The Citizen Alternative Budget

Institute of Economic Affairs

2024 Issue

INSIDE

1.0 Introduction

The Institute of Economic Affairs (IEA-Kenya) is pleased to present the Citizen's Alternative Budget 2024/2025.

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 30th and 31st January, 2024 at Sarova Stanley hotel. 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 budget policy statement 2024/2025 as a pre-budget statement that sets the macroeconomic framework through which the government will prepare the forthcoming budget and the National Treasury notices on the guidelines on budget proposal submissions for the fiscal budget for the financial year 2024/2025.

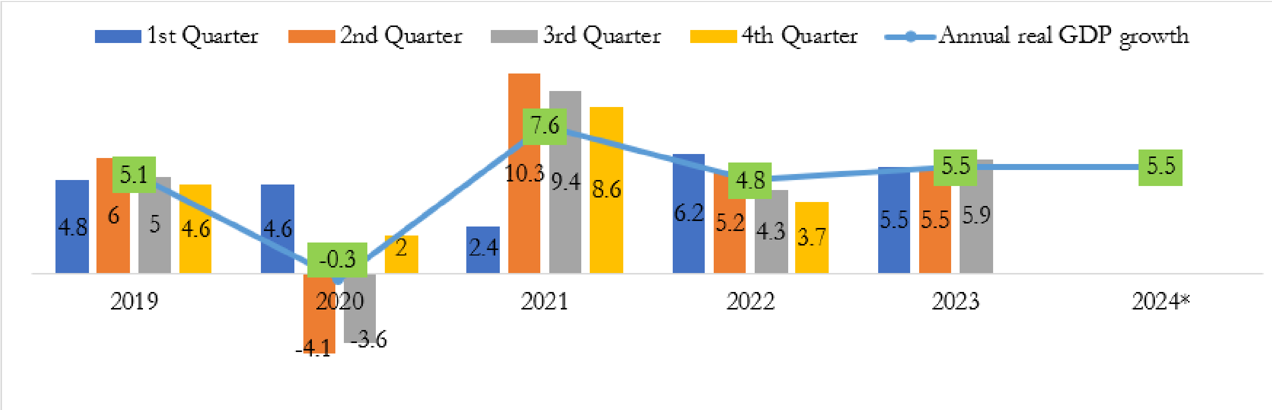
The Alternative Budget seeks to influence government decisions and help civil society develop viable alternatives to government policy. Equally, it provides a complementary avenue for deepening participatory budgeting, given the legal basis for public participation in government planning and budgeting processes. As the country embrace 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 Economic Performance

The current 2024 BPS was prepared under a challenging domestic and global environment. Globally, economic growth has been on a downward trend due to the ongoing geopolitical conflict between Russia and Ukraine and between Israel and Palestine. This has led to the disruption of global supply chains, limiting availability of important commodities such as petroleum oil. This has further pushed up prices of other commodities. Developing countries have experienced a surge in public debt resulting from the high inflation and high interest rates which translated to increased debt servicing costs. These challenges have contributed to the decline of global growth from 3.5 percent in 2022 to 3 percent in 2023 and is projected to further slowdown to 2.9 percent in 2024. At the home front, the country's economic growth has remained resilient despite the above global challenges and the tighter policies the government is implementing to curb rise in public debt and to stabilize the economy against these shocks.

Figure 1: Quarterly and Annual GDP growth rates (%), 2019-2023



Source: KNBS Quarterly GDP Reports and National Treasury BPS

Figure 1 is an illustration of quarterly and annual real GDP growth rates for 2019-2023. The economy grew at a rate of 5.5 percent, 5.5 percent and 5.9 percent in quarters 1,2 and 3 of 2023 respectively. This is an improvement in growth compared to same period in 2022. Annual GDP growth rate recorded an improvement from 4.8 percent in FY 2022 to 5.5 percent in FY 2023. The rebound was supported by recovery of agriculture sector as a result of improvement in weather conditions.

Table 1: Sector contribution to GDP growth (%).

Sectors	2021				2022				2023		
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3
Primary sector											
Agriculture, Forestry and Fishing	-0.6	-1.8	-0.6	2.1	-1.7	-2.4	-1.3	-0.9	6.1	8.2	6.7
Mining and Quarrying	10.4	10.6	16	35.5	23.8	16.6	-4.5	1.6	3.3	5.2	1.1
Secondary sector (Industry)											
Manufacturing	2	11.1	10.5	6.2	3.8	3.6	1.8	1.8	2	1.4	2.6
Electricity and water supply	3.9	7.7	7.1	3.8	3.2	5.6	6	4.9	2.5	0.8	1.9
Construction	6.2	6.9	6.7	7	6	4.5	3.5	2.4	3.1	2.6	3.8
Tertiary Sector (Services)											
Wholesale and Retail trade	8.8	10.3	6.6	6.7	4.9	4.1	3.6	2.7	5.7	4.2	4.8
Accomodation and Restaurant	-28.3	69.7	145.1	120.8	40.1	44	16.9	14.9	21.5	12.2	26
Transport and storage	-7.9	18.5	14.6	7	7.7	7.2	5.1	2.7	6.2	3	2.8
Information and Communication	5.1	11.8	1.4	6.9	9	11.2	11.8	8	9	6.4	7.3
Financial and Insurance	10.1	13.2	10.6	11.8	17	16.1	9.6	9.4	5.8	13.5	14.7
Public Administration	7.2	8.2	5.3	3.7	6.2	3.8	3.4	4.7	6.6	3.8	4.2
Professional, admin	-12.3	20	15.3	9.6	13.1	10.9	9	5.4	7.3	5.5	9.5
Real estate	6	6.8	7.1	6.8	6	5	4	2.9	5.2	5.8	6.2
Education	12	34.4	30.9	18.4	4.6	4.4	3.9	6.1	3	4	4.7
Health	7.9	9.5	7.1	10.8	5.7	4.4	3.7	4.3	5.4	5	5.1
Real GDP growth	2.4	10.3	9.4	8.6	6.2	5.2	4.3	3.7	5.5	5.5	5.9

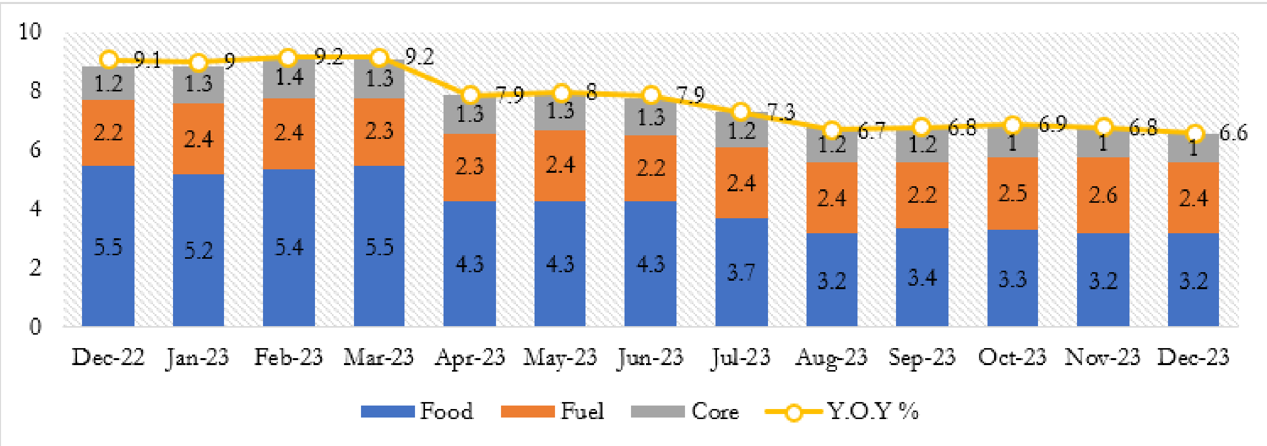
Data Source: Kenya National Bureau of Statistics

Table 1 illustrates a breakdown of sectors contribution to overall growth. In the first 3 quarters of 2023, all sectors recorded positive growth rates. **Agriculture sector** recorded a growth of 6.1 percent, 8.2 percent and 6.7 percent in quarters 1,2 and 3 of 2023 compared to a negative growth rate recorded in all four quarters of 2022. The recovery in 2023 is attributed to improved weather conditions witnessed in various parts of the country and the positive impacts of fertilizer and seed subsidy provided by the government. **Secondary sector** also remained positive with contribution of manufacturing and electricity declining to an average of 2 percent and 1. 7 percent respectively in the 3 quarters of 2023 compared to an average growth of 3 percent and 4.9 percent respectively during same period in 2022. The decline in manufacturing was as a result of reduction in sugar production and non-food products while reduced electricity generation accounted for the reduced growth in electricity. **Tertiary Sector** which accounts for the biggest contribution recorded positive growth with accommodation and restaurant, information and communication, and financial and insurance accounting for 26 percent, 7.3 percent and 14.7 percent in the 3rd quarter of 2023. This performance is underpinned by the recovery of tourism sector, increased internet connectivity and the increased credit growth in the financial sector.

Inflation

Inflation rate declined to a rate of 6.6 percent in Dec 2023 compared to a rate of 9.1 percent in Dec 2022. The decline was as a result of reduction in food inflation which is the biggest contributor to inflation, from a rate of 5.5 percent in December 2022 to 3.2 percent in December 2023. Contribution of fuel inflation increased in the fourth quarter of 2023 due to the increase in fuel prices globally and the revision of VAT from 8 percent to 16 percent.

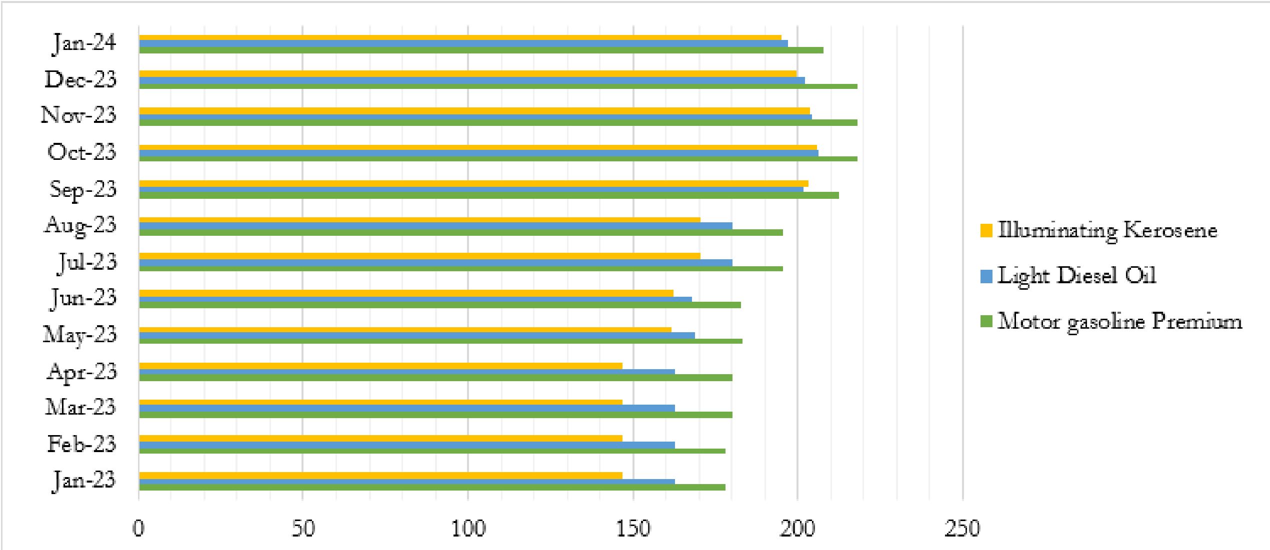
Figure 2: Trend in Inflation (%)



Source: Kenya National Bureau of Statistics

Figure 3 shows increase in fuel prices (Diesel, gasoline and Kerosene) since January, 2023.

