various regulators and categories of Designated Non-Financial Businesses and Professionals (DNFBP), including dealers in precious metals or precious stones (DPMS), they also placed the reporting threshold for cash transactions by the latter at USD 15,000[59]. Questions are justified as to why this particular group was to be allowed to breach the FATF's USD 10,000 threshold[60]. Kenya has a special vulnerability when it comes to money laundering. Linked to its political economy and its regional position as a financial service centre, organised transnational crime has grown by taking advantage of the gaps in governance, political frictions, economic inequalities and endemic corruption.[61] In February 2024, the Financial Action Task Force (FATF) grey-listed Kenya and placed it under increased monitoring. Kenya has become the East African hub for illicit gold trade from neighbouring countries, and a market and transit point for regional and international drug traffickers. Kenya is also a transit point for illegal wildlife trafficking from Tanzania, Mozambique, DRC, Zambia and South Sudan.

The 2023 Global Initiative on Transnational Organized Crime Index rates Kenya within the high criminality/low resilience section of the study, and scores above average for all criminal markets assessed, which include human trafficking and smuggling; extortion and protection racketeering; arms trafficking; trade in counterfeit goods; heroin, cocaine, and cannabis trade; the synthetic drug trade; cyber dependent crimes, and financial crimes[62].

Prominent Kenyan politicians and businesspeople have been adversely mentioned and subject to international travel bans for reasons ranging from drug trafficking to corruption. Illicit financial flows (IFF) out of Kenya are also related with commercial practices such as tax evasion, abuse of transfer pricing, and mis-invoicing by international corporations. It is estimated Kenya loses USD 1.06 billion annually to tax IFFs, equivalent to 2.34% of its GDP - or the equivalent of budgetary allocation towards health care in the 2023/2024 budget.

57 Cf https://nation.africa/kenya/business/cabinet-approves-cash-transfers-reporting-limit-to-sh2m-4308042

58 Cf https://new.kenyalaw.org/akn/ke/bill/na/2025-02-11/the-anti-money-laundering-and-combating-of-terrorism-financing-laws-amendment-bill-2025/eng@2025-02-11. The President refused his assent to this bill in April 28April 2025 under Article 115 of the Constitution and referred it back to the National Assembly http://www.parliament.go.ke/sites/default/files/2025-05/Presidential%20Memo%20of%20Referral%20of%20the%20AML%20%26%20Combating%20of%20Terrorism%20Financing%20Laws%20Bill.pdf

59 See Section 48 https://new.kenyalaw.org/akn/ke/bill/na/2025-02-11/the-anti-money-laundering-and-combating-of-terrorism-financing-laws-amendment-bill-2025/eng@2025-02-11

60 Parliament passed the amendments bill on April 17 2025. It could not be ascertained by the time of going to press if this amendment had been retained.

61 Cf. Global Initiative Against Transnational Organised Crime. https://globalinitiative.net/analysis/organised-crime-index-africa-2023/

62 See https://ocindex.net/country/kenya

3. The Debt Treadmill and the Role of the IMF

Kenya is running ever faster to stay on a debt treadmill

Our main focus must be on the conduct, attitudes and policies of the Kenyan government, its officials and our public institutions regarding borrowing domestically and abroad. They are the duty-bearers who hold primary responsibility to act in the best interests of the people of Kenya, and they must be transparent with those who will ultimately make the sacrifices to repay the debts.

However, the IMF has played a key role in supporting the GOK as it ran the economy into the ground, and must also bear responsibility.

This year Kenya is expected to issue sovereign bonds in the United Arab Emirates, China and Japan to reduce reliance on traditional Eurobonds and access debt on more favourable terms. The primary purpose of this move is to settle obligations to other creditors, including domestic creditors, and to pay recurrent expenditure of the National Government - but the secondary purpose is to evade the policy commitments embedded in the recently suspended IMF programme, and free the GOK to borrow without hindrance for political survival.

Fantasy or collusion?

The Gen Z movement was explicit in their accusation that the IMF bears responsibility as an enabler of GOK's economic mismanagement, including its introduction to a predatory international bond market.[63] They point to IMF statements ten years ago that portrayed Kenya as a successful frontier economy, even when there was growing evidence of mismanagement of Kenya's debt including taking expensive loans for dubious massive infrastructure projects such as the Standard Gauge Railway.

Kenyans still remember when the IMF weighed in to support official misrepresentations on the use of Eurobond I.[64] Publications still on the IMF website state "Kenya is one of the success stories of Africa's economic resurgence."[65] But the lived experience of Kenyans contradicts this - it reads as fantasy or collusion with those mismanaging the economy. In the twelve years since the IMF released the success story for the press, the GOK has expanded the national debt past the 10 trillion-shilling mark, approximating 60% of GDP. The change of the debt ceiling - from an absolute figure to the present value of total debt being no more than 55% of GDP - did not improve matters. It was surpassed even as it was being legislated.[66]

63 https://www.theelephant.info/analysis/2024/07/08/uprising-in-kenya-thousands-protest-austerity-and-struggle-for-liberation/

64 https://africog.org//wp-content/uploads/2019/05/STATE-CAPTURE.pdf, p. 26

65 https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew090913a

66 Public Debt in Kenya: A Political Economy Analysis 2010-2023, (unpublished) October 2024, Prepared for National Democratic Institute by Ndiritu Muriithi & Kiama Kaara

We request the IMF Board of Directors to self-reflect

Since 2014 Kenya has aggressively gone to the bond market abroad, enabled by extremely positive statements emanating from the IMF.[67]

