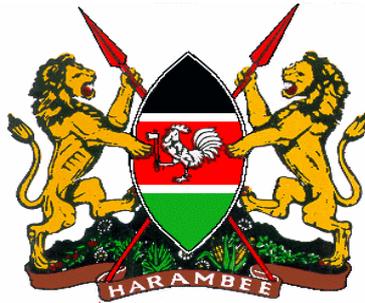


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BUDGET STATEMENT

FY 2020/21

Theme: "Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery"

**STATEMENT DELIVERED TO THE NATIONAL ASSEMBLY ON
11TH JUNE, 2020 BY HON. (AMB.) UKUR YATANI, EGH,
CABINET SECRETARY FOR THE NATIONAL TREASURY AND
PLANNING, REPUBLIC OF KENYA, WHEN HIGHLIGHTING
THE BUDGET POLICY AND REVENUE RAISING MEASURES
FOR FISCAL YEAR 2020/21 BUDGET**

1ST JULY, 2020 TO 30TH JUNE, 2021

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I. Introduction

Mr. Speaker, Honorable Members and Fellow Kenyans, it's a great honour to present to this August House and to the country the highlights of the **Budget** for the **financial year 2020/21**. I do this in performing my fiduciary duty and in fulfilment of the requirements of **Section 40** of the Public Finance Management Act, 2012 and the **Standing Order Number 241** of the National Assembly.

Mr. Speaker, at the outset, allow me to take this early opportunity to express my sincere gratitude to His Excellency, the President of the Republic of Kenya Hon Uhuru Kenyatta, for appointing me to the position of Cabinet Secretary for the National Treasury and Planning, to provide leadership in economic and financial affairs of the country.

Mr. Speaker, allow me also to express my deep appreciation to the Chair and Members of the Budget and Appropriations Committee, Finance and National Planning Committee as well as other Departmental

Committees of the National Assembly for the constructive engagements and support in the review of the financial year 2020/21 Budget Estimates and the financing measures.

FY 2020/21 Budget Context

Mr. Speaker, in February 2020, we submitted to this House the 2020 Budget Policy Statement. During that time, our financial projections assumed a normal operating environment. The economy was projected to grow by **6.1 percent** in 2020 which was an improvement from **5.4 percent** in 2019. Indeed, we had set on a conscious journey of fiscal consolidation, targeting 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.**

Mr. Speaker, you may recall that early in the year, this House considered our proposals and approved the economic and financial strategies in the 2020 Budget Policy Statement.

Outbreak of Covid-19 Pandemic

Mr. Speaker, the global outbreak and the rapid spread of the Covid-19 Pandemic has led to contraction of the global economy with disastrous consequences. The Pandemic and the attendant containment measures aimed at saving lives have disrupted the businesses environment, including international trade, leading to loss of livelihoods for millions of people globally.

Mr. Speaker, Kenya has not been spared. Evidently the Pandemic and 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 our ways of lives and livelihoods, but to a greater extent business. These measures including enforcement of basic hygiene and social distancing were not only necessary but also timely

as they have indeed stemmed a surge of infections and loss of lives.

In addition to the adverse effects of the Covid-19 pandemic, our economy also experienced two other shocks. First, the massive invasion of swarms of desert locusts that damaged crops. Secondly, the floods that led to loss of lives and livelihood; displacement of people and destruction of infrastructure.

Mr. Speaker, cognizant of the magnitude of the multiple challenges, particularly the Covid-19 pandemic, the Government moved swiftly to intervene and implement a range of measures to mitigate the adverse effects. Overall, these measures have provided the much needed relief to the economy through **injection of cash and provision of additional disposable incomes to the people and businesses.**

Mr. Speaker, the Government also lowered the Value Added Tax (VAT) rate from 16% to 14%; reduced tax rates for both corporate and personal income (PAYE) from 30% to 25% and provided 100% tax relief for

persons earning a gross monthly income of up to Ksh 24,000. Further, in order to support the Micro, Small and Medium Enterprises, the turnover tax rate was lowered from 3.0% to 1.0%.

Mr. Speaker, in order to support the economy, the Government instituted various monetary policy measures to enhance credit access by the private sector at an affordable cost. This was achieved through reduction of the Central Bank Rate from **8.25%** to **7.0%** and lowering of the Cash Reserve Ratio requirement from **5.25%** to **4.25%**. Consequently, these interventions released **Ksh 35.0 billion** to commercial banks allowing them flexibility with regard to requirements for loan classification and provisioning. Indeed, since March 2020, banks have restructured loans in excess of **Ksh 360 billion** including **Ksh 190.0 billion** of personal loans. Further, **Mr. Speaker,** listing with the Credit Reference Bureaus of any person, Micro, Small and Medium Enterprises and corporate entities whose loan account falls overdue or is in arrears was temporarily suspended. In addition, in order to enhance

liquidity for businesses, the Government provided **Ksh 13.1 billion** to settle verified pending bills owed by Ministries and Departments and a further **Ksh 10.0 billion** for payment of verified VAT refund claims.

Mr. Speaker, to cushion the vulnerable in our society, particularly, the emerging urban vulnerable, the Government provided an additional **Ksh 10.0 billion** to boost the on-going traditional current cash transfer programme. Similarly, the Government allocated **Ksh 1.0 billion** to recruit health workers to strengthen the human capital capacity of the Ministry of Health while allocating **Ksh 400 million** for food and non-food commodities for affected households.

Mr. Speaker, the Government also established the Covid-19 Emergency Response Fund to receive voluntary contributions from well-wishers towards defraying expenses associated with this pandemic.

Mr. Speaker, in order to gainfully engage our youth, the Government rolled out the **“Kazi Mtaani Programme”**, designed to improve public hygiene

standards and undertake urban civil works. Already, about **26,000 youth** are engaged in the Pilot Phase.

To further cushion citizens and businesses from the adverse effects of Covid-19 Pandemic and to stimulate economic activity going forward, H.E. The President, on **May 23rd, 2020**, unveiled an **8-Point Economic Stimulus Programme**. I will be elaborating on the Economic Stimulus Programme later in this Statement.

Resource Mobilisation

Mr. Speaker, over the last few months, revenue collections shrunk considerably due to slowed economic activities attributed to COVID-19 Pandemic. Conversely, there was rise in public expenditures to address the targeted interventions.

In light of this, the Government reached out to multilateral and bilateral development partners for additional financing. Indeed, the response from development partners was prompt and generous. A number of them provided assistance in form of grants

and highly concessional funds and personal protective equipment.

Mr. Speaker, allow me to highlight some of the significant financial assistance that Kenya has received from multi-lateral partners. **First,** the country received **Ksh 78.3 billion** under the Rapid Credit Facility of the International Monetary Fund to help address the impact of the COVID-19 Pandemic. This financial support is fully concessional at zero interest rate. **Second,** we received **Ksh 108.0 billion** from the World Bank under the second Development Policy Operation, as both budgetary support and extra resources to help fight the Pandemic. At the initial phase of the COVID-19 outbreak, the World Bank extended support of **Ksh 6.8 billion** under the Contingency Emergency Response to the Ministry of Health for prompt preparations and response.

Mr. Speaker, the Government has also received **Ksh 22.5 billion** from the African Development Bank as a

concessional loan and an additional **Ksh 7.5 billion** commitments from the European Union in form of grants. With this support, **Mr. Speaker**, we will not only strengthen our health care systems with the requisite equipment, supplies and medical personnel to respond to the pandemic but also fund other critical interventions in the budget. We express our sincere gratitude to our bilateral development partners and multilateral institutions for standing with us during this challenging time.

Financial Year 2020/21 Budget

Mr. Speaker, the financial year 2020/21 budget responds to the current challenges facing Kenyans, businesses and the economy at large in the wake of COVID-19 pandemic. It is in this context that we have chosen the theme for this budget as “***Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery***”.

The theme underscores our determination to protect lives and livelihoods and cushion vulnerable citizens

against the adverse effects of COVID-19. This is further expected to **create and protect jobs, stimulate industrial growth** and ultimately **steer economic recovery.**

Mr. Speaker, to sustain efforts towards the full recovery of the economy, the Government is currently developing a Post Covid-19 Economic Recovery Strategy under the leadership of H.E The President. The Strategy will not only accelerate economic recovery but is designed to provide a road map for transition to new development framework beyond the current Vision 2030.

