

BUDGET

The "Mwananchi" Guide

2018/19



14TH JUNE 2018

The PFM Act, 2012 requires the budget for the government to be publicized. This Mwananchi guide therefore, seeks to disseminate information on the budget for the FY 2018/19 to all segments of the society.

THEME: CREATING JOBS, TRANSFORMING LIVES AND SHARING PROSPERITY