Kenya Eurobonds issuance date, maturity date coupon and amount

Name	Issue date	Maturity Date	Coupon	Amount (USD Mn)
Kenya 24	24-06-2014	24-06-2024	6.875	2,000
Kenya 27	22-05-2019	22-05-2027	7.000	900
Kenya 28	28-02-2018	28-02-2028	7.250	1,000
Kenya 32	22-05-2019	22-05-2032	8.000	1,200
Kenya 34	23-06-2021	23-01-2034	6.300	1,000
Kenya 48	28-02-2018	28-02-2048	8.250	1,000
Total				**7,100**

The current Cabinet Secretary for Finance, John Mbadi gave an extended interview with Kenyan television saying "we have just reached the peak of the debt maturities". This was stated when discussing commercial loans taken since 2014 that are falling due in a serial manner. According to Mbadi, money must be found to redeem or buy back these loans. This will be at the cost of reductions in social spending and require more borrowing. The government proposes to continue to borrow at commercial rates, domestically.

Analysis of the Budget Policy Statement shows that the fiscal deficit will rise to KSh 831 billion, with GOK proposing to bridge this by increasing domestic borrowing to KSh 684.2 billion - which is 80% of the deficit - a policy that will devastate private sector enterprises by completely crowding them out of access to Kenyan bank loans. Kenyan banks have obvious preference for state lending over the rest of the economy, which has been well documented.

In 2024-2025, the Parliamentary Budget Office reports that private sector credit contracted (-1.1%), while government borrowing grew (16.6%), and even though the Central Bank cut rates, lending rates remain high (circa 16.9%).[68]

Kenyan banks are addicted to Government Securities

Dr David Ndii, the Chairman of the Kenyan President's Council of Economic Advisors, asserted in 2020 that '...the industry made a consolidated profit of Sh110b, and Sh119b in interest from government securities. Considering that lending to government is virtually costless and risk-free, this implies that banks made all their profits from the government, and lost Sh9b on the business they did with the rest of the economy'.[69]

67 https://www.treasury.go.ke/wp-content/uploads/2023/03/Outstanding-Eurobonds.pdf

68 http://www.parliament.go.ke/sites/default/files/2021-12/Unpacking%20of%20BPS%202022.pdf The Kenya Shilling Base Lending Rate is set to reduce, with a leading banks announcing a drop to 14.34% effective May 1 2025

69 https://www.theelephant.info/opinion/2020/01/10/of-tigers-debt-merchants-and-2020-vision/

On April 16 2025 the Central Bank of Kenya announced that, with effect from July 1 2025, it will lift a nine-year old moratorium on licensing of new commercial banks.[70] Bear in mind that over the 13-year period since 2012, an average of 52.4 percent of domestic debt was held by commercial banks.[71]

Are the ducks being lined up to funnel even more money into the purchase of government securities? This is not an idle question. A leading Kenyan economist recently noted that although there was not enough targeted research about the ultimate beneficial ownership of commercial banks with massive portfolios of domestic debt it was possible to say: *'a deeper analysis of the composition of the ownership of the main vehicles of investments – commercial banks, pension funds, private capital, and HNWIs - presents an unnerving picture of the inherent power relations. Potentially, it presents the existence of a revolving door between these powerful investment entities and the national treasury in a way that seems to influence the policy prescriptions and the regime that guides debt contraction at the domestic level. Whereas the bulk of this may be anecdotal, pertinent conclusions can be drawn from the relationships between senior management at the investment entities and the national treasury. Further, beneficial ownership details of these entities seem to reinforce this assertion due to the corresponding close relationship between the owners or at least their representatives, with the top leadership of successive regimes over the years. As such, it is possible to plot the emergence of a particular policy in the context of the beneficiation of key investment entities and their big sway on the Kenyan economic landscape over time.'*[72]

From July 2025, the government proposes to move the ratio of external to domestic borrowing from a 50-50 split to a 22-78 split. This is in contravention of its stated policy commitment to stay away from the domestic market and, if need be, to borrow only long-term and even then only for development.[73]

The crowding-out of the private sector from bank credit will be severe – raising interest rates. Politically, the inevitable transfer of so much tax money to the private banking sector will enrich a small financial oligarchy in a very visible way, increasing inequality and heightening existing socio-economic and political tensions in Kenya. In the absence of conflict-of-interest enforceable law, there are no guard rails to prevent insider arbitrage on the domestic debt market. Decision makers, including the Cabinet Secretary for Finance and many other officials within the public finance management world could very well have personal investments in government securities, being a major conflict of interest.[74]

70 https://www.centralbank.go.ke/uploads/press_releases/164519156_Press%20Release%20-%20Lifting%20of%20Moratorium%20on%20Licensing%20New%20Commercial%20Banks%20in%20Kenya.pdf

71 Public Debt in Kenya: A Political Economy Analysis 2010-2023, (unpublished) October 2024, Prepared for National Democratic Institute, Kenya by Ndiritu Muriithi & Kiama Kaara

72 Cf https://www.radiobaraza.org/public-debt-implications-on-the-sovereignty-of-the-people-of-kenya/

73 Wachira Maina, 2024, "Kenya's Fiscal Hole: Drilling Down Into the Practical Meaning of Architectural Failures" unpublished memo. Cf. MTDS 2023 p.20

74 During the vetting interview for his current position, Mr. Mbadi testified that he invested in Treasury bills s. http://parliament.go.ke/sites/default/files/2024-08/2ND%20REPORT%20OF%20THE%20COMMITTEE%20ON%20APPOINTMENTS%20AUGUST%202024.pdf p. 135

Syndicated loans are concentrated between now and 2030. The Trade and Development Bank (TDB)[75] is a major player. TDB must be repaid in September and October 2025, according to Mbadi - meaning about US$ 952 million (circa KSh123 billion or 3% of the proposed national budget for the year 2025) will be spent on a single commercial creditor. It bears consideration that this amount could have paid for the following 2024-2025 health related budget line items according to the National Treasury data.[76]

Although some of the TDB funds were used to retire the 2024 Eurobond, Kenyans rightly question such large exposures without transparency. Even Mbadi admits Kenya has never been in this position before.

