The Citizen Alternative Budget

Institute of Economic Affairs

2021 Issue

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By Institute of Economic Affairs

1.0 Introduction

The Institute of Economic Affairs (IEA-Kenya) is pleased to present the Citizen's Alternative Budget 2021/2022.

The Citizen's Alternative Budget contains budget proposals from the public and private sector stakeholders, who attended the IEA annual pre-budget hearings that took place on 27th and 28th January, 2021 virtually. The proposals submitted were consolidated and synthesized by the IEA according to the various Medium Terms Expenditure Framework (MTEF) sectors, largely based on their feasibility, whether they make economic sense and whether they are in line with the national priorities of the government. Furthermore, this alternative budget takes cognizance of the draft budget policy statement 2021/2022 as a pre-budget statement that sets the macroeconomic framework through which the government will prepare the forthcoming budget.

The Alternative Budget seeks to influence government decisions and help civil society develop viable alternatives to government policy. Equally, it provides a complementary avenue for deepening participatory budgeting, given the legal basis for public participation in government planning and budgeting processes. As the country embrace a devolved system of government, it is envisaged that, through the IEA pre-budget hearings and Citizen Alternative Budget, there is likely to be an increased civil society engagement in county government planning and budgeting.

2.0 Background

2.1 Macroeconomic Framework

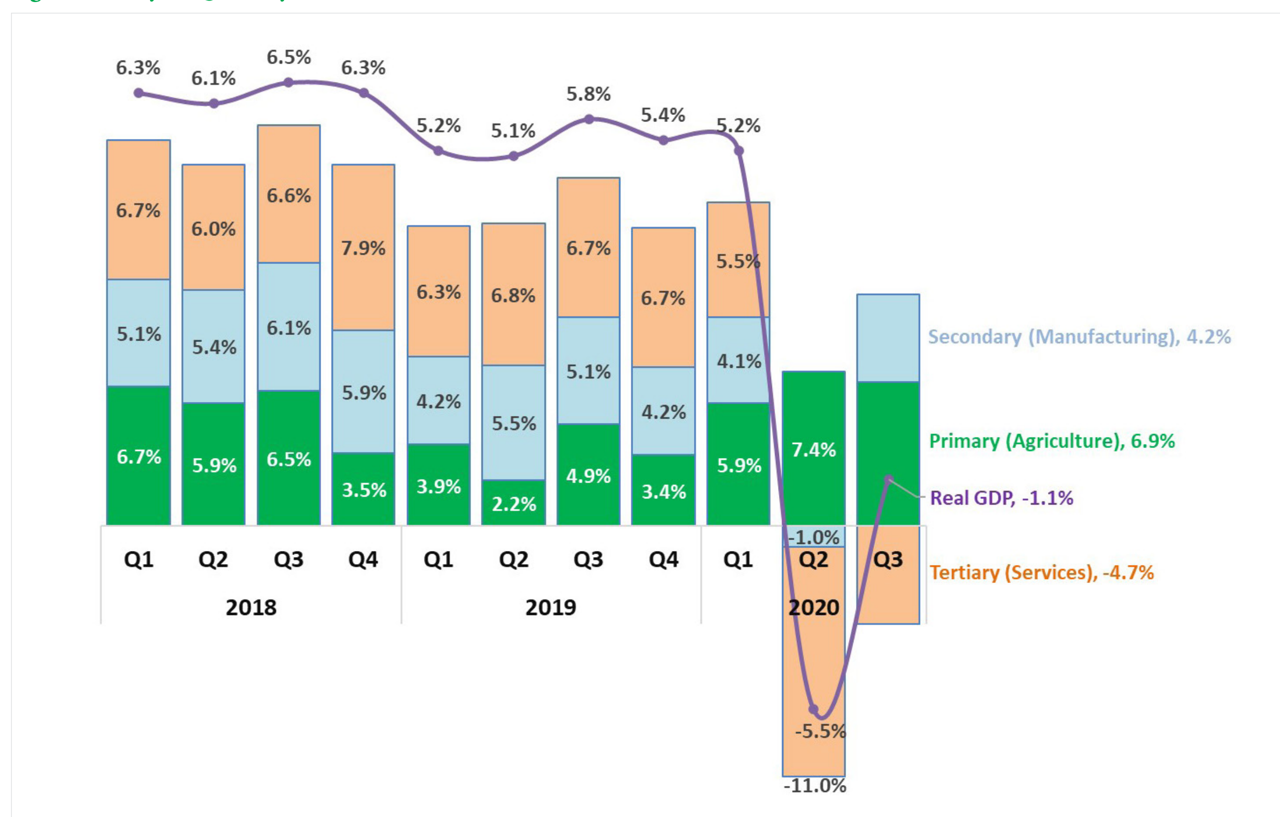
The preparation of the Budget Policy Statement (BPS) for the year 2021 is being done against a background of contracting economy globally which has had disruptions due to rapid spread of COVID-19 pandemic.

The Budget Policy Statement (BPS) 2021 indicates that the economy growth was greatly affected by the outbreak pandemic and the containment measures the government had put in place. Indeed, the containment measures disrupted the normal lives and livelihood as well as business and economic activities. The economy is estimated to slow down to 0.6 percent in the year 2020 from a growth rate of 5.4 per cent in the year 2019.This projection is that the economy will recover by about 6.4 per cent in the year 2021 and above 6.2 percent in the medium term.

The reopening of the economy in the third and fourth quarter of the year 2020 saw an increase in economic activities though at a slow pace. The expectation is that as the economy recover from the pandemic and turn round in trade as well as favorable weather conditions will support agricultural output will go a long way in supporting the growth outlook. The growth outlook is further supported by government policy measures aimed at stimulating economic recovery which are anchored on the Medium –Term III of the Vision 2030 as prioritized in the "BIG FOUR" Agenda. These policies are aimed at providing an enabling environment for economic recovery to safeguard livelihood, jobs, businesses and industrial recovery.

The 2021/22 budget is being prepared when macroeconomic indicators are showing that the economic growth rate is slowing occasioned by the pandemic. This is reflected below;

Figure 1: Kenya's Quarterly Economic Growth Rates



Source: KNBS

** Note: Quarters are based on calendar years**

From figure 1, the average growth rate in the year 2018 was of 6.3%, while the growth rate in 2019 was 5.4% and the projected growth rate for the year 2020 is expected to be 0.6 per cent as per the BPS signalling slowed momentum due to the pandemic. For year 2020, the economy grew by 5.2 per cent in the first quarter and then contracted to 5.5 per cent in the second quarter following containment measures due to COVID-19. Kenya's GDP contracted by 1.1 percent in the third quarter of year 2020. The lower contraction in Q3 reflected the partial easing of measures to contain the coronavirus COVID-19. Moreover, growths in agricultural production, construction, and public administration also contributed to preventing growth further contraction of the economy.

2.2 Assessment of Budget Implementation for Fiscal Year 2020/2021

Budget implementation for the FY 2020/21 as stated in the budget policy statement was hampered by revenue shortfalls and rising expenditures. Revenue shortfall is a reflection of the Government tax measures that were implemented in the month of April 2020 to support the business and the people from the adverse effect of COVID-19 pandemic. Key Policy Responses as of June 30,2020 which were implemented included the full income tax relief for persons earning below the equivalent of Ksh 24,000 per month, reduction of the top pay-as you earn rate from 30 to 25 percent, reduction of the base corporate income tax rate from 30 to 25 percent, reduction of the turnover tax rate on small businesses from 3 to 1 percent and reduction of the standard VAT rate from 16 to 14 percent.

In addition, expenditure rationalization is critical cognizant of the prevailing unfavourable macroeconomic conditions which affected the revenue performance. The government therefore should often review programmes and policies to align them to the emerging realities of the pandemic. This will ensure that the programmes that are implemented yields the highest welfare benefit to Kenyans.

Total expenditure and net lending for the period ending December 2020 amounted to Ksh 1,191.0 billion which was below the projected amount by Ksh 67.6.1 billion. Recurrent spending amounted to Ksh 798.7 billion while development expenditures amounted to Ksh 262.8 billion and transfer to County Governments was Ksh 129.5.2 billion out of which Ksh 115.0 billion was equitable share.

Additional emerging issues regarding implementation of Budget 2020/21, IEA-Kenya notes the following:

- On the fiscal policy side, the government should continue with expenditure prioritization policy with the view of achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies, creation of employment opportunities and improving the general welfare of the people. This will curtail growth in public expenditures to ensure it attains its fiscal consolidation path over the medium term.
- Enhance allocations to support development of critical infrastructure in the country such as roads, rail, energy and water so as to reduce the cost of doing business as well as promote competitiveness.
- The government must continue to pursue prudent fiscal and monetary policy as this will create a stable macro environment conducive for attracting investment and job creation
- The government should roll out an economic stimulus programme that will catalyse economic activity, provide livelihood to Kenyans and enable businesses to recover from the adverse effects of the COVID-19 pandemic.

