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ANALYSIS OF KENYA’S DRAFT 2020 BUDGET POLICY STATEMENT

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The National Treasury of Kenya released the draft 2020 Budget Policy Statement this week as required by the Public Finance Management Act, 2012. The Budget Policy Statement sets out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets for the following financial year and the medium term.

As usual, this year’s BPS again promises Government interventions to improve liquidity to private sector including initiating innovative products to boost credit to MSMEs. However, the National Treasury acknowledges its limited fiscal space that it says is occasioned by revenue shortfalls and rising expenditure pressures. The budget programmes have been aligned to the “Big Four” Plan as prioritized in the Medium Term Plan III and the BPS states that funding will only be availed to these priority programmes.

The FY2020/21 revenue collection is projected to increase to KES 2,133.5 billion, KES 49.5 billion up from KES 2,084 billion expected in FY 2019/2020. The projected Government expenditure will reduce to KES 2,743.8 billion in FY 2020/21 about KES 130.4 billion down from the estimated KES 2,874.2 billion in FY 2019/20

Therefore, the FY 2020/21 fiscal deficit inclusive of grants is projected to be KES 569.4 billion (4.9% of GDP). To finance the fiscal deficit in the FY 2020/21, domestic borrowing is projected at KES

318.9 billion, foreign financing at KES 247.3 billion and other domestic financing KES 3.2. billion. This means increased interest yields on bonds and treasury bills; financing and refinancing through foreign loans such as the Euro bond although the Government will aim to obtain cheaper loans from development financing institutions; and KRA becoming your new best friend.

The National Treasury has requested for public comments on the BPS to be submitted by 28 January 2020. Under the Public Finance Management Act, 2012, National Treasury is required to prepare a Budget Policy Statement（“**BPS**”）every year for approval by the Cabinet and submission to the National Assembly by 15^{th} February in each year.

Below is an outline of the potential winners, losers, opportunities and challenges from our perspective:

WINNERS

- Maize farmers as the Government intends to continue subsidizing fertilizers. It is worth noting that arguments have been made that the subsidy scheme may be counter-productive as it stifles competition preventing better qualify fertilizers and products reaching the farmers and only enriches cartels
- Community Health Workers who have been identified as one of the success factors of the Universal Health Coverage Programme. The Government is in the process of reviewing its community health strategy to create a sense of ownership and increasing motivation among community health workers through training, equipping and provision of stipends.
- Employees as the Government has retreated on its push for a mandatory housing levy and is currently amending the Housing Fund regulations to make contributions voluntary
- Contractors and suppliers for delivery of low cost housing units under the Habitat Height project between the United Nations Office for Project Services (UNOPS) which includes a first phase for the construction of 8,888 units and a further 200,000 units under a signed MoU between the Givernment and UNOPS.
- Property developers in PPPs with Government if the Government actualizes its promise to avail public land for affordable houses projects at no cost.
- Contractors and suppliers who win the tenders for Kibera B residents social housing project
- Banks and high networth individuals as the Government intends to continue borrowing heavily from the domestic market
- Kenya’s security agencies as the Government acknowledges the need for higher budget allocations in order to improve their operational capacities to protect Kenya from external and internal attacks. Interestingly, the National Security budget allocation is to be reduced from KES 159,270 million to KES 149,320 million in FY 2020/21. It is possible that the Government intends to source for partner funding for the security forces
- General public in respect of the potential service efficiencies that would arise from the digital occurrence book recently launched by the National Police Service. However, this is subject to proper implementation by the Police otherwise this would go the IFMIS way
- Project Managers may have opportunities to provide services to the Public Investment Management Unit recently established within the National Treasury which is tasked with

preparing, executing, monitoring and reporting on public investment projects

- Consultants and experts opportunities in task forces and working groups – throughout the BPS, the Government notes its ongoing review of existing regulations and policies, or intent to formulate new ones which create job opportunities for consultants. These include: regulations to operationalization of the Nairobi International Financial Centre (NIFC); national policy on insurance industry in Kenya; an integrated National Wages and Remuneration Policy to provide a framework and necessary guidance on wage levels, wage formation and adjustment mechanisms and other wage administration issues; a National Pensions Policy; and creation of a ‘digital money grid’
- Farmers with possibility of improved access to credit once the reforms to the Agricultural Finance Corporation are completed
- Automotive industry once the Government finalizes its National Automotive Policy which targets to gradually and systematically reduce and eliminate the imports of used vehicles and used parts share in the domestic market by promoting assembly and production of automotive products locally.