Ksh 28.7 billion	Global Fund (HIV, Malaria, TB)
Ksh 4.6 billion	Specialised Medical Equipment and Stipend for Community Health Promoters
Ksh 4.6 billion	Vaccines and Immunizations Programme
Ksh 4.2 billion	Universal Health Coverage Coordination and Management Unit
Ksh 4.1 billion	Management of Medical Personnel
Ksh 4.1 billion	Primary Healthcare Fund
Ksh 3.6 billion	Managed Equipment Services
Ksh 2.6 billion	Kenya National Hospital Burns and Paediatrics Centre
Ksh 2.0 billion	Emergency, Chronic and Critical Illness Fund
Ksh 2.0 billion	Free Maternity Health Care
Ksh 1.2 billion	Construction and Equipping Kenya Medical Training Colleges (KMTC)
Ksh 1.1 billion	Construction and Strengthening of Cancer Centers
Ksh 861.5 million	Medical Cover for the Elderly and Severely Disabled in our Society

We demand an immediate audit of Kenya's debt

In view of the opacity of Kenya's external debt loan book, particularly since 2013[77], there are serious public concerns about the use to which foreign debt is being put. Audit of the national debt was a key demand of the Gen Z protesters. The courts halted the President's Task Force to Audit Kenya's Debt, but the Treasury says there is an ongoing audit by the Office of the Auditor General (OAG).

We note the OAG has gone no further than an entry meeting since August 2024, and was only funded to the tune of KSh 200 million in the last supplementary estimates to conduct this important task. We also note with concern that there is no expected publication date. Without concerted efforts this audit is likely to go the way of audits promised as long ago as 2009, after the courts halted the President's Task Force to Audit Kenya's Debt.

75 https://www.tdbgroup.org/

76 https://www.treasury.go.ke/wp-content/uploads/2024/06/Budget-Highlights-The-Mwananchi-Guide-for-the-FY-2024-25-Budget.pdf

77 The Auditor General in 2021 reported to the Senate that commercial loans were being taken in violation of Kenyan law – see https://www.oagkenya.go.ke/wp-content/uploads/2024/07/Utilization-of-Commercial-Loans-in-Kenya-1.pdf

4. Negative opinion of experts on the 2025 Kenya Budget Policy Statement

A. The Parliamentary Budget Office: the key takeaways are that the PBO is sceptical about the Treasury's growth optimism which PBO feels are overstated in the light of implementation gaps.

The PBO cautions that revenue underperformance will require higher borrowing or spending cuts.

There are sectoral challenges - in agriculture, healthcare, and infrastructure - which need urgent policy fixes.

Devolution is faltering, the Counties remain fiscally weak, with high pending bills and poor revenue collection.[78]

B. The Okoa Uchumi Campaign on the Fiscal Deficit: in a submission to the Senate, the coalition noted the following issues emanating from the BPS 2025:[79]

- Regarding the Fiscal Deficit: The deficit provided in the draft BPS document released for public participation was KSh 759.4 billion (3.9% of GDP). However, the BPS submitted to the National Assembly indicates that the deficit has grown to 831.0 billion (4.3% of GDP). OUC's calculation indicates that the real deficit will be even higher for the following reasons:

i) The nominal GDP used in computing deficit is KSh 19.2728 trillion for FY2025/26. OUC noted that the projected nominal GDP by the end of FY 2024/25 is KSh 17.4345 trillion. With a projected GDP growth rate of 5.3%, the possible nominal GDP for FY 2025/26 should not exceed KSh 18.3585 trillion. The denominator (nominal GDP) used to compute the deficit is overestimated. In this regard, the fiscal deficit of 4.3%presented in the BPS is underestimated. There is need for clarity on how the GDP size calculations are arrived at; the numbers claim that in three years, Kenya's GDP has grown from KSh 14 trillion to KSh 19 trillion.

ii) Actual ordinary revenue as at the end of FY 2023/24 was KSh 2.2889 trillion. Given the slowdown in economic growth, from 4.9% in 2023 to 4.6% in 2024, OUC projects that revenue growth by the end of FY 2024/25 will slow down from 11.5% to a maximum of 8.5%, given reported shortfalls in meeting revenue targets by Kenya Revenue Authority. As a result, projected ordinary revenue by the end of FY 2024/25 should not exceed KSh 2.4835 trillion. Assuming an optimistic year 2025/26 where revenue growth goes to 10%, the possible ordinary revenue may not exceed KSh 2.7318 trillion by end of FY 2025/26. However, given the economic slowdown, a reasonable ordinary revenue projection should not exceed KSh 2.6 trillion given that the proposed GDP growth of 5.3% is not likely to hold. In this regard, OUC is of the view that projected ordinary revenue of KSh 2.835 trillion is overly optimistic.