Figure 3: Fuel Prices

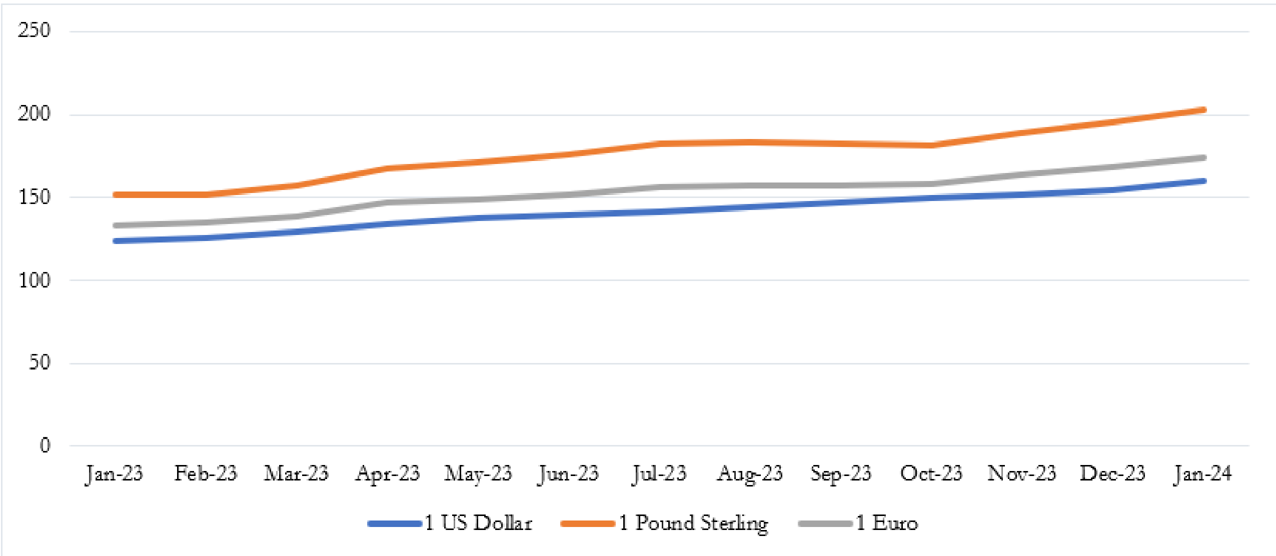


Source: KNBS

Exchange Rate

In the period ending October 2023, Kenya Shilling recorded poor performance against other major currencies. The shilling depreciated to a rate of 181.86, 157.77 and 149.4 against sterling pound, euro and US dollar respectively in October 2023.

Figure 4: Trend in Exchange Rate of Ksh



Source: Central Bank of Kenya

3.0 Fiscal Policy/Framework

Revenue Performance

Total revenues received for the second quarter of FY 2023/24 fell short of target by Ksh 139 billion from a projection of Ksh 1,452.6 billion to actual receipts of Ksh 1,313.3 billion. Ordinary revenues, which comprises of revenues raised from taxes accounted for the largest share of this deviation which amounted to Ksh 186 billion. Despite the growth, performance of all taxes was below target especially taxes from income. Revenue from PAYE and Other income tax was below target by Ksh 56.5 billion and 48.9 billion respectively.

Table 2: Revenue and External Grants, Period Ending 31st December,2023 (Ksh. Billions)

	2022/23	2023/2024			
	Actual	Actual	Target	Deviation Kshs	% Growth
Total Revenue a+b	**1,147.0**	**1,313.3**	**1,452.6**	**(139.3)**	**14.5**
a. Ordinary Revenue	985.0	1,088.7	1,274.8	(186.2)	10.5
a. Import Duty	67.1	68.2	87.7	(19.4)	1.7
b. Excise Duty	130.3	139.8	170.6	(30.8)	7.3
c. PAYE	230.9	256.3	312.8	(56.5)	11.0
d. Other Income Tax	220.1	235.0	283.8	(48.9)	6.4
e. VAT (Local+Imports)	264.1	317.9	340.9	(23)	20.3
b. Appropriation In Aid	162.1	224.6	177.7	46.9	38.60
c. External Grants	4.3	5.5	8.9	(3.4)	27.10
Total revenue and External grants	1,151.3	1,318.7	1,461.5	(142.7)	14.50

Source: National Treasury Second Quarterly Economic and Budgetary Review

Expenditure Performance

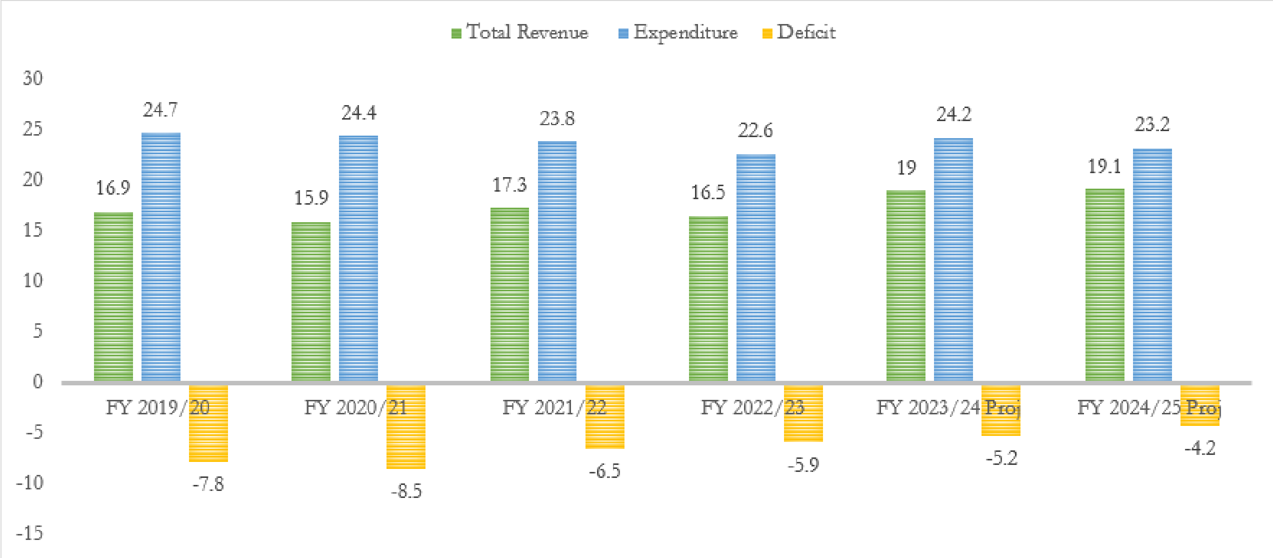
Government spending for the first half of FY 2023/24 fell short of target by Ksh 120 billion, from a projection of Ksh 1,825.1 to actual spending amounting to Ksh 1,704.8 billion. This resulted from under-absorption of both recurrent and development expenditure. Recurrent expenditures amounted to Ksh 1,268.5 billion while development expenditure amounted to Ksh 265.9 billion against a target of Ksh 1,275 billion and Ksh 314.9 billion respectively. The amount transferred to county government increased from Ksh 141 billion to Ksh 142 billion which represented a 1% increase from the previous year transfer. (Raises the question of government commitment to devolution).

Table 3. Expenditure and Net lending, Period Ending 31st December,2023 (Ksh. Billions)

	2022/2023		2023/2024		
	Actual	Actual	Target	Deviation Kshs	% Growth
Total Expenditure	**1,468.8**	**1,704.8**	**1,825.1**	**(120.3)**	**16.10**
Recurrent	1,096.3	1,268.5	1,275.0	(6.5)	15.70
Development	206.3	265.9	314.9	(48.9)	28.90
County Governments	141.1	142.5	204.4	(62.0)	1.00
CF			0.6	(0.6)	

Source: National Treasury

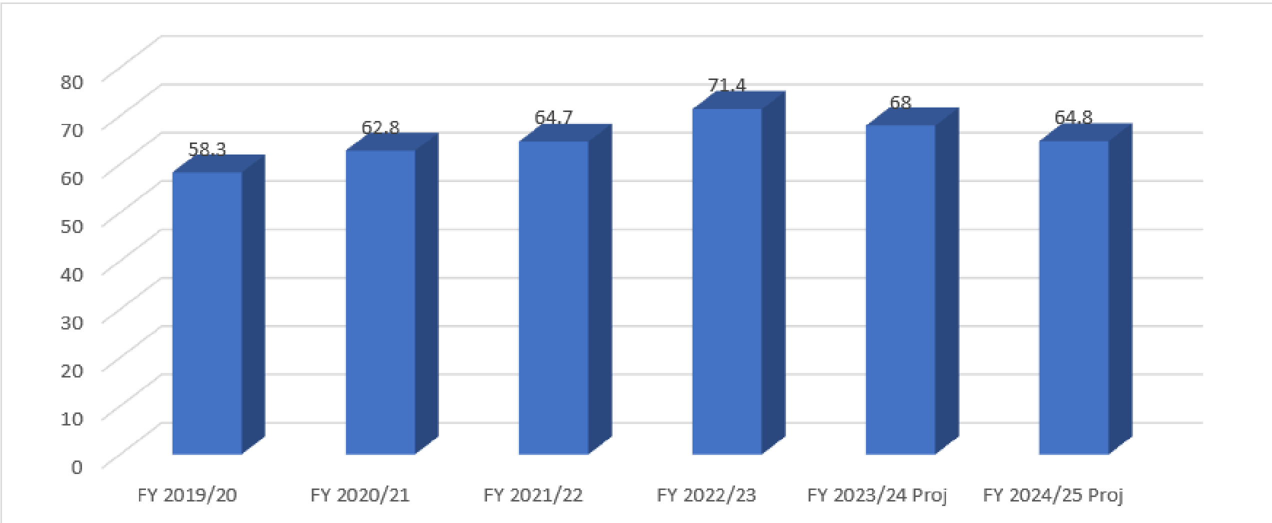
Figure 5: Revenue, Expenditure and Budget deficit trends (%GDP)



Source: National Treasury

The gap between how much the country spends and resources available has been declining for the last three years. The projections for the next two financial years indicate decline in expenditure from 24.2 percent to 23.2 percent and this will be accompanied by a 0.1 percent increase in revenue. This will translate to a 1 percent reduction in budget deficit (see figure 5 above). This reduction in budget deficit is expected to contribute to the projected reduction in debt from 68 percent to 64.8 percent in the same period. (see figure 6 below)

Figure 6: Public Debt as a % of GDP



Data source: National Treasury

Pending Bills

Table 4 gives a summary of national government pending bills. Total outstanding bills for both MDAs and SAGAs for the period ending 31st December, 2023 amounted to Ksh 538 billion, representing a 5.05 percent decline from 30th June,2023. These pending bills comprises of Ksh 447 billion for state corporation and Ksh 91 billion for MDAs.

Table 4: National Government Pending Bills Summary)

Category	31st Dec 2023	30th June 2023	Change	%change
		Ksh		
a) Ministries Departments and Agencies (MDAs)				
Recurrent	62,996,426,837	87,835,178,691	(24,838,751,854)	-28.27
Development	28,514,433,532	36,070,253,970	(7,555,820,438)	-20.95
Sub-total	91,510,860,369	123,905,432,661	(32,394,572,292)	-26.14
b) State Corporations/State owned Enterprises/SAGAs				
Recurrent	237,886,253,548	188,135,273,215	49,750,980,333	26.44
Development	447,309,253	255,420,724,633	(254,973,415,380)	-99.82
Sub-total	447,309,253,263	443,595,997,848	3,713,255,414	0.84
Total National Government	538,820,113,632	567,501,430,509	(28,681,316,878)	-5.05

Source: National Treasury

4.0 Taxation proposal

In the FY 2024/25 and the Medium-Term Budget, emphasis will be on aggressive revenue mobilization including policy measures to bring on board additional revenue while containing growth in expenditures. The focus during the Medium-Term Fiscal Framework will be on:

1. Real GDP growth above 6.0 percent over the medium-term.
2. Gradual improvement in revenue collection to over 18.0 percent of the GDP over the medium-term; and
3. Gradual reduction in expenditures to about 22.7% of GDP over the Medium-Term in line with the fiscal consolidation policy.

The Bottom-Up Economic Transformation Agenda will seek to increase investments in at least five sectors envisaged to have the largest impact on the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

The National Treasury should take into consideration the following proposals for the fiscal year 2024/2025;

MSMEs Access to Finance; and Imperatives on Taxation

Taxing MSMEs is critical for establishing tax equity, enabling the informal sector contribute to revenue generation and contributing to public service delivery. Currently, taxes that directly affect SMEs in Kenya include Turnover Tax, PAYE, VAT, Corporation Tax, Withholding Tax and Pension Contribution among others. Nonetheless, there are barriers that hinder utilization of this sector's potential such as:

a) Narrow tax base: Kenya has continued to place reliance on a small pool of taxpayers. This has resulted in tax fatigue for the small pool of taxpayers. It also contravenes the tax maxim of Equity and Fairness.

b) Informality hinders the development of MSMEs as it limits their access to markets, financial services and consequently lowers growth opportunities.

c) Access to Finance, credit and collateral requirements is a huge hindrance.

