



The 2020
Budget

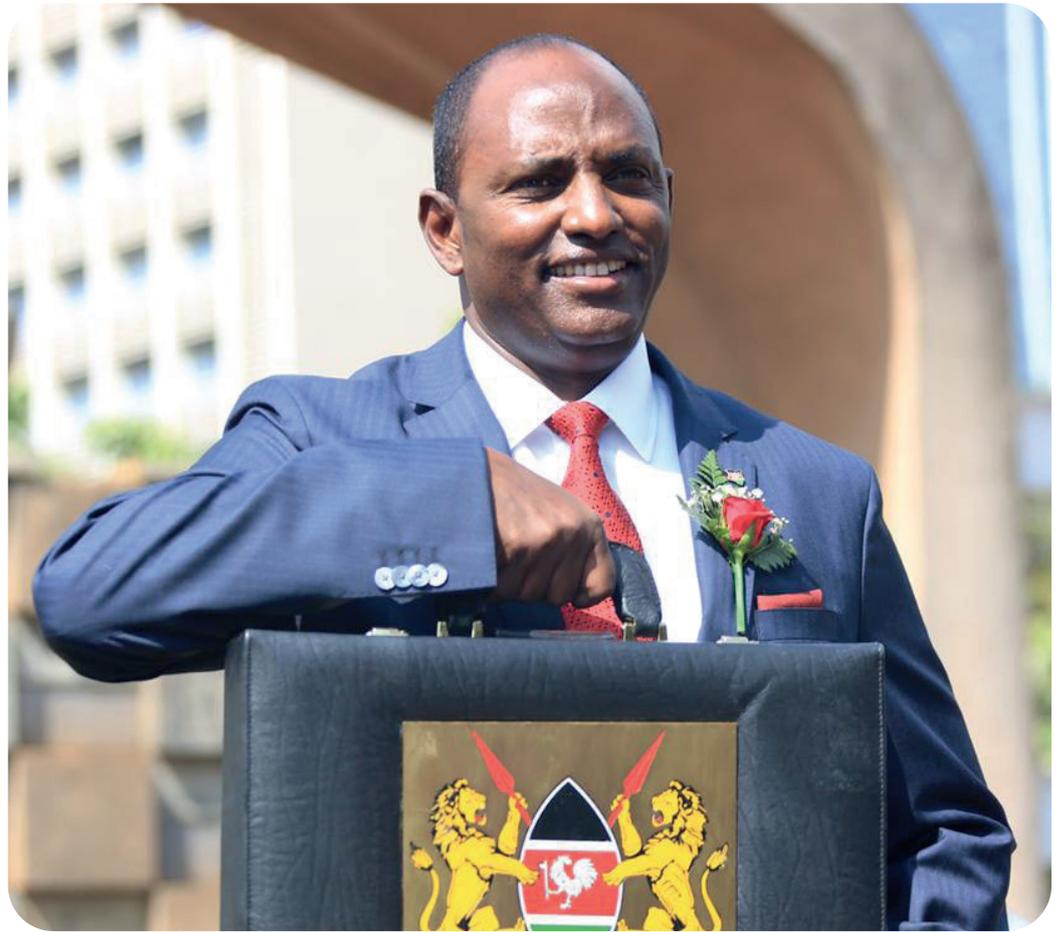
Vellum Insight on the Budget
Statement **2020/2021**





3%

As a result of the pandemic, the global economy is projected to contract sharply by 3 percent in 2020, much worse than during the 2008–09 financial crisis



INTRODUCTION:

This year's budget was prepared against a backdrop of a looming global recession occasioned by the Covid-19 pandemic. As a result of the pandemic, the global economy is projected to contract sharply by 3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support.

At the start of the year, the economy was projected to grow by 6.1 percent in 2020 which was an improvement from 5.4 percent in 2019. Further, Treasury had targeted a lower fiscal deficit of 6.3 percent of GDP in the financial year 2019/20, 4.9 percent of GDP in 2020/21 and ultimately 3.0 percent of GDP over the medium term. **This plan was premised on a strong revenue growth, reduction of non-core expenditures and a gradual slowdown in the growth of public debt.**

However, this is not the case.