OPPORTUNITIES

- Planned establishment of Special Economic Zones (SEZs) and industrial parks such as: Dongo Kundu SEZ and Naivasha Industrial Park. The Government estimates that this will create more than 60,000 direct jobs
- Modernization of Rivatex East Africa Limited and expansion of capacity from producing 4,000m of cloth to 40,000m per day. Once operational, this will provide an increased market for cotton farmers
- Infrastructure improvement at Kinanie Leather Park and implementation of tax incentives to promote local leather production
- Planned construction of fisheries infrastructure at the Coast in collaboration with Canada
- Investors in local automotive assembly and spare parts manufacturing as the Government finalizes its National Automotive Policy
- Implementation of finding and recommendations of the Cost of Hunger in Africa (COHA) Kenya study
- Restructuring of the Kenya National Trading Corporation with the aim of improving negotiations of market access of Kenyan produce in international markets
- Operationalization of the Warehouse Receipt System Act, 2019, through among other things, the establishment of the Warehouse Receipt Council, with the goal of issuing warehouse receipts as collaterals to the financial sector
- Full roll-out of the Universal Health Coverage Programme in all Counties. Taking into account the budget allocation for health which provides an increase of just KES 19,928 million to expand the programme to the remaining 43 Counties, the only way this program will be successful is through public private partnerships which the Government is now seriously pursuing. Creative affordable healthcare deliver models such as those used by CFW clinics in Rwanda and co-operation of County Governments would increase the chances of success of this programme.

- Intention by the National Government and County Governments to avail their land for affordable houses projects at no cost. This will significantly reduce the cost of such developments if actualized. Additionally, County Governments through the Kenya Urban Support Programme have committed to prioritize funding and development of infrastructure that will support the creation of sustainable affordable settlements

- 270,000 people have registered on the Boma Yangu website providing an indication of aggregate demand for potential investors
- The Government is in the process of selecting suitable investors to implement the decent homes project for Kibera B residents
- Government's fixed commitment to proceed with the construction of the Jomo Kenyatta International Airport (JKIA) to Westlands; and the Mombasa-Nairobi six-lane expressway supported by the US Government.
- The Government has embarked on financing negotiation and detailed designs for the construction of Phase 2B (Naivasha to Kisumu) of the SGR.
- The Port of Lamu is expected to begin initial operations as a trans-shipment hub for global shipping lines. Construction of road links between the Lamu Port and the LAPSSET Corridor is ongoing
- The Government intends to revive the Kenya National Shipping Lines in a bid to strengthen its position as a regional logistics hub. This could potentially create many direct and indirect jobs
- Ongoing rehabilitation of the Kisumu Port to improve inter-county transport and trade among the EAC countries
- Plans to develop a second runway at JKIA

- Implementation of 4^{th} Phase of the Last Mile Project. The Government is however considering least cost development models including off-grid renewable energy projects to meet their objectives. The Government is also reviewing its existing regulations to align it to the Energy Act, 2019 which provides for a more competitive energy market by removing monopolies on distribution of electricity

- Continued implementation of the Ajira Digital Program and the Presidential Digital Talent Programme
- Ongoing consolidation of Industrial and Commercial Development Corporation (ICDC), IDB Capital and Tourism Finance Corporation (TFC) to form Kenya Development Bank to boost manufacturing
- Resumption of revitalization process of various hotels by divesture by TFC including, Hilton Hotel, Intercontinental Hotel, Mountain Lodge, The Ark Hotel, Kabarnet Hotels, Mr Elgon Hotel and Kenya Safari Lodges and Hotels