The government in a bid to incentivize the sector has put in place various mechanisms including:

a) Operationalization of the Financial Inclusion Fund, or the Hustlers Fund. By the end of October 2023, the Fund had disbursed Ksh 36.6 billion and realized Ksh 2.3 billion in savings, befitting 21.3 million customers.

b) Proposal to convert the Credit Guarantee Scheme into the Kenya Credit Guarantee Scheme Company (KCGSC) to ensure sustainability. According to the National Treasury, I from December 2020 to 30th June 2022, Kenya Credit Guarantee Scheme disbursed approximately Ksh 3.9 billion to 2,490 MSMEs, across 46 Counties and 11 sectors of economy.

c) Proposal to develop a Credit Guarantee Policy whose objective is to provide a clear framework for a sustainable model for credit guarantee scheme for MSMEs.

d) Efforts to clear pending Bills owed to MSMEs and suppliers in Kenya which has over the years crippled the sector..

e) Proposal to establish MSME Business Development Centre in every ward, and an industrial park and business incubation centre in every TVET institution.

Proposals on Incentivizing the Sector

Thematic Area	Policy Recommendations
Taxation of MSMEs	• Need Predictable Tax Regime for MSMEs through an overarching tax policy: • Reform the tax policy to help in the formalization of the informal sector for sustained revenue collection. This can be achieved through: a) harmonization of taxes- reduce multiplicity of taxes both at National and subnational levels. b) Tax education for taxpayers to understand why they pay. c) Simplification of taxes- for instance, uptake of turnover tax still low d) Link taxation to elector's cards- integrate the registration systems – taxation, identification, and election.
Regulatory Framework	• Awareness: There is need to create awareness on the laws and regulations relevant to the operations of MSMEs. • Efforts to improve formality should be based on corresponding investments in value creation for MSEs such as the provision of basic services, improved market areas, provision of funding.
Capacity and financial literacy/ accountancy	• Encouraging greater uptake and usage of digital payment systems, such as till numbers, would help MSEs generate more reliable data on cash flows and generate records which can be leveraged for credit purposes. • Capacity building programmes. There is need to create awareness on government initiatives on artisans' skills certifications.
MSE Challenges: Accounting and Auditing	• Simplify the accounting model/framework considering the simplicity of reporting requirements for most MSMEs. • Adopt affordable professional fees guidelines to make the services affordable to the MSMEs. • Create forums for capacity building and training on finance management for small and medium entrepreneurs. • Digitize the accounting solutions
Cost of Petroleum Products	• The 16% on petroleum products has negatively affected the economy. This has reduced disposable income. Consider reducing/reverting to 8%. To cushion the ordinary citizen
Property Registration	• Conduct census for all commercial properties and issue unique identification numbers affiliated to the taxpayers PIN. This will enhance ease on enforcement procedures thus return on tax revenue and facilitate easy monitoring of housing demand trends

Thematic Area	Policy Recommendations
Tax Refunds	• Processing of refunds takes too long. As a result, businesses must borrow to fund their operations. • KRA and the National Treasury should agree on how to streamline the refund process. For instance, the offset of tax overpayments should not be subject to allocation from the National Treasury.

Specific proposals

a) Import Declaration Fee (IDF)

The current Standard rate is at 2.5% on all imports including industrial inputs.

Proposal

1.5% preferential rate for raw materials and intermediate inputs

Justification

- Previously, the Miscellaneous Fees and Levies Act (2016) provided for preferential rate treatment of imported raw materials/intermediate inputs imported by manufacturers to promote the growth of the sector.
- Kenya has a cost-disadvantage compared to other EAC Partner States as shown in the Table below.

Table 5.0 .IDF fee application across EAC partners

Tax	Kenya - before Finance Act 2023	Kenya - After Finance Act 2023	UG	TZ	RW	BR
IDF	1.5%	2.5%	0%	0%	0.4[1] %	0%
RDL	1.5%	1.5%	1.5%	1.5%	1.5%	0%
Total	3%	4%	1.5%	1.5%	1.9%	0%

Source: KNBS

- Tanzania introduced a 1.5% infrastructure development levy on imports to assist the government with raising finances for new rail projects and improve existing lines.
- In Uganda, imports are also charged a 1.5% infrastructure tax to finance railway infrastructure development.
- In Rwanda, all imported goods, except those listed as exempt, are subject to the 1.5% Infrastructure Development Levy (IDL) and the 0.2% African Union Levy (AUL). Additionally, imported goods, regardless of whether they are exempted, are subject to a 0.2% Quality Inspection Fee (QIF).
- Seeing that the sector contribution to the country's GDP is declining, there is need to continue providing the preferential rate treatment for manufacturers importing raw materials and inputs to boost the sector growth and contribution to the national income.
- The increase in the IDF rate will result in an increase in the cost of doing business, which in turn may lead to trade diversion, favoring other EAC countries.
- IDF increases the cost of imported raw materials and thus increases the unit cost of production and ultimately the prices at which the consumers get the products.

[1]Is the summation of Infrastructure Development Levy (IDL) and African Union Levy (AUL); 0.2% each.

Expected Outcome

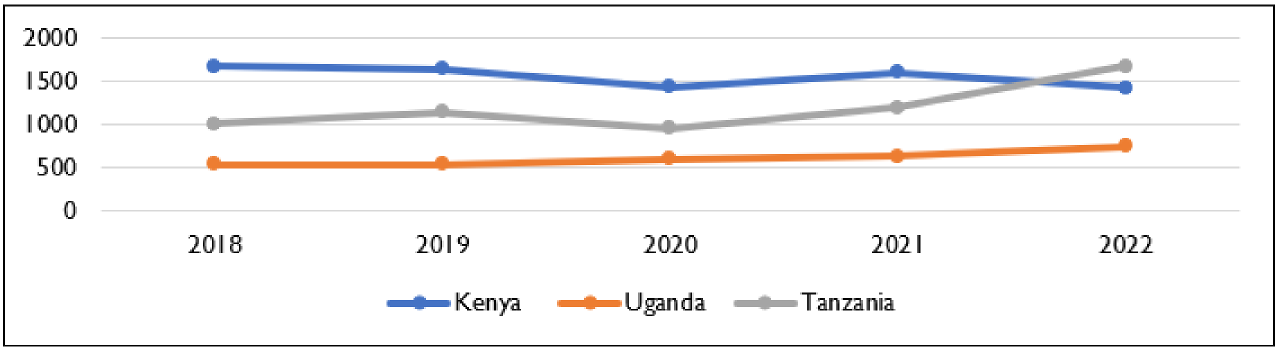
Reduction on investment cost for status including SMEs and long-term impact will be more taxes to government inform PAYE, excise, corporate tax among other taxes on products thereof produced.There will also be enhanced competitiveness and growth of the current companies leading to Job creation. This will also discourage import of finished products that can be locally produced (import substitution) and the country will earn foreign exchange.

b) Reduction of Import Declaration Fee (IDF) for industrial machinery and spare parts for Chapters 84 & 85 from 2.5% to 1.5% IDF for industrial machinery of Chapters 84 & 85 in Section 7: (2A) (b)

Justification

- Industrial machinery is a critical tool for manufacturing in Kenya figure 6.0 shows import (U$ million) declining for Kenya but is increasing for Uganda and Tanzania.

Figure 6.0: Kenya import trends



Data source: National Treasury

- Effectively, this demonstrates a decline in investments in Kenya. With IDF increase, the cost of imported industrial machinery and thus increases hence cost of investments in the country, especially for SMEs. Kenya is the only country in the EAC Region that charges IDF on Industrial Machinery this puts manufacturers in Kenya at a cost disadvantage. The additional charge of 2.5% acts as disincentive to invest in Kenya.In line with the Government agenda on manufacturing, the reduction of IDF on of Industrial machinery of Chapters 84 & 85 (Section 7: (2A) (b) of Miscellaneous Fees and Levies Act) will not only give investors relief but also increase their competitiveness.

c) Investment deduction allowance (IDA).The Tax Law Amendment Act 2020 overhauled the Second Schedule to the Income Tax Act. The changes introduced reduces the investment allowance deductions for industrial buildings and machinery from 100% to 50% in first year and 25% on a reducing balance for the balance.Revert to the previous provision of 100% for Nairobi, Mombasa and Kisumu and 150% outside of Nairobi, Mombasa and Kisumu.

Justification

This will lead to Promotion of industrial development in the Counties which are overwhelmingly rural with agriculture as the main economy. Examples include Tatu City, Thika, Naivasha, Kilifi, Kajiado, Machakos, Nyeri to mention a few. Reduction of regional inequalities in the country.

Other impacts are as follows:

- The Government has previously as a policy introduced any changes to investment deductions at the beginning of the following year. This was to give ample notice to investors with already ongoing or current investments to be completed. Investment projects underway were based on the previous tax regime for investment deductions.
- Reduced cash flows for businesses.
- The reduction in capital allowances will discourage investment in less developed counties due to fewer incentives for investors.
- Reduced industrial investment in Kenya, especially for large scale projects that require longer pay-off periods. Notably, neighboring countries in the region have retained what are normative investment deductions and will attract more capital especially Ethiopia and Rwanda.

d) Remove the 17.5% export and Investment levy on Clickers

Currently the country has inadequacy of clinkers despite existence of clinker plants. The demand for clinker stands at about 6 million tonnes versus production capacity of about 4 million tonnes. This means there is a need for the Government support to the cement industries to build their capacities and become self-sufficient and even export the surplus. The sector on its own continues to build its investments progressively. Due to the existing gap, Kenya must therefore still import clinker to meet demands. In the absence of this, other countries will enter the Kenyan market and supply the same hence taking a share of Kenyan company's market opportunity. This new levy introduced poses a risk in impeding local clinker investments worth about USD one billion, some of which are at an advanced stage. It will result in an increase in the cost of cement production. This will also impact the government's agenda of building affordable housing for Kenyans. This levy may lead to the collapse of companies which rely solely on imported clinker due to the inadequate capacity as provided above. Loss of thousands of jobs, both direct and indirect. There is also a risk of a national clinker stock out as was experienced in April 2022 when two companies experienced failure at their plants, which resulted in very high prices of cement in the country. The levy will make Kenya uncompetitive within the EAC and regionally. Commercial clinker manufacturers will take an advantage of the growing EAC and COMESA regional markets for clinker through exports. The preferential rate for this clinker in the region is 0%. The Independent Clinker Verification Committee report gave a 4-year grace period before any changes are affected on imported clinker, hence the new levy introduced goes against the industry adopted report.

e) Introduce a provision in the Excise duty Act for exemption or refunds for non-excisable goods exported where the input, raw materials or packaging materials are excisable.

Justification

This will improve local manufacturers' competitiveness in the export markets and sustain jobs locally.This will promote foreign exchange for the country.Imports of finished products packed in articles of plastic of chapter 3923.30.00 is not subjected to the excise tax on inputs which creates an unlevel playing field.The burden of these excise duty on packaging material and input is being paid for by local manufacturers and citizens through loss of jobs, reduced market share which defeats the purpose of industrialization.

f) Amend the miscellaneous fees and Levies Act to remove kraft paper of HS code 404.21.00; 4804.31.00 and 4804.11.00 from the list of products attracting Export and Investment Promotion Levy (EIPL)

Justification

Presently, the government has induced a 10% export and investment promotion levy on paper products namely unbleached sack kraft and unbleached kraft. Kraft paper is an intermediate used in the production of corrugated cartons. Locally produced kraft paper has limited uses as it does not meet the standard required for a number of applications that require durable packaging. Packaging for fresh produce, for example, cannot be produced with locally produced kraft paper. Local carton manufacturers are therefore losing market share to competitive actors situated elsewhere in the EAC region and around the world.

5.0 Sector Proposals

5.1 Health Sector

Introduction

The health sector is responsible for developing, implementing and monitoring policies related to specialized medical services including: population health; research and innovation; public health; sanitation; preventive and promotive health services; professional standards; health education management; food quality; hygiene and nutrition; quarantine administration; radiation; and control and management of TB and malaria.

The Budget Policy Statement 2024 indicates that the health sector's priority is in the delivery of universal health coverage (UHC). This priority is aligned to the Bottom-Up Economic Transformation Agenda (BETA) of Kenya Kwanza administration, Kenya Health Policy as well as with international obligations such as Sustainable Development Goals (SDGs) and African Union Agenda 2063. The government has embarked on various interventions for the realization of UHC including provision of a fully publicly financed primary health care system; set up of a Fund for improving health facilities and for emergency medical treatment; establishment of a National Insurance Fund and effective human resources for health.