In fact, the overall economy has contracted as a result of slowed down economic activities as well as the swift containment measures, including closure of the airspace and borders, curfews and cessation of movements in some counties among others, have not only disrupted livelihoods, but to a greater extent business.

Further, the country has faced additional shocks namely the massive invasion of swarms of desert locusts that damaged crops; as well as the floods that led to loss of lives and livelihood; displacement of people and destruction of infrastructure.

Taking into account the impact of these shocks on the domestic economy, growth is now projected at a lower rate of 2.5 percent in 2020 down from the 5.4 percent growth recorded in 2019. Notwithstanding, the World Bank projects the economy to shrink further to between 1 to 1.5 percent.

Moreover, measures to cushion citizenry and businesses have also had an adverse impact on the resources available in the wake of shrinking revenue collection. For instance, as a result of the measures taken to cushion Kenyans the country will lose approximately Kshs. 122 billion in income tax collection in FY 2020/21 according to Parliamentary Budget Office (PBO).

Based on the foregoing, the National Budget Statement delivered by the Cabinet Secretary was pointedly focused on economic recovery in the immediate post-Covid period appropriately themed: **“Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery”**. It is anticipated that measures will be implemented to roll out an Economic Stimulus Programme and lay down a firm ‘Post Covid-19 Economic Recovery Strategy’. **These initiatives are ultimately expected to stimulate economic activities thereby culminating to a growth of 5.8 percent in 2021 and 6.5 percent by 2024.**



Ksh 5.0b

For rehabilitation of damaged access roads and foot bridges In addition to this, a further Ksh. 10.0B is allocated to the Kazi Mtaani Program



Ksh 7.4b

Is allocated to employ additional teachers and support local artisans and builders' businesses that will involved in the construction of additional classrooms in secondary schools

BROAD AREAS OF FOCUS:

- Roll out an Economic Stimulus Programme that will catalyse economic activity, provide livelihoods to Kenyans and enable businesses to recover from the adverse effects of COVID-19 Pandemic;
- Maintaining macroeconomic stability to support long term investments, economic growth and development. This will be achieved through effective coordination of fiscal, monetary and financial policies to lower the cost of living and doing business. In addition measures will be put in place to strengthen the management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects;
- Support the recovery and growth of Micro, Small and Medium Enterprises through various interventions including operationalization of the Credit Guarantee Scheme;
- Supporting implementation of the "Big Four" Agenda;
- Enhancement of allocations to support development of critical infrastructure in the country such as roads, rail, energy and water, among others, so as to reduce the cost of doing business as well as promote competitiveness;
- Increase resources to support the youth, women and persons with disability to enable them actively contribute to the economic recovery agenda;
- Scale up resource allocation to improve access to education, strengthen health care systems and enhance cash transfers to support the vulnerable members of our society;
- Facilitate the County Governments in strengthening their systems to enhance service delivery; and
- Implement various structural reforms to enhance the efficiency of public service delivery while at the same time ensuring accountability for better macroeconomic and fiscal stability, sustained credit ratings, improved fiscal discipline and minimized corruption.

The 8-Point Economic Stimulus Programme - How the Ksh 56.6 billion will be allocated to cater for the various thematic areas of this Programme:

- a) **Infrastructure:** Ksh. 5.0B for rehabilitation of damaged access roads and foot bridges In addition to this, a further Ksh. 10.0B is allocated to the Kazi Mtaani Program to create job opportunities for 200,000 unemployed youth in the major cities and urban settlements of Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and other major towns across the country who will be engaged in the various infrastructural development projects.
- b) **Improving Education Outcomes:** Ksh. 7.4B is allocated to employ additional teachers and support local artisans and builders' businesses

that will involved in the construction of additional classrooms in secondary schools; purchase 250,000 locally fabricated desks; for capitation and improvement of infrastructure in low cost boarding schools in Arid and Semi-Arid Lands (ASALs) using local labour; recruitment of 10,000 intern teachers to support the 100 percent transition in schools; and recruitment of 1,000 ICT interns to support digital learning in public schools.