2.3 Revenue Projections

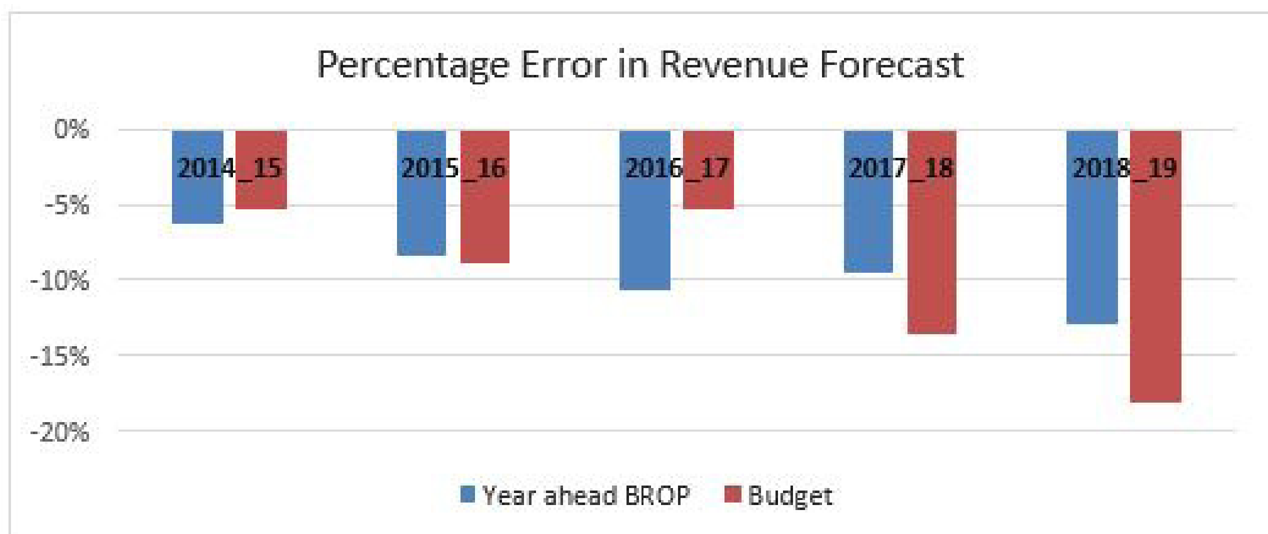
As reported in the BPS 2021, revenue collection to December 2020 declined by 14.0 per cent compared to a growth of 17.1 per cent to the same growth in December 2019. The decline has been attributed to the government difficult operating environment due to the Covid-19 pandemic which adversely affected revenue performance from March 2020. In nominal terms, total revenue collection including Ministerial Appropriation in Aid (A.i.A) by December 2020 amounted to Ksh 800.1 billion against a target of Ksh 907.7 billion. The ordinary revenue collection recorded a shortfall of Ksh 75.8 billion while A-I-A recorded an amount of Ksh 31.8 billion.

2.4 Review of Revenue Forecasts

As a first step in revenue estimation process, IEA Kenya has examined past revenue forecasts. The goal was to get a sense of accuracy of the forecasts, and to see if we could gain any insight into the sources of forecast errors. To this end, IEA put together a database of past forecasts made at various points during the budget process. Assembling that database was complicated by the fact that data was not available for all budget years, and timing of the various forecasts was not always consistent, so considerable effort was required to "match up" forecasts made at similar stages in different budget years. Even so, only a limited time series of forecasts was ultimately produced.

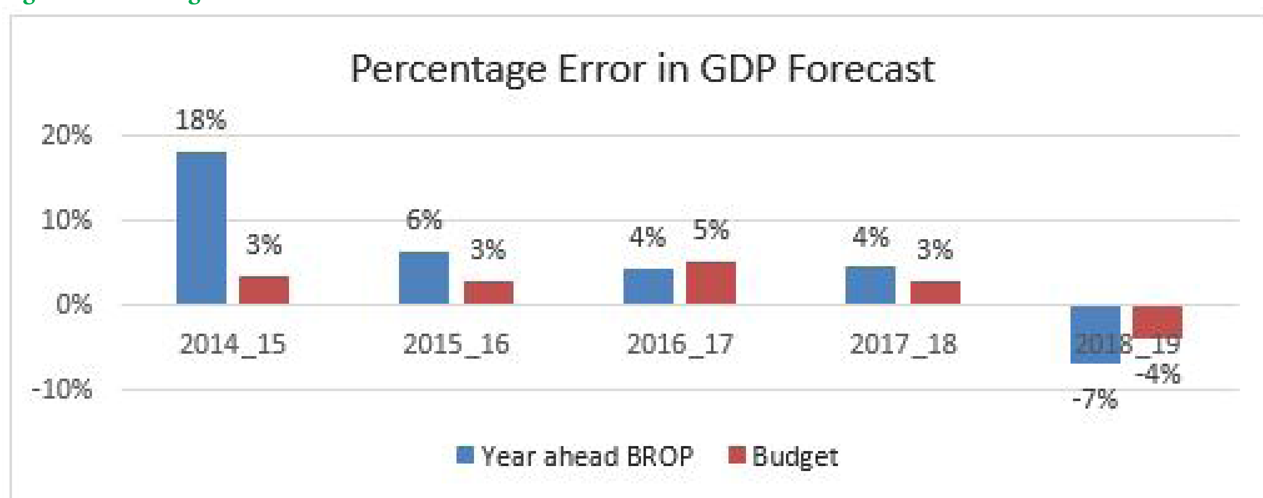
This investigation has led to several main conclusions. First, the revenue forecasts have tended to be overoptimistic. In each of the budget years from 2014/15 to 2018/19 actual revenue came in below the amounts projected in the budget, by 5-18 percent. For most years the errors were not unreasonably large, but the uniformity in the sign of the errors suggests possible bias in the forecast. (A negative sign in the figure below indicates that revenues came in below projections).

Figure 2: Percentage Error in Revenue forecast



Second, the errors do not seem to stem from errors in the underlying economic forecast. In contrast to the revenue forecasts, forecasts of GDP were too pessimistic, on average, for the same budget years. That means that revenues came in below projections even though GDP tended to come in above expectations. (A positive sign in the figure below indicates that GDP came in above projection).

Figure 3: Percentage Error in GDP Forecast



Third, there is little evidence that the errors get smaller over time, as the budget process proceeds. One would expect that projections made later in the process would be more accurate, both because later projections have access to more up-to-date revenue and economic data, and because they can incorporate proposed changes to revenue policies that were advanced in the interim. However, historically the later forecasts have not been more accurate. For example, pooling all the forecast data that is available, the projections included in the budget (typically released in June, shortly before the beginning of the fiscal year which runs July 1-June 30th) have a root mean squared error of 2.8 percent, while the projections from the Budget Review and Outlook Paper (typically released the previous September) have a root mean squared error of 2.3 percent. The optimistic bias in the later estimates is also larger, with the budget statement projections averaging 6.1 percent too high relative to the eventual revenues, while the BROP projections average 4.4 percent too high, and the previous year's BROP projections (about 21 months before the budget statement) averaging 5.6 percent too high.

The fact that the projections often become worse as the budget process unfolds suggests the possibility of political pressure driving some of the revisions. Interviews with representatives of the Kenya Revenue Authority and of the Parliamentary Budget Office supported that conclusion. They argued that often a consensus revenue forecast is revised by the Treasury to be more optimistic late in the budgetary process, with little discussion or explanation.

2.5 Public Debt

Public debt in Kenya constitute three- quarters of consolidated fund service. Consolidated Funds Services (CFS) represents the first charge on government revenue and this represent items upon which the Cabinet secretary of Finance has no discretion. This constitutional requirement has enormous implications for the overall budget because these have to be paid for before any other public services. Repayment of public debt during this time of pandemic meant constraining the spending units in the government programmes. The year 2020 experienced revenue shortfall both in the first, and second quarter albeit picking up in the third and fourth quarter after the relaxation of COVID-19 measures to cushion the Kenya Public.

The Budget policy statement for this year clearly indicate that public debt and borrowing policy are in place and these policies will continue act as a guideline for borrowing and public debt management by the National Government. The policy aims at improving the quality of decisions and articulation of policy goals, offer clearer guidelines for the structure of debt issuance and act as a demonstration of commitment to long-term capital and financial planning. In addition, the Government will continue to support the development of the domestic debt market through continuing with the financial reforms implementation with the aim of deepening and improving efficiency in the domestic market in order to reduce debt costs. The Government`s commitment to fiscal consolidation will reduce the debt service over the medium term progressively despite challenges of Covid 19 Pandemic.

The PFM Act requires that public debt and obligations remain at sustainable levels and that Sustainability of debt largely depends on macroeconomic performance of the economy and prudent debt management. Kenya's stock of debt is going up and is anticipated to continue rising given the expansionary policy that the government has adopted in order to spur economic growth.IEA-Kenya shares the following issues to be taken into consideration on public debt;

i. The government to keep up with the fiscal consolidation efforts with the aim of containing the pace of borrowing which can result into reduction of the debts ratios.

ii. The government should continue with active liability management operations in the domestic debt primary markets by switching short term debt to longer term domestic debt with the aim of lengthening the maturity structure

iii. Inclusion in the Medium-Term Debt Management Strategy 2020 (MTDS) broader economic objectives beyond costs and risk mitigation. The MTDS should also outline objectives of the debt raised and key cost-benefit analysis to illustrate value for money in-line with Kenya's spending priorities.

3.0 Taxation Proposals

3.1 Manufacturing Sector Taxation measures

Introduction

Manufacturing is a key sector in Kenya's economic development, in both its contribution to national output and exports, and for job creation. However, its contribution to GDP has been on a decline trend reducing from 7.5% in 2019 to 7.2% in 2020. This is an indication that Kenya is deindustrializing instead of industrialization. However, the value added in the manufacturing sector increased from Ksh. 690.6 billion to Ksh. 734.6 billion over the same period. The increase in value addition was on account of increased volume of output in manufacture of transport equipment; chemical and chemical products and pharmaceuticals (KNBS, 2020b). The continued decline of the sector's contribution to GDP paints a worrying picture on attainment of policy target i.e., 15% contribution of GDP by 2022 as envisioned by the 'Big Four Agenda'.

Export value of Kenyan manufactured goods rose from Ksh. 155.1 billion in 2018 to Ksh. 159.8 billion in 2019 while the sector created 7,700 new jobs in 2019 to register a 2.4% increase in wage employment from 321,300 in 2018 to 329,000 in 2019.