UHC entails assuring citizen of getting the highest quality of care without bearing financial difficulties. As a result, it is clear that additional resources will be required for the government to achieve UHC. However, Kenya's health system is among other things characterized by chronic underfunding amidst tightening fiscal space and over dependence on donor funding for certain strategic health programs which is now declining.

Total allocation to health as a proportion of government budget has been increasing since FY 2013/14 peaking to 11.1% in FY 2020/21[2]. Nevertheless, actual spending on health as a share of actual government spending has on average been lower, around 7%. Besides, growth of allocation to the health has not kept up pace with inflation. As expected, the biggest portion of budget allocation and spending is from counties given that health service delivery is a devolved function. Whereas health budget allocation is below the Abuja declaration recommendation of 15%, this target in not aligned to contextual fiscal realities (debt distress) of many African countries. Therefore, the more important challenge is how spending translates to health systems that are adequately resources and whether resources are used optimally.

On the contrary, underspending in development budget (70% absorption rate in FY 2022/23 up from 68% in the prior financial year) attributed to delayed disbursement of funds is a recurring challenge. It manifests

[2]Republic of Kenya, Ministry of Health. 2022. National and County Health Budget Analysis, FY 2020/21. Nairobi: Republic of Kenya.

in health infrastructure deficits. Other notable challenges are related to gaps in management of human resources for health which is critical for delivery of UHC. Kenya has about 19 doctors and 260 nurses per 100,000 population against WHO recommendation of a minimum 21.7 doctors and 228 nurses per 100,000 respectively. Kenya Medical Practitioners, Pharmacists and Dentists Union (KMPDU) points out that this is a contradiction, acute shortage of Health Care Workers amidst an artificial glut in supply.

The matrix below presents health sector budget proposals marched by justification:

No.	Proposal	Justification
1.	Prioritize strategies for enhancing better use of health resources including: i. Aligning procurement of medical commodities and supplies to cash flow management ii. Improving the timeliness and flow of health resources	The narrowing fiscal space and low execution (absorptive capacity) of development health budget calls for government renewed focus on efficiency in spending. Optimal use of available health resources not only unlock resources through efficiency gains but is also what will lead to improved health outcomes. This in turn results to better well-being of citizens, particularly the poor who are fully dependent on public spending. Besides, improved budget execution will reduce out of pocket spending and thus improve overall accessibility in health care services.
2.	Implement the devolved Human Resource Management Policy on human resources for health (2015	This policy which provides guidelines on recruitment, deployment, tracking and retention of health professionals. This call for collaboration between the National and County Governments to improve optimal health workers mix.
3.	Reorganize the health delivery system where Community Health Practitioners (CHPs), Level 1, 2, and 3 facilities are managed by county governments and Level 4, 5, and 6 are managed by national governments.	By collaborating with county governments to recruit and deploy 100,000 CHP, increased resourcing will enable them to foster a move towards preventive and primary health and promotive health, health education, basic first aid for treatment of minor injuries at the household level and referral for facility-based health care. This is critical in enhancing community.
4.	Explore innovative options for increasing domestic resources such as: i. Public-primary partnerships initiatives ii. Policies/regulations that catalyze private investment	Critical programs for major disease control including TB, HIV/AIDS, malaria and other strategic programs such as nutrition and immunization have over the years depended on donor funding which has been declining. For example, health sector shows that in FY 2022/23, the Ministry of Health fell short of its TB cases notification by 10,000 owing to erratic supply of specific TB commodities as a result of reduced budgetary allocation. Sustenance of such health programs require government reforms and road map towards alternative financing options in transition from donor dependence.

5.2 Housing Sector

Every Kenyan has the right to basic standards of accessible and affordable housing, as guaranteed by Article 43 (1) b of the Kenyan constitution. Kenya's long-term goal for economic and social reform, Vision 2030, which particularly aspires to provide appropriate and quality housing for all citizens, reinforces this constitutional requirement. Sessional Paper No. 3 of 2004's National Housing Policy came before both Vision 2030 and the Kenyan Constitution. This strategy, which reflects the objectives outlined in Vision 2030 and the constitution, emphasizes how crucial it is to provide decent and affordable housing for all Kenyans.

Low income and poverty are the primary barriers to individuals' access to adequate and affordable housing, according to the National Housing Policy. Its main objective is for every Kenyan household, whether privately or publicly owned, to live in decent and affordable housing. Kenya is dedicated, like 190 other nations, to accomplishing the Sustainable Development Goals (SDGs), especially Goal 11, which focuses on building human settlements and cities that are inclusive, safe, resilient, and sustainable.

Major challenges face Kenya's housing industry, as stated in Sessional Paper No. 3 of 2016. The population is growing quickly, there is a lack of affordable housing, a low percentage of urban homeowners, and slums and squatter settlements are common. Kenyan urban areas still lack sufficient housing compared to demand, even with initiatives to provide low- and middle-income households with basic housing.

In addition, a large number of Kenyans have low incomes and high unemployment rates, particularly among youths, which affect the housing sector. Weak institutional and regulatory frameworks is another factor that makes policy implementation challenging. The cost of building materials has also been continuously increasing, which makes house ownership even more difficult.

The construction materials have been increasing in prices over the years. The Civil Engineering Cost Indices increased by 1.71% from 118.16 in Q3 2023 to 120.18 in Q4 2023. This increase is attributed to the increase in the prices of BRC wire mesh and steel reinforcement bars, bitumen products, concrete products, and fuel products. In addition, there was a notable increase in prices in hiring of rollers and motor graders in the fourth quarter of 2023. This is illustrated in table 1 below.

Table 1:- Overall Construction Cost Index and Inflation Rates

Year	Quarter	Construction Cost Indices	CIPI-Inflation Rate(%)
2019	1	100	
2020	1	101.05	
	2	100	
	3	102.37	
	4	102.59	2.59
2021	1	104.35	3.26
	2	106.02	6.02
	3	106.06	3.61
	4	106.12	3.44
2022	1	112.65	7.96
	2	114.47	7.97
	3	113.38	6.9
	4	113.65	7.1
2023	1	114.76	1.87
	2	115	0.46
	3	116.45	2.71
	4	118.38	4.16
Base Period Dec 2019=100			

Source:-KNBS, Construction Input Price Indices, Q4 2023

With regards to this, the government has been participating in provision of housing to its citizens. The government has proposed the National Housing Development Fund (NHDF), which would be financed by a housing levy of 1.5% equally paid for by both employers and employees, in order to address these problems. On the other hand, concerns with the allocation of home ownership and the effect on current mortgage holders are raised. Another problem is achieving a balance between efforts to reduce unemployment and rising Labour costs for firms.

Moreover, increasing taxes on employees lowers their disposable income, which makes it harder for them to save and make investments. To reduce costs and improve housing affordability, the government needs to re-evaluate its subordinate policies, such as county levies and construction material taxes.

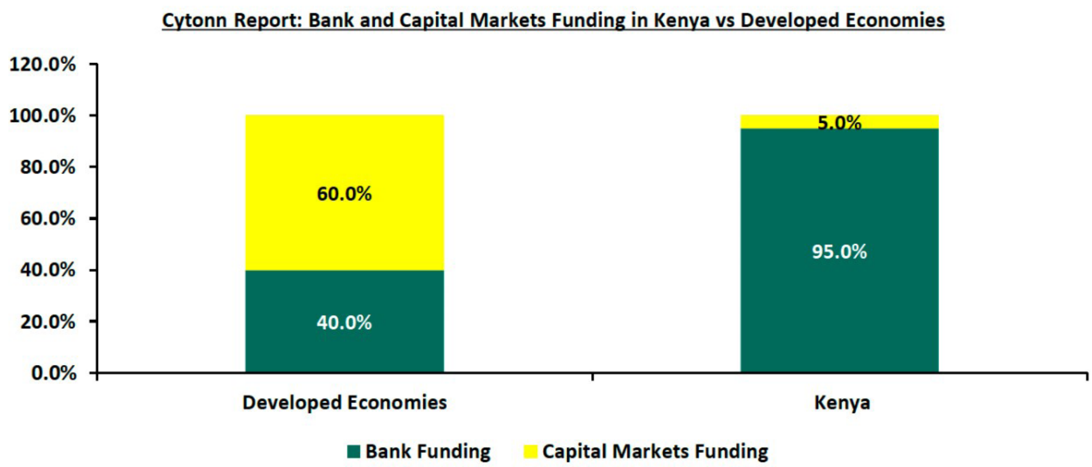
Kenya's housing supply and demand are impacted by land prices and building costs, with household income levels frequently being correlated with the quality of housing. As a result, income growth is essential to meeting national policy's housing goals. In the end, Kenyans benefit from more affordable housing and easier access to better housing as a result of successful growth plans.

Stimulating Capital Markets to Increase Funding into Kenya Housing

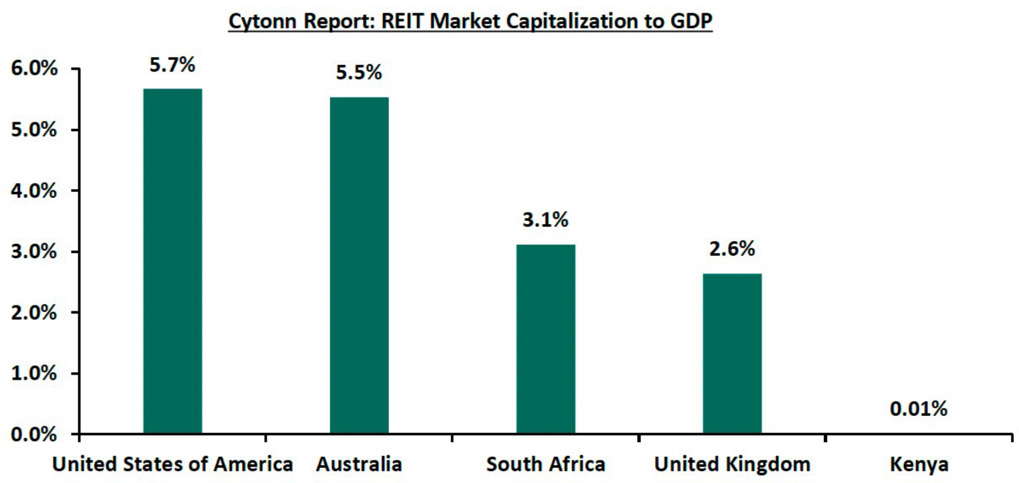
Data shows that there is a housing problem; according to National Housing Corporation, we have a deficit of 2 million houses and growing by about 200,000 houses every year. To resolve this problem, the Kenya Kwanza regime has made provision of Housing as a key government agenda.

However, to fund Housing, the government has explored only taxation in the name of the Housing Levy. There is need to allow for capital formation through the capital markets directed towards the housing sector to complement government efforts. Capital markets have self-discipline and self-monitoring mechanisms that may be lacking in the government arena, hence more sustainable and less burdensome to the taxpayer. There is no good reason to have citizens solely shouldering a burden that private sector can accomplish and do so more effectively.

The key problem is that there are big impediments to capital formation towards housing. This can be seen by the lack of any meaningful capital formation towards housing. According to the Capital Markets Authority (CMA)'s Q4'2020 Capital Markets Soundness Report, financing for construction in Kenya was majorly sourced from the banking sector at 95.0% while capital markets contributed only 5.0%. According to World Bank, in more developed economies, banking sector contributes only 40.0% while capital markets contribute 60.0%. We need to take decisive actions to expand our capital markets for housing. The table below shows the comparison of development funding in Kenya against developed economies.



Since 2013, the Kenyan REIT market continues to be subdued owing to various challenges such as the large capital requirements of Ksh 100.0 M for trustees which limits the role solely to banks, prolonged approval process for REIT creation, high minimum investment amounts set at Ksh 5.0 M which discourage investments, and lack of adequate knowledge of the financial asset class by investors. Notably, REIT market capitalization in Kenya remains significantly lower, effectively non-non-existent, compared to other jurisdictions as shown on the figure on page 16**.



We propose the following as changes that can be made to accelerate capital formation into the Housing. These changes will require amendments of the CMA Act and the REIT regulations:

1. Allow different legal entities to be eligible to be REITs, not just a Trusts is currently the law. Whether a partnership, a limited company, societies, allow all forms of legal entities to form REITs. There is no wisdom or logic to the current limitation to only trusts.