Mr. Speaker, allow me now to highlight the economic policy context in which this budget has been prepared.

II. Economic Policy Context

Mr. Speaker, in framing this budget, we have taken into account recent economic developments on the global and domestic scene. The budget was prepared against a background of a contracting global economy occasioned by the outbreak of the COVID-19 Pandemic which has disrupted most aspects of human life. Indeed, most

world economies remain on lockdown. As a result, in April 2020 the IMF projected that the world economy will experience negative growth rate of **3.0 percent** in 2020. This is worse than the growth reported during the 2008-2009 financial crisis. However, on a positive note, world economic growth is projected to rebound to **5.8 percent** in 2021.

Mr. Speaker, overall, economic growth in advanced economies is projected to contract by **6.1 percent** in 2020 while that of emerging and developing countries including China, India, Russia and Brazil is expected to contract by **1.0 percent** in 2020. Equally, economies in Sub-Saharan African region are projected to contract by **1.6 percent** in 2020 before a rebound to grow by **4.1 percent** in 2021.

Mr. Speaker, in addition to the adverse effects of COVID-19 Pandemic, the Kenyan economy is confronted by the impact of desert locusts and floods that have caused deaths, displacement and destruction of infrastructure across the country.

From these three simultaneous shocks, all sectors of the economy have been adversely affected. Agriculture sector for example, has been hit hard by the low global demand for agricultural products especially horticulture, tea and coffee, among others. Further, the reduction in availability of raw materials and intermediate goods following closure of international borders has negatively affected the manufacturing sector.

Mr. Speaker, 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. Moving forward, so as to boost economic activities and foster higher growth rates, we shall not only implement a rapid Economic Stimulus Programme but also 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.

Mr. Speaker, as mentioned earlier, our chosen fiscal consolidation plan has been adversely affected by the events over the last six months. In this respect, we are now targeting a fiscal deficit of **8.3 percent of GDP** in financial year 2019/20 from the previous target of 6.3 percent of GDP. In the financial year 2020/21, the fiscal deficit is targeted at **7.5 percent of GDP** and is expected to improve to **6.1 percent of GDP** in FY 2021/22.

Mr. Speaker, having outlined the Economic Policy Context for this budget, the rest of my Statement will outline specific measures aimed at stimulating the economy so as to **safeguard livelihoods, including jobs, businesses and facilitate faster industrial recovery**. I will thereafter present a fiscal framework that sets out the resource envelope underpinning this budget and enumerate the spending priorities. Finally, I will provide highlights of tax and other policy measures that we are proposing to support economic recovery.

III. Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery

Mr. Speaker, in addition to the recent shocks experienced by the economy, we are still confronted by the perennial challenges of **high incidences of poverty and unemployment, frequent droughts, low agricultural and industrial productivity, inadequate decent housing, growing demands for higher investments in the health sector, inadequate revenue and other forms of financing and governance-related issues.**

Mr. Speaker, these challenges, including the devastating effects of COVID-19 pandemic require bold actions if we are to position our country on a sustainable economic growth trajectory.

Through this budget, therefore, **Mr. Speaker,** our focus will be:

- **First,** to 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. I will shortly enumerate the various initiatives and their funding.

- **Second**, maintaining macroeconomic stability to support long term investments, economic growth and development. Towards this end, we aim to strike an appropriate balance between support for economic recovery and continued fiscal discipline. This will be achieved through effective coordination of fiscal, monetary and financial policies to lower the cost of living and doing business.

Mr. Speaker, whereas Kenya's public debt remains sustainable, we need to be cautious about future debt accumulation. Our focus therefore, will be to strengthen management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects. Further **Mr. Speaker**, I reiterate that security of our people, property and investments remain key. In this regard, I will be

proposing allocations of funds to strengthen our security and investigative agencies. This is because a secure and conducive business environment will attract Foreign Direct Investment that is necessary for economic recovery.

- **Third,** to support the recovery and growth of Micro, Small and Medium Enterprises through various interventions including operationalization of the Credit Guarantee Scheme. **Mr. Speaker,** to further expand opportunities for local enterprises and Micro, Small and Medium Enterprises, we shall gazette and enforce the list of items for local procurement to promote the “**Buy Kenya Build Kenya**” Initiative;
- **Fourth,** to continue supporting implementation of the “Big Four” Agenda. In this regard, therefore, **Mr. Speaker,** I will later in this Statement be proposing allocations to the Drivers and Enablers of the Big Four Agenda;
- **Fifth,** enhance 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;

- **Sixth,** increase resources to support the youth, women and persons with disability to enable them actively contribute to the economic recovery agenda;
- **Seventh,** to 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;
- **Eighth,** continue to facilitate the County Governments in strengthening their systems to enhance service delivery. In this respect, I urge County Governments which have not completed paying verified pending bills owed to various suppliers to do so expeditiously; and
- **Ninth,** 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.

8-Point Economic Stimulus Programme

Mr. Speaker, allow me at this point to elaborate on the 8-Point Economic Stimulus Programme that the Government will be implementing to stimulate and sustain economic activities. I will thereafter briefly highlight plans for developing the post covid-19 Economic Recovery Strategy which is linked to the post-2030 Vision.

Mr. Speaker, the 8-Point Economic Stimulus Programme targets to cushion vulnerable citizens and businesses, particularly those affected by the Covid-19 Pandemic. The Stimulus Programme will focus on keeping the food supply chains functional while promoting the use of locally produced goods and services, thus securing the livelihoods of daily wage earners.

Mr. Speaker, we have set aside **Ksh 56.6 billion** to cater for the various thematic areas of this Programme.

Infrastructure

Mr. Speaker, the first theme covers infrastructure and is designed to rehabilitate road networks across the country as a direct response to the damages occasioned by the recent heavy rains. The rehabilitation of access roads and footbridges will optimize the use of local labour and materials, thereby generating short term employment for thousands of youth. Towards this end, I propose to allocate **Ksh 5.0 billion** for rehabilitation of the damaged access roads and foot bridges.

Further, **Mr. Speaker,** to address the issue of youth unemployment and empowerment in urban informal settlements, I have set aside **Ksh 10.0 billion** under the "**Kazi Mtaani Programme**". This "Kazi Mtaani Programme" will be targeting unemployed youth in the major cities and urban settlements of Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and other major towns across the country. The youth will be engaged 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. The **“Kazi Mtaani Programme”** targets to employ at least **200,000 youth**.

Improving Education Outcomes

Mr. Speaker, the second theme seeks to improve education outcomes in the country. The objective is to get thousands of unemployed teachers off the bench and into action as intern teachers while also supporting local artisans and builders’ businesses. To meet this commitment, **Ksh 7.4 billion** has been proposed.

Mr. Speaker, out of this, **Ksh 2.1 billion** will go to construction of additional classrooms in secondary schools; **Ksh 1.9 billion** for provision of at least 250,000 locally fabricated desks for secondary and primary schools; **Ksh 700 million** for capitation and improvement of infrastructure in low cost boarding schools in Arid and Semi-Arid Lands (ASALs) using local labour; **Ksh 2.4 billion** for recruitment of **10,000** intern teachers to support the 100 percent transition in

schools; and **Ksh 300 million** for recruitment of **1,000 ICT interns** to support digital learning in public schools.

Enhancing Liquidity to Businesses

Mr. Speaker, the third theme targets to support Micro, Small and Medium Enterprises. Despite their important contribution, this sector has continued to face challenges of accessing credit, due to lack of sufficient collateral; high cost of credit and informal business structure. These challenges have been worsened by the Covid-19 Pandemic. With reduced turnover and disruptions in the market and supply chains, many Micro, Small Medium Enterprises are unlikely to attract affordable and quality credit under the traditional arrangements. **Mr. Speaker,** in order to de-risk lending to the Micro, Small Medium Enterprises, I have set aside **Ksh 3.0 billion** seed capital to operationalize the **Credit Guarantee Scheme**. The Scheme will enable the provision of affordable credit in an efficient and structured manner. In addition to this, we are also actively engaging a number of Development Agencies who have shown

willingness to put in additional resources to support this Scheme.