- c) **Enhancing liquidity to Businesses:** Ksh 3.0B seed capital to operationalize the Credit Guarantee Scheme. In addition it is proposed to fast track payment of outstanding verified VAT refund claims and pending bills owed to businesses by allocating Ksh 10.0B. This is in addition to the Ksh 23.1 billion approved by Parliament in April 2020 in the Supplementary Budget for the same purpose.
- d) **Improving health outcomes:** Ksh. 1.2B allocated for the recruitment of an additional cohort of 5,000 healthcare workers to enhance Covid 19 response capacity for one year; and an additional Ksh. 500M for supply of 20,000 locally made beds and beddings to public hospitals; and Ksh. 25M to support establishment of 50 modern walkthrough sanitizers at all border points and main hospitals across the country.
- e) **Agriculture and Food Security:** 3B to subsidize the supply of farm inputs through the voucher system to reach 200,000 small scale farmers. Additionally, the Government has allocated Ksh 3.4B for expanded community household irrigation. An additional Ksh 1.5B to assist flower and horticultural farmers to access international markets during this period.
- f) **Tourism promotion:** temporary lifting of travel bans allowing for meetings to be held in private hotels by Government agencies. In addition Ksh. 3B set aside to renovate facilities and restructuring of business operations by actors in the industry. The Government will also provide grants to 160 Community Conservancies, and support to Kenya Wildlife Services to engage 5,500 community scouts for a period of one year having set aside Ksh 2.0 billion for this purpose.
- g) **Improving Environment, Water and Sanitation Facilities:** set aside Ksh 1.0B to support flood control using local labour in the most affected areas. Additionally, Ksh 850M has been allocated to cater for rehabilitation of wells, water pans and underground tanks in ASAL areas using local labour; and Ksh 540 million to enhance tree planting programme across the country using locally sourced seedlings.
- h) **Manufacturing-** an initial investment of Ksh 600M to purchase locally assembled vehicles has been proposed. This will sustain the operations of local motor vehicle 29 manufacturers which is aimed at safeguarding jobs. An additional allocation of Ksh 712M is proposed to provide credit targeted to Micro, Small and Medium Enterprises in the manufacturing sector.

KEY HIGHLIGHTS: WINNERS AND LOSERS

Winners



Youths

Ksh 10.0 billion

Kazi Mtaani allocated Ksh 10.0 billion and it targets to employ at least 200,000 youth.



MSMEs

Ksh 3.0 billion

- Allocated Ksh 3.0 billion seed capital to operationalize the Credit Guarantee Scheme.
- Ksh 10.0 billion has been allocated to payment of VAT refunds and pending bills to businesses.



Farmers

Ksh 3.0 billion

- Ksh 3.0 billion set-aside to subsidize the supply of farm inputs through the voucher system to reach 200,000 small scale
- Maize or corn seeds exempt from VAT



Mothers and newborns

Duty free

All inputs for manufacture of baby diapers will be imported duty free under East African Community Duty Remission Scheme.



Tourism and hospitality sector

temporary lifting of bans in holding meetings in private hotels

Buy Kenya, Build Kenya

Government shall gazette the list of items for local procurement to promote the "Buy Kenya Build Kenya" Initiative.