2. Allow for Hybrid REITs rather than the current rigid framework of a development or income REIT.

3. Reduce the minimum for Trustees to 10.0 million from 100.0 million similar to pensions. The current high minimums limits Trustees to only banks, who are not interested in the development of Capital Markets. In any event, banking markets are supposed to be competing with not supervising the capital markets.

4. Remove the high minimums required for investing into Development REITs; Ksh 5 million is too high. It should be Kshs10million, to match the minimum needed for a Pension Fund Trustee. Places like the US have no minimum share capital requirements.

It's been 10 years without much to show in the REITs market, it's time to review regulations to stimulate capital markets funding for housing in Kenya.

5.3 Education

Introduction

Education serves three core functions — enabling people to: survive; thrive; and live at peace with other people and the planet. A just education system, defined by Tawney (1964) as one in which a nation secures educationally for all her children 'what a wise parent would desire for his/her children', is what every society should aspire for. It enables every person to realize and enjoy their full potential and societies and nations to harness every individual's best contribution to their well-being and development. An unjust system delivers the exact opposite, undermining individual, societal and national aspirations. Indeed, it is dangerous to expose children to education in ways that generate grievances rather than beneficial self and societal discovery.

Cognizant of these facts, Kenya has committed to delivering a just education for all her children through ratification of multiple, relevant international protocols, which include the United Nations Universal

Declaration of Human Rights that proclaims the right of all persons to education, the Convention on the Rights of the Child, the UN's Agenda 2030 and Africa's Agenda 2063. Kenya is also implementing her own Vision 2030, with education as one of the key pillars. Since 2010, basic education has been a constitutional right enshrined in articles 43 (1) (f) and 53 (1) (b), of Kenya's Constitution. The Constitution places the obligation of providing education as a human right on the state, which aligns well with the fact that education is a public good. This also means that it is the state's responsibility to ensure not just enrolment into school, but staying in school and benefitting from schooling by all children.

In an attempt to promote inclusive and equitable education Kenya has implemented:
These policies have expended significant financial resources—the education sector is the single largest recipient of the national budgetary allocation over the last 20 years.

Why does the picture below still obtain?

Situational analysis

In her quest to ensure access to quality education for every child in the country, Kenya has implemented a free and compulsory primary education policy for over 20 years; a free day secondary education policy for over 15 years; and a 100% transition to secondary school policy for over 5 years. All these three policies have been targeted at ensuring enrolment and retention in school and they have achieved significant outcomes. They have, however, heralded a new and more complicated problem—marginalisation of children within the education system that doesn't confer equal opportunities to learn. Usawa Agenda's most recent study 2021 findings indicate for instance that excelling in KCSE examinations depends more on the cadre of secondary school attended than the marks they scored in KCPE. A candidate who attends national schools (well-resourced schools) is estimated to score 5.43-point more in their KCSE mean grade than his/her counterpart who attends a sub-county school (poorly resourced school), if they had same KCPE marks.

The study also revealed wide gaps in the distribution of teachers by the Teachers Service Commission across the different cadres of schools, yet an additional unit in the proportion of TSC-employed teachers is associated with a whooping 7.48-point increase in candidates' KCSE mean grades.

These and other gaps indicating wide quality gaps between public and private primary schools contributed to the urge to reform the curriculum leading to the implementation of the new, competency-based curriculum (CBC). The pioneer cohort of the CBC learners is now in their second year of junior school and left with only one year (grade 9), to move to the Senior school. The transition is proving to be hardest policy the government of Kenya has attempted to implement in the education sector for decades. With less than two years left for the first cohort to transition to senior school, children in public schools are barely learning. TSC and the Ministry of Education are engaged in power struggles, and there seems to be no known plan for the inevitable final transition through the school system for the pioneer grade. Teachers' unions are taking sides in the power struggles and betting their own interests that are unrelated to learning on the outcomes of the struggles underpinned by the recommendations of PWPER report, some of which are themselves very unhelpful to addressing the confusion in the sector.

The Ministry on its part has not sent the capitation intended to support the learners in the primary schools where the junior secondary school is domiciled and most schools are yet to receive books due to the government's failure to pay publishers on time. The fact that junior secondary is domiciled in primary school seems to underscore an absolute failure to plan for the transition to junior secondary school given that the CBC framework does not even have the word "domicile". Matters are made worse by the many discordant voices within and from outside the sector that are causing harmful inertia in the education system.

Problem statement

Successful transition to the CBC and indeed to any new system requires three fundamental ingredients:

- Focus on the overall goal;
- Clear agency; and
- Fidelity to the plan.

Coming from a background of attempts to redress manifest injustices in our education system, maintaining laser-focus on these three ingredients is critical for success. This is because entertaining a transition process that lacks any of them, like what is currently underway, may potentially erode every little gain that was realised from implementation of the aforementioned policies.

The notion of a comprehensive school, mooted by the PWPER in total disregard of the constitutional dispensation in the country and the ensuing fights around some the implementation of some of its recommendations is symptomatic deep lack of focus on the overall goal. What is happening in the JSS is the antithesis of the principles upon which CBC is premised, especially the first principle, as only the minority learners in private schools are learning while the majority of children attending public schools, their teachers (too few and unfit for purpose) and their parents remain in distress. This, if allowed to continue can only deepen marginalisation within the school system that curriculum reforms sort to redress

The lack of clear agency has occasioned the following undesirable situations:

- Funding is scattered & not optimised;
- Funding is delayed, sometimes not disbursed due to squabbles over mandate;
- Activities are uncoordinated, poorly sequenced & poorly executed;
- Activities are often delinked from the overarching goal;
- Unsatisfactory and/or delayed outputs; and
- Ultimate failure looms at the end of the transition process!

Against this background, however, the upcoming budget indicates a decline in resources allocated to the education sector compared to last year. There is an increased risk of misalignment between the resources and the critical priorities of the sector for a successful transition to CBC with direct implications for the success or failure of the sector and with it, the society for many years to come. But of greater concern is the routine fluctuations in the annual budgetary targets. For instance, Primary and Junior secondary schools infrastructure improvement targets reduced in supplementary budget 1 FY 2023/24—new classrooms JSS/CBC from 704 to 0; number of integrated resource centres/laboratories from 400 to 0; and number of new classrooms in primary schools from 1157 to 940. The same supplementary budget 1, FY 2023/24 introduced a new item—school-based grants targeting 5422 schools. These shifts not only confuse implementers but also cause under-absorption and wastefulness of the allocated resources owing to a lack of capacity in the relevant departments and overly short time spans to execute the funded programs.

Education Sector budget proposal

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

No.	Context	Proposal	Justification
1.	Inadequate capitation and also late disbursements. The existence of the grants program that interferes with the capitation program	Do away with grants and instead improve capitation disbursement to schools.	The decision to create a schools grants program came at the same time that the government was struggling to release funds to schools on time. The impression created was that capitation had been downgraded in the priority list against the grants, which only benefited fewer schools. Whatever the logic for the grants program, which must be good, it has two negative impacts: first, to the extent that it interferes with disbursement of capitation funds, it interferes with proper running of schools and therefore directly impairs learning, when schools heads must send away children to get money from parents to be practically able to run schools; and secondly, it impairs the ability of Parliament to oversight the Ministry of Education as MPs get into the business of lobbying to get schools from their constituencies funded under the program.
2.	Frequent budget revisions	Limit budget revisions by improving budget planning.	Frequent budget revisions have three negative consequences to the developments in the education sector, which have direct bearing on teaching and learning: First, budget cuts that come midway the financial year result in stalled schools' development projects leading to wastage of the already invested funds. Secondly, the new recipients of the shifted funds barely have enough time to plan their use, often they end up not absorbing the funds and if they do, they spend them on non-priority, low impact projects at the expense of the well-reasoned out and planned projects. Thirdly, it lowers the efficiency of project implementers by introducing uncertainty in the execution plans. All these have the effect of undermining schools' development programs as well operations with direct and negative impact to teaching and learning and therefore the quality of education that we offer, especially to the majority of children who attend public schools.
3	There lacks a budget for the establishment of junior schools	Establish and staff junior secondary schools that are distinct from the current primary and secondary schools, and commence setting up of senior schools	Kenyans have through a comprehensive process developed a new curriculum, which seeks to enhance equitable access to quality education for all. The switch to this new curriculum is underway. But its success requires fidelity to the vision and appropriate and timely investment in infrastructure and qualified personnel to transform schools to deliver on the promise. The current domiciling of junior secondary in primary schools contravenes the CBC framework. The framework does not have the term "domiciling". It envisions primary, junior secondary and senior secondary schools. We understand the crisis that forced the domiciling to arise. But it must be an interim measure. Therefore, in this budget, we recommend allocation of resources to expand the reach and capacity of the sub-county secondary schools across the country to take up the functions of junior secondary, while the county, extra-county and national schools become the senior schools. The investments must be made now, recategorization of those schools taking the role of senior schools funded and completed this year. We also recommend that formal negotiations are entered into between the MOE and county governments to release some of the TVET institutions to serve as senior schools for the technical pathway.

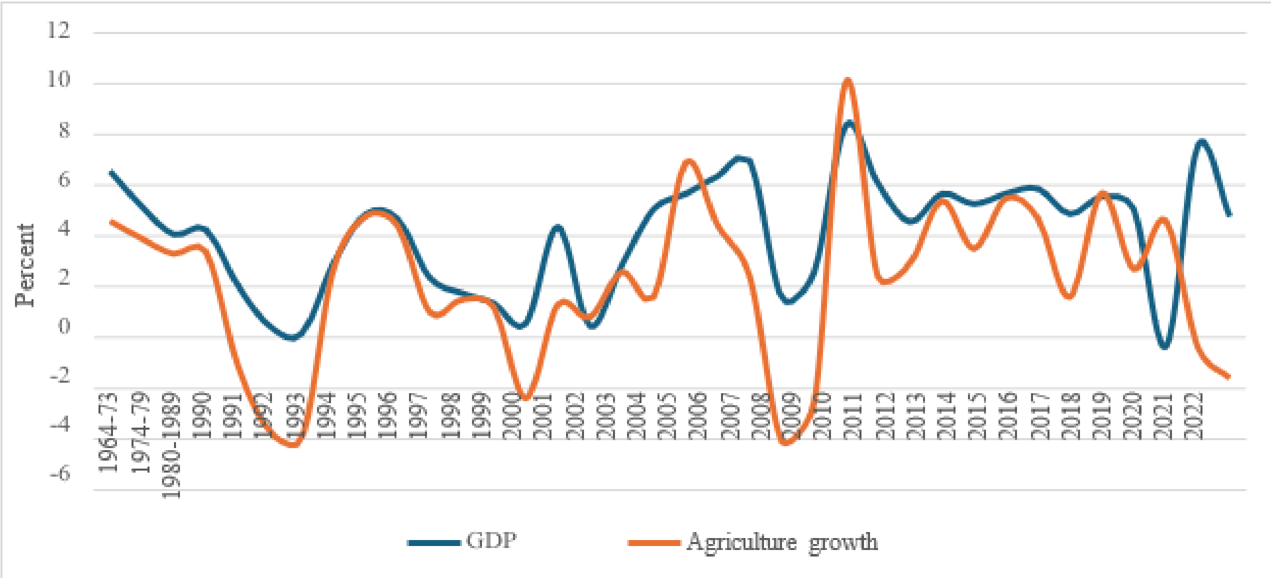
No.	Context	Proposal	Justification
4.	There exists wide inequality in public secondary schools	Implementation of a secondary schools' equalisation program to narrow the quality gap between the big and small public secondary schools.	For over 10 years, the government has implemented a national schools' upgrading program with an average annual budget of KES300 million. What this has done is to widen the gap between the well-funded national schools that educate 3% of the children in the country and the very poorly funded sub-county schools, educating over 65% of the children, mostly from poor households. This makes mockery of any claims of equity in our education system, the lack of which has grave implications for equity in the broader society. We recommend narrowing the quality, staffing and facilities' gaps between the two levels of secondary schools. This should be done by funding and implementing a sub-county schools' upgrading program. The funds allocated to this program must be disbursed in a timely manner or even allocated to another government agency with capacity to implement the programs faster and deliver standard schools' infrastructure across the country.
5	Reduced budget allocation to the education sector in the FY 2024/25	Increase the allocation to the education sector in the medium term	Education expenditure has been a rising trend, especially considering that enrolment numbers have been increasing. Currently, the government is implementing the new curriculum (CBC) which presents new demands. It is ironical to cut the budget allocation for the sector when there is demand for recruitment and deployment, and training more teachers, more infrastructure for school particularly for junior and senior schools and rising demand for financing of tertiary education considering the new funding model that introduces scholarships in addition to loans. In the circumstances, resources need to support the transition and provide the required resources calls for allocation of more resources. In that case, the national government needs to re-evaluate the decision to cut the sector's budget. It is important that facts and evidence form the basis for decision making for this important sector. In addition, the development component needs a fair review going forward. The huge demand for infrastructure in schools is enough evidence that Ksh.28 billion, which is even less the allocation for the FY 2022/23 is not only insufficient but also a contradiction. Proper analysis on the resource requirements should be done so as to match allocations.
6	Unpredictable policy environment concerning the implementation of CBC.	The Ministry of Education needs clear policy direction to reduce confusions in the implementation of the new curriculum	In the last few months, there have been a lot of contradictory policy pronouncements in the education sector. This leads to failure in the implementation of key programs which affects the realization of the intended goals. Consequently, the government of Kenya, and the Ministry of Education in particular should abandon the idea of frequent policy shifts in the sector, especially in the implementation of CBC. This will ensure that resources are not wasted and the curriculum is implemented smoothly.