78 http://www.parliament.go.ke/sites/default/files/2021-12/Unpacking%20of%20BPS%202022.pdf

79 http://www.parliament.go.ke/sites/default/files/2025-03/Standing%20Committee%20on%20Finance%20and%20Budget%20Report%20on%20the%202025%20Budget%20Policy%20Statements.pdf

There will be a possible revenue shortfall of not less than KSh 103.2 billion, and maybe as high as KSh 250 billion.

iii) Given (i) and (ii) above, the nominal deficit including grants will not be less than KSh 934.2 billion (831.0 billion + 103.2 billion). In this regard, the fiscal deficit including grants will not be less than 5.1% of GDP, higher than the National Treasury's 4.3% projection provided in the BPS 2025, assuming that the grants will flow as projected.

iv) The nominal deficit excluding grants will amount to KSh 980.5 billion (KSh 877.3 billion+103.2billion). Given the recent challenges with US Government based grants and a possible adoption of similar policies by other governments the deficit may exceed 5.4% of GDP.

Conclusion

In closing, we reiterate that Kenya is in a profound political and economic crisis with the very real threat of defaulting on its debts.

This is a watershed moment which needs the critical self-reflection of the International Monetary Fund.

The Gen Z movement has been explicit in the accusation that the IMF bears responsibility as an enabler of GOK's economic mismanagement, including its introduction to a predatory international bond market, and overly rosy descriptions of Kenya's economic performance.

There have been many red flags and missed targets through successive IMF programmes, which should have been decisively responded to long before the suspension of the current programme by the government - which took the IMF by surprise.

Without adopting a people-centred 'lived experience' lens - meaning resolving issues like jobless growth, youth unemployment, poorly delivered services, and rampant corruption - fiscal consolidation or revenue-mobilising efforts will be rejected by Kenyans, who increasingly view this government as illegitimate, as well as the support given to it by the IMF.

April 25, 2025 (Washington D.C., USA).

Postscript[80]

Analysis of the Budget 2025-2026 and Impact of the Finance Bill 2025

The government's stated objective in the forthcoming financial year is to reduce the fiscal deficit to 4.6 per cent of GDP while avoiding further tax increases, which will evidently be achieved by inflicting unnecessary pain on the Kenyan people[81].

On 30th April 2025, the Executive laid the Budget Estimates for the 2025-2026 financial year before the National Assembly, and published the Estimates of Revenue on the National Assembly website. On 6th May 2025, the Finance Bill of 2025, which proposes to amend various tax laws, was published in the Kenya Gazette for public and parliamentary consideration. This budget cannot be financed by taxes alone. Whereas the budget has been increased by 10%, Kenya's average annual GDP growth rate for the financial years 2022, 2023 and 2024 was only 3.7%.

Headline Figures[82]

The proposed budget has the following headline figures[83]:

1. The Budget amounts to KSh 4.239 trillion, up from KSh 3.95 trillion in FY 2024/25 - a 10%increase on the previous financial year.
2. The recurrent budget is estimated at KSh 3.1 trillion
3. The development budget is estimated at KSh 704.4 billion.
4. Revenue is projected at KSh 3.317 trn - marking a 15 % increase on the previous financial year.
5. The total County transfers are estimated at KSh 436.7 billion.
6. The budget sets aside KSh 5.0 billion for contingency funds.
7. The fiscal deficit is KSh 876.1 billion. The government plans to utilize net external financing of KSh 191.9 billion and net domestic financing of KSh 684.2 billion, further increasing the debt burden.[84] We reiterate our concern that increasing domestic borrowing to 78% of the deficit will devastate private sector enterprises by completely crowding them out of access to credit.

Unusual Treasury Circular

We are however cognizant of the fact that on 7th May 2025, the National Treasury issued an unprecedented circular (Treasury Circular No. 5/2025) which is the first of its kind that aims to rationalise the FY 2025/26 budget as submitted to the National Assembly on 30th April, 2025. This therefore means that the budget as submitted to the National Assembly will be amended before it is approved.

80 This is a postscript to a paper originally submitted by Okoa Uchumi Campaign to the IMF Board of Directors Spring Meeting, April 2025, in Washington D.C., USA

81 Budget Policy Statement 2025.

82 Presentation by the OUC, May 9 2025.

83 Note that the CS Treasury proposed a KSh 100 billion reduction on May 7 2025 to the estimates he had already tabled.

84 See National Treasury Budget Summary For Fy 2025-26 And Supporting Information at http://www.parliament.go.ke/sites/default/files/2025-05/BUDGET%20SUMMARY%20FOR%20FY%202025-26%20AND%20SUPPORTING%20INFORMATION.pdf

The Key changes that are proposed in the unusual Treasury Circular are as follows:

a) Fiscal deficit to be capped at not more than 4.5% of GDP;

b) Revenue to be revised downwards by 2% from KSh 3.43 trillion to KSh 3.36 trillion;

c) Ministerial expenditure to be revised downwards from KSh 2.62 trillion to KSh 2.5 trillion reflecting a net reduction of KSh 120 billion;

d) The recurrent budget to be reduced by KSh 46.7 billion while development budget will be reduced by KSh 73.1 billion.

We remain curious to see how the proposed amendments will be effected given that the budget has already been submitted to the National Assembly and Departmental Committees have been discussing the estimates as tabled with the Ministries Departments and Agencies. The amendments are likely to be moved on the floor of the house by the Budget and Appropriations Committee.