Losers



Companies

1%

Minimum Tax



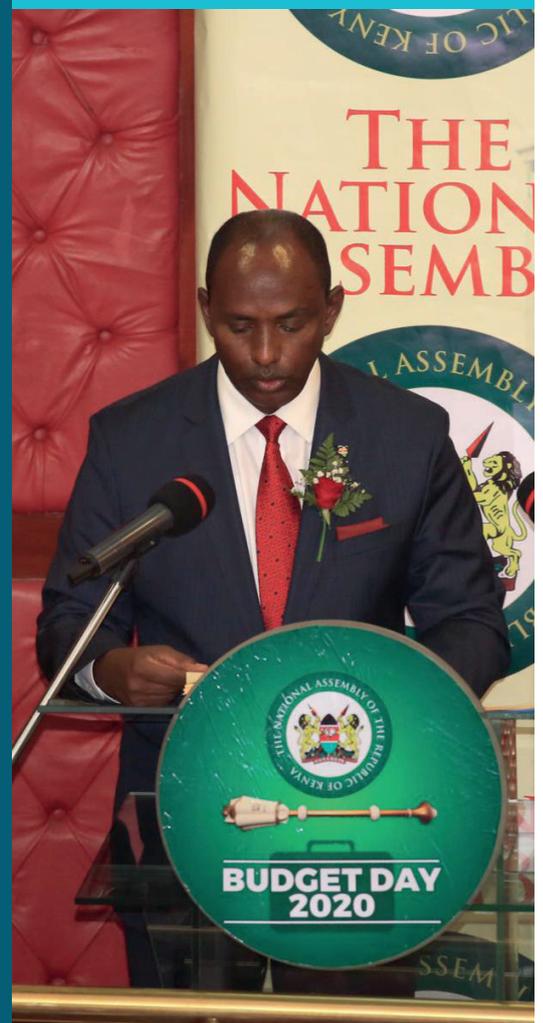
Digital Service Tax

1.5%

on the value of transactions at the rate of 1.5 %

Foreign contractors

The Government will review the contracting framework for infrastructure projects in the country with a view of ensuring greater participation of local contractors.



SIGNIFICANT PROPOSALS



a) Toll payment: The Public Roads Toll Act to be amended to enable entities to enter into an agreement with the Government to collect road tolls on roads constructed and managed under such agreements



b) Voluntary Disclosure Programme: A voluntary disclosure programme introduced to allow Kenyans who, in the last 5-years may have inadvertently made omissions in their tax returns to voluntarily disclose such omission and pay the tax due. This will include a relief from penalties for payment of tax declared and it will run for 3 years.



c) Duty free for mobile phone assembly parts: Inputs for assembly or manufacture of mobile phones will be imported duty free under the East African Community Duty Remission Scheme.



d) Ksh 18.1 billion

allocated for SGR Phase II (Nairobi- Naivasha)



e) Ksh 15 million

Landlords threshold for rental tax income increased from 10M to 15M



f) Duty free

Textile manufacturers: inputs used in the textile and apparel sector will be imported duty free under the East African Community Duty Remission Scheme.



g) Pensioners: The National Treasury is re-engineering and upgrading the pension system in order to clear all pension payment backlog by the end of the calendar year. a modernized pension management system is being set that will guarantee a smooth transition of retirees from a monthly salary cheque to a monthly pension payment.

h) Ksh 18.1 billion



Poor Judiciary: The Judiciary has been allocated Ksh 18.1B down from Kshs 19.2B in FY 2019/2020. Parliament has also been allocated Ksh 37.3B down from Kshs 39.8B in 2019/2020. The Nairobi Metropolitan Services has been strengthened with the allocation of Ksh 26.4B. Of this, allocation of Ksh 15.95B from Nairobi City County's equitable revenue share for the FY 2020/21. This amount seems to be on the higher side. Spending levels for the four functions over the last 4 years show that the amounts have been lower.



The Nairobi International Financial Centre shall be fully operationalised and will play a role in attracting investments and private capital to support economic growth as well as mobilising additional financing for “Big Four” projects and further providing new financing options for Kenyan businesses

i) Bags of goodies for the youth:

- 10 billion Kazi Mtaani programme targeting 200,000 youth- Youth jobs in fumigation, storm water drainage works, cleaning of markets and informal settlements, rehabilitation and maintenance of access roads, foot bridges and foot paths and other environmental management activities.
- Ksh 5.0 billion for rehabilitation of the damaged access roads and foot bridges optimising the use of local labour and materials, thereby generating short term employment for thousands of youth.
- Ksh 715 million for the Kenya Youth Empowerment and Opportunities Project;
- I have set aside Ksh 10.2 billion to the National Youth Service (NYS);
- Ksh 2.1 billion for the Kenya Youth Empowerment Project;
- Ksh 359 million to the Youth Enterprise Development Fund,
- Ksh 82 million to the Youth Employment and Enterprise (Uwezo Fund)
- Ksh 14.0 billion to the Sports, Arts and Social Development Fund.
- Promotion of local contractors to provide employment opportunities to the youth.
- Reengineering the Access to Government Procurement Opportunities (AGPO) portal to enable real time registration and transparent monitoring of the implementation of the scheme.

j) Attracting Foreign Direct Investments (FDI)

- The Nairobi International Financial Centre shall be fully operationalised and will play a role in attracting investments and private capital to support economic growth as well as mobilising additional financing for “Big Four” projects and further providing new financing options for Kenyan businesses.

Sovereign Green Bond- Green Climate Financing shall be promoted by the issuing of the first “Sovereign Green Bond” to finance major infrastructure projects in the 2020/21 financial year and proceeds shall be directed towards green projects at both the National and County level.