5.4 Agriculture

Background

The agriculture sector remains a key pillar in the Kenyan economy. However, the sector faced unprecedented challenges in recent times, particularly in the wake of the COVID-19 pandemic. However, as the country recovers from the economic shocks, it is essential to ensure that the path to economic recovery is built on the drive for agricultural transformation as stated in the Agriculture Sector Transformation and Growth Strategy (ASTGS) and the Bottom-Up Economic Transformation Agenda (BETA). Figure 7 shows that the agriculture sector has been in a recession since the COVID-19 pandemic. Despite the negative growth of the sector over this period, the economic outlook for the country remains positive against strong agriculture sector performance that is a result of favourable weather patterns.

Figure 7: Growth patterns in Economy and Agriculture Sector



Data source: KNBS

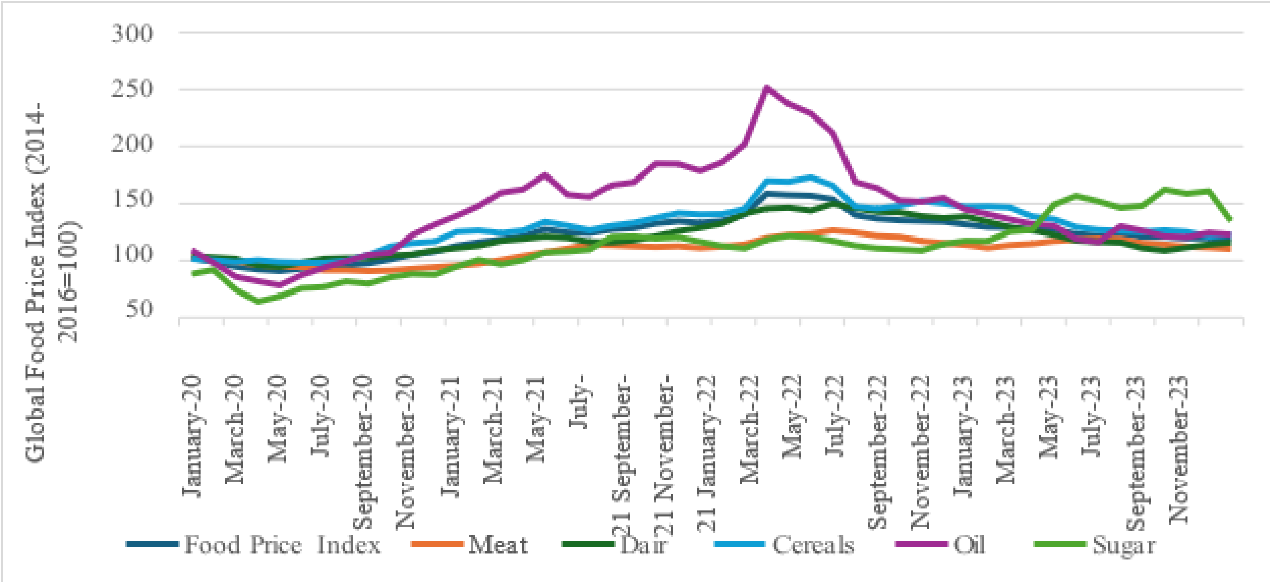
The agriculture sector experienced a favourable year, characterized by el-nino rains, at the back of productions shocks that included persistent drought experienced in more than half of the country and supply chain shocks from the pandemic and the Russian war. The government intervened through fertilizer subsidies to provide relief against rising production costs, and safety net support to households in pastoral communities. However, due global environment, high prices and food prices driven by inflation was a key policy discussion in the year, although food prices eased marginally toward the end of 2023.

Situational Analysis of Agriculture Sector

The Agriculture Sector Transformation and Growth Strategy (ASTGS) 2029-2029 is currently the sector's long-term strategy. A National Agricultural Investment Plan (NAIP) for 2019- 2024 was developed to implement the strategy in the medium term. The ASTGS targets increasing smallholder incomes, increasing agricultural output and value addition, and building households' food resilience.

In the past financial year, the government implemented the general fertilizer subsidy and rolled out duty waivers for cereals such as maize and rice and raw materials for animal feeds in a bid to curb high food prices, reduce the cost of production and enhance access to inputs. Despite these efforts, the key challenges such as high food prices and high costs of inputs have persisted. Figure 8 shows the global food price index for different commodities to December 2023. All food commodities with the exception of sugar gravitated towards pre pandemic prices.

Figure 8: Global Food Price Index



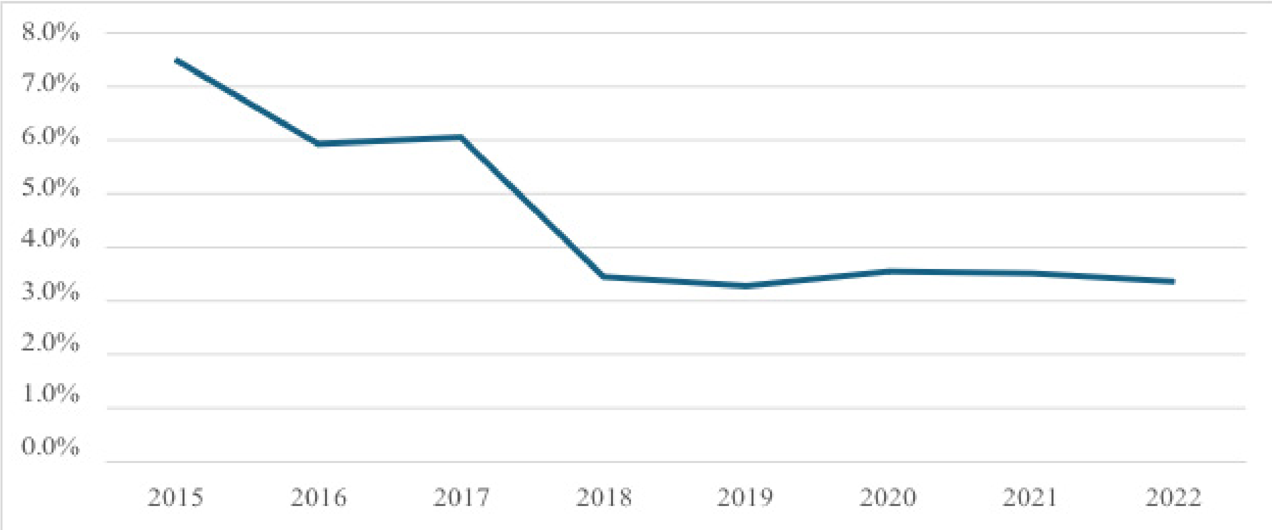
Source: FAO, 2023

Low public sector investments in agriculture

Low funding by both the public and private sectors are structural challenges facing the agricultural sector. Adequate financial support is crucial for the transformation of the

agriculture sector. Second, how the governments and private entities collaborate to channel investments is an essential ingredient to maximise returns to investment. Figure 3 shows the trends in Government Agricultural Expenditures (GAE) as a Proportion of Total Expenditures (TE). Under the CAADP mechanism, the government committed to target of 10%. In recent years, and in spite the devolution of functions in the sector, the performance of this target remains below par.

Figure 9: Government Agricultural Expenditures as a Proportion of Total Expenditures



Source: MOALD

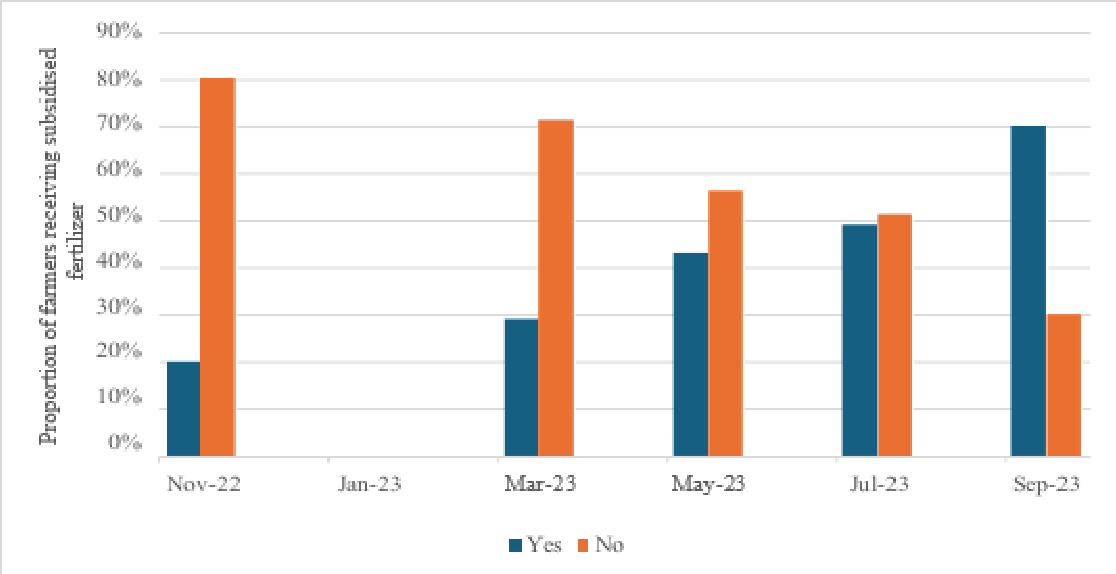
Critically, with the government not available adequate financial resources, then it follows that the available public financial resources should be utilized such that they incentivize (crowd in) private sector investments. For example, this can be attained by utilizing public investments to supply public goods by investing in research, infrastructure, and training programs. However, this has not been the case, and using the example of the fertilizer subsidy, the government has ended up with the opposite effect i.e., driving investments away from the sector.

Box 1: Experience with the General Fertilizer Subsidy

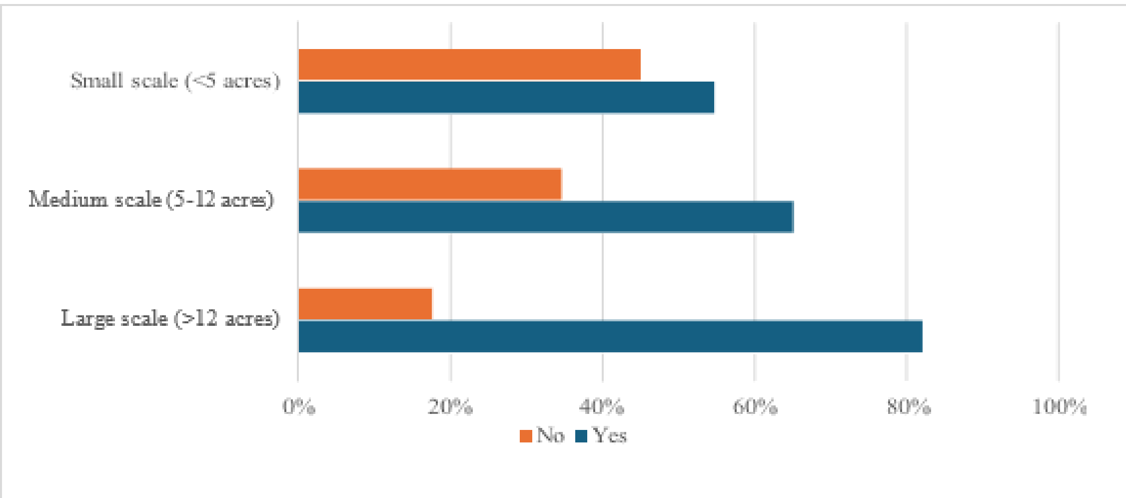
The government re-introduced the National Fertilizer Subsidy Program (NFSP) in September 2022 to lower the cost of production in the context of rapidly rising fertilizer prices, and subsequently lower the cost of food. This measure was consistent with the Government's BETA approach which focuses on reducing the cost of living, eradicating hunger, creating jobs and uplifting the livelihoods of those at the bottom of the pyramid. The NFSP is one of the flagship programs under the BETA.