Table 1 provides items rationalised across all MDAs under Recurrent Budget, to raise **KSh 46.7 billion**

S/No.	Item	% Cut
1	2210200 Communication, Supplies and Services	25
2	2210300 Domestic Travel and Subsistence, and Other Transpotation Costs	25
3	2210400 Foreign Travel and Subsistence, and Other Transpotation Costs	50
4	2210500 Printing, Advertising and Information Supplies and Services	25
5	2210700 Training Expenses	25
6	2210800 Hospitality Supplies and Services	25
7	2211000 Specialised Materials and Supplies	25
8	2211100 Office and General Supplies and Services	25
9	2211200 Fuel Oil and Lubricants	25
10	2220100 Routine Maintenance - Vehicles and Other Transport Equipment	25
11	2220200 Routine Maintenance - Other Assets	25
12	2630100 Current Grants to Government Agencies and other Levels of Government	Up to 20%
13	3111100 Purchase of Specialised Plant, Equipment and Machinery	Up to 50%

Source: Treasury Circular No. 5/2025

Government and Agreed National Policy

This proposed budget departs significantly from the guiding plans for the budget and Finance Bill 2025, which include Kenya's Vision 2030, MTP-IV, BETA, MTDS and BPS - all of which emphasise:

- Bringing down the cost of living
- Eradicating hunger
- Creating jobs
- Expanding the tax base
- Improving foreign exchange balances
- Inclusive growth.

Deep Cuts to Spending on Public Goods and Social Support

Examples of irrational and deep expenditure cuts buried in the Government's Budget Estimates for 2025-2026 as submitted to the National Assembly on 30th April, 2025 include:

1. **Basic education:** funding falls sharply from KSh 138.86 billion to KSh 126.13 billion (9.2%). Only KSh 940 million has been allocated for science and innovation, raising questions on the Government's dedication to innovation. The shift reflects priority on tertiary and technical training; but raises concerns about negative impact on primary schooling and the free day secondary support.
2. **State Department for Irrigation:** total budget is reduced from KSh 21 billion to 17 billion. The budget line most reduced is Water Harvesting and Storage for Irrigation, which contradicts plans in place. It negatively impacts the developed strategy for achievement of national food security.
3. **State Department for Agriculture:** has its budget item, Crop Development and Management, reduced from KSh 29.8 billion to KSh 22.7 billion. Agribusiness and Information Management has its budget reduced from 1.3 billion to KSh 933 million, and Agricultural Research & Development from KSh 5 billion to KSh 4 billion. The total budget for the State Department for Livestock Development is reduced from KSh 11 billion to KSh 10 billion; and the total budget for the State Department for the Blue Economy and Fisheries is reduced from KSh 12.8 billion to KSh 8.2 billion, with Fisheries Development and Management budget reduced from KSh 11.7 billion to KSh 7.9 billion. Agriculture is a devolved function under the Constitution of Kenya, so even with these reductions the National government retains KSh 48 billion - which is more than 10% of the total transfer to Counties - for a Nairobi based bureaucracy purportedly coordinating devolved functions.
4. **State Department for Social Protection and Senior Citizens Affairs:** the total budget has been slashed from KSh 35.3 billion to KSh 29.8 billion with:
    a. National Social Safety Net reducing from KSh 30 billion to KSh 27.9 billion and Social Development and;
    b. Children Services reduced from KSh 4.9 billion to KSh 1.7 billion.

Increased budget for the Presidency

There are 53 MDAs getting an increase in the 2025/26 Financial Bill (FB) of which the Presidency is one. For instance the Ministry of Defence is getting KSh 20.6 billion more. However, one would expect the Presidency to lead by example, especially for non-essential expenditures.

The budget for state departments within the Presidency have been increased at the expense of public goods and social spending, which is a callous misallocation of public resources. Kenyans have expressed anger about the ballooning expenditures within the Presidency. Below we report on budget hikes within the Presidency and invite readers to note the obvious duplication and overlapping of functions within the Presidency, creating more inefficiency and wastage of public resources.

Since taking office in September 2022, President Ruto has hired 20 personal advisors, a figure just three shy of the constitutional cabinet.[85] None of these advisors were hired competitively, and their remuneration remains secret. In May 2025, the State House Controller informed the National Assembly that advisors are paid the same amount as either Cabinet Secretaries or Principal Secretaries in the Civil Service.[86] In February 2025, the same official informed the National Assembly that KSh 2 billion had been diverted from the budgets of the National Intelligence Service and the Kenya Defence Forces to fund renovation of the official residence of the President, State House.[87]

This financial year there is a proposal to allocate a further KSh 894 million for more renovations of the President's official residences. The development budget of the Executive Office of the President goes up by KSh 1.46 billion, even as Government claims to be committed to fiscal austerity and the reduction of non-essential spending.

Hiked Expenditure in President Ruto's Office

1. **The Office of the Government Spokesperson** had its budget on Domestic Travel and Subsistence, and Other Transportation Costs increased from KSh 19 million to KSh 38.7million and Hospitality Supplies and Services increased from 7 million to 10 million in the 2025/26 budget. Purchase of Office Furniture and General Equipment for the office of Government Spokesperson has been increased from KSh 1.5 million in the FY 2024/25 to KSh 13 million in the FY 2025/26, Research, Feasibility Studies, Project Preparation and Design, for the same office has been increased from Ksh 0 allocation to Ksh 4.5 million.
2. **The State Corporations Advisory Committee** has increased the budget line for Personal Allowance - Paid as Part of Salary from KSh 32.8 million and to KSh 33.2 million in FY 2025/26. This is against Salaries and Remuneration Commission (SRC) policy where allowances shouldn't be above the salaries, which are pegged at KSh 24 million in 2025/26 FY.
3. **The Executive Office of the President, Kenya/Southern Sudan Liaison Office** budget for Basic Salaries for the Permanent Employees increases from KSh 1.7 million in the FY 2024/25 to KSh 3 million in FY 2025/26 whereas Personal Allowance - Paid as Part of Salary increases from KSh 3.1 million to KSh 3.6 million. In the same office, **Government Printing Services** increases from KSh 817.5 million to KSh 944.6 million in FY 2025/26.
4. **The State Department for Parliamentary Affairs** budget had its Administrative Services budget increased from Ksh 177.3 million to KSh 191.6 million as a result of an increase in the number of employees.
5. **The State Department for Cabinet Affairs** has its budget increase from KSh 218.7 million to KSh 203.7 million with main increments being compensation to employees from KSh 72 million to KSh 86 million.
6. **The State Department for Performance and Delivery Management**'s budget rose from KSh 43.8 million to KSh 45.9 million.
7. **Government Advisory Services** under the Executive Office of the President has had its budget adjusted upward from KSh 1.1 billion to KSh 1.3 billion in 2025/26 FY.