Mr. Speaker, to further support and enhance the liquidity of these Enterprises, I propose to fast track payment of outstanding verified VAT refund claims and pending bills owed to businesses by allocating **Ksh 10.0 billion**. This is in addition to the **Ksh 23.1 billion** approved by this House in April 2020 in the Supplementary Budget for the same purpose.

Improving Health Outcomes

Mr. Speaker, the fourth theme prioritizes improvement in health outcomes. Evidently, the Covid-19 Pandemic has over stretched our health care system. The Government has made significant efforts to contain the spread of the virus through various protocols and containment measures which entail promotion of hygiene and restriction of movements.

Mr. Speaker, building on these measures in a way that ensures more Kenyans are gainfully engaged and support local industries and to further enhance capacity

of the healthcare system **Ksh 1.2 billion** 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. This will enhance our Covid-19 response capabilities and strengthen implementation of the universal health coverage programme.

Mr. Speaker, we have also allocated an additional Ksh **500 million** to supply **20,000** locally made beds and beddings to public hospitals; and **Ksh 25 million** to support establishment of **50 modern walkthrough sanitizers** at our border points and main hospitals across the country.

Agriculture and Food Security

Mr. Speaker, the fifth theme will focus on **agriculture and food security**. I have set aside **Ksh 3.0 billion** to subsidize the supply of farm inputs through the e-voucher system to reach **200,000 small scale farmers**. I have also allocated **Ksh 3.4 billion** for expanded community household irrigation. This will

cushion farmers from the adverse effects of weather and further secure food supply chains.

Further, **Mr. Speaker**, I have set aside **Ksh 1.5 billion** to assist flower and horticultural farmers to access international markets during this period when we are experiencing low cargo traffic in and out of the country. These interventions will support and sustain the farming communities as they provide employment to thousands of workers in our agricultural sector.

Tourism Promotion

Mr. Speaker, the sixth theme for the Programme is to support the tourism sector. Tourism is one of the worst hit sector by the Pandemic. This is reflected by massive cancellation of hotel bookings occasioned by lockdowns and travel bans imposed by various countries in an effort to check the spread of the virus. The resultant effect has been massive job and income losses by many Kenyans directly and indirectly employed in the tourism sector.

In this regard, **Mr. Speaker**, to support this critical sector, the Government has initiated a number of urgent

measures including a temporary lifting of ban to hold meetings in private hotels by Government Agencies. The Government has also **waived landing and parking fees at our airports in order to facilitate movement of cargo, in and out of Kenya.**

Going forward, **Mr. Speaker,** the Government will scale up efforts to boost the tourism sector by promoting aggressive post Covid-19 tourism marketing and providing support for hotel refurbishment through soft loans to be channeled through the Tourism Finance Corporation. **Ksh 3.0 billion** has been set aside to support renovation of facilities and the restructuring of business operations by actors in this industry.

Mr. Speaker, 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. To support these initiatives, I propose to set aside **Ksh 2.0 billion** in this budget.

Improving Environment, Water and Sanitation Facilities

Mr. Speaker, the seventh theme seeks to improve environment, water and sanitation facilities as well as mitigate the adverse effects of floods.

On this, I have set aside **Ksh 1.0 billion** to support flood control using local labour in the most affected areas. I have also set aside **Ksh 850 million** 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.

Manufacturing

Mr. Speaker, the eighth and final theme of the Stimulus Programme is manufacturing. In this area, the Government will promote the "**Buy Kenya Build Kenya**" policy.

To this end, we propose an initial investment of **Ksh 600 million** to purchase locally assembled vehicles. This will sustain the operations of local motor vehicle

manufacturers which is aimed at safeguarding jobs. **Mr. Speaker,** I further propose an allocation of **Ksh 712 million** to provide credit targeted to Micro, Small and Medium Enterprises in the manufacturing sector.

Post Covid-19 Economic Recovery Strategy

Mr. Speaker, in addition to implementing the Economic Stimulus Programme that I have enumerated, the Government is formulating a Post-Covid-19 Economic Recovery Strategy to mitigate the adverse impacts on the economy and further re-position the economy on a steady and sustainable growth trajectory.

Mr. Speaker, the Post Covid-19 Economic Recovery Strategy will focus on the following:

- **One,** sound macroeconomic policy framework to support a higher sustainable economic growth that will address the challenges of poverty, unemployment and income inequality;
- **Two,** adequate local and foreign resource mobilization to ensure sustainable funding of our development programmes;

- **Three,** 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;
- **Four,** supporting Micro, Small and Medium Enterprises by facilitating access to adequate finances through the Credit Guarantee Scheme;
- **Five,** full and timely implementation of the Economic Stimulus Programme which will create jobs and stimulate businesses;
- **Six,** investment in ICT and digital infrastructure to support the use of digital platforms to facilitate e-commerce and efficient delivery of public services;
- **Seven,** promotion of local production processes and domestic supply value chains;
- **Eight,** enhancement of disaster risks management systems;
- **Nine,** improvement of social-protection through targeted policy interventions and programmes; and
- **Ten,** strengthening Monitoring and Evaluation System for quality outcomes of the projects.

Mr. Speaker, we are now fully in the process of preparing the Post-Covid-19 Economic Recovery Strategy. To ensure the process is all inclusive, we are drawing inputs and ideas from diverse groups including experts from both National and County Governments, private sector, development partners, academia and research institutions and other relevant stakeholders.

Mr. Speaker, it is also important to note that we are less than **ten years** to the end of our long-term development blue print the **Kenya Vision 2030**. As we conclude its implementation, we need to think of the next development framework for this country. In this respect, **Mr. Speaker,** the preparation of the next long-term development plan will benefit from this Post-Covid-19 Economic Recovery Strategy. The new Plan beyond the Kenya Vision 2030 will take cognizance of the transition of **Sustainable Development Goals** of United Nations and the **Africa Union Agenda 2063**. This will be a precursor to hundred years of Kenya's independent celebrations.

Structural Reforms

Mr. Speaker, to improve the business environment, increase efficiency in public service delivery and enhance accountability and transparency in our conduct of business, I propose the following structural reforms:

Procurement Reforms

Mr. Speaker, since enactment, the Public Procurement and Asset Disposal Act, 2015 has been operating without the supporting Regulations. However, I am pleased to report that the Public Procurement and Asset Disposal Regulations, 2020 have been published and are awaiting Parliamentary approval. These Regulations seek to enhance uniformity of operations across Procuring Entities and promote the local economy through affirmative interventions on preferences and reservations.

On e-Procurement, **Mr. Speaker,** the Government has finalized the e-Government Procurement Strategy. According to the Strategy, the Government will procure and roll out an end to end e-procurement system by

December 2020. Under the e-procurement system, all procurement processes will be undertaken on an online platform where benefits will accrue to the Government Procuring Entities in terms of cost reduction, speed, transparency, accountability and visibility.

Mr. Speaker, in order to ensure the growth and sustainability of enterprises owned by women, youth and persons living with disabilities, the National Treasury has reengineered the Access to Government Procurement Opportunities (AGPO) portal to enable real-time registration and transparent monitoring of the implementation of the scheme. The system has also been linked to other Government institutions including Kenya Revenue Authority, National Council for Persons with Disability, Registrar of Companies and IFMIS to facilitate faster verification and reporting. In addition, **Mr. Speaker,** the National Treasury has directed all Procuring Entities to ensure prompt payment for all contracts performed by these target groups.

Contracting Framework

Mr. Speaker, allow me to focus my attention on the construction industry, where I believe we can create the much-needed jobs for the youth by hiring local contractors. The Government is aware that local contractors, in general, have had challenges of undertaking infrastructure construction projects due to limited technical, financial and managerial capacity. This has encouraged participation of foreign contractors in local contracts at the expense of local contractors.

In this respect the Government will review the contracting framework for infrastructure projects in the country with a view of ensuring greater participation of local contractors. This will retain domestic revenues within the country and create jobs for the youth.

