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Kenya’s Mounting Public Debt and the Climate Crisis: A Double Bind for Kenya’s Devolved Units

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Introduction and overview

Climate change is no longer a distant threat but a present crisis, particularly in Kenya's Arid and Semi-Arid Counties, where livelihoods depend heavily on rain-fed agriculture, water, and natural resources. Simultaneously, Kenya's rising public debt is reducing the resources available for services to both the national and devolved governments.

The result is a double bind for the Kenya's devolved units, which are tasked with frontline delivery and climate adaptation but crippled by the shrinking financial flows. Through this policy brief, I explore the overlapping pressures of climate vulnerability and public debt and how the shrinking fiscal space has limited the county government's ability to deliver climate-sensitive services. Finally, the brief has presented targeted policy recommendations to strengthen financial resilience and enhance the adaptive capacity of Kenya's counties, on the brink of climate change.

Kenya's climate reality check

According to the Global Climate Risk Index and ND-GAIN Country Index, Kenya ranks among the most climate-vulnerable countries globally due to its dependence on rain-fed agriculture, fragile ecosystems, and limited adaptive infrastructure.

Over the past decade, Kenya has experienced intensifying cycles of droughts and floods, with droughts alone estimated to cause economic losses of over USD 800 million annually, affecting food production, water supply, energy systems, and public health. The 2020–2023 drought, one of the worst in recent memory, left over 4.5 million people in need of humanitarian aid and led to substantial losses in livestock and crops. Climate change is also shifting rainfall patterns, leading to reduced water availability in major river basins, increased disease vectors, and accelerating land degradation. Urban areas are increasingly exposed to heatwaves and flooding, while coastal regions continue to face threats from sea-level rise and saltwater intrusion. (KNBS, 2023)

While Kenya has developed progressive policy frameworks, such as the National Climate Change Action Plan (NCCAP) 2018–2022 and the Climate Change Act (2016), implementation remains constrained by limited funding, weak coordination across sectors and levels of government, and inadequate technical capacity. These national challenges cascade down to the county level, where governments are expected to deliver essential services in the face of climate stress, without corresponding fiscal autonomy or climate finance access. The urgency of scaling up adaptation measures cannot be overstated.

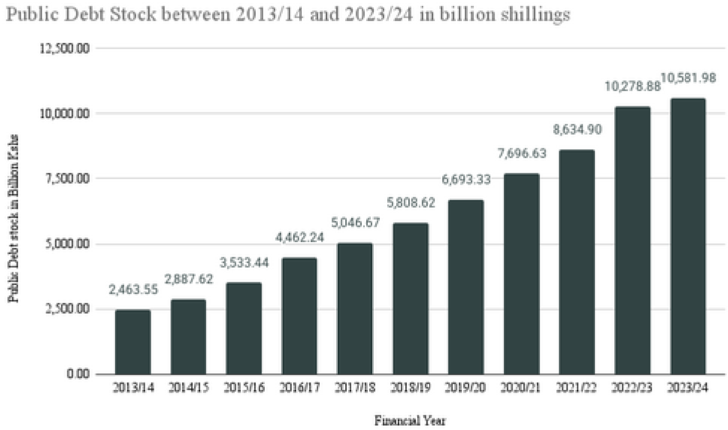
According to research by the Danish Institute of International Studies (DIIS), 2024, Kenya, classified as a Lower Middle-Income Country, *received 23% of adaptation-related finance as grants 68% as concessional loans, and 9% non-concessional loans between 2015 and 2022.* (**Tallulah C., October 2024**)This indicates that most climate adaptation financing accessed by Kenya comprises concessional loans. Yet, the country's debt is sustainable, but it has a very high risk of distress according to the World Bank.

How does the debt stock look like ?