85 See Article 152 Constitution of Kenya https://www.klrc.go.ke/index.php/constitution-of-kenya/131-chapter-nine-the-executive/part-3-the-cabinet/320-152-cabinet

86 https://www.citizen.digital/news/questions-as-rutos-advisors-earn-ksh1m-salaries-equal-to-cabinet-secretaries-n362778

87 https://nation.africa/kenya/news/nis-defence-funded-sh2bn-state-house-facelift-katoo-ole-metito-tells-lawmakers-4940040#story

Other Notable Increases in Expenditure

1. **The National Police Service** budget increased from KSh 115 billion to KSh 125 billion, with General Administration, Planning and Support Services being the main driver. The State Department for Internal Security & National Administration has National Government Administration Coordination Services with a budget increase from KSh 18.9 billion to KSh 19.7 billion.
2. **State Department for Devolution** shows a budget rise from 3 billion to 17.2 billion, mainly due to Capacity Building and Civic Education activities for the counties. This figure is equivalent to 3.9% of the total transfers to the 47 Counties of Kenya.
3. **Ministry of Defence** total expenditure increases again from KSh 179.7 billion to KSh 200.3 billion. Out of this total, KSh 192.5 billion is Current Transfers to Government Agencies and KSh 4.4 billion is Capital Transfers to Government.
4. **State Department for Foreign Affairs** total expenditure increases it budget from KSh 21.1 billion to KSh 25.6 billion, mainly to Foreign Relations and Diplomacy for management of Kenya missions abroad.
5. **National Treasury** total budget increases from KSh 117 billion to KSh 118 billion. A new line item has appeared in the estimates called "Other Expenses", with an allocation of KSh 2 billion. The budget for Economic and Financial Policy Formulation and Management leaps from KSh 6.7 billion to KSh 17.2 billion.
6. **Office of the Registrar of Political Parties** total budget increases from KSh 1.7 billion to 2 billion.

Allocations for Devolved Functions

The 2025/26 budget includes allocations at the national level for functions that have been devolved.

These expenditures should either be justified or implemented at their appropriate level to avoid the duplication of functions.

Legal Ratio of Recurrent to Development Spending Being Ignored

The Public Finance Management Act recommends a threshold for Recurrent to Development Expenditure of at least 70:30. KSh 3.1 trillion (approximately 72.8 percent of total expenditure) and Development Expenditure of KSh 804.7 billion (approximately 18.9 percent of total expenditure) results in a recurrent-to-development expenditure ratio of roughly 79:21, which falls short of the fiscal responsibility principle that recommends a maximum of 70 percent for recurrent expenditure and a minimum of 30 percent for development expenditure.

This law needs to be enforced.

Summary Analysis of the Provisions in the Finance Bill 2025

Exaggerated revenue projection will continue to distort approval of expenditure by the National Assembly

Final revenue figures for the year 2024-2025 are yet to be confirmed, but the Okoa Uchumi Campaign is deeply concerned that revenue is consistently over-projected and the general trend over the years indicates challenges achieving set revenue targets.

The 2025 Finance Bill projects total revenue collection is set to grow to KSh 3.4 trillion in 2025/26 from projected revenue of KSh 3 trillion in FY 2024/25. This is about 11% growth in revenue. Ordinary revenues are expected to be KSh 2.835 trillion in FY 2025/26 from an estimate of KSh 2.58 trillion in FY 2024/25, a 10% growth. Okoa Uchumi Campaign has highlighted a possible shortfall in the proposed ordinary revenue that may exceed KSh 250 billion. The coalition is therefore of the view that a reasonable ordinary revenue projection should not exceed KSh 2.6 trillion in FY 2025/26 given the current economic slowdown and proposed domestic borrowing. The parliament will consider a consolidated appropriation bill by June 2025. The general trend of projection and revenue targets is shown below:

Revenue Performance

Fiscal Year	Revenue Target (KSh)	Actual Collection (KSh)	Performance	Deviation
2022/23	2.273 trillion	2.166 trillion	95.30%	-107 billion
2023/24	2.407 trillion	2.223 trillion	92.40%	-184 billion
2024/25*	2.189 trillion	2.112 trillion	96.50%	-77 billion

Source of Data: KRA, 2025 Note: 2024/25 is only for 3 quarters

Guard against manipulation of the GDP denominator

Okoa Uchumi Campaign argues that the real fiscal deficit will turn out to be higher than the KSh 876.1 billion the National Assembly has been requested to approve. This is because the denominator (nominal GDP) used to compute the deficit is overestimated. The Campaign will continue to seek clarity as to *"how the GDP size calculations are arrived at (as) the numbers claim that in three years Kenya's GDP has grown from KSh 14 trillion to KSh 19 trillion"* [88].