Tax contribution of the manufacturing sector in Kenya

Economic Sector	Revenue Ksh million			Revenue contribution			GDP contribution		
	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Agriculture	19,943	23,445	20,478	**2.4%**	**2.6%**	**2.3%**	**34.4%**	**34.6%**	**35.4%**
Construction	42,913	44,736	44,699	5.1%	5.0%	4.9%	5.5%	5.5%	5.6%
Education	24,110	22,291	23,452	2.9%	2.5%	2.6%	4.2%	4.2%	4.1%
Electricity, Gas, Steam	33,326	33,838	32,140	4.0%	3.8%	3.5%	2.5%	2.3%	2.4%
Financial & Insurance	148,752	166,123	171,681	17.8%	18.4%	18.9%	6.6%	6.2%	5.9%
o/w banks	112,580	127,388	135,247	13.4%	14.1%	14.9%			
Information & Communication	116,645	134,724	148,801	13.9%	14.9%	16.4%	1.3%	1.3%	1.2%
Manufacturing	154,768	164,832	158,313	18.5%	18.3%	17.5%	8.0%	7.5%	7.2%
Others	137,262	138,932	137,870	16.4%	15.4%	15.2%	10.4%	10.5%	10.4%
Professional and Technical	30,388	33,019	36,219	3.6%	3.7%	4.0%	1.7%	1.7%	1.6%
Public administration	12,756	12,635	13,383	1.5%	1.4%	1.5%	3.4%	3.5%	3.5%
Real Estate Activities	24,179	24,958	24,493	2.9%	2.8%	2.7%	7.0%	7.0%	6.8%
Transportation & Storage	41,641	41,223	41,486	5.0%	4.6%	4.6%	7.6%	8.2%	8.5%
Wholesale & Retail Trade	50,616	61,293	53,581	6.0%	6.8%	5.9%	7.4%	7.5%	7.5%
Total	**837,299**	**902,048**	**906,597**	**100%**	**100%**	**100%**	**100%**	**100%**	100%

Source: Draft 2020 Budget Review and Outlook Paper

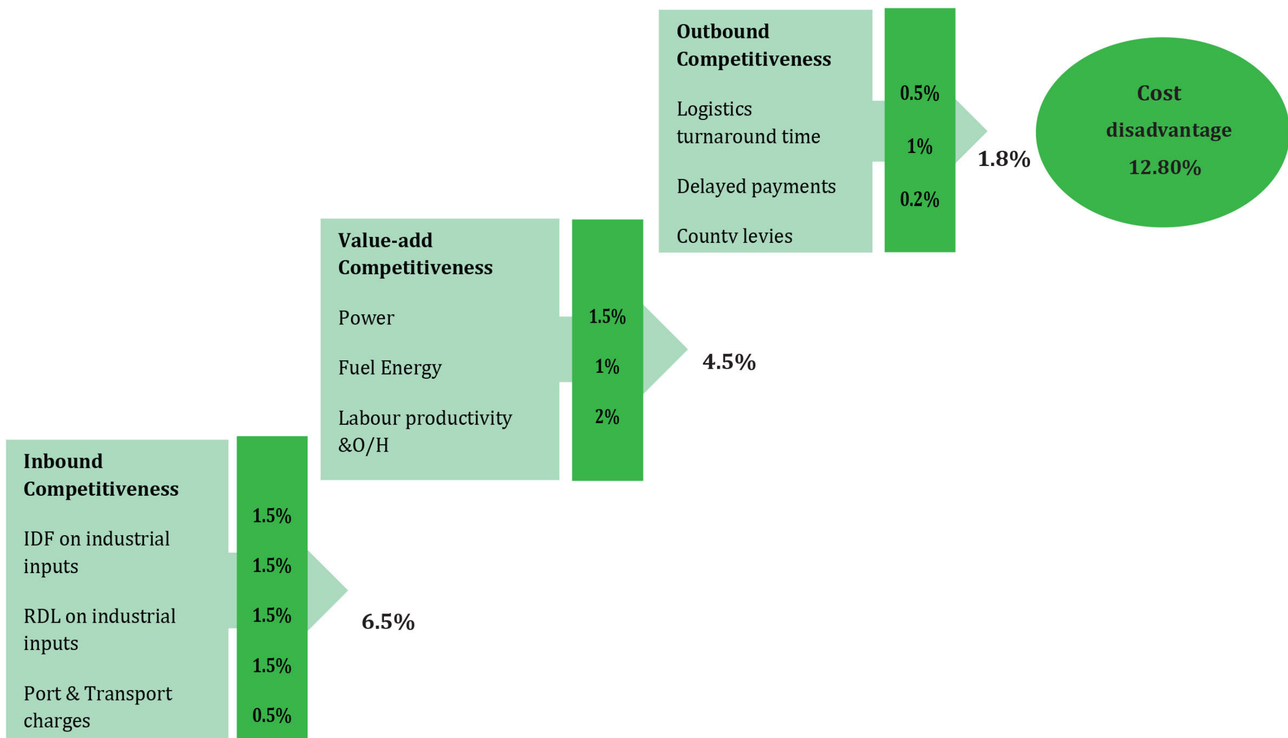
According to the Table, in the 2019/20 FY, agricultural sector accounted for about 35.4% of GDP and contributed 2.3% of tax revenue. The wholesale and retail trade accounted for 7.5% of GDP in the FY 2019/2020 and contributed about 5.9% of tax revenues.

The manufacturing sector contributed 7.2% of GDP and 17.5% of tax revenues: This demonstrates:

- A disproportionate contribution of the manufacturing sector to the economy relative to its size of GDP.
- Growth and performance of the manufacturing sector will be instrumental in raising tax revenues for government so as to reduce the ever-increasing fiscal deficit.

What undermines competitiveness of the manufacturing sector in Kenya

- The 2018 Competitive Industrial Performance (CIP) Index data from United Nations Industrial Development Organization (UNIDO) ranks Kenya's manufacturing sector's competitiveness at position 115 out of 152 economies in the global manufacturing.
- The CIP Report is produced biennially and benchmarks the ability of countries to produce and export manufactured goods competitively.
- Figure below shows factors that undermine in-bound, value-add and outbound competitiveness of the manufacturing sector in Kenya.



The following fiscal policy proposals are geared to improve business competitiveness. Below are proposals for Budget Statement 2021/2022 for the manufacturing sector.

3.1.1 Minimum Tax 1%

- The Minimum Tax 1% on gross turnover was introduced by the government vide Finance Act 2020 and slightly amended vide Tax Laws Amendment Act No 2 of 2020. It's effective from 1st January 2021
- It's meant to boost government revenues with reduced chances for borrowing, and bridge the gap between tax paying companies and those who do not pay because of various reasons including annual losses.

Proposal

- Abolition of Minimum Tax 1%

Justification

- The proposed provisions on the Minimum Tax refer to "gross turnover" which is not a recognized term in any Kenyan tax legislation
- Introduction of minimum tax is neither a promise nor a guarantee that the government will achieve all its intended benefits
- Minimum tax will reduce Kenya's attractiveness as a Sub-Saharan economic hub – profits not feasible first two years
- Minimum tax is an additional/double tax on a company's top line- VAT is based on turnover.
- Low Margin Sectors e.g. retail will have to increase their margin and subsequently pass over to consumers. This sits squarely under cost-push inflation in the country

3.1.2 Import Declaration Fee & Railway Development Levy

Finance Act 2019 introduced new rates for IDF & RDL each at 1.5% of the import value on raw materials and intermediate goods imported by approved manufacturers. The act further provides for IDF and RDL at 3.5% and 2%, respectively for finished products imported in Kenya. This increases cost of imported raw materials and thus the unit cost of production and ultimately the prices at which the consumers get the products.

Proposal

- Remove IDF for all industrial inputs (basic raw materials and intermediate inputs) and industrial machinery and spare parts for manufacturers
- Reduce RDL to 1% for all industrial inputs (basic raw materials and intermediate inputs) and industrial machinery and spare parts for manufacture
- Refund excess IDF & RDL paid as a result of the system not being in place after the enactment of the Finance Act 2019

Justification

- This will increase competitiveness in the domestic & regional markets, create jobs, encourage imports substitution, grow local manufacturing, save foreign exchange.

3.1.3 Prompt payment of refunds

A tax refund is the excess amount of tax that a taxpayer has paid to the Government arising from any of the taxes. Payment of refunds has faced a lot of delays affecting the liquidity of businesses especially for manufacturers. This has been attributed to the process of reversing back the money once paid into the national consolidated fund. Though Government acknowledges this challenge and has over years addressed the backlogs owed, there's need for a sustainable solution by having the refunds paid promptly by KRA.

Proposal

- Introduce a new Section 24 A to the PFM Act to read as follows: Establishment of a Tax Refund Fund to be administered by the Cabinet Secretary of matters relating to Finance. There shall be paid into the Fund 1% of monthly tax collected from any tax law including, the Tax Procedures Act, Income Tax Act, Excise Duty Act, Value Added Tax, and Miscellaneous Fees and Levies Act.
- This is to enhance cash flows & reduce cost of doing business as the need for costly commercial bank loans and overdrafts is avoided.

Justification

This proposal seeks to address this issue sustainably by having the amounts of refund paid promptly by the Kenya Revenue Authority.

3.1.4 Increased budgetary allocation for VAT and excise tax refunds

Currently, the National Treasury allocation for refunds is approximately Ksh. 1.7 billion and this is inadequate to clear monthly refund balances.

Proposal

Increase monthly budgetary allocation to Ksh. 5.5 billion and have one-off payment to clear all outstanding VAT and Excise Tax refunds.

Justification

- Companies will redirect cash to investments and core business activities. Reduction in the cost of money will lead to more profit and increased tax revenue for the government.
- Circulation and velocity of funds moving promptly through the supply chain will be a catalyst to economic activity.
- Enhanced cash flow and reduce cost of doing business.

3.1.5 Refund/offset of VAT credits arising out of the old VAT refund formula

There's no legal mechanism to allow refund of credits amounts out of the old formula

Proposal

Amend the VAT regulations 2017 & VAT Act 2013 – to recognize refund/offset of tax arising from the VAT formula and facilitate outstanding payment through retrospective provisions.

Justification

Companies will redirect cash to investments and core business activities. Reduction in the cost of money will lead to more profit and increased tax revenue for the government. Circulation and velocity of funds moving promptly through the supply chain will be a catalyst to economic activities.