Despite official assertions that Kenya's public and publicly guaranteed (PPG) debt remains sustainable, the National Treasury, through the Medium Term Debt Management Strategy 2025, acknowledged the country faces a high risk of debt distress. As of March 2025, Kenya's public and publicly guaranteed (PPG) debt had reached Kshs. 11.36 trillion, up from Kshs. 10.58 trillion in June 2024, representing 7% growth

Kenya's public debt-to-GDP ratio has grown from 48.8% in FY 2013/14 to 66.9% in FY 2023/24. According to the Printed National Budget Estimates, 2025/26, the government estimates to spend Kshs. Kshs. 1,901.38 billion on public debt interest payments and redemption. Kenya's public debt stock rose from Ksh 2.46 trillion in FY 2013/14 to Ksh 10.58 trillion in FY 2023/24, representing a 330% increase.

Figure 1: Trends in Public Debt Stock Between FY 2013/14 to 2023/24 in Billion Shillings.



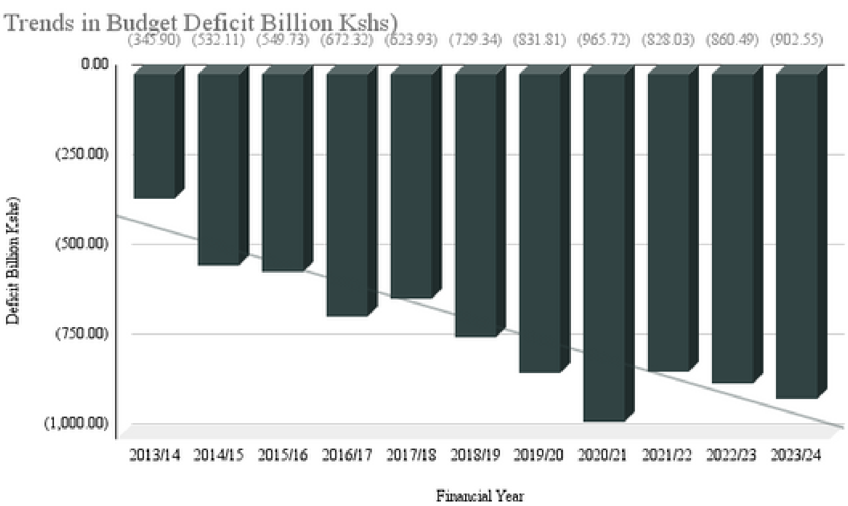
Source: National Treasury, Statistical Annexes to Budget Statements

From budget deficits to debt?

The increase in public debt can be attributed to several factors. A primary driver is the persistent mismatch between spending and revenue, widening the budget deficit gap. For instance, the budget deficit excluding grants grew from Kshs. 345 billion in FY 2013/14 to Kshs. 902 billion in 2023/24.

To finance the deficit, the government resorts to borrowing, both domestically and from external sources. Importantly, while the government is borrowing, it is also obligated to meet the debt obligations of the previous loans in terms of interest and principal amounts, not only adding to the debt stock but also creating a cycle of debt.

Figure 2: Trends in Budget Deficit in Billion shillings between FY 2013/14 -2023/24



Source: National Treasury, Statistical Annexes to Budget Statements

Budget deficit excluding grants grew from Kshs. 345 billion in FY 2013/14 to Kshs. 902 billion in 2023/24.

Public debt obligations and impact on county Transfers.