Manipulating GDP upwards has the effect of implying that the deficit is lower than it actually is. The table below illustrates this risk by comparing revenues and expenditures for FY 2023/24, 2024/25 and 2025/26.[89]

Revenues and Expenditures for FY 2023/24, 2024/25 and 2025/26

Fiscal Indicator	FY2023/24 (Actual)	FY2024/25 Estimate	FY2025/26
Total Revenue (KSh bn)	2,724.7	3,112.3	3,316.9
Total Expenditure (KSh bn)	3,605.2	3,880.8	4,239.3
Fiscal Deficit (KSh bn)	880.5	768.5	876.1
Deficit (% of GDP)	5.6%	4.4%	4.5%

88 See Report of the Standing Committee on Finance on the 2025 Budget Policy Statement, http://www.parliament.go.ke/sites/default/files/2025-03/Standing%20Committee%20on%20Finance%20and%20Budget%20Report%20on%20the%202025%20Budget%20Policy%20Statements.pdf

89 We note that the projected numbers for FY 2025/26 are likely to change as proposed in the new Treasury Circular cited earlier.

New Taxation Measures and their Impact

A. Value-Added Tax (VAT)

The government has proposed shifting various zero-rated inputs and goods to VAT-exempt.[90] This includes raw materials for medicines, sugarcane transport, mobile phones assembled locally, solar panels, batteries, and animal feed inputs. The shift means that the firms cannot reclaim VAT on inputs. The following key sectors inevitably affected by this shift are:

i. **Health Sector:** which is paramount to the growth of an economy. The shift of raw materials for medicine from zero-rated to tax-exempt will increase the production cost for drugs and consequently the distribution prices. Patients will be required to pay more for their health.

ii. **Renewable Energy and Climate Change:** Any increase in the price of solar panels and batteries will dampen consumer demand and slow down the transition to renewable and green energies in Kenya. This means that mitigation against adverse effects of climate change will be delayed, negatively affecting agriculture.

B. Tax Expenditure – discretion or discrimination?

Even though the Government repeatedly pledges to rationalize the tax expenditures with the aim of ensuring sustainability and value for money, the 2025/2026 Finance Bill completely ignores the perennial issue of tax expenditure. Kenya faces another year in which the Cabinet Secretary responsible for the Treasury will arbitrarily exercise his discretion and waive the collection of tax from selected firms.

Kenyans need to be told who the beneficiaries of these tax waivers are and the reasons for their tax exemption. The numbers are massive.

As of 2024, tax expenditure was above KSh 600 billion, nearly 50% higher than the total transfers to Kenya's 47 counties. The most recent tax expenditure report - published in September 2024 - states that in 2022, total tax expenditure personally approved by the Cabinet Secretary was still at the KSh 393.6 billion level from KSh 292.9 billion in 2021 with the domestic Value Added Tax (VAT) accounting for most of the total tax expenditure. The tax expenditure on domestic VAT increased from KSh 211.1 billion in 2021 to KSh 248.3 billion in 2022. Income tax expenditures are the second largest contributors of tax expenditures at KSh 46.9 billon. Corporate tax expenditure increased to KSh 41.6 billion in 2022 from KSh 21.6 billion in 2021. The bulk of tax expenditure related to corporate income tax are investment allowances in plant and machinery.

In 2022, total tax expenditure on Import Duty stood at KSh 13.6 billion, increasing from KSh 4.8 billion in 2021. Excise Duty on imports increased from KSh 92.84 million to KSh 438.7 million in 2021 and 2022 respectively. Tax expenditure in respect of Excise Duty (Domestic) increased from KSh 7.6 billion in 2021 to KSh 8.0 billion in 2022.

The upward trend in the country's tax expenditure is attributed to, among others, the increase in tax incentives aimed at promoting the local assembly of motor vehicles industry. The Total Tax Expenditure for both Import Declaration Fee (IDF) and Railway Development Levy (RDL) increased from KSh 5.6 billion in 2021 to KSh 14.7 billion in 2022. This is attributed to the increased volume and value of goods that enjoyed preferential IDF and RDL rates during the period.

90 Meaning that the standard VAT rate of 16% will apply, unless exempted on a case-to-case basis.

VAT Domestic contributed the highest to the total tax expenditures by 63.08 percent followed by VAT on imports (Fuel) at 11.31 percent and Corporate Income Tax at 10.58 percent. Excise Duty on imports contributed the least to the total tax expenditure at 0.11 percent.

C. Tax-free per-diem allowance for travel

The Finance Bill 2025 raises tax-free per-diem allowance for travel from KSh 2,000 to KSh 10,000 per day, benefiting high-income earners and high-ranking employees on official travel. It means the primary beneficiaries of this tax break will be senior government officials, legislators at national and county level, judges, heads of state-owned enterprises etc. This comes at a time of hardship cuts, like reduced funding to basic education, the national social safety net, children's services and crop development budgets.

D. Export and Investment Promotion Levy

Export and Investment Promotion Levy (EIPL) on certain construction materials, such as iron and steel inputs, has been proposed to be cut significantly from 17.5% to 5%. Last year the estimates of this levy were KSh 294,517,269, meaning the Government will forego KSh 36,814,658 in taxes, in a sector where ownership is highly concentrated and politically connected - and it is not the first time a particular construction materials magnate has benefited from favourable clauses inserted in Kenya's Finance Bill.[91]

E. Unconstitutional Violation of Privacy Tax Procedure and Administration

It has been proposed to delete the prohibition on requiring businesses to integrate their IT system with the Kenya Revenue Authority (KRA) under the Tax Procedure Act. In effect, KRA would be empowered to access real-time customer data, including bank and mobile money records, from firms without prior warrant. This move to expand the audit powers of KRA is unconstitutional and contravenes the Data Protection Act.