- Planned PPP Projects for the period 2019 to 2021 include:
- 2^{nd} Nyali bridge (at procurement stage)
- Nairobi-Nakuru-Mau Summit road (at procurement stage)
- O&M Nairobi-Thika Highway (tender stage)
- O&M Nairobi Southern Bypass (tender stage)

- Nairobi-Mombasa Highway (tender stage)
- O&M Shimoni Port (ready for tender)
- O&M of Lamu Port (1st three berths)
- 300 bed private hospital at Kenyatta National Hospital
- Pwani University Teaching and Referral Hospital at Pwani University (preparations for procurement of Transaction Advisor are underway)
- Civil Servants Housing (procurement underway)

Development of Muguga Agri-City in Kiambu, Kiambu County (preparations for procurement of Transaction Advisor are underway)

- The Government is implementing the Digital Literacy Programme, expanding the Second Phase of the National Optic Fibre Backbone as well as installing an Internet Based 4000 Network.

- Other investments include the ongoing construction of the Konza Technopolis Complex and the Konza Data Centre and Smart City Facilities Project intended to open markets for telecom-experts and internet service providers.

LOSERS

- Tenderpreneurs and suppliers of numerous random projects as the Public Investment Management Unit settle into their role at the National Treasury which includes streamlining the initiation, execution and delivery of public investment projects with the aim of curtailing runaway project costs, eliminating duplications and improving work synergy among the project members

- Judiciary as the National Treasury seeks to slash its budget further in 2020/21 to KES 13,650 billion down from KES 19,202.1 billion in FY 2019/20

- Tax payers as KRA continues with its revenue enhancement initiatives in line with the Government's efforts in domestic resource mobilization. The planned initiatives this year include:
- Government systems integration to allow for third party data matching and improved service delivery;
- Implementation of a Consolidator framework to enhance trader traceability and accountability of all imports coming through the Eldoret International Airport;
- Integration of scanners which has drastically reduced cases of misdeclaration and concealment while simultaneously allowing for nonintrusive inspection;
- Identification and elimination of revenue administration gaps and stop revenue leakages, including leveraging on information technology to improve collection efficiency, through the use of third party data and ensuring compliance by registered professionals;
- Identification and implementation of strategies to improve Value Added Tax collection including fast tracking automation, enhanced tax payer education;
- Carrying out a comprehensive audit of all exemptions over the past 5 years to identify multiple use of a single exemption and make relevant tax demands; and

- Fast track Tax Appeals Tribunal cases and get cases to move from Court to Alternative Dispute Resolutions
- Civil servants’ perks and administrative allowances such as per diems for trips, even as the Government continues to restrict growth in recurrent spending
- Used cars and used parts sellers as the Government finalizes its National Automotive Policy which targets to gradually and systematically reduce and eliminate the imports of used cars and used parts and instead promote assembly and production of automotive products locally
- Rogue police who take advantage of the public in respect of the physical occurrence book

CHALLENGES

- We are yet to see whether the repeal of the interest rate cap will lead to increase access to credit to MSMEs
- Poor and uncoordinated disaster management. The Kenyan economy continues to be exposed to climate change risks that have enhanced the frequency of disasters such as floods, landslides, droughts and distraction of physical infrastructure which greatly affects agricultural production, food security, energy production, inflation among others
- Ongoing challenge of counterfeit and contraband products in the market
- Terrorist attacks may hinder economic development through direct costs such as loss of labour and capital, and diversion of funds to counter terrorism
- Cyber security risk
- Money laundering
- Some counties created multiple county corporations that cannot financially sustain themselves leaving them to depend on the county revenues to run their operations. This has posed a major threat to the wage bill and there are ongoing discussions with Salaries and Remuneration Commission, Treasury, Council of Governors and State Department of Devolution to address the issue. There is a risk of rationalization which may lead to the closing of some corporations and loss of jobs
- Corruption at all levels of Government
- Slow reforms to the tax policies including lack of harmony in taxes leading to multiplicity of taxes both at National and County levels
- Lack of market linkage for MSMEs there’s need to scale-up a programme from micro to small then to medium and large enterprises so as to have ready companies to compete at local, regional and global markets
- No standardization and authentication of Kenya products to foster comparative advantage.

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