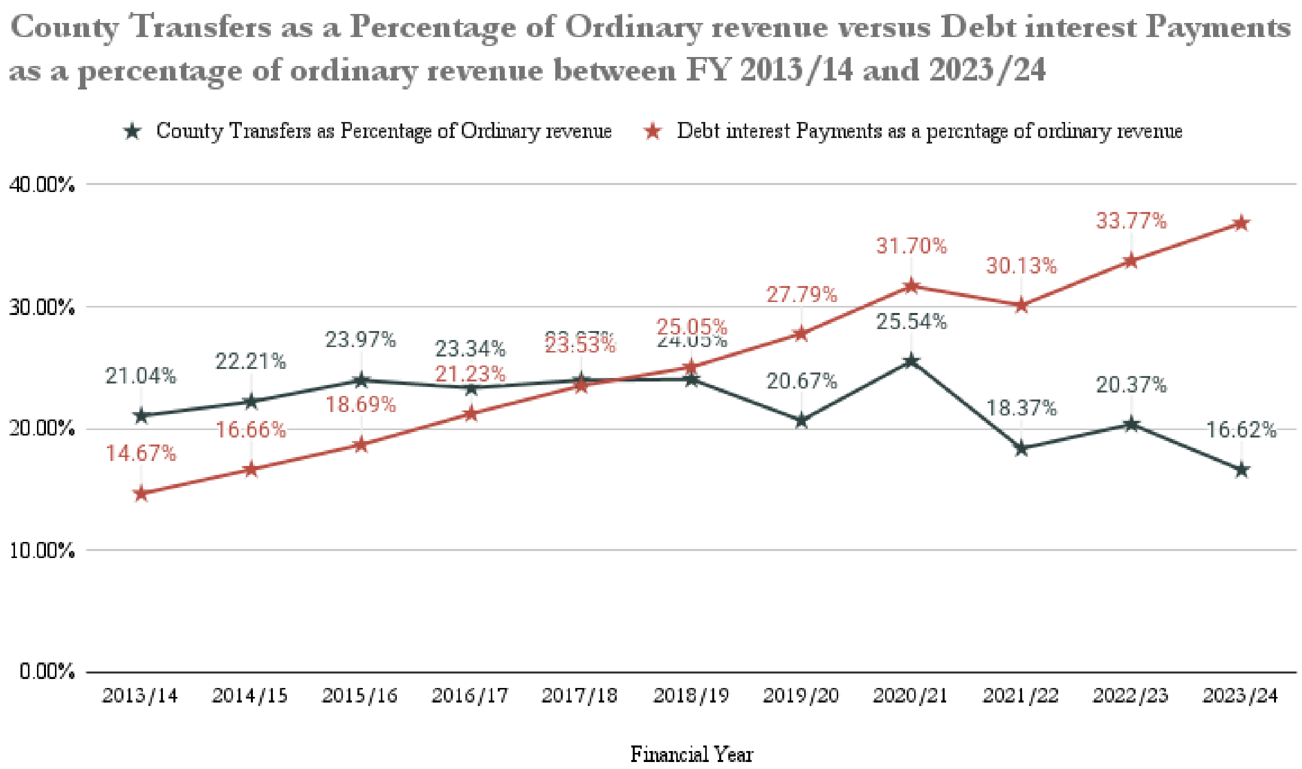
According to the Constitution of Kenya, 2010, Counties should have reliable sources of revenue to provide the services to the citizens and deliver on their functions as outlined in the fourth schedule of the Constitution. For the county governments to finance their budgets, they rely on the ***national Government transfers, in the form of equitable share and conditional grants, ordinary source revenue*** generated according to Article 209 of the Constitution, and ***loans and grants from development partners.***

Since 2018/19, interest payments alone on public debt as a percentage of ordinary revenue started to exceed transfers to counties, and have been on an upward trend since then, squeezing fiscal space for service delivery at the county level. As of 2023/24, the government spent more than twice as much on debt interest repayments as on the total transfers to the county governments. This has left counties ***with fewer resources to invest in basic services and climate-sensitive sectors like water, agriculture, and sanitation.***

Twelve years into devolution, county governments face ongoing challenges, including declining intergovernmental fiscal transfers, delays in disbursement, and the national government's retention of some devolved functions. For instance, transfers to counties as a share of ordinary revenue peaked at 25.54% in FY 2020/21 but declined sharply to 16.62% in FY 2023/24.