F. Pending Bills and VAT Refunds

Pending bills are not addressed by the 2025/26 Budget Estimates.

According to the Office of the Controller of Budget, pending bills stood at KSh 706 billion[92] as at the end of first half of FY2024/25. These arrears are not only growing, but reflect serious weaknesses in procurement planning, commitment control, and cash flow forecasting. A big concern is on MDAs that saw pending bills grow by 12%. Deliberate action is required to address the challenge of pending bills - otherwise, government statements are mere rhetoric. Despite large pending bills, the government continues to initiate new projects in sectors where there are large existing pending bills.

As with the vexed issue of verification of pending bills, the Treasury seeks to address VAT refund claims, bestowing too much discretion in processes that are not transparent, equitable or accountable prima facie. The Finance Bill 2025 extends the VAT refund timeline from 90 to 120 days for the verification, and the audit period from 4 to 6 months. The Treasury Cabinet Secretary's power to waive penalties or interest on tax liabilities emanating from system errors has been reinstated. These powers have previously been exercised with prejudice for personal and political interests. The system should be enhanced to be accurate with minimal human intervention. Whereas the moves are claimed to be intended to seal revenue leaks and speed enforcement, they raise cash-flow and fairness concerns among taxpayers.

91 See https://www.businessdailyafrica.com/bd/corporate/companies/devki-steel-tycoon-wins-second-round-of-cement-wars--4271662 and https://oral-seastafrica.news/the-cement-and-steel-tariffs-that-had-guru-singing-kanus-a-hundred-years/

92 https://www.standardmedia.co.ke/national/article/2001513582/nyakango-decries-funding-cut-as-state-plans-to-clear-pending-bills

Other Developments

On 28th April 2025, President Ruto declined to assent to two important laws which had been passed by the National Assembly and the Senate, namely the **Conflict of Interest Bill 2025**[93] and **Anti-Money Laundering and Combating of Terrorism Financing Laws Amendment Bill 2025**[94]. Exercising his constitutional powers under Article 115 of the Constitution, the President sent two memoranda to the Speakers of Parliament referring both bills back for reconsideration of his memorandum.

The next step is that Parliament may amend the Bill considering the President's reservations; or pass the Bill a second time without amendment. The Constitution provides that: (a) Parliament, after considering the President's reservations, may pass the Bill a second time, without amendment, or with amendments that do not fully accommodate the President's reservations, by a vote supported by two-thirds of members of the National Assembly; and (b) two-thirds of the delegations in the Senate, if it is a Bill that requires the approval of the Senate. Within seven days of passage of the Bill a second time, the relevant Speaker shall re-submit it to the President and the President shall within seven days assent to the Bill. If the President does not assent to the Bill, a second time, the Bill will be taken to have been assented to on the expiry of that period.

Conclusion

The proposals contained in the Budget Estimates 2025/26 and the Finance Bill 2025/26 show no commitment by the government to respond to the issues raised by Kenya's economic and debt crisis. If anything, Kenya's leaders display an arrogant and short-sighted clinging to the privileges and trappings of power. This is in the face of the increased austerity imposed on taxpayers and the most vulnerable in society and intensified inter-generational injustice. By planning on perpetually increasing Kenya's unsustainable debt burden, to fund their consumption, this government has shown its commitment to stealing the future of Kenya's youth. The motto "No New Taxes" is exposed as an empty public relations gambit. Once again, the government of Kenya has failed to read the writing on the wall.

We urge the IMF Board of Directors to use this report in its exercise of self-reflection to acknowledge that its policies have had the effect of damaging a promising developing economy by supporting a predatory government in sinking citizens in unpayable debt. The latest Budget, released May 2025, shows emboldened and continued economic mismanagement, which will only increase the fears of those who are the promise of the future: the young, educated people who have risen in anger, not just in Kenya, but across Africa. This could end in the highest cost imaginable if their demands for transparency, people-centred growth and an end to endemic corruption continue to be ignored.

May 22, 2025 (Nairobi, Kenya)

93 http://www.parliament.go.ke/sites/default/files/2025-05/Presidential%20Memorandum%20of%20Referral%20of%20the%20Conflict%20of%20Interest%20Bill%202025.pdf

94 http://www.parliament.go.ke/sites/default/files/2025-05/Presidential%20Memo%20of%20Referral%20of%20the%20AML%20%26%20Combating%20of%20Terrorism%20Financing%20Laws%20Bill.pdf

The **Okoa Uchumi Campaign** represents a campaign of civil society organizations dedicated to spearheading a bold civic movement advocating for fiscal accountability, participatory governance, and resistance to oppressive public finance practices in Kenya.

The Institute for Social Accountability (TISA) is a civil society organization founded in 2008, committed to achieving sound policy and good governance by supporting a culture of active citizenship and accountable governments. Our initiatives are geared toward institutionalizing a sustainable culture of social inclusion in Kenyan society through inclusive policy frameworks and budgetary decisions and building formidable people movements for the realization of inclusive governance (voice), accountable and equitable distribution of resources, and improved quality of life for all and especially the marginalized and vulnerable groups.

The **Africa Centre for Open Governance (AfriCOG)** is an independent, non-profit organisation that provides cutting-edge research and monitoring on anti-corruption, governance and ethics issues in both the public and private sectors so as to address the structural causes of the crisis of governance in Kenya and the region.

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