State Owned Enterprises Reforms

Mr. Speaker, the restrictions placed on businesses and services as a result of Covid-19 Pandemic have had significant adverse effect on the performance of strategic State-Owned Enterprises offering essential

services. Given the contingent liabilities that may arise thereof, I have constituted a technical team at the National Treasury and Planning to review the challenges facing State Owned Enterprises and recommend remedial actions within 90 days.

Pending Bills

On pending bills, **Mr. Speaker**, we have noted that several State Corporations and Semi-Autonomous Government Agencies (SAGAs) hold significant amounts of pending bills owed to contractors, suppliers, SACCO remittances, and other statutory deductions. This practice should not be allowed to continue. **Mr. Speaker**, following a Cabinet Directive, the National Treasury constituted a Pending Bills Multi-Agency Team (PB-MAT) to deal with existing historical and contested pending bills. Significant progress has been made to settle some of the pending bills. I direct all Principal Secretaries and Accounting Officers to clear all pending bills in their MDAs and SAGAs respectively. Further, **Mr. Speaker**, going forward, the National Treasury may

withhold exchequer releases to the MDAs or SAGAs with pending bills, until an approved payment plan for all pending bills is agreed upon.

Financial Sector Stability and Development

Mr. Speaker, the continued growth and competitiveness of our financial services sector is critical in supporting economic development. I wish to state that our financial sector remains strong and stable despite the shocks occasioned by the Covid-19 Pandemic.

Mr. Speaker, the banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The Central Bank of Kenya has been closely monitoring the sector to identify vulnerabilities especially those associated with the Covid-19 Pandemic. The Bank has been at the forefront and has rolled out various policy and regulatory measures to support the sector.

Mr. Speaker, during the last one year, the Government through Central Bank of Kenya, rolled out a mobile based service to facilitate retail investors participate in

Government securities - a convenience to investors during this pandemic.

Mr. Speaker, in order to strengthen our position as a regional financial hub, the National Treasury is in the process of fully operationalising the **Nairobi International Financial Centre.**

The Centre will play an important 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.

Mr. Speaker, to enhance the safety and integrity of our financial system, the National Treasury together with other stakeholders will conduct Kenya’s first **National Risk Assessment on Money Laundering and Terrorism Financing.** This will assist the country’s competent authorities to assign responsibilities for combating money laundering and terrorism financing to the relevant Government Agencies on the basis of identified risks and vulnerabilities.

Support to Affordable Housing

Mr. Speaker, the high cost of housing units and limited access to affordable long-term finance remain a leading housing market constraint. To address this challenge, the Government established the Kenya Mortgage Refinance Company (KMRC) whose main purpose is to provide long term funds to primary housing mortgage providers in the housing sector. In this regard, the company will offer fixed rate long term loans at concessional rates to mortgage providers who are expected to pass the benefit to citizens at lower than market rates. The company has raised a capital of **Ksh 2.0 billion** while the National Treasury has mobilized an additional **Ksh 35 billion** from development partners to support the Company's operations.

Mr. Speaker, in response to Covid-19 pandemic, Kenya Mortgage Refinance Company will help to maintain adequate liquidity among primary housing mortgage providers (banks and Saccos) in order to keep housing finance and the housing market functioning. This will

avert potential credit crunch that would hurt lower income households and interrupt efforts to support affordable housing.

This new company is also expected to play a significant role in the structuring of the proposed National Credit Guarantee Scheme in order to create an effective backstop mortgage guarantee component to cover the losses incurred by lenders on future home loans.

Capital Markets

Mr. Speaker, in the year 2015, the Investment Guidelines under the Retirement Benefits Regulations were amended to allow pension schemes to invest up to **10%** of their assets in private equity funds and venture capital funds licensed by the Capital Markets Authority. However, the Capital Markets Act was not amended to provide for regulations of these private equity and the venture capital. In this regard, I have proposed amendments to the Capital Market Act, to provide for the regulation of private equity and venture capital companies by the Authority.

In addition, **Mr. Speaker**, I propose to amend the Capital Markets Act to remove the function of payment of beneficiaries from collected unclaimed dividends since this is a function currently domiciled under the Unclaimed Financial Assets Authority.

Pension Reforms

Mr. Speaker, the increasing public pension budget and accumulation of pension claims remain a challenge. In this regard, the National Treasury is re-engineering and upgrading the pensions system in order to clear all pension payment backlog by the end of the calendar year. This will pave way for a modernized pension management system that will guarantee smooth transition of retirees from a **monthly salary cheque** to a monthly **pension payment**. To ease the pension burden on the exchequer, the National Treasury is committed to roll out the Public Service Superannuation Scheme in the FY 2020/21.

Further, **Mr. Speaker**, to support the pensions sector in general, the Government is developing a National

Retirement Benefits Policy that will harmonize all the pensions laws. This will strengthen the legal and regulatory framework to achieve a comprehensive pension coverage across the formal and informal sectors and better protect the interests of beneficiaries and rights of pension contributors.

Mr. Speaker, in September 2019, this House approved the County Governments Retirement Scheme which provides for the establishment of an umbrella retirement scheme for county governments. Thereafter petitions were filed in court challenging the law, thus paralysing its operationalization To this effect, the National Treasury undertakes to pursue all legal means to resolve this matter and ensure that county government employees have a scheme that safeguards members' pensions.

Mr. Speaker, further, the Government is working on establishing a National Micro-Pension Scheme with a sustainable model that combines long-term saving with short term needs that will be open to all marginalized

informal sector workers who constitute over **80 percent** of Kenya's labour force.

Mr. Speaker, the Retirement Benefits Authority (RBA) Act does not provide for sanctions in case of a failure or delay in submission of the actuarial valuation reports within the specified period. In this regard, I propose to amend the Retirement Benefit Authority Act to impose a penalty to Pension Schemes who fail to submit actuarial valuation reports to the Authority within the specified timeline. The actuarial valuation reports are important in determining the performance of the scheme.

Disaster Risks Management Framework

Mr. Speaker, frameworks for responding to disasters in Kenya are fragmented across several laws. This has hampered the ability of Government to respond to disasters more effectively. To address this challenge, the Government will develop a harmonized Disaster Risk Management legal framework to guide the management of disasters in Kenya. To this end, we shall also finalise the Disaster Management Fund Regulations to facilitate

effective and efficient response to disasters in a more coordinated manner.

Building Resilience against Climate Change

Mr. Speaker, globally, climate change is a key concern and like other economies, the Kenyan economy is vulnerable to its effects. Over the last ten years, we have experienced increased frequency and intensity of extreme weather. **Mr. Speaker,** in order to minimize the adverse effects of this phenomenon on the economy, we need to pursue a green economic development path. In this regard, the National Treasury proposes to tap into the Green Climate Financing by issuing the first “Sovereign Green Bond” to finance major infrastructure projects in the FY 2020/21. These proceeds will be directed towards green projects at both the National and County level.

IV. Fiscal Framework for FY 2020/21 Budget

Mr. Speaker, execution of the budget for 2019/20 has progressed well despite the challenges of reduced

revenue performance. The Covid-19 Pandemic has not only worsened revenue performance in 2019/20, but will affect revenue in 2020/21 budget. In particular, import-related taxes such as import duty, VAT on imports, import declaration fees and railway development levy have been negatively affected due to lower imports and reduction of trade among countries. Further, other domestic taxes have been severely affected by declining incomes and depressed consumption.

As noted earlier in my Statement, in order to cushion Kenyans against the adverse impact of the Pandemic and to further increase liquidity in the economy, the Government lowered tax rates for corporate and personal incomes, turnover tax, value added tax and provided tax relief to low income earners and employees. These measures are estimated to cost the exchequer **Ksh 172.0 billion** in revenue foregone by the Government in one financial year.

Mr. Speaker, in order to recoup part of this revenue loss, we submitted to this House proposals to lower the

level of tax exemptions. It is important to note that in the year 2018, the tax revenue foregone by Government through tax incentives/exemptions amounted to **Ksh 535 billion of 6 percent of GDP** – which is considered one of the highest levels globally. Whereas these tax incentives are well intended, they have limited the capacity of Government to fund critical expenditures. In addition, a critical review of the incentives shows that consumers have not benefitted through commensurate reduction in the cost of goods and services. Further, some of these incentives have given undue advantage to some sector players over others thus entrenching unfairness and stifling competition.