> *"As of FY 2023/24, the government spent more than twice as much on debt interest repayments as on the total transfers to the county governments."*

Figure 3: County Transfers and Debt Interest Payments as a percentage of Ordinary Revenue between 2013/14 and 2023/24



Source: National Treasury

Climate vulnerability at the County Level

According to the Commission on Revenue Allocation, between 2014 and 2022 county governments, on average, allocated 8.0% to Agriculture Rural and Urban Development (ARUD), 11.1% to Energy, Infrastructure & Information Communication & Technology (EIICTT) sector, 5.6% to Environmental Protection, Water, and Natural Resources (EPNWR), 25.3% health, 7.3% to education, and 1.3% to social protection. Investments in climate-sensitive sectors remain limited.

According to the ***KNBS Compendium of Environment Statistics, 2023***, over the past five years, drought has been the most frequently reported disaster in ASAL counties, particularly where below-average rainfall in 2022 and 2023 severely impacted livestock and crop production

Agriculture contributes at least 28% of the National Gross Domestic Product and employs over 80% of the Kenyan population, particularly in the rural areas. At the County level, the Agricultural Sector is among the top three contributors to the **county's Gross Product (CGP)** and means for livelihoods for rural populations, according to the Commission on Revenue Allocation.

Despite , the sector's contribution to the economy, agriculture remains highly vulnerable to climate change and natural disasters. *For instance, in 2022, 13 counties reported floods while 23 counties experienced drought, resulting in crop failure, livestock deaths, and displacement,* which further risks malnutrition and food insecurity.

The Kenya Meteorological Department projects an increasing frequency of climate extremes, ***especially in western and coastal regions, and this calls for more investment and adaptation financing.***

Importantly, **Forest cover remains below 10% in over 30 counties, especially in the ASAL areas,** where land degradation driven by overgrazing, deforestation, and unsustainable farming practices is accelerating under the combined pressures of population growth and erratic rainfall.

The **water sector,** is not spared on climate vulnerability. Even amid the climate crisis, access to improved drinking water across counties remains a challenge, and heavily impacts the marginalised groups. ***As of 2022, only 59.6% of the rural population had access to improved drinking water sources, with piped water coverage generally below 10%.*** Open defecation rates remain alarmingly high in counties like Turkana (67%), Wajir (52%), and West Pokot (47%), further deepening vulnerability to disease outbreaks during droughts and floods.

Next Steps on addressing the double bind

The aforementioned vulnerabilities and those in other sectors, illustrate the urgent need for targeted climate adaptation investments at the county level. Without deliberate and well-financed interventions, climate shocks will continue to erode local development gains, undermine livelihoods, and strain already overstretched public service delivery systems, and further marginalise the already marginalised communities.

Whereas the County governments are expected to lead climate interventions at local level, and at the same time provide basic services, they are doing so, with limited resources, yet highly vulnerable. National debt servicing has been taking precedence over county funding, while counties also lack the institutional capacity to access global climate finance. The dual constraint is constantly creating a structural trap, where counties are unable to respond to climate risks or invest in long-term resilience.

The national government, despite its obligations for debt service, must ensure that the devolved units have reliable financing to provide for basic services, but also respond to climate adaptation and mitigation effectively and sustainably.

The following are a few recommendations that the national government and the devolved units may want to explore to ensure climate resilience, while meeting debt obligation, in the context of reducing available resources:

- *The national government should integrate* ***climate vulnerability into debt sustainability frameworks and pursue innovative financing options*** *such as debt-for-climate swaps and resilience bonds.*

- *The national government should engage creditors to* ***restructure existing debt and lengthen the Average Time to Maturity (ATM),*** *to reduce near-term repayment pressure and create more fiscal space for development and climate-related investments.*

- *The national government should* ***fully transfer functions assigned to counties under the Constitution, along with the corresponding resources,*** *to ensure that county governments can effectively implement their mandates.*
- *There is a need to* ***ring-fence and increase allocations for climate-sensitive sectors*** *such as water, agriculture, and environment, while mainstreaming climate to the other sectors by the county governments.*
- *The county governments should build institutional and technical capacity to* ***access multilateral climate finance to further support grassroot-led climate interventions.***

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