3.2 Income tax

3.2.1 Section Income Tax Act, Section 24 (3) (e) of the Second Schedule of the Income Tax Act – Definition of manufacture

Definition of "manufacture" means the making (including packaging) of goods or materials from raw or partly manufactured materials or other goods, or the generation of electrical energy for supply to the national grid but does not extend to any activities which are ancillary to manufacture, such as design, storage, transport or administration.

Proposal

- Paragraph 24(3) (e) of the Income Tax Act should be amended by deleting "to the national grid" in the definition of "manufacture" and insert transformation and distribution to enable any person to be eligible for the deduction without having to contribute power to the national grid.
- The definition of manufacture should be amended to read"manufacture" means the making (including packaging) of goods or materials from raw or partly manufactured materials or other goods, or the generation of electrical energy for supply, transformation and distribution, but does not extend to any activities which are ancillary to manufacture, such as design, storage, transport or administration.

Justification

- The National Grid is currently operating under excess capacity. Private production of electricity complements Government's electricity generation efforts. It will enable any person to be eligible for the deduction without having to contribute power to the national grid.

3.2.2 Paragraph 24(3)(d) of the Second Schedule of the Income Tax Act – IDA

The law does not allow one to claim IDA if they were to buy an existing warehouse for the purpose of housing its manufacturing facilities. The current definition only talks about construction. The definition should be broadened to allow an investor in manufacturing to buy a building/ warehouse that is already constructed.

Proposal

Paragraph 24(3)(d) to the Second Schedule, ITA CAP 470 is amended by deleting sub paragraph ii and inserting thereon "the person who purchases the building shall be deemed to have incurred capital expenditure on the construction thereof equal to the lesser of the price paid for the property and the current market valuation"

Justification

This will incentivize new investments in the country.

3.2.3 Income tax - tax rebate equal to 50% of the amount of salaries and wages paid to university graduates

Currently, any employer who engages at least ten university graduates as apprentices for a period of six to twelve months during any year of income shall be eligible for a tax rebate equal to fifty percent of the amount of salaries and wages paid to them in the year of income and the subsequent three years of such engagement. The uptake of university graduates has not increased and employing 10 graduates at a go is difficult. The current arrangement does not allow SMEs to take advantage and TVET graduates who are easily employable.

Proposal

Any employer who engages at least three (3) (instead of ten) university graduates or TVET trainees as apprentices for a period of six to twelve months during any year of income shall be eligible for a tax rebate equal to fifty percent of the amount of salaries and wages paid to them in the year of income and the subsequent three years of such engagement.

Justification

- Increased employment of TVET trained candidates
- MSMEs will benefit from trained workers.
- Encourages employment with tax incentives

3.3 Excise duty proposals

3.3.1 Inflation adjustment

Section 10 of the Excise Tax Act 2015 empowers the Commissioner to adjust the specific rate of excise duty annually to take into account inflation in accordance with the formula specified in Part II of the First Schedule of the Act- A yearly inflation adjustment impacts on businesses capacity for production and reinvestment with the effect of affecting the entire value chain. Business are not able to take price every year to factor in, inflation. Therefore, the specific tax rates for inflation on a yearly basis has adverse effects on the business. Section 14 provides that where duty has been paid in respect to excisable goods imported into or manufactured in Kenya by a licensed manufacturer and which have been used as raw materials in the manufacture of other excisable goods, the excise duty paid on the raw materials shall be offset against the excise duty payable on the finished goods. With the introduction of excise on imported glass bottles, excise tax on packaging material becomes a cost on the business.

Proposal

An amendment to section 10 of the Excise Act to empower the Commissioner to adjust the specific excise duty rate for inflation every three years while Amending section 14 of the Excise Act to accord taxpayers a relief on excise tax paid on packaging material. This is in line with the maxims of taxation.

Justification

A three-year adjustment accords business the opportunity to stabilize therefore creating an environment for businesses to thrive and drive profitability. This will result to an increase in Corporate taxes, VAT, PAYE and excise tax as well. Additionally, and in order to ensure tax equity, manufacturers who import packaging material should be accorded the opportunity to offset against excise tax payable. This treatment is accorded for VAT purposes as well.

3.4 Value added Tax

3.4.1 VAT on Government funded projects

Currently, quantities required by all government projects are under the VAT Exemption Scheme. Manufacturers cannot supply the required quantity and claim the VAT paid on imports as an input tax, thus having a negative impact on their business. Moreover, it is possible that a manufacturer is supplying to more than one project at a time thus increasing the quantity supplied and the VAT amount paid on imports which cannot be claimed as Input Tax. Under the Exemption Scheme Local manufacturers are limited to participate in local development, although 40% local content is in place. If the local manufacturers are not able to supply to the Government Projects, contractors will be encouraged to import which will result to revenue loss to the government through taxation, as local manufacturers will have to scale down their operations or even close or lay off workers.

Proposal

All Government funded projects should be zero-rated VAT for locally manufactured supplies.

Justification

This will give impetus to local manufacturers who will be able to claim their input tax and compete effectively with imports. This will create value addition locally and promote the use of spare capacity by local manufacturers.

3.2.4 Section 17 of the VAT Act

The provision requires that VAT is only claimable by a purchaser as input if the supplier has declared it in the VAT Return. Taking into account the number of transactions a business may have in a month may be significant, it is difficult for a taxpayer to comply with this provision of the law. The provision does not state the impact of time baring of invoices occasioned by the delay in the supplier declaring the sales in their returns. Output VAT is payable at the earlier of invoice date and payment. Prohibiting a taxpayer, the opportunity to claim input VAT upon receipt of a valid tax invoice has an impact on its cash flows which is critical now as businesses navigate the challenges that COVID 19 continues to present. KRA already has other systems to enforce VAT collection. Passing this obligation to the taxpayer is punitive. Pending bills and VAT refunds take longer to be settled.

Proposal

Delete Section 17(2) and replace with the old wording of the section. the old wording:

"If at the time when a deduction for input tax would otherwise be allowable under subsection (1), the person does not hold the documentation referred to in subsection (3), the deduction for input tax shall not be allowed until the first tax period in which the person holds such documentation. Provided that the input tax shall be allowable for a deduction within six months after the end of the tax period in which the supply or importation occurred."

Justification

With the implementation of the Electronic Tax Invoice Regulations, missing trader fraud will no longer be possible. In addition, KRA will be able to police declaration of output VAT on 21st of every month based on data remitted to KRA by the new ETR. Ensure cash is injected to business/ support business growth. If businesses remain afloat, more investment and revenue will accrue to government.

3.2.5 Withholding Value Added Tax (VAT) Refund Claims

There are many challenges being faced in case of withholding VAT refund claims. The lodging of claim itself is difficult as i-tax is not geared up properly for filing claims due to the number of certificates involved. Even KRA team is unable to work on the claims filed due to number of certificates involved. This is resulting in delay in filing and processing of claims and affects manufactures access to capital and cash flows that they can maximize to spur economic growth.

Proposal

The i-tax system should be improved to support filing and processing of withholding VAT claims. Withholding VAT has already been paid by the customers to KRA and the taxpayers already has certificates issued by KRA to support these claims; hence there is no need for an audit/review to pay these claims. These claims should not be linked to other tax issues. This will speed up the claim payments and provide cash support to the manufacturers. We also propose to grant exemption from deduction of Withholding VAT to taxpayers engaged in export and they are already in VAT receivable position.

Justification

This increases cost of doing business as funds blocked under these claims are being borrowed from bank at 12% and thus make as uncompetitive in the export market.

3.5 Taxation in tobacco and alcohol industry

Introduction

Health is a critical sector for national economic development. The right to the highest attainable standard of health is enshrined in the Constitution of Kenya (Articles 42 and 43). It also forms part of the current administration's big four agenda and is a key component of vision 2030 and is prominently identified in Global Treaties and Conventions that Kenya is a signatory to such as the United Nations Sustainable Development Goals (Goal 3).

Tobacco products' consumption is a major risk factor and/or accelerant for Non-Communicable diseases such as cancers, cardiovascular diseases, chronic respiratory ailments, stroke and diabetes.

Situational Analysis

The tobacco industry in Kenya has been thriving in recent years. It has grown by leaps and bounds in the last decade.

For context, BAT Kenya (the leading tobacco firm in country) reported posting gross revenues of Ksh 39.8 billion, after tax profit of Ksh 3.9 billion and a contribution to Government revenue of Ksh 18 billion for 2019. It also introduced its oral nicotine product category (LYFT) into the market in 2020 and invested Ksh 2.5 billion in building a first-of-its-kind factory in Africa for the manufacturing of the said oral nicotine pouch. Having not had excise tax increases on Tobacco in the Finance Act in 2020, Its gross revenue is thus projected to rise this year.

Tobacco taxes is thus an effective means of tobacco control due to its potential to discourage initiation, encourage quitting of tobacco use and generate much needed revenue for government. This revenue may finance development and help fund the universal health coverage project to combat the NCDs contracted from use to tobacco products.

Problem Statement

Despite the accompanying risks, tobacco use prevalence in Africa is set to keep increasing systematically in the next 2-3 decades if no further remedial measures are to be undertaken to curb the vice[1]. Of further concern is that in Africa, the proportion of addicts, new consumers taking up the product and vulnerable groups among users is highest compared to other world regions[2].

The burden of Non- Communicable Diseases (including cancers, cardiovascular diseases, chronic respiratory diseases and diabetes) is rising in Kenya and currently account for more than 50% of total hospital admissions and over 55% of hospital deaths[3]. As indicated above, tobacco products consumption is a major factor causing these NCDs. It estimated that Smoking kills up to ½ of all lifetime users, smokers die an average of 15 years earlier than non-smokers and half of tobacco-related deaths occur between the ages of 30 and 69 which are the prime productivity years[4].