External concessional funding to finance development projects.

Operalization of credit guarantee scheme.

Public procurement and asset disposal Act shall have supporting regulations. The 2020 regulations which are awaiting parliamentary approval shall improve public procurement procedures.

- The government will procure and roll out an end to end e-procurement system by December 2020 and all procurement processes will be via an online platform.
- Revamped Public Private Partnership through amendments to the Public Private Partnerships Act to remove unnecessary approvals and redundant processes as well as restructure and strengthen institutions responsible for implementing such projects.
- Streamlined and standardised credit enhancement tools including
 - Government Letter of Support
 - Partial Risk Guarantees
 - Indemnity Guarantees
- Viability gap funding where necessary, to enhance bankability of projects.
- Mobilisation of approximately Ksh 200 billion in the FY 2020/21 by concluding the financing of several projects drawn from among others the transport, energy, health, housing and manufacturing sectors of the economy.
- Order for payment of all pending bills.
- Kenya will conduct its first National Risk Assessment on Money Laundering and Terrorism Financing to assist government authorities combat the vices on the basis of identified risks and vulnerabilities.

k) Enabling ICT: CS Yatani proposes allocation of Ksh 14.9B to fund initiatives in ICT sector. Specifically, the Government is fast tracking the establishment of the Konza Technopolis City with enhanced allocations to the project.

- Ksh 6.3 billion for the Horizontal Infrastructure Phase I (EPCF) for Konza;
- Ksh 400 million for the on-going construction of Konza Technopolis Complex Phase 1B; and
- Ksh 5.1 billion for Konza Data Center & Smart City Facilities project.



Ksh 1.2b

Is proposed for the recruitment of an additional cohort of 5,000 healthcare workers to support local health staff for a period of one year

RESOURCE MOBILIZATION TOWARDS COVID-19



COVID-19 measures allocations

■ duty remission on raw materials and inputs for manufacture of masks, sanitizers,

ventilators and personal protective equipment including coveralls and face shields.

■ Ksh 500M for supply of 20,000 locally made beds and beddings to public hospitals; and

■ Ksh 25M to support establishment of 50 modern walkthrough sanitizers at border points and main hospitals across the country.

■ Ksh 1.2B is proposed for the recruitment of an additional cohort of 5,000 healthcare workers to support local health staff for a period of one year.

COVID 19: The Economic recovery measures

■ The Government has waived landing and parking fees at our airports in order to facilitate movement of cargo, in and out of Kenya.

■ Ksh 3.0B has been set aside to support renovation of facilities and the restructuring of

business operations by actors in this industry.

■ Ksh 1.5B to assist flower and horticultural farmers to access international markets during this period

Highlights of the Post Covid-19 Economic Recovery Strategy:

- 1) Sound macroeconomic policy framework to support a higher sustainable economic growth that will address the challenges of poverty, unemployment and income inequality.
- 2) Adequate local and foreign resource mobilization to ensure sustainable funding of development programmes.
- 3) Enhancing the role of the private sector in the economy, including financing infrastructure projects from diverse sources such as Public Private Partnership and lease financing.
- 4) Supporting Micro, Small and Medium Enterprises by facilitating access to adequate finances through the Credit Guarantee Scheme.
- 5) Full and timely implementation of the Economic Stimulus Programme which will create jobs and stimulate businesses.
- 6) Investment in ICT and digital infrastructure to support the use of digital platforms to facilitate e-commerce and efficient delivery of public services.
- 7) Promotion of local production processes and domestic supply value chains.
- 8) Enhancement of disaster risks management systems.
- 9) Improvement of social-protection through targeted policy interventions and programmes.



The Government has waived landing and parking fees at our airports in order to facilitate movement of cargo, in and out of Kenya.

BIG FOUR AGENDA

Total allocation ksh.128.3bn to the Big Four Agenda drivers and enablers

1. Health Sector

Health sector total allocation: **ksh.111.7billion.**

- Universal Health Coverage; ksh.50.3billion
- Recruitment of Health workers ksh.1billion

The budget for the Health Sector includes:

- Ksh.19.2 billion to address and lower cases of HIV, Malaria and tuberculosis in the country;
- Ksh.6.2 billion for the managed equipment services;
- Ksh.5.3 billion to transform the health care systems for Universal Health Coverage;
- Ksh.4.1 billion to cater for free maternity health care; and
- Ksh.1.8 billion to provide medical cover for the elderly and severely disabled in our society.