Mr. Speaker, this therefore necessitated, a review of the existing tax incentive regime with a view to minimizing distortions and providing a level playing ground for all taxpayers. In this respect, I have proposed further removal of some existing tax exemptions through the **Finance Bill, 2020**. I urge Honourable Members of this House to support this endeavour that is

expected to grow revenues for funding critical social and infrastructure programmes. **Mr. Speaker,** Kenya Revenue Authority has undertaken various reforms to enhance revenue mobilisation. We shall continue to support and strengthen the capacity of Kenya Revenue Authority to enable them collect revenues to fund Government programmes.

Fiscal Projections for the FY 2020/21 Budget

Mr. Speaker, the fiscal framework for 2020/21 budget and the medium term has been revised to take into account the adverse impact of the Pandemic on revenue performance.

In this respect, the 2020/21 budget targets revenue collection including Appropriations-in-Aid (AIA) of **Ksh 1.89 trillion,** equivalent to **16.8 percent** of GDP, a stagnation from the estimated revenues of **Ksh 1.89 trillion,** equivalent to **18.6 percent** of GDP in the financial year 2019/20. Of this, ordinary revenues in the financial year 2020/21 are projected at **Ksh 1.63 trillion,** equivalent to **14.5 percent** of GDP.

Mr. Speaker, total expenditures in the financial year 2020/21 are projected at **Ksh 2.79 trillion** or **24.7 percent of GDP** from the estimated level of **Ksh 2.77 trillion** or **27.2 percent of GDP** in 2019/20. The recurrent expenditures in the financial year FY 2020/21 will amount to **Ksh 1.82 trillion** or **16.2 percent** of GDP.

On the other hand, ministerial development expenditures that include foreign financed projects, allocation to contingencies fund and conditional capital transfers to the County Governments are projected at **Ksh 633.1 billion** in 2020/21. This will finance critical infrastructure in the budget.

Mr. Speaker, taking into account the projected revenues and expenditures in the financial year 2020/21, the fiscal deficit, including grants is projected to decline to **Ksh 840.6 billion** or **7.5 percent** of GDP from **Ksh 842.7 billion** or **8.3 percent** of GDP in the financial year 2019/20.

Going forward, **Mr. Speaker**, as we roll out the Post Covid-19 Economic Recovery Strategy, we remain committed to gradually lowering the fiscal deficit to **Ksh 768.8 billion** or **6.1 percent** of GDP in the financial year 2021/22 and further to **Ksh 570.4 billion** or **3.6 percent** of GDP by 2023/24.

In the financial year 2020/21, the fiscal deficit of **Ksh 840.6 billion** will be financed through net external financing of **Ksh 347.0 billion**, or **3.1 percent** of GDP; net domestic financing of **Ksh 493.4 billion**, or **4.4 percent** of GDP and other net domestic repayments of **Ksh 627 million**.

Mr. Speaker, to achieve these targets, we will continue to contain growth in **non-core recurrent spending** and enhance our efforts in **revenue mobilization**. In this respect, we shall closely monitor the economic impact of Covid-19 and once the economy recovers, we will review our fiscal plan including tax measures to strengthen public finances to sustainably fund our development agenda.

External Resource Mobilization

Mr. Speaker, the Government is concerned about perennial low absorption of donor funds that has denied Kenyans the full benefit of these financing. To remove impediments in project implementation, and scale-up absorption of donor funds, the Government will put in place appropriate policies and administrative measures. This may involve re-allocation of funds from slow-moving projects or non-starter projects to other priority projects and programmes to minimize payment of unnecessary fees and charges.

Stabilizing Growth in Public Debt

Mr. Speaker, let me turn to the state of our public debt. Our debt remains sustainable despite some of the debt burden indicators deteriorating due to the impact of the Covid-19 Pandemic which has elevated expenditure pressures, reduced revenues and export earnings. The debt burden is projected to decline over the medium term in line with the fiscal consolidation plan under implementation.

Going forward, **Mr. Speaker**, the Government is committed to implement the 2020 Medium Term Debt Strategy which recommends a shift towards concessional external borrowing and lengthening of maturity structure of the domestic debt. In addition, the Debt and Borrowing Policy approved in early 2020 will guide management of public debt.

Public Private Partnerships Framework

Mr. Speaker, as an alternative source of finance to fund public projects, the Government shall revitalize the Public Private Partnership framework. Indeed, Public Private Partnerships have the potential to accelerate economic growth and development by crowding-in private sector participation in the financing of capital-intensive infrastructural projects.

Mr. Speaker, the reforms in this area will include amending the **PPP Act** to remove unnecessary approvals and redundant processes as well as restructure and strengthen institutions responsible for implementing such projects. The Government will also

streamline and standardise the appropriate credit enhancement tool including the Government Letter of Support, Partial Risk Guarantees and Indemnity Guarantees as well as viability gap funding where necessary, to enhance bankability of projects.

Mr. Speaker, the Government through this arrangement targets to mobilize approximately **Ksh 200 billion** in the FY 2020/21 by concluding the financing of several projects that are currently at advanced stage of negotiations. These projects are drawn from among others the transport, energy, health, housing and manufacturing sectors of the economy.

V. Spending Priorities

Mr. Speaker, let me turn to the highlights of the Government spending priorities in the coming financial year. The total programmed spending for the FY 2020/21 excluding redemptions amounts to **Ksh 2.79 trillion.**

Fulfilling the “Big Four” Agenda

Mr. Speaker, the budget for FY 2020/21 will continue with the implementation of the **“Big Four” Agenda**. Thus, the targeted expenditures prioritize employment creation, youth empowerment, supporting manufacturing activities, enhancing health coverage, improving food security and living conditions through affordable housing. To support these initiatives, I have set aside **Ksh 128.3 billion** for the “Big Four” Agenda drivers and enablers.

Universal Health Coverage

Mr. Speaker, the Government continues to prioritize Healthcare by scaling up universal health coverage to all the Counties. To improve health outcomes, I have proposed an allocation of **Ksh 111.7 billion** to the health sector in this budget. Out of this, **Ksh 50.3 billion** is for activities and programmes for the attainment of Universal Health Coverage by the Driver and Enablers.

Mr. Speaker, 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.

Mr. Speaker, other allocations 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 and **Ksh 4.3 billion** as a conditional grant to level 5 Hospitals in the Counties.

Affordable Housing

Mr. Speaker, to ensure the success of Affordable Housing Programme, the Government continues to forge partnerships with the private sector and development

partners. In this budget, I have proposed an allocation of **Ksh 15.5 billion** to the housing, urban development and public works sector. Out of this, **Ksh 6.9 billion** will cater for the Affordable Housing Programme undertaken by the Driver and Enablers. We are also concluding discussions to bring on board an additional **Ksh 3.6 billion** from the African Development Bank; **Ksh 7.5 billion** for the Kenya Urban Programme; and **Ksh 1.1 billion** for the ongoing construction of Gikomba, Githurai, Chaka, Kamukunji and Dagoretti markets.

Increasing Manufacturing Contribution to GDP

Mr. Speaker, the Government continues to scale up reforms to promote investments in the manufacturing sector to support and protect local industries.

To promote local industries, I have proposed an allocation of **Ksh 18.3 billion** for this cluster. Of this, **Ksh 1.4 billion** will go to the Kenya Industry and Entrepreneurship Project; **Ksh 3.6 billion** for the development of Special Economic Zone Textile Park in

Naivasha, Kenanie leather industrial park and Athi River Textile Hub. In addition, **Mr. Speaker**, I have also set aside, **Ksh 843 million** to support modernization of RIVATEX; **Ksh 800 million** for the development of various Micro, Small and Medium Enterprises in Kenya; **Ksh 715 million** for the Kenya Youth Empowerment and Opportunities Project; **Ksh 500 million** to support dairy processing; and **Ksh 3.0 billion** for Dongo Kundu Special Economic Zone.