Tobacco taxes should thus be used as a strategy to be for controlling tobacco products' consumption. Additionally, the government should work to promote public awareness in appreciation of the need for fiscal measures to address public health objectives.

The previous increase in tobacco excise tax occurred under the Finance Act, 2019 which imposed a rate of Ksh. 3,157 per mille for cigarettes with filters (hinge lid and soft cap) and Ksh. 2,272 per mille for cigarettes without filters (plain cigarettes). A further inflation tax adjustment of 5.17% raised it to Kshs. 3,320 for filtered cigarettes and Kshs. 2,389 for those without. While there was a 5.5% inflation tax imposed in 2020, the same was suspended until 2021.

Given the increased revenue enjoyed by the tobacco firms in the last year, it is important that an increase in the excise tax on tobacco products be imposed for the upcoming financial year 2021/2022 as indicated below;

Proposals

Proposal	Justification
Increase by 15% excise duty on the current higher tiered products and make this rate the uniform specific rate applicable to all cigarettes	Discourage initiation to smoking due to reduced affordability from price increases, encourage quitting of tobacco use and generate much needed revenue for government. This revenue may finance development and help fund the universal health coverage and other health sector development initiatives. This will also factor in the revenue growth of the tobacco firms in the last two financial years and will be a positive step towards compliance with current global standards of tobacco products taxation. Low tobacco taxes/ prices should never be viewed as a 'pro-poor' policy. Low taxes and prices lead to greater tobacco use amongst the poor hence they bear a disproportionate share of the health and economic burden Increase in tax rate imposed will lead to increase in the amount of solatium compensation fund tobacco firms are obligated to pay under the Tobacco Control Act 2007 and regulations 2014
Simplify of tobacco tax structure by re-introduction of a uniform specific tax rate for all cigarettes. No separate taxation for filtered (hinge lid and soft cap) and unfiltered (plain) cigarettes	The tiered tax structure creates incentive for repositioning of brands with some manufacturers reducing the Retail Selling Price of their lead brands in order to qualify for a lower tax rate, keeping their products cheap, even with regular tax increases. Ultimately this induces smokers to switch to their cheaper brands instead of quitting.
The Initial Fund for the Tobacco Control Fund (TCF) as stipulated under the draft Tobacco Control Fund Regulations should be set at a high figure (Kshs. 80-100 million). to sustain tobacco control projects run by the MoH under the Tobacco Control Division, the Tobacco Control Board and NMS.	This will sustain tobacco control projects run by the MoH under the Tobacco Control Division, the Tobacco Control Board and NMS. This will also ensure the devolved entities involved in tobacco control can access adequate resources from the TCF to undertake their work.

[1]Menendez D, Alshanqeety O, Warner KE. The potential impact of smoking control policies on future global smoking trends. Tobacco Control (2012).

[2]Global Youth Tobacco Survey and the Global Adult Tobacco Survey

[3]The Kenya National Strategy for the prevention of Non- Communicable Diseases- 2015- 2020

[4]WHO Report on the Global Tobacco Epidemic, 2008

4.0 Sector Proposals

4.1 Agriculture Sector

Introduction

Agriculture remains a critical sector of the country's economy, contributing 34 per cent to the Gross Domestic Product (GDP) in 2019 (KNBS, 2020). The sector accounted for a third of the country's GDP for the past three years and 15% of GDP growth on average over the same period. Further, it is estimated that the sector employs about 60 per cent of the population through the informal sector and 12 per cent through the formal sector (KNBS, 2020). Over 80% of the population, especially those living in rural areas derive their livelihoods mainly from agricultural related activities (FAO, 2018).

Despite the sector's dominance to the economy, the sector continues to face a myriad of challenges. In 2020, the desert locust infestation affected much of the arid and semi-arid areas. The MAM rains resulted in flooding in parts of the country. The same areas also experienced flooding during the OND 2019 rains. The biggest shock was the COVID-19 pandemic which disrupted the food supply chains at the onset of the pandemic, severely disrupting both formal and informal supply chains. Despite these challenges, the sector remained resilient with crucial activities in the sector remaining strong. Furthermore, the sector was able to provide livelihood to more people who joined the sector from other sectors such as services and industry as the income opportunities in these sectors declined due to the effects of the pandemic.

By prioritising agriculture as one of the 'Big Four,' the government aimed to address perennial food insecurity issues, transform the sector to highly commercialised and improve incomes for producers, create employment along the value chain and agro-based industries. However, even with the government's achievements for the sector, the Big Four goals remain a distant reality. This brief evaluates the budget proposals contained in the Budget Policy Statement Paper and makes further recommendations to the proposals for the realisation of the development agenda set for the sector.

Situational analysis of agriculture sector

The sector launched the Agriculture Sector Transformation and Growth Strategy (ASTGS) 2029-2029 in July 2019. The strategy implemented through the National Agriculture Investment Plan (NAIP) has three anchors and nine flagship projects. The first anchor targets increasing smallholder incomes. The flagship projects under this target and link smallholder farmers to SMEs and restructure the subsidy programs to make it more efficient and impactful. The second anchor targets increasing agricultural output and value addition. Under this anchor, the key flagship projects are establishing agro-processing hubs and supporting large scale agricultural production and increasing the area under irrigation—the last anchor targets building households' food resilience. The key flagship projects are restructuring the strategic food reserve and resilience interventions in the ASALs. The other flagship projects are the revival of the extension systems, investments in research, and enhance surveillance of risks such as climate shocks, pests and diseases, and global shocks.

The budget proposals are expected to align with this strategy by directly investing in the flagship projects or incentivising private sector investments towards the strategy's key projects.

Problem statement

Despite its importance, the agriculture sector is faced with myriads of problems. Farming is mainly rain-fed, exposing farmers to unpredictable weather patterns and climate-related shocks. In addition, there have been increased incidences of pests and diseases, including the Maize Lethal Neurotic Disease (MNLD), Fall Army Worm (FAW) and the desert locust infestation. The sector was disrupted by the COVID pandemic, which affected key industries, including horticulture, tea, coffee, and domestic food markets.

The sector is also facing significant reforms on key institutions. Through enactment of the Tea Act, 2020, there is a move to revert the former boards' regulatory institutions. This will affect the research institutions that were amalgamated into KALRO. Although the move to merge the institutions was to enhance efficiency, this was not attained. Resetting to what was there previously, while making logic to restart, it's also an expensive exercise to create and disband institutions.

The following proposals are made for consideration for the 2021/2022 financial year budget. The proposals do not contain specific programs but point out areas for investments that have been largely underfunded in the past budgets.

Sector budget proposal

Proposal	Justification
Increase public investment in research & development, and extension services	Investment in research and development has fallen below 1% of GDP against a recommended 2% or higher. In the sector, we propose that investments in R&D be maintained at 2% relative to the overall sector allocation. The investments in research will be used to re-establish commodity-based research institution that had been previously merged into KALRO. Therefore, a status-quo level of funding will almost certainly be used for institutional development with no real research. Extension systems are the means through which farmers learn and adopt these practices. This has been largely blamed on county governments which continue to appropriate their budget to other priorities. The national government must step in and build the capacity of county governments to discharge this function effectively.
Allocate resources for increasing the area under irrigation and target crops	Increase in the area under irrigation will help reduce overreliance on rainfall, increase production cycle and increase productivity. Large scale irrigation projects have been riddled with governance issues. However, even as the government addresses the governance issues that squarely lie on its purview, investments should also be directed to small and micro-irrigation schemes and water harvesting and management practices at smallholder farmers
Provide incentives for investment in post-harvest handling and management especially by the private sector	The current erratic weather, rainfall during the harvesting period, contributed immensely to increases in post-harvest losses for most commodities. It is currently estimated that one-third of the food produced in the country is lost post-harvest, including food losses. The operationalisation of the WRS Act will greatly enhance dry storage and management while enhancing the private sector's role. However, further incentives should also be made on cold storage facilities to support highly perishable commodities.
Enhance investments in weather information infrastructure and & develop reliable early warning systems	Improvement in weather information can be critical in helping farmers make production decisions. The information is also useful in accessing the risks in production and improving uptake of crop and livestock insurance. Currently, the information provided is not adequately reliable and does not cover many areas following limited infrastructure and inability to give predictions at localised levels. There are many uncoordinated efforts to provide advisories to farmers, necessitating, the need to coordinate and improve the reliability and accuracy of the information that farmers are provided. This can only work with effective and efficient extension delivery systems.
Incentivise the private sector to enhance investments in the livestock and dairy value chains	In 2020, one of the key livestock market institutions was taken over by the ministry of defence. While it remains unclear how the functions are coordinated with the ministry of agriculture, the point that should not be lost is that the private sector performs market functions much more effectively. The livestock industry's challenge remains the growing informality of its markets, competition from imports, high volatility and unpredictability of value-added products markets, and food safety and standards. This clearly shows that the public investments in a stable regulatory environment can spur growth that incentives livestock farmers.
Enhance public investments in fisheries	There is need for continued investment in aquaculture and build on the success of programs started in the last five years that resulted in higher production of fish in areas that no fish production existed. Further, exploiting opportunities in value addition such as providing raw material for livestock feed and stimulating productivity at reduced cost will help grow the industry.
Incentivise the private sector to enhance investments in industrial and cash crops	Industrial and cash crops hold great potential in improving performance and growth in the sectors. A key threat to the cash crops markets is government intervention in markets when there is clearly no market failure. Granted that markets are not perfect, government intervention in markets serves to crowd out private investments.
Support capacity building of County Governments and the sector's coordination mechanisms	Success in the sector will only be released with harmony between the national and county governments. It is now vital that urgent measures for enhancing the capacity of county governments and supporting the coordination mechanisms between the two levels of government be put in place to bring efficiency to the sector.

Proposal	Justification
Increase public investments in agriculture or incentivise the private sector to fill financing gaps	The gap between resource requirements and allocation remains enormous. Despite the massive public sector financing gap, the sector has not been attractive to the private sector. A key indicator for this would be the number of large scale farms that have reallocated their operations due to unfavourable policies including taxation on inputs, double taxation policies with county governments, unfavourable barriers to technology adoption among others. Public investments in public goods and data are necessary to bring down the risks associated with the sector to spur the sector.