However, findings from an assessment of the program are consistent with literature on similar programs in the country and show the inefficiencies created by the program.

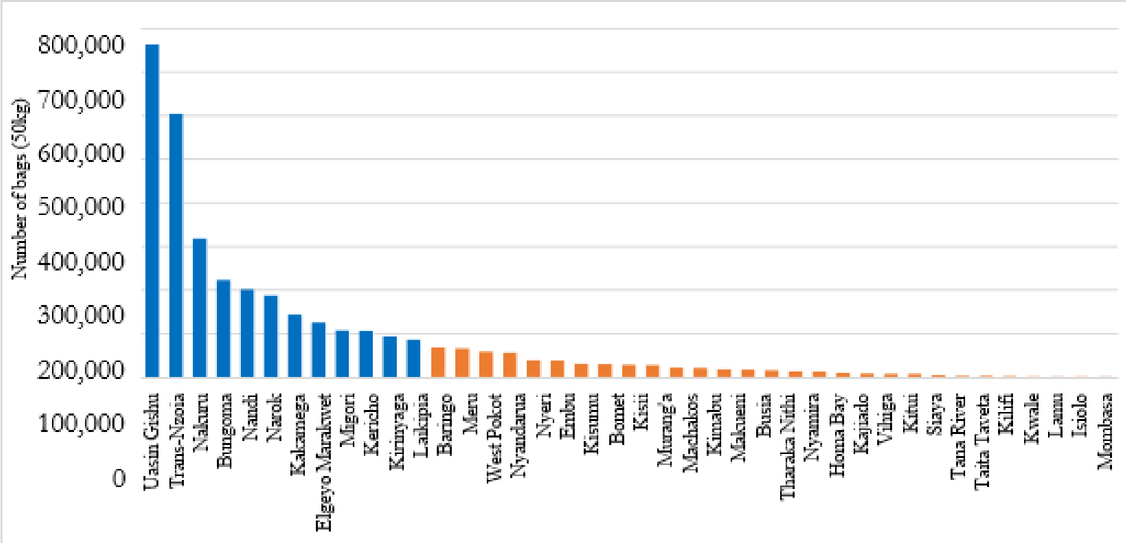
The NFS program cushioned beneficiary farmers against rising fertilizer prices. The program targeted all farmers (small, medium and large). Farmers who benefited from the program accessed fertilizer at about half the market prices on average. However, the uptake of the program was very low. A year into the program, about 50% of farmers has reported accessing the subsidized fertilizer as shown in the Figure on the next page.



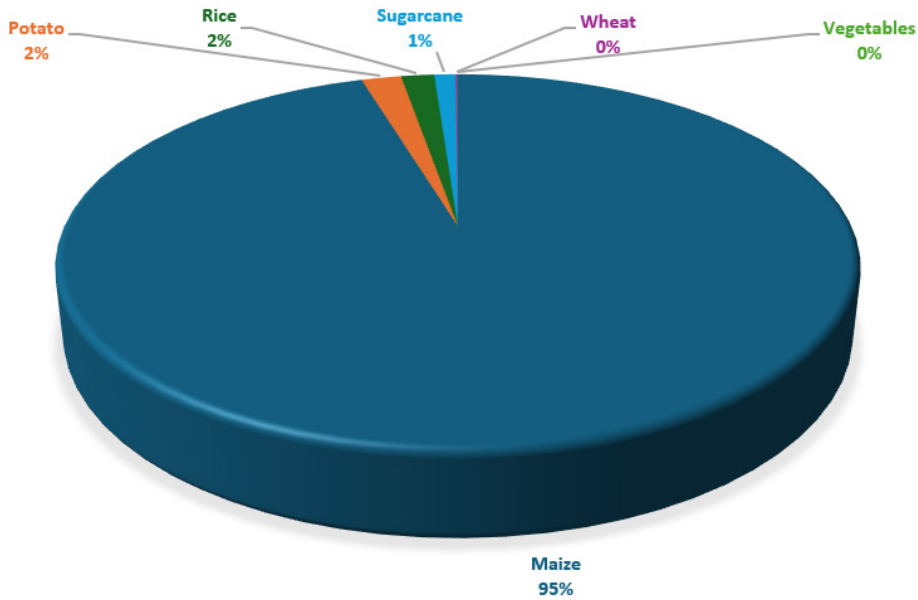
Second, in assessing the targeting of beneficiaries, it fair that the objective be considered for accurate conclusion. Two conflicting objectives has been floated in the run-up to the start of the program. First, the government wanted to lower the cost of food through reducing the cost of production. Therefore, granting access of the fertilizer to medium and large farmers is consistent with this objective. The Figure below shows that majority of the beneficiaries were medium and large farmers. If the objective was to cushion smallholders from rising prices, and that they would have been cut off from access to fertilizer without the intervention, then the evidence suggests that a better model of getting the fertilizer to smallholders is required.



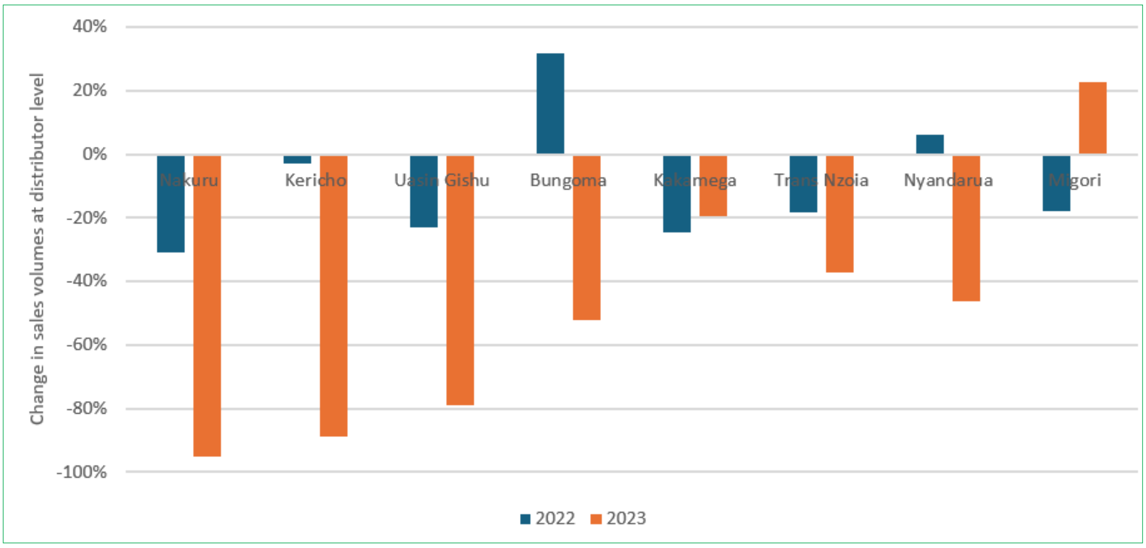
Moreover, the fertilizer subsidy was skewed in geographical distribution to maize growing counties, suggesting that the government was only interested in supporting maize. From the objective, this was not the case, as the government also tried to include fertilizers targeted for other crops.



Despite this, bulk of the fertilizer procured and distributed was suitable for maize. This poses a challenge. The government has always maintained that there is need to shift consumer diets away from maize. When the government provides such enormous support to maize, farmers will likely stick with the crop as it's the one getting strong public policy support and as such diets remain sticky.



Finally, the government created massive displacement of private sector fertilizer in the key markets they had significant volumes distributed. The crowding out of private sector fertilizer means businesses going down and jobs being lost, a direct contradiction of the BETA objectives.



Source: Tegemeo Institute, 2023

Other challenges

Other challenge experienced in the sector resulted from an increasingly harsh business environment. The costs of distribution have risen due to rising costs of fuel, while taxation of SMEs resulted in the costs being pushed to consumers.

The sector still faces inherent risks including rising levels of post-harvest losses due to high rainfall and during the harvest season, rising costs of inputs and outputs due to rising costs of doing business.

Sector Priorities for the 2024/25 Financial Year

No.	Proposal	Justification
Implement Sector Reforms		
1.	Strengthen regulatory institutions to address market imperfections	Increasingly, market reforms have been taken over by The Presidency. However, the reforms are interpreted as government interference in markets, that are likely to be rolled back with change in administration. The government focus should be to strengthen the regulatory oversight by institutions including regulators and the National Assembly.
2.	Privatization of commercial SAGAs	The government has signaled intent to private SAGAs as a measure to rid itself of loss-making institutions. Many of the SAGAs, especially commercial SAGAs in the agriculture sector fall under this category. We propose that the government considers selling these SAGAs to farmers so that farmers can manage them more efficiently. Farmers have already signaled willingness to raise equity and the government can work out a deal with farmers.
3	Abandon proposals to tax smallholders	The Budget Policy Statement contains proposals to impose direct taxes to farmers, classifying farmers as part of the untaxed category. The proposal is problematic and represents a lack of understanding of the agriculture sector. There is need for the treasury to commission study that will help shed light on the tax burden by farmers. Farmers pay a lot of indirect taxes, and a reason why the government subsidizes the sector. Imposing direct taxes on farmers contradicts the government objectives in the BETA approach.
Enhance the efficiency and effectiveness of public expenditure		
4	Vacate the NCPB fertilizer program and revamp the E- Voucher program	The governments should immediately vacate the NCPB fertilizer subsidy model given the negative externalities caused by the model. In its place, the government should revamp the E-voucher program that offered a bundle of inputs to farmers through the private sector. This model will correct most of the shortcomings of the NCPB model.

No.	Proposal	Justification
Strengthen coordination with County Government & private sector		
5.	Strengthen policy making at county level	The Ministry recently concluded farmer registration exercise. The publication and making public of the dataset wilk be useful to both the county and national government. Funding should be allocated to analyze and periodically update this data and make its utilization essential for public policies.
6	Support the adoption of technological innovations in the sector	With the increasing integration of technology in agriculture, such as precision farming, the recovery of the sector presents an opportune moment to accelerate the adoption of cutting-edge technologies. Creating incentives for the private sector to supply such innovations, or the support of local R&D to develop homegrown solutions that can be easily upscaled is essential
7	Invest in Climate Smart Agriculture and build resilience against shocks	The agriculture sector showcased remarkable resilience during the pandemic, adapting to supply chain disruptions and ensuring food security. The investments include investments in agricultural research to develop and promote climate-smart technologies and practices and support farmers to ensure their adoption.
8	Support the adoption of Sustainable Agriculture Practices	As environmental concerns mount, there is a growing demand for sustainable agriculture practices. Some of the measures under the environment sector apply to agriculture and coordinating efforts towards clean production is essential.
Enhance competitiveness to ensure import substitution goals are realistic		
9	Global Collaboration and Policy Reforms	The pandemic underscored the interconnectedness of global food systems. It's important that countries come together to implement collaborative policies and reforms that promote sustainability, fair trade, and equitable distribution of resources within the agriculture sector.
10.	Strengthen inter-sector coordination and linkages to spur value addition & agroprocessing	A struggling manufacturing sector will disincentivize agricultural transformation

5.4 Information and Communications Technology (ICT)

Introduction

Kenya has a dynamic and fast-growing ICT sector which is making significant contributions to the country's digital economy and digital landscape. Current statistics show growing fixed and mobile internet access and mobile money usage, and robust investments in ICT infrastructure such as fibre-optic and broadband networks which have improved internet connectivity. Further, Kenya is a hub for tech startups and innovation, with government initiatives such as Konza Technopolis supporting tech development. The contribution of the ICT sector to Kenya's economy is growing and has also created significant employment opportunities.

However, there are challenges. A widening digital divide remains of concern as several rural areas still lag in internet access and digital literacy, hindering wider digital inclusion. Furthermore, this is exacerbated by a widening skills gap especially in advanced ICT skills needed for high-level tech jobs in a sector where data science and artificial intelligence are becoming mainstream. Moreover, embracing the digital economy has resulted in increased data collection and raises significant concerns regarding privacy protection and cybersecurity, which call for greater vigilance, oversight and investment.