Improving Food and Nutrition Security

Mr. Speaker, the Government remains committed to reducing the number of food insecure Kenyans. Towards this end, the Government will continue to expand irrigation schemes, support large-scale production of staples, increase access to agricultural inputs, implement programmes to support smallholder farmers and promote the use of appropriate farming techniques.

Mr. Speaker, to support these initiatives, I have set aside **Ksh 52.8 billion** for Food and Nutrition Security. Out of this, **Ksh 10.6 billion** has been proposed 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 and **Ksh 10.0 billion** for irrigation land reclamation.

Mr. Speaker, other proposed allocations include: **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; and **Ksh 500 million** to advance agricultural loans through the Agricultural Finance Corporation.

Mr. Speaker, allow me to turn to other proposed expenditures that are critical in this budget.

Investing in Critical Infrastructure

Mr. Speaker, the Government continues to scale-up the construction of a robust network of high-quality roads, railways, sea and airports to enable Kenyans enjoy the benefits of expanded infrastructure assets and improve our competitiveness. Towards this end, I propose an allocation of **Ksh 172.4 billion**. This is in addition to allocations that I have already set aside for the Economic Stimulus Programme and the Big Four Agenda which support construction of roads and bridges as well as their rehabilitation and maintenance.

Mr. Speaker, I have set aside **Ksh 18.1 billion** for SGR Phase II (Nairobi- Naivasha); **Ksh 6.0 billion** for the LAPSSET Project; **Ksh 5.0 billion** for the Mombasa Port Development Project and **Ksh 328 million** for insurance of ferries for the Likoni channel.

Mr. Speaker, to support generation of adequate and affordable energy, I have set aside **Ksh 63.3 billion**, excluding the allocations for the "Big Four" Agenda. Out of this, **Ksh 50.8 billion** will cater for transmission and

distribution of power; **Ksh 9.3 billion** for development of geothermal energy; **Ksh 6.8 billion** for electrification of public institutions; and **Ksh 900.0 million** for provision of transformers in constituencies; development of nuclear energy; and exploration and mining of coal.

Improving Security and Protecting our Borders

Mr. Speaker, ensuring a safe and secure environment is vital in our drive to attain economic transformation. Towards this end, the Government will strengthen the security agencies by equipping them in order to increase their effectiveness and rapid response to incidents of crime.

Mr. Speaker, to support security operations in the country, I have proposed **Ksh 167.9 billion** in this budget to our security agencies; Defence, and National Intelligence Service; leasing of police motor vehicles; National Communication and Surveillance System;

police modernization, and the equipping of the National Forensic Laboratory.

Mr. Speaker, I have also set aside **Ksh 3.4 billion** for medical insurance; **Ksh 2.2 billion** for group personal insurance for the National Police and Prisons services; and **Ksh 1.0 billion** for the National Integrated Identity Management System (NIIMS).

Reforming the Education System

Mr. Speaker, the Government continues to make sustained investments in the education sector in order to enhance access to quality basic and higher education. In this budget, I have set aside, **Ksh 497.7 billion** to fund programmes in this sector. This accounts for **26.7 percent** of the budget. Specifically, **Mr. Speaker,** I have proposed **Ksh 59.4 billion** to cater for Free Day Secondary Education Programme (including NHIF for students); and **Ksh 12.4 billion** for Free Primary Education Programme.

Mr. Speaker, to increase the teacher to student ratio, I have proposed **Ksh 2.0 billion** for the recruitment of

5,000 teachers. This is further to the provision for hiring at least **10,000 teacher interns** under the Economic Stimulus Programme. To improve health conditions and support education achievements of our school going children, I have set aside **Ksh 1.8 billion** for the school feeding programme.

Mr Speaker, other proposed allocations to the education sector include; **Ksh 6.3 billion** for the construction and equipping of technical institutions and vocational training centres; **Ksh 4.0 billion** for examinations fee waiver for all class eight and form four candidates; **Ksh 800 million** for the digital literacy programme and competency based curriculum; **Ksh 323 million** for National Research Fund; **Ksh 94.9 billion** to support University Education; and **Ksh 16.8 billion** to the Higher Education Loans Board.

Protecting the Vulnerable Members of our Society

Mr. Speaker, as a Government that deeply cares for its most vulnerable members of society, I have proposed

Ksh 17.6 billion for cash transfers to the elderly persons; **Ksh 7.9 billion** for orphans and vulnerable children (OVC); and **Ksh 1.1 billion** for cash transfers to persons with severe disabilities.

Mr. Speaker, I have also set aside, **Ksh 4.3 billion** for the Kenya Hunger Safety Net Programme; **Ksh 2.5 billion** for the Kenya Social and Economic Inclusion Project; **Ksh 3.5 billion** for Kenya Development Response to the Displacement Impact Project; and **Ksh 400 million** for the National Development Fund for Persons with Disabilities (PWDs); and a further **Ksh 720 million** for purchase of a building for these vulnerable members of our society.

Equity, Poverty Reduction, Women and Youth Empowerment

Mr. Speaker, to enhance equity and reduce poverty, I have proposed **Ksh 41.7 billion** for the National Government Constituency Development Fund; **Ksh 2.1 billion** for National Government Affirmative Action Fund to promote regional equity and for social development;

and **Ksh 6.8 billion** for the Equalization Fund to finance programmes in marginalized areas.

Mr. Speaker, to address the challenges that our youth continue to face, we have dedicated resources to youth empowerment programmes and supporting businesses owned by youth, women and persons living with disabilities (PWDs). In this regard, 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) and **Ksh 150 million** to the Women Enterprise Fund.

Digitalizing our Economy

Mr. Speaker, our prosperity as a country is to a larger extent hinged on our ability to take full advantage of the rapid technological advances. For this reason, **Mr. Speaker,** the Government continues to invest in this area to boost digital literacy and skills as well as expand

digital infrastructure to improve access to affordable broadband connectivity.

In this budget, **Mr. Speaker**, I have proposed **Ksh 14.9 billion** to fund initiatives in the Information Communication Technology sector. Specifically, **Ksh 700 million** for Government Shared Services; **Ksh 800 million** for the Digital Literacy Programme; and **Ksh 1.2 billion** for rehabilitation of National Optic Fibre Backbone Phase II Expansion Cable.

Mr. Speaker, the Government is fast tracking the establishment of the **Konza Technopolis City** which will position Kenya as a world class ICT hub. For this reason, I have enhanced allocations to the project by setting aside **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.

Sports, Culture, Recreation and Tourism

Mr. Speaker, sports, culture, tourism, and arts contribute immensely to our economic development by boosting job creation for our youth and generating foreign exchange. To support these sectors, I propose an allocation of **Ksh 14.0 billion** to the Sports, Arts and Social Development Fund. I have also set aside, **Ksh 2.5 billion** for the Tourism Promotion Fund (TPF) and **Ksh 3.8 billion** for the Tourism Fund.

Environmental Protection, Water and Natural Resources

Mr. Speaker, the Government continues to invest in clean water supply and put in place measures to control floods and harvest rain water as well as protect the environment. In this budget, **Mr. Speaker,** I have set aside **Ksh 82.7 billion** to support environment and water conservation. In particular, **Ksh 42.6 billion** is geared towards the development of water and sewerage infrastructure; **Ksh 10.9 billion** for the management of water resources; and **Ksh 8.6 billion** to support water

storage and flood control. This includes **Ksh 500 million** earmarked for the initial works for the construction of Koru/Soin dam along river Nyando; and **Ksh 1.3 billion** for water harvesting and storage for irrigation.

Mr. Speaker, I have also set aside **Ksh 10.9 billion** to support conservation of forests and water towers; **Ksh 10.0 billion** for irrigation and land reclamation; **Ksh 10.8 billion** for wildlife conservation and management; **Ksh 2.7 billion** for environmental management and protection; and **Ksh 1.6 billion** for meteorological service. These allocations exclude the provision under the Economic Stimulus Programme and the Big Four Agenda.

Further, **Mr. Speaker,** the Government will implement the Kenya Financing Locally Led Climate Action Programme to deliver climate finance at the local level where its impacts are felt most. To start off the project, I have proposed to allocate **Ksh 100.0 million** in the FY 2020/21.