4.2 Water, Sanitation and Hygiene Sector

Introduction

Sustainable Development Goal 6 target 6.2 calls for adequate and equitable sanitation for all. The target is tracked with the indicator of "safely managed sanitation services". In 2010, the UN General Assembly explicitly recognized the human right to water and sanitation. Everyone has the right to sufficient, continuous, safe, acceptable, physically accessible, and affordable water and sanitation for personal and domestic use.

Kenya, under Sustainable Development Goal 6, has committed itself to achieve by 2030 universal and equitable access to affordable sanitation and hygiene for all and an end to open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.

Article 43 of the Constitution of Kenya 2010 recognizes access to improved sanitation services as a right of every Kenyan. Both the National and 47 county governments share the responsibility of facilitating access to sanitation services. Kenya's Vision 2030 has an ambitious target of ensuring universal access to improved sanitation services by 2030. In addition, the Kenya Environmental Sanitation and Hygiene Policy (KESHP) 2016–2030 also aims to ensure 100% access to improved sanitation services by 2030. The Water Act 2016 provides the legal basis for regulation, management and development of water resources, as well as water and sewerage services.

Situational analysis

Despite the enabling policy framework, an estimated 5 million Kenyans (10 per cent) practice open defecation, while only 14 per cent have hand-washing facilities with soap and water at home (source: WHO). Clean water, basic toilets and good hygiene practices are essential for survival, especially of children. Water and sanitation-related diseases are one of the leading causes of death for children under five years of age. Access to sanitation and hygiene is a problem in many schools, with the number of latrines insufficient given the population of pupils.

The COVID-19 pandemic in 2020 increased pressure on already stressed water and sanitation resources and services. The government took measures such as closing all schools, promoting campaigns on handwashing with soap and launching preventive measures including distribution of face masks and equipping medical staff with protective gear. Achieving universal access to sanitation by 2030 will be challenging given current Covid related challenges, levels of investment, projected population growth and climate variability. The WASH joint monitoring programme report (2019) by The World Health Organization and UNICEF found that only 29% of Kenyans have access to sanitary services and only 59% have access to basic water services. The post-Covid situation remains to be seen.

It is worth noting that the recent national Covid interventions have unfortunately been carried out in silos, with most state ministries and agencies, and both levels of the devolved government instituting mostly uncoordinated efforts.

Problem statement

Despite its cross sector benefits, sanitation has largely remained poorly funded by the government, private entities and other stakeholders. In recent years, an estimated that Kshs 29 Billion of public finances (including donor transfers) are spent annually on investments towards the attainment of universal sanitation coverage by the year 2030 – this is less than a third of the required annual investment.

Poor sanitation is costly to the Kenyan economy as it contributes to under-utilization of wastewater resources, environmental degradation consequently accelerating climate change, loss of productive human capital due to need-less deaths as well as the loss of productive time and healthcare bills resulting from sanitation-related illnesses. The current Covid pandemic further exacerbates the threat that inadequate sanitation poses to the country.

Some of the challenges facing sanitation financing include; corruption, low prioritization at the policy level, perception of high risk of investing in sanitation, lack of a sanitation-specific financing framework, weak tariff setting mechanisms and, banding of water and sanitation funding basket(s) - that give more emphasis on water rather than sanitation interventions. Further, the elevation of Kenya to a middle-income economy status has resulted in ineligibility to traditional grant (and 0% interest rate) financing facilities.

Sector budget proposal - WASH

A WHO study in 2012 calculated that for every US$ 1.00 invested in sanitation, there was a return of US$ 5.50 in lower health costs, more productivity, and fewer premature deaths. This underscores the importance of increased budgetary allocation to the WASH sector as a catalyst to achieving not only SDG 6 but other SDGs as well.

Sector budget proposals

Proposal	Justification
Strengthening Institutional capacity, Locally/ community led initiatives and Water Resources management – harvesting, storage, flood control	Maximize the country's water resources management, development, distribution and usage capacity at all levels. This will ensure that Kenya's per capita water availability increases from the current status which is just under 600 cubic meters to the required universal minimum of 1,000 cubic meters by 2030.
WASH - Infrastructure	Develop innovative and state of the art WASH infrastructure to cope with the increasing population and maximize on the 3Rs – Reduce, Reuse, Recycle. Also repair the existing functional WASH infrastructure.
Invest in Research and data & Knowledge Management	Invest in WASH related research to generate factual data in order to inform planning and implementation. There is need for a WASH data and knowledge collection, processing and sharing system to facilitate coordinated implementation by all stakeholders
School WASH	Invest in school WASH infrastructure to promote safe hygiene and sanitation practice and awareness. This is essential especially schools are now open yet the COvid-19 threat is still there.

4.3 Education Sector

Education is as old a need as humanity. Human beings need education to survive; to thrive; and to live at peace within communities and with nature. Education therefore, has both instrumental (Becker 1964, Psacharopoulos 1984, Romer 1990) and utilitarian (Sen 1999) values, making it one of the critical ingredients in the nurture of children (Aynsley-Green 2010). Globally, societies have grappled with ways of ensuring that every child gets a good education as a first step towards giving them a fair shot at a fulfilling life. This has been done through global protocols and national laws that seek to domesticate them. One such protocol is the Convention on the Rights of the Child (CRC), which makes basic education a human right. In Kenya, the 2010 constitution makes basic education a constitutional right (Republic of Kenya, 2010). Articles 43 (1) (f) and 53 (1) (b), of Kenya's Constitution place the obligation of providing education as a human right on the state. This is sensible given that the core value of education is a public good as aptly reflected in Kenya's 7 goals of education - only goal 3 is private good-related. Thus its equitable access is paramount.

Situational analysis

The role of technology in teaching and learning dates back to the discovery of the printing press, making it possible for children and adults to learn from teachers who are far removed from them in time and space through the printed word. The printing press bolstered the preservation and transmission of knowledge thereby expanding access, quality and equity in the distribution of learning opportunities. Technological advancements have accelerated in recent times, with wide-ranging implications for education both by way of agenda-setting in the sector, and direct impact on the actual teaching and learning. The information communications technology (ICT) explosion in the recent years has made learning from far-off people/sources possible in real-time.

Ideally this should help learners in historically marginalized regions of the world, and parts of countries to access the best learning materials and teaching services, and thus improve equity in access to quality learning. But this revolution has also attached a time value to knowledge, rendering most of it obsolete as fast as new knowledge is generated and shared. This attribute of ICT makes it a threat to equity in education between societies that find themselves on the opposite sides of the technology frontier and within societies based on historical markers of marginalization and disadvantage.

The implication of this rapid changes in the way in which learning happens is that literacy is increasingly tied to digital literacy. This may have informed the Kenyan government's decision to invest in integrating ICT in education since 2013. This, however, seemed to be going well for over seven years until the COVID-19 pandemic struck and forced the closure of schools. The pandemic has challenged education sector stakeholders to leverage technology to promote learning continuity across the country. The Kenya government began running primary and secondary school lessons on public radio immediately after closure of schools in March 2020, while several civil society organizations (CSOs) and private sector actors launched a variety of other interventions. The reality checks on how little the efforts to integrate ICT in education have achieved is sobering. The country has been found unprepared such that "Even low-technology approaches, however, have little chance of ensuring learning continuity." (GEM report, 2020:59). "But even more awakening is how the digital divide follows other existing fault lines and the potential for this divide to cause differential access to learning opportunities in circumstances such as the COVID-19 crisis." (Uwezo, 2020).

Problem statement

While progress has been made over the years in making quality education accessible to all, not the same can be said of making the access equitable. Challenges still abound with respect to ensuring equitable access to quality education. The digital divide, which has been vividly exposed by the COVID-19 pandemic is one of the challenges that have simmered for a while. The adverse implications of this divide on equity in education are likely to be supercharged by the shift in favour of digital learning that has been occasioned by this pandemic. The fact that the digital divide follows the traditional socio-economic and educational cleavages, highlights the urgency with which a solution must be found. Delays in confronting the wide digital divide will augment the perennial drivers of inequity in education in the post-COVID era to undermine any efforts at pursuing the promise of SDG 4. These drivers include:

- Unequal initial conditions of learners (disabilities, malnourishment, lack of school readiness, etc.);
- Inequitable distribution of opportunities to access quality education (geographical differences, gender, type of school attended, etc.); and
- Unequal learning environments (home and school factors).

While the government cannot address some of these challenges, it can address the core of the problem, which is the funding and coordination. The funds available to fund the implementation of the ICT integration policy have been declining as the priorities of MOE have shifted to the implementation of the curriculum change and the 100% transition. Important as these are, the digital divide must now receive its due attention irrespective of the constraints to avoid stretching learning inequalities to a level that could snap. The government can invest its limited resources in coordination efforts to get more of its sectors – energy, ICT, administration, etc. to act in sync with non-state actors to support investments that narrow the digital divide. Increasing funding and deploying the additional funds strategically is essential to address this challenge.