Lastly, as the country embraces its digital economy, it is imperative to assess the short and long-term economic and social benefit of taxes and regulatory actions and ensure the measures imposed do not impede, but facilitate greater innovation, investment and growth of the ICT sector. Achieving these aims will ensure greater domestic revenue mobilization, facilitate meeting wider economic growth targets and promote digital inclusion.

Sector Priorities for the 2024/25 Financial Year

No.	Proposal	Justification
Implement Sector Reforms		
1.	Allocate sufficient budget for public participation and engagement for the Ministry of ICT and the Digital Economy	The rapid integration of AI into the ICT sector demands a collaborative and forward-thinking approach. These consultations, involving government bodies, industry leaders, academic experts, and operational sectors, will ensure a comprehensive and adaptable policy. Diverse perspectives will contribute to legitimacy, ownership, and the ability to address the sector's evolving needs ensuring the formulation of a comprehensive and adaptable policy framework
2.	Adopting a categorization approach to charges to access information from the IPRS.	The government, specifically the State Department of Immigration and Citizen Services, has revised charges for services (14th November 2023), including the Integrated Population Registration System (IPRS). The IPRS, a centralized database, is the authoritative source of information on all registered individuals in Kenya, encompassing citizens and foreign nationals. It facilitates automated verification services for national identification and passport numbers, benefiting both government and private entities, notably the financial sector (banks) and telecommunications companies (Safaricom and Airtel). Addressing the current Ksh.1million annual subscription, ICT sector proposes a downward revision, as this amount appears excessive. It' s uncommon for Software as a Service to impose both a "Subscription Fee" and "Per Service Fee." I suggest eliminating the "Subscription Fee" entirely and reducing the "Verification Fee" to a maximum of Ksh. 5. This adjustment not only aligns with industry norms but also supports start-ups, and ensures fair financial burdens, promoting economic growth and efficiency across sectors.
3	Enhance the efficiency of government-related cyber units and avoid potential turf wars. Have a dedicated multistakeholder and multisectoral cybersecurity agency established with clear authority and leadership	The cybersecurity landscape in Kenya is facing growing challenges as cyber threats continue to evolve rapidly. To address these concerns, the Computer Misuse and Cybercrimes (Critical Information Infrastructure) Regulations were introduced noting the need to promote coordination, collaboration, cooperation, and shared responsibility among stakeholders.
4	Increase budgetary allocation to the Office of the Data Protection Commissioner (ODPC) by 50%.	Put in place a comprehensive and adaptive data governance strategy. By empowering the ODPC it will enhance its capacity to tackle emerging threats to personal data, and foster a more cohesive and cooperative data governance framework, strengthening the nation's overall resilience against evolving data breaches.
5	Re-evaluation of the requirement for infrastructure owners to notify the Committee before outsourcing operations.	The current provision may lead to administrative overheads, slow decision-making, and unintended security risks, impacting the efficiency of cybersecurity measures. Clarity and flexibility need to be integrated into the process, taking into account potential conflicts with existing regulatory authorities.
6	Increase budgetary allocation by 25% to DCI Cyber Crimes Unit, Office of the Director of Public Prosecutions and the Judiciary to tackle growing cybercrimes, including cyber fraud and online gender-based violence.	Allocation of a budget to fund enhanced legal measures, public awareness campaigns, collaboration with tech companies, support services, law enforcement training, and research efforts. This holistic approach aims to create a resilient and secure digital environment, mitigating the risks associated with technology-facilitated violence and further growing the digital economy.
7	Provision of tax incentives for ICT research and development (R&D) Expenditures	Encourage innovation in the ICT sector. These could be applied to hardware, software, personnel and training costs.
8.	Zero-rate taxes on ICT equipment and devices manufactured locally or eliminate import duties on raw materials and equipment used for local manufacturing.	These measures will stimulate the growth of local ICT manufacturing by reducing production costs, creating jobs and enhancing technology transfer and skills development in Kenya. Further, it would make ICT equipment more accessible and affordable to a wider population, reduce the digital divide and encourage the growth of the digital economy. Local production could also provide foreign exchange from exports to regional markets, growth of supportive industries and increased tax revenue from local production. Such benefits have been seen in the automotive industry. A further requirement for the government to source ICT products locally could spur greater investment.
9	Impose tax on e-waste disposal	Encourage and promote responsible practices within the ICT sector and prevent dumping of e-waste in Kenya. There has been a growing market of user or second-hand devices in Kenya which is creating a challenge as the devices being brought are mostly obsolete, energy inefficient and no longer supported by equipment manufacturers. Such measures will reduce e-waste generation, promote recycling, reduce environmental and health risks, discourage illegal dumping and increase government revenue.

No.	Proposal	Justification
Implement Sector Reforms		
10.	Tax exemptions on ICT talent development and ICT equipment for education purposes.	To attract investment in ICT education and skills development, expenses incurred by companies to train their employees on ICT should be tax deductible. This will also address the skills gap in the sector and address the talent gap. Also, ICT equipment and devices acquired for education purposes e.g. by students in education institutions or by the institutions should be zero-rated. Such measures can be valuable to boost Kenya's digital economy and long-term economic growth. In particular, they can boost the ICT workforce to address the skills in the sector, attract ICT investment that capitalizes on the skilled workforce, enhance adoption of e-learning in schools, facilitate bridging of the digital divide, foster knowledge driven innovation and empower the next generation in a growing digital world.
11.	Provision of tax incentives for investment in ICT infrastructure, especially in underserved areas.	Encourage private sector investment in the expanding broadband internet access across the country, especially by start-ups, ICT hubs and community networks. This can include a 5 year tax holiday for such organizations. This will enable improved digital access and participation in the digital economy in rural and underserved areas. Further, they could enhance productivity, innovation and entrepreneurship while also attracting greater investment and development in the ICT sector.
12.	Reduce excise duty on telephone and internet data services to 10%	The ICT sector has been instrumental in transitioning and growing Kenya's digital economy. The migration of services online, including government services means that the cost of telephone and internet data services have become critical. Whereas the rate was reduced from 20% in the previous year, a further reduction would be critical to promote digital inclusion, mobile and internet penetration, access to broadband internet (3G, 4G, 5G and fibre optic networks) and e-commerce. Studies such as by GSMA do indicate that increases of these taxes could have an adverse impact.
13	Requirement that all government websites and documents published online to be in open data and accessible formats.	Kenya is a member of the Open Government Partnership (OGP), which requires government information to be published in open data formats for increased access, use, and interoperability across various datasets. This will ensure PWDs have access to websites and government/ public documents, including those relating to finances. Specifically, financial documents e.g. budgets and expenditure should be published online as spreadsheets and not in PDF form.

5.5 Social Protection Sector

Background

About 45% of the Kenyan population is children and children fall under the State Department for Social Protection. Despite children's rights being diverse and extending to various categories and sectors, they are often assembled with other groups such as youth, women and vulnerable groups such as the elderly and persons with disabilities.

Children's rights are contained in the following main instruments:

- Constitution of Kenya (Article 53)
- Children Act, 2022
- National Child Policy (under review)
- United Nations Convention on the Rights of the Child
- African Charter on the Rights and Welfare of the Child

Children's rights are just as other human rights and they need more care and protection. Their rights can be summarized into four main themes: survival & development, protection and participation. The table below gives context under the identified themes on children's rights in Kenya.

Item	Analysis
Survival	More than half of the population of Kenya are multi-dimensionally poor and deprived in the realization of at least three basic needs, services, and rights. Children comprise the largest share (48%), followed by youth (25%).
Development	Reports show that close to 35% of secondary school students will not complete their education; About 2 million children currently out of school;
Protection	An overwhelming majority of children who come into conflict with the law are victims of neglect, exploitation, psychological and economic hardships.
Participation	Children's participation in decision-making is largely neglected.

Past budget trends

The government set aside Sh 38.2 billion for the social protection of vulnerable groups in the country in FY 2022/23. Of this amount, about 900 million only was allocated to children through the Child Welfare Society of Kenya. This depicts low investment on social expenditure by the government as allocation of funds has generally remained constant in the social protection sector

Social Protection Budget Proposal

Item	Justification
Increase the share of the budget allocated to social protection.	Less than 2% of the budget is allocated to social spending and much less specifically to children. The percentage should be increased considering that children constitute more than half the population.
Allocate funds for implementation of existing laws and policies.	This is notably towards the implementation of the new Children's Act which covers a diverse range of issues.
Embrace a multi-sectoral approach in allocation of resources that promotes the rights of the child.	Children fall under various sectors such as education, health, judiciary, etc. Their needs should be considered under each sector.
Increase the share of the budget allocated to social protection.	Less than 2% of the budget is allocated to social spending and much less specifically to children. The percentage should be increased considering that children constitute more than half the population.
Allocate funds for implementation of existing laws and policies.	This is notably towards the implementation of the new Children's Act which covers a diverse range of issues.

Annexes

Annex 1: Sector Proposals - Contributors

	Presentation	Area of submission
	Corporate Sector	
1.	Mr. Job Wanjohi Kenya Association of Manufacturers (KAM)	Manufacturing Sector
2.	Dr. Timothy Njagi Tegemeo Institute of Agriculture and Policy Development	Agriculture Sector
3.	Ms. Linda KICTAnet	ICT Sector
4.	Mr. Leornard Wanyama East African Tax and Governance Network (EATGN)	
5.	Mr. Edwin Dande Cytonn Investment	Housing Sector
	Social Sector	
6.	Dr. Emmanuel Manyasa Usawa Agenda	Education Sector
7.	Dr. Dennis Miskellah Kenya Medical Practitioners, Pharmacists and Dentist's Union (KMPDU)	Health Sector
8	Mr. Elias Wakhisi Institute of Certified Public Accountants of Kenya (ICPAK)	Financial Sector
9	Ms. Anita Otieno The Eastern Africa Child Right Network (EACRN)	Social Protection

Abbreviations and Acronyms

IDF	Import Declaration Fee
AIDS	Acquired Immunodeficiency Syndrome).
AUL	African Union Levy
ASTGS	Agriculture Sector Transformation and Growth Strategy
AI	Arificial Intelligence
BETA	Bottom-Up Economic Transformation Agenda
CMA	Capital Markets Authority
CHPs	Community Health Practitioners
CBC	Competence Based Curriculum
E-GP	E-Government Procurement
EAC	East African Community
EATGN	East African Tax and Governance Network
EIPL	Export and Investment Promotion Levy
FY	Financial Year
GSMA	Global System for Mobile Communications
GAE	Government Agricultural Expenditures
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus
ICT	Information and Communications Technology
IDL	Infrastructure Development Levy
ICPAK	Institute of Certified Public Accountants of Kenya
IEA	Institute of Economic Affairs
IFMIS,	Integrated Financial Management System
IPRS	Integrated Population Registration System
IDA	Investment deduction allowance
JSS	Junior Secondary School
KAM	Kenya Association of Manufacturers
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KCGSC	Kenya Credit Guarantee Scheme Company
KMPDU	Kenya Medical Practitioners, Pharmacists and Dentists Union
KNBS	Kenya National Bureau of Statistics
MSME	Medium Terms Expenditure Framework
MPs	Members of Parliament
MTEF	Micro, Small and Medium Enterprise
MOE	Ministry opf Education
NAIP	National Agricultural Investment Plan
NCPB	National Cereals and Produce Board
NFSP	National Fertilizer Subsidy Program
NHDF	National Housing Development Fund
ODPC	Office of the Data Protection Commissioner
OGP	Open Government Partnership
PAYE	Pay as You Earn
PIN.	Personnal Identification Number
PWDs	Persons With Disabilities
PDF	Portable Document Format
QIF	Quality Inspection Fee (QIF).
REIT	Real Estate Investment Trusts,

R&D	Research and Development
SAGAs	Semi Autonomous Government Agencies
SMEs	Small and Medium Enterprises
SDGs	Sustainable Development Goals
TSC	Teacher Service Commission
TVET	Technical Vocational Education and Training
COMESA	The Common Market for Eastern and Southern Africa
CAADP	The Comprehensive African Agricultural Development Programme
EACRN	The Eastern Africa Child Right Network
TE	Total Expenditures
TB	Tuberculosis
UHC	Universal Health Coverage
VAT	Value Added Tax

NOTES

NOTES

Institute of Economic Affairs

The Citizen Alternative Budget

The Institute of Economic Affairs (IEA-Kenya) is a civic forum which seeks to promote pluralism of ideas through open, active and informed debate on public policy issues. It is independent of political parties, pressure groups and lobbies, or any other partisan interests

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Made by different Stakeholders from the corporate and social sector on
on 30th and 31st January, 2024.