Improving Governance and Sustaining the Fight against Corruption

Mr. Speaker, to sustain the drive against corruption, instil good governance practices and recover corruptly acquired assets, I have enhanced allocations to the institutions mandated to fight corruption. In particular, **Mr. Speaker,** I have set aside **Ksh 3.1 billion** for the Ethics and Anti-Corruption Commission and a similar amount for the Office of the Director of Public Prosecutions, **Ksh 149.0 million** for the Unclaimed Financial Assets Authority, **Ksh 158 million** for Asset Recovery Agency, **Ksh 619.1 million** for the Financial Reporting Centre, **Ksh 7.9 billion** for the Criminal Investigations Services, and **Ksh 5.2 billion** for the Office of the Auditor General.

Additionally, **Mr. Speaker,** to support the oversight and legislative role of Parliament and access to justice, I have proposed **Ksh 37.3 billion** to Parliament and **Ksh 18.1 billion** to the Judiciary.

Transfers to County Governments

Mr. Speaker, in the FY 2020/21, County Governments have been allocated **Ksh 369.9 billion** which comprises **i) Ksh 316.5 billion** equitable share; **ii) Ksh 13.7 billion** as additional conditional allocations from the National Government; **iii) Ksh 30.2 billion** being external loans and grants; and, **iv) Ksh 9.4 billion** from the Roads Maintenance Levy Fund.

Transfer of Functions from Nairobi City County to the National Government

Mr. Speaker, in February 2020, the National Government and the Nairobi City County Government entered into an agreement through which the County transferred some functions to the National Government. To manage the transferred functions, the National Government established the Nairobi Metropolitan Services (NMS). In order to facilitate performance of the transferred functions, the Nairobi Metropolitan Services has been allocated **Ksh 26.4 billion** in the FY 2020/21, which includes: **i) Ksh 15.95 billion** from Nairobi City

County's equitable revenue share for the FY 2020/21; and, **ii) Ksh 660 million** as additional conditional allocations related to the transferred functions. The balance of **Ksh 9.78 billion** will come from the County's own-source revenue. The NMS has also been allocated **Ksh 1.5 billion** from the National Government's equitable revenue share to finance the **Mukuru Renewal Project**.

Measures to Enhance County Governments' Own Source Revenue

Mr. Speaker, further to the Presidential Directive of February 2019, the National Treasury jointly with other stakeholders has finalized the development of an integrated revenue management system for County Governments. The system, which is aimed at eliminating leakages and high revenue collection costs of the Counties, is expected to be in place by the end of the FY 2020/21.

Mr. Speaker, I am aware that the County Governments (Revenue Raising Process) Bill, 2018, which was

sponsored by the National Treasury has recently lapsed. In this context, I have re-submitted the draft Bill to the Attorney-General so that it may be re-introduced in Parliament. The principle underlying the proposed legislation is that Counties may not **impose, vary or waive a tax, fee or any other charge** in a way that materially and unreasonably prejudices: i) **national economic policies**; ii) **economic activities across County boundaries**; and, iii) **the national mobility of goods, services, capital or labour**. I appeal to Honorable Members to re-consider the merits of this proposed legislation which was developed through a widely consultative approach that incorporated all key actors, including institutions of Parliament.

Measures on Pending Bills

Mr. Speaker, in line with the Presidential directive on the settlement of pending bills, **Ksh 36.7 billion**, representing **71.5%** of the total eligible bills verified by the Auditor General has been settled by County Governments as at May 2020. I urge Counties to clear

outstanding bills by **30th June 2020**, and ensure no further build-up of expenditure arrears.

Status of the Equalization Fund

Mr. Speaker, in the FY 2020/21, beneficiary Counties have been allocated **Ksh 6.8 billion** under the **Equalization Fund**. I am aware that there are disbursement arrears, and I wish to give an assurance that future allocations will be enhanced to make up for the shortfalls.

Mr. Speaker, in a High Court ruling of November 2019, the Guidelines on Administration of Equalization Fund were declared unconstitutional, null and void. Effectively, the Fund's Advisory Board was disbanded, and all operations halted, including payments for ongoing projects. The ruling directed the National Treasury to develop a new Equalization Fund statutory instrument. In compliance with this ruling, a new draft statutory instrument for the Fund has been developed and is ready for gazette and tabling before Parliament. I am also aware **Mr. Speaker**, of the

existence of a 2019 private member's Bill on the Equalization Fund, which was passed by the National Assembly and is currently before the Senate. In this context, I wish to propose to Honourable Members to initiate a process to harmonize efforts to achieve sustainable administration of this Fund.

Fostering an All-Government Approach to Development

Mr. Speaker, the Constitution requires the two levels of Government to conduct their mutual relations based on consultation and cooperation, and to respect the functional and institutional integrity of government at the other level. The objective is to achieve an whole Government approach to provide synergies and common service delivery solutions.

Mr. Speaker, towards this end, the Government will leverage on the Intergovernmental Framework for the Implementation of National Government Programmes and Projects at Counties formulated in 2019 to harmonize implementation of plans such as the Big Four

Development Agenda as well as policies between the two levels of Government, including planning and budgeting. This is part of efforts to achieve an all-Government approach to development.

VI. Taxation Proposals and Miscellaneous Amendments

Mr. Speaker, the rest of my Statement is on tax measures for the FY 2020/21 budget contained in the Finance Bill, 2020, which I submitted to this House in April 2020 in line with the requirements of the Public Finance Management Act, 2012. Further, I will highlight measures on custom duty as agreed at the regional level during the East African Community Pre-Budget Consultations meeting for the FY 2020/21.

These measures are expected to generate about **Ksh 38.9 billion** in tax revenue to the Exchequer.

Customs Duties

Mr. Speaker, manufacturing is a major pillar in the “Big Four” Agenda where the Government aims to increase the contribution of the sector to GDP from about 8

percent to 15 percent by 2022. In this regard, I have proposed, at the regional level, measures aimed at promoting local manufacturing and also measures to ensure that locally manufactured products are competitive.

Mr. Speaker, the Customs measures that have been agreed upon at the regional level shall, in accordance with the East African Community practice, be effective from 1st July 2020. I wish to highlight a few of the measures that have direct impact on Kenyan manufacturers.

Mr. Speaker, our metal and allied sector continues to face stiff competition from **imported iron and steel products**. In order to protect the sector, the rate of import duty of **35 percent** with the corresponding specific rates on a wide range of these products have been maintained for **another year**.

Kenya has sufficient capacity to produce **paper and paper board products**. In order to protect manufacturers of these products from cheap imported

products, we have maintained the import duty rate at **25 percent for another one-year.**

Mr. Speaker, Kenya has capacity to manufacture **baby diapers.** However, the inputs used in manufacturing these products attract import duty. In order to support manufacturing of the products locally, all inputs for manufacture of baby diapers will be imported duty free under East African Community Duty Remission Scheme. In addition, to promote local production of new clothing and apparels including fashion and design, inputs used in the textile and apparel sector will be **imported duty free** under the Scheme.

Mr Speaker, the telecommunication sector provides good opportunities for innovations particularly for our youth. In order to stir growth in this sector and encourage local investments, **inputs for assembly or manufacture of mobile phones** will be **imported duty free** under the East African Community Duty Remission Scheme.

Mr. Speaker, leather and footwear sector has capacity for manufacturing footwear considering we have adequate raw materials. It is important for this sector to be protected from cheap imported products in order to encourage investments in the sector. In this regard, we have maintained the specific rates of duty in addition to **25 percent duty rate**, which were granted last year. This will also safeguard Government revenues by curbing under valuation on such imported products.

Mr. Speaker, there is need to protect local producers of **electrical parts and accessories**. In this regard we shall be applying the import duty rate of **35 percent** instead of 25 percent on such products for one year.

Mr. Speaker, the East African Community region has agreed to grant **duty remission on raw materials and inputs for manufacture of masks, sanitizers, ventilators** and **personal protective equipment** including coveralls and face shields. This will enhance measures aimed at containing Covid-19 in addition to encouraging local production of such products.

Mr. Speaker, as a long-term measure, the East African Community region has agreed to amend the East African Community Customs Management Act to exempt from import duty supplies for diagnosis, prevention, treatment, and management of epidemics, pandemics and health hazards to deal with any future occurrences of such nature.

Income Tax Act

Mr. Speaker, the Government introduced a simplified **monthly rental income tax** in 2016 to enhance tax compliance. Under this regime, the rental income is taxed at the rate of **10%** for individuals earning annual rental income of **Ksh 10 million** and below. **Mr. Speaker,** the Ksh 10 million per annum threshold has brought positive impact on tax compliance. I therefore, propose to **raise this threshold to Ksh 15 million per annum** in order to bring more landlords to the simplified regime.

Mr. Speaker, some companies continue to declare losses year-in-year out hence not contributing to the

Exchequer in terms of tax revenue. However, these companies enjoy facilities, such as infrastructure, whose cost of construction and maintenance is serviced by the Government through tax revenues contributed by other patriotic taxpayers. In order to ensure all taxpayers, contribute to the construction and maintenance of our infrastructure, I have proposed to introduce a **minimum tax** that will be payable by all companies at the rate of **one per cent of their gross turnover**.

Mr. Speaker, with the fast advancement in technology, many business transactions are increasingly being carried out through digital platforms. In some cases, due to the nature of the transactions, it is difficult to effectively tax the income derived through such platforms. It is therefore necessary to provide a framework that will facilitate taxation of such income. In this regard, I propose to introduce **digital service tax** on the value of transactions at the **rate of 1.5 percent**.

Value Added Tax Act

Mr. Speaker, food security is one of the pillars of the “Big Four” Agenda and the Government has put measures to support its implementation including food production. To further this Agenda, I propose to **exempt maize or corn seeds** from the Value Added Tax (VAT), in order to make them affordable to farmers.

Further, I have proposed to **exempt ambulance services** from VAT in addition to medical, nursing and dental services which are currently exempt from VAT to cushion Kenyans from the high costs of such services.

Tax Procedures Act

Mr. Speaker, to enhance tax compliance, I propose to introduce a **voluntary disclosure programme** to allow Kenyans who, in the last five years may have inadvertently made omissions in their tax returns to voluntarily disclose such omission and pay the tax due. The programme will run for **three years**. In order to encourage uptake of this programme, I further propose

to grant relief for penalties and interest in respect of the tax disclosed after payment of the principal tax.

Miscellaneous Fees and Levies Act

Mr. Speaker, currently imports by **Kenya Defence Forces** and the **National Police Service** are charged Import Declaration Fee and Railway Development Levy. These charges reduce budgetary allocations of these institutions. I have therefore **proposed to exempt** from both the Import Declaration Fee and Railway Development Levy on all goods, including materials, supplies, equipment, machinery and motor vehicles imported for the official use by the Kenya Defence Forces and the National Police Service.

Public Roads Toll Act

Mr. Speaker, the Government has been encouraging investments under **Public Private Partnership** particularly in the road sector. To further support such partnerships, I propose to amend the **Public Roads Toll Act** to enable the persons, who enter into an agreement

with the Government to collect road tolls on roads constructed and managed under such agreements.

VII. Conclusion

Mr. Speaker, the budget I have presented today involved making hard decisions in the quest to move our country forward. Faced with limited resources, the balancing has not been easy. We have channeled resources to cushion citizens and businesses from the adverse effects of Covid-19 Pandemic as well as interventions to support economic recovery. I firmly believe that the measures spelt out in this budget will create more jobs and transform the lives of Kenyans.

Mr. Speaker, at the heart of these measures, is our commitment to protect the livelihoods of citizens and support recovery of businesses. I believe that working together, we will withstand the current storm as we have done in the past.

Mr. Speaker, allow me to express my gratitude to His Excellency, The President for his leadership and wise

counsel in the management of the economic and financial policies of this country.

I would also like to thank my fellow Cabinet Secretaries, Principal Secretaries/ Accounting Officers and their Staff for contributions to the FY 2020/21 budget process.

For their support during the preparation and approval of this budget, my sincere appreciation goes to:

- Honorable Speakers of both the National Assembly and the Senate and their respective Clerks for overseeing the approval of submissions on the budget estimates for the FY 2020/21;
- Majority Leader of the National Assembly as well as the Majority Leader of the Senate for their relentless support to get most of the legislative proposals on finance matters passed through Parliament;
- Members of the Budget and Appropriations Committee led by the Chairman and the Parliamentary Budget Office for the constructive and comprehensive engagements in the approval process for the budget estimates for FY 2020/21;

- Members of the Departmental Committee on Finance and National Planning led by the Chairman for their commitment and diligence in the approval of various tax law proposals during the year;
- All Hon. Members of the various Departmental Committees of the National Assembly and Senate for their cooperation and support;
- The Management and Staff of Kenya Revenue Authority, Central Bank of Kenya, all Financial Sector regulators and the various Agencies under the National Treasury and Planning for their contribution and advice during the budget process;
- The Commission on Revenue Allocation and its Chairperson, for their contributions;
- Management and Staff of the National Treasury under the able leadership of the Principal Secretary, Dr. Julius Muia. The officers tirelessly worked long hours, including most weekends and holidays, notwithstanding the constraining Covid-19 environment, to ensure that all budget and

economic policy documents for FY 2020/21 are produced not only timely but are of high quality. These are the unsung heroes of this nation and I appreciate their extra effort in this exercise;

- Management and Staff of the State Department for Planning for their support;
- Staff from the Attorney General's Office;
- Our multilateral and bilateral development partners, as well as the private sector for their contribution to our development agenda through their technical and financial support; and
- Members of the Fourth Estate for actively keeping Kenyans informed of the developments in the country and the budget process for FY 2020/21.

And finally, **Mr. Speaker**, I must express my sincere gratitude to Kenyans from all parts of the country for the insightful contributions, proposals and suggestions as we finalised this budget.

In conclusion, **Mr. Speaker**, the impact of Covid-19 Pandemic has been disruptive to our lives. I call upon

Kenyans to pull together in the fight against the pandemic. Let us give safety and security of each other a priority. Follow the mandatory guidelines issued by the Government on Covid-19 prevention as the country carefully and slowly begins to re-open for business and economic recovery.

Mr. Speaker, I wish to thank our gallant health personnel who are on the frontline of the Covid-19 war. Indeed, we can't thank them enough. May God bless them and their families for **putting their lives as a shield for the rest of us against the virus.** **Mr. Speaker,** we cannot forget the men and women in uniform and all the security personnel for maintaining law and order and safeguarding the security of the country.

Mr. Speaker, my great appreciation goes to all Kenyans for demonstrating good citizenship by cooperating and supporting the Government in this fight. Together, we have made good progress and still need to forge forward in our Kenyan spirit till we win this war.

Equally, **Mr. Speaker**, our heartfelt gratitude goes to the business community, donors and individuals who continue to donate resources to the Emergency Response Fund. The private sector has equally ensured that there are food supplies on the shelves, sanitizers are readily available as well as masks that have greatly supported the common mwananchi. **Asanteni sana!**

Mr. Speaker, am well aware that the success of the measures I have outlined today will depend on the health behavioural change of our people. This strict discipline has been ably demonstrated by the health professionals in the fight against Covid-19 Pandemic. Let us all pull together in observing the various protocols as advised by the Ministry of Health.

I Thank You All

May God bless you all and the Republic of Kenya

Mr. Speaker, in April 2020 I submitted the budget estimates together with the accompanying documents. As I conclude, I further submit the following documents to this August House and request that you receive them;

1. Budget Statement FY 2020/21;
2. Budget Policy Statement for 2020;
3. Estimates of Revenue Grants and Loans for FY 2020/21 Budget;
4. Financial Statement for FY 2020/21 Budget;
5. 2020 Medium Term Debt Management Strategy;
6. Budget Highlights – The “Mwananchi” Guide, FY 2020/21 Budget; and
7. Statistical Annex to the Budget Statement for the FY 2020/21.

**THANK YOU, HONOURABLE. SPEAKER
JUNE 11, 2020**

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