Sector budget proposal

In view of this exigency, we propose the following budget changes:

Proposal	Justification
Increase and deploy the funding to education strategically in the FY 2021/22 to finance the following: • Review of MOE's strategy on the integration of ICT in education; • Upscaling of teacher training & support on ICT integration; • Establishment and operations of a multi-sectoral committee to work on a long-term plan to systematically bridge the digital divide that is both geographic & socio-economic, as part of the broader strategy to ensure equitable access to quality education and life-long learning opportunities aspiration of agenda2030.	MOE has implemented an ICT integration policy since 2013 aimed at enhancing the role of ICT in teaching & learning. These efforts have been disrupted & tested in equal measure by the Covid-19 pandemic, which has also heralded a "new normal" that underscores the primacy of ICT in teaching & learning going forward. Yet when we surveyed 3,735 households covering 10,281 learners; and interviewed 273 county & sub-county chairs of KEPSHA & KESSHA spread across 211 sub-counties covering 10,252 & 4,213 public primary & secondary schools respectively on access to remote learning in May 2020, we found the following: • Only 22% of learners were able to access remote learning materials; • Public schools were least prepared to support children's remote learning; and • Most of the constraints to digital learning were outside of the scope of the MOE, hence the need for multi-sectoral approach in tackling them. The response to the digital divide is an imperative that requires government funding in the 2021/22 annual budget, otherwise the gaps will widen beyond redemption with dire consequences on equity in education and the broader society

4.4 Information Communication Technology

Telecom Sector Proposals

Introduction

Over the past 10-year period, growth in the telecommunication sector has been steadfast on a positive note, yielding profits to operators in the sector and generating revenues to the government. In the current dispensation, amongst the challenges in the sector arises from rates and taxes, which can be at county or national level, and installation of infrastructure.

Taxation Measures

According to a study published by GSMA in 2020, sector specific taxation is the key impediment to the growth of digital infrastructure in the country. This includes other additional levies such as those imposed on the rights of way, business licences, and clearance fees among others. Consequently, such take a huge chunk of 'profits' that operators make, inhibiting their capacity to roll out infrastructure to reach the 47% of Kenyans who remain unconnected.

For instance, the Ministry of Transport and Infrastructure levies fees on operators on the right of way to set up fibre in the country, or build towers. Notably, these levies are not standardized such that each county makes their own charges, which thus varies from county to county meaning that the operator has to negotiate with each county government for affordable rates. On a positive note, some county governments have an open door policy to investments by firms, and partner with such firms to ensure provision of ICT services at affordable fee to end users.

While taxes and levies are important to both county and national governments, a review of existing taxes and levies is important to not only ensure they allow for growth, but also to ensure that they are harmonized across the country. As the country looks forward to realization of the digital economy, this review will be much more important as the county also gears up towards the 4th Industrial revolution, picking pace worldwide, and growth of the digital economy.

Recent developments have also seen the increase in fibre connectivity around the country, more so in urban areas. However, to get fibre connectivity, multiple operators often have to each excavate the ground, which had been dug by another operator, which at times leads to fibre cuts that interferes with quality of connections. This means that operators incur additional costs in the process other than also duplicating work. In order to arrest this situation, there is need to come up with a policy that will mandate operators excavating to ensure they build sufficient capacity of ducts to cater for future market entrants. In the same vein, the policy should include among others sharing of masts, sharing of radio channels, as well as national roaming services.

Recommendations

Taxation Measures: The Ministry of Information and Communications Technology (MoICT) should engage with the Ministry of Finance, and the Ministry of Transport and Infrastructure to review the sector specific taxation measures. Double taxation is a key impediment to already existing operators, and a dis-incentive to would be new investors in the sector.

Operationalize Policy: It is incumbent upon the Communications Authority to establish a framework that ensures availability of space for new entrants within existing infrastructure, and also allows for sharing to discourage duplication and repeat excavation. For duplication, enforcement of the existing policy should be the focus.

4.5 Health Sector

Implementation of the Kenya Mental Health Policy 2015-2030; Critical step in improving access to quality mental health care services

Background

Mental health as defined by WHO is a state of well-being in which the individual realizes his or her own abilities, can cope with the normal stresses of life, can work productively and fruitfully, and is able to make a contribution to his or her community (WHO Report 2003). However, health systems have not adequately responded to the burden of mental disorders. As a consequence, the gap between the need for treatment and its provision is wide all over the world. In low- and middle-income countries, between 76% and 85% of people with mental disorders receive no treatment for their disorder for a number of

reasons ranging from inadequate health work force to inadequate infrastructure across various facilities. Despite the high burden of diseases, governments across sub Saharan counties; Kenya included has continued to allocate limited resources to the health sector whereas health status determines the social and economic development of a country.

Situational analysis

Mental health experts estimate that 1 in every 4 Kenyans may be suffering from a mental illness. These range from common disorder like depression and anxiety; severe disorders like psychosis, schizophrenia and bipolar disorders; alcohol and substance abuse problems among others2. Persons suffering from mental illnesses are highly stigmatized, detested, stereotyped, feared and shunned by the society hence denying timely care to the much needed services to enable them achieve their full potential. At the community level, some of these persons are treated as if they are inexistence, locked and chained; their basic rights violated.

Kenya enacted a Mental Health Act in 1989, even though the Act has never been fully implemented. The country has been making strides towards prioritizing delivery of mental health services albeit at a slow pace. In 2015, the country through the ministry of health came up with the Kenya Mental Health Policy 2015 - 2030 which clearly highlights the various components to be taken into consideration by both the national and county governments to help in the realization of quality mental health services, however, this too has not been fully implemented. The policy recognizes that mental health is a key determinant of overall health and socio-economic development. For instance; the policy puts in place the need for establishment of County Mental Health Councils, 5 years after enactment, no county has been able to put in place these councils thereby creating a gap in terms of leadership and guidance in the implementation of mental health initiatives. Despite these policies being in line with the Kenya Vision 2030, Constitution of Kenya and Global Comprehensive Mental Health Action Plan 2013-2020 and are expected to steer the country towards achievement of Sustainable Development Goals, mental illnesses still remain to be a neglected disease with communities talking about it in hushed tones.

What is the magnitude of the problem?

According to WHO, it is estimated that 25% of outpatients and 40% of in-patients in health facilities suffer from related mental health conditions. The probable prevalence of mental illness in Kenya is at an average of 1% of the population; however, there is inadequate data and information to support this hypothesis. This gap in information could be attributed to many factors key among them the missing indicators for mental illnesses. Most frequent of diagnosis of mental illnesses made in hospital settings are depression, stress, substance abuse, and anxiety disorders with depression being the most common illness worldwide according to WHO Report, 2014. In the recent time, the ministry of health through the Division of Mental health has embarked on the inclusion of more mental health indicators to the Kenya Health Information System (KHIS) to help capture real time data at both the county and national level. Other than information, mental health gaps in the Kenya health system are also driven by inadequate legal and policy framework, low budgetary investments, inadequate health workers, particularly those skilled in mental health service provision. There is poor availability of drugs, commodities and equipment related to mental health. In addition, the critical component of community mental health services is completely missing in the current community and primary health system. This is despite the success of the community strategy in expanding delivery of other essential health services and redefining access barriers in a variety of settings including urban, remote and marginalised communities.

The emergence of COVID 19 has created interest on mental health conditions in the country with more focus being put on how to improve mental health conditions. Besides, the emergence of the pandemic and the stringent containment measures that followed, the country witnessed an increase in mental health cases calling for government intervention. In its part, the government came up with various legislations to tackle mental health conditions in the era of COVID 19, however, without financial allocation will not bear any fruits as there is need to move from the 'political good will' to implementation of these policies in order to realize the fruits as were intended. COVID 19 has exposed gaps that have since time immemorial existed in the health care sector thereby calling on prioritization of health.

Financial investment in the mental health field just like in health sector in general, has been negligible thereby hindering delivery of quality services to citizens. The available services are not sufficient and the poor infrastructure is not conducive to recovery, a case in point is Mathari National Teaching and Referral Hospital which has dilapidated structures and urgently requires a facelift, it is hoped that with the upgrade to Teaching and Referral Hospital, the condition will improve. According to the Draft 2021 Budget Policy Statement (BPS) Mental illness has increasingly caused serious national distress and anguish across the country. To curb further increase, the Government has established an Office in the Ministry of Health, with the full responsibility of spearheading the national response to the disruption caused by mental illness to the social order and the nation's wellness. To institutionalize this initiative, the Government is establishing an ultra-modern National Mental Health Hospital by elevating Mathari National Teaching and Referral Hospital as a semi-autonomous specialized hospital**.** The

hospital will be the East Africa's Premier Mental Health Facility and will offer training and research in psychiatry, specialized psychiatric services, forensic psychiatric services, child and adolescent mental services and substance abuse related and addictive disorders treatment and rehabilitation services. This declaration needs a financial allocation attached to it to enable its full implementation.

Sector proposals

Proposal	Justification
Strengthening primary care and Community health Systems	Health services are best utilized when located within safe physical reach for all sections of the population, especially most vulnerable and marginalized groups, such as persons with mental health disabilities. The current mental health services delivery system rarely provides for availability of mental health services at community and primary level facilities.
Increase the financial investments into mental health services. Ring fence funding for mental health programs are implemented as stipulated.	Mental health is marginalized within Kenya's health care system as only about 0.5% of the total national and county health budget is set aside for mental health care as compared to the burden of mental illnesses whose prevalence rate is estimated at 4%.
Establish multi-sectoral technical working groups for mental health. Creation of a Public-Private Partnership model and framework to facilitate the development of a competent mental health taskforce.	Mental health needs a multi sectoral approach with collaboration of both government and non-state actors to ensure that mental health conditions are tackled from all quarters. This collaboration will also help in resource pooling to ensure that all the available resources are put into good use which ensures that initiatives reap fruits.
Improve on the human resources for health (Recruit and retain health care work force to offer the required services)	In order to meet the shortfall of mental health workers there is need for in-service training for service providers on mental health. This will ensure that there is mental health workforce appropriate at all levels of healthcare. Integration of mental health in training curriculum of medical workers is essential to ensure that there is adequate work force.
Fast track NHIF and MOH accreditation of GOK rehabilitation centres.	To reduce the out of pocket expenditure, NHIF provides a prepayment avenue and guarantees access to rehabilitation services when needed. Most persons battling addiction are more likely to be financially vulnerable due to drugs/substance dependence and as a result inability to be gainfully engaged. This in turn increases their dependency and likelihood of delayed interventions that may escalate into full blown mental illness.