To improve health service delivery include:

- Ksh.15.0 billion for Kenyatta National Hospital,
- Ksh.10.0 billion for Moi Teaching and Referral Hospital,
- Ksh.7.2 billion for Kenya Medical Training Centres;
- Ksh.2.5 billion for Kenya Medical Research Institute;
- Ksh.1.2 billion to Mathari Hospital
- Ksh.4.3 billion as a conditional grant to level 5 Hospitals in the Counties

2. Manufacturing (Ksh 18.3 billion)

- Kenya Industry and Entrepreneurship Project: Ksh 1.4
- Development of Special Economic Zone Textile Park in Naivasha, Kenanie leather industrial park and Athi River Textile Hub - Ksh 3.6 billion
- Modernization of RIVATEX Ksh 843 million
- Development of Micro, Small and Medium Enterprises Ksh 800 million
- Kenya Youth Empowerment and Opportunities Project Ksh 715 million
- Dairy processing Ksh 500 million Dongo Kundu Special Economic Zone. Ksh 3.0 billion

3. Affordable Housing

Ksh 15.5 billion to the housing, urban development & public works sector.

- Ksh 6.9 billion for the Affordable Housing Programme with additional Ksh 3.6 billion from the African Development Bank;
- Ksh 7.5 billion for the Kenya Urban Programme;
- Ksh 1.1 billion for the ongoing construction of Gikomba, Githurai, Chaka, Kamukunji and Dagoretti markets.

4. Food and Security

Total of Ksh 52.8 billion allocated for Food and Nutrition Security

- **Ksh 10.6 billion** for the Kenya Climate Smart Agricultural Project;
- **Ksh 5.5 billion** for the National Agricultural and Rural Inclusivity Project;
- **Ksh 4.1 billion** for the Kenya Cereal Enhancement Programme;
- **Ksh 730 million** for the Food Security and Crop Diversification Project
- **Ksh 10.0 billion** for irrigation land reclamation
- **Ksh 1.8 billion** to enhance aquaculture business development project;
- **Ksh 1.4 billion** to support small-scale irrigation and value addition;
- **Ksh 1.3 billion** to enhance resilience of pastoral communities;
- **Ksh 1.1 billion** to enhance drought resilience and sustainable livelihood;
- **Ksh 1.6 billion** to support processing and registration of title deeds;
- **Ksh 500 million** to advance agricultural loans through the Agricultural Finance Corporation.

HOW ARE WE GOING TO FINANCE THE PROPOSALS

Tax Collection - Projected KRA collection is Kshs 1.63 T

Non Tax - Green Climate Financing through the issuance of the first "Sovereign Green Bond" to finance major infrastructure projects in the FY 2020/21

Fiscal Deficit FY 2020/21

Fiscal deficit is projected to decline to Ksh 840.6 billion from Ksh 842.7 billion in the financial year 2019/20. This will be financed through net external financing of Ksh 347.0 billion, net domestic financing of Ksh 493.4 billion and other net domestic repayments of Ksh 627 million.

According to the 2020 KNBS report, the stock of public external debt grew by 19.4 per cent year-on-year from 2.6 trillion as of the end of September 2018 to 3.1 trillion as of September 2019. In FY 2018/19, total debt as a percentage of GDP was 61.1% an increase from 57.1% in the previous Financial year.

The CS was optimistic that Kenya's public debt remains sustainable though cautious about future

debt accumulation. The main focus for the National Treasury will be to strengthen management of public debt to minimize cost and risks of the portfolio and only access external concessional funding.

So far, the Government has received the following support toward Covid 19 pandemic and economic recovery in form of loans and grants:

- Ksh.78.3 B under the Rapid Credit Facility of the International Monetary Fund
- Ksh.108.0 B from the World Bank for pandemic
- The World Bank extended support of Ksh.6.8 billion under the Contingency emergency response
- Ksh.22.5 B from the African Development Bank
- Ksh.7.5 B commitments from the European Union in form of grants



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