4.6 Social Protection sector

Introduction

Social protection, is a program that seeks to formulate policies and actions, including legislative measures, in order to enhance the capacity and opportunities for the poor and vulnerable to improve and sustain their livelihoods ,enable income-earners and their dependents to maintain a reasonable level of income through decent work and to ensure access to affordable health care, social security and assistance.

Situational analysis

The current coverage of social protection programs is spread across various lifecycle categories; for the children, persons with disabilities, working age adults and the aged.

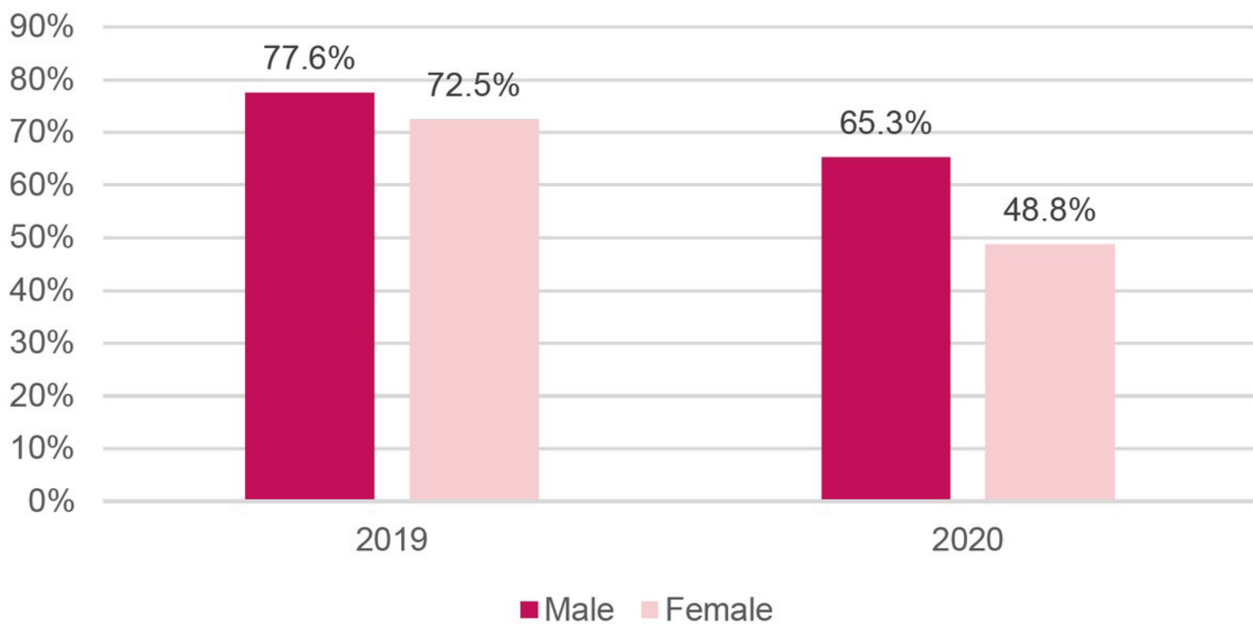
However, the rise of the COVID-19, and the government undertaking various measures to curb the spread of the virus, including limiting movement in places with reported cases; closure of public spaces with high human traffic, such as schools and public events; dusk-to-dawn curfews; and ensuring basic hygiene and social distancing, brought negative economic impacts on businesses and workers. The country has witnessed job cuts across various sectors, and incomes of businesses and available working hours for staff have fallen significantly. The economic consequences of the pandemic are likely to have had a far greater impact on the long-term health, wellbeing and poverty levels of the population as a whole than the predicted fatalities caused directly by the disease.

In most parts of the country – particularly Nairobi and Mombasa, which have been hit the hardest by Covid-19 – people are concerned about having enough money to buy the food they need due to reduced earnings. According to a recent GeoPoll study, 86% of Kenyans are worried about not having enough to eat.

Measures imposed by the government of Kenya to mitigate the spread of Covid-19 are resulting in job losses, both for casual workers in the informal sector and daily-wage earners in the formal sector, both of which employ a high proportion of women and the youth. Due to curfews and limited movement of people, many roles have become redundant, resulting in job losses or unpaid leave. Individuals who live below the poverty line and cannot afford to have precautionary savings are experiencing even greater challenges in regaining their livelihoods post the pandemic.

Problem Statement

A survey conducted by the Kenya National Bureau of Statistics (KNBS) in May 2020 indicates that the labour participation rate in the country has fallen significantly as a result of the pandemic. Data from the World Bank shows that in 2019 Kenya had a labour-force participation rate of 75%; this rate fell to just 56.8% in April 2020. According to the KNBS survey, the percentage of the population in active employment, whether informal or formal, has fallen to 65.3% of men and 48.8% of women. The reduction has been caused by job losses in both the informal and formal sectors.



People living in poverty are finding it difficult to meet their daily expenses and pay bills, including rent, as a result of job losses, pay cuts or unpaid leave. Kenyans, particularly those relying on casual work, find it difficult to pay rent. According to the KNBS survey in April 2020, 30.5% of Kenyans who rented apartments and houses were unable to pay their rent on time. Conversely only 41.7% of tenants paid their rent on time.

Sector budget proposal

Proposal	Justification
Expand the scope of the emergency relief programme financed through the Covid-19 Emergency Response Fund to include vulnerable rural households	While the prevalence of Covid-19 is currently lower in rural areas compared with urban areas, rural households living in poverty who depend on agriculture and remittances are likely to become more vulnerable due to limited access to markets for their produce and a reduction in remittance inflows during the pandemic.
Sustain increased allocation to the National Safety Net Programme to ensure all vulnerable populations are supported.	More households are likely to become vulnerable, as the social and economic effects of Covid-19 continue to escalate, with possible adverse medium and long-term impacts on livelihoods and household wellbeing.
Allocate resources to equip dispensaries and health Centers with adequate medical equipment.	The Kenya Harmonized Health Facility Assessment survey, 2018 showed that dispensaries and health Centers have significantly low availability of basic equipment despite their key role in provision of primary health care.

5.0 Conclusion

The Preparation of Budget policy statement for the year 2021 is being done against a background of contracting economy globally which has had disruptions due to rapid spread of COVID-19 pandemic. The economy is estimated to slow down to 0.6 percent in the year 2020 from a growth rate of 5.4 per cent in the year 2019.This projection is that the economy will recover by about 6.4 per cent in the year 2021 and above 6.2 percent in the medium term. Rebound of the economy is expected in the year 2021 through improved economic activities and enhanced tax administration. However, the Kenyan government should therefore employ prudent management of risk as required by PFM Act, 2012.

These Tax and expenditure proposals contained in these Citizen's Alternative Budget memo are therefore intended for consideration by the Treasury with the view that they will contribute to maintaining Kenya in its current economic growth and in contributing to wealth creation and poverty reduction as well as the Big Four Agenda under the Jubilee administration even during this period of COVID-19.

Abbreviations and Acronyms

AIA	Appropriation in Aid
ASALS	Arid and Semi-Arid Lands
ASTGS	Agriculture Sector Transformation and Growth Strategy
BAT	British American Tobacco
BPS	Budget Policy Statement
CIP	Competitive Industrial Performance
CRC	Convention on the Rights of the Child
CSOs	Civil Society Organizations
EAC	East African Community
ETRS	Electronic Tax Regulations
FAO	Food and Agriculture Organization
FAW	Fall Army Worm
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
ICT	Information and Communications Technology
IEA	Institute of Economic Affairs
IDA	Industrial Building Deduction
IDF	Import Declaration Form
ILA	International Institute for Legislative Affairs
ITA	Income Tax Act
KAM	Kenya Association of Manufacturers
KEPSHA	Kenya Primary School Head Teachers Association
KESSHA	Kenya Secondary Schools Heads Association
KITP	Kenya Industrial Transformation Program
KNBS	Kenya National Bureau of Statistics
KWP	Kenya Water Partnership
KRA	Kenya Revenue Authority
MDAS	Ministries, Departments and Agencies
MNLD	Maize Lethal Neurotic Disease
MOE	Ministry of Education
MSMES	Micro, Small, and Medium Enterprises.
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NAIP	National Agriculture Investment Plan
NCDS	Non Communicable Diseases
NDFPWD	National Development Fund for Persons with Disabilities
NHIF	National Hospital Insurance Fund
NMS	Nairobi Metropolitan Services
NSNP	National Safety Net programme
PAYE	Pay As You Earn
PFM	Public Finance Management
PWSD	Persons with Severe Disabilities
R&D	Research and Development
SDGs	Sustainable Development Goal
TCA	Tobacco Control Act
TCF	Tobacco Control Fund
UHC	Universal Health Coverage
UNICEF	United Nations Children's Fund
UN-SDG	United Nations Sustainable Development Goals
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WASH	Water Sanitation and Hygiene
WHO	World Health Organization
WRS	Warehouse Receipt System

Annexes

Annex 1: Sector Proposals – Contributors

	Presentation	Area of Submission
	Corporate Sector	
1.	Dr. Emmanuel Manyasa, Executive Director, Usawa Agenda	Education Sector
2.	Dr. Timothy Njagi Njeru Tegemeo Institute of Agricultural Policy and Development (TEGEMEO)	Agriculture
3.	Mr. George Sanga Kavulunze Global Water Partnership Eastern Africa	Water and Sanitation
4.	Mr. Job Wanjohi Kenya Association of Manufacturers (KAM)	Manufacturing
5.	Mr. Elias Wakhisi Institute of Certified Public Accountants of Kenya	Financial Sector
	Social Sector	
6.	Mr. Philip Musamia - Program Officer International Institute for Legislative Affairs (ILA)	Manufacturing sector
7.	Mr. Geoffrey Chepsoi National Taxpayers Association (NTA)	Social Protection
8.	Ms. Christine Ajulu Health Rights Advocacy Forum (HERAF)	Health

NOTES

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The Citizen Alternative Budget

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Submissions for budget 2021/22
Made by different Stakeholders from the corporate and social sector on
27th and 28th January 2021

Board of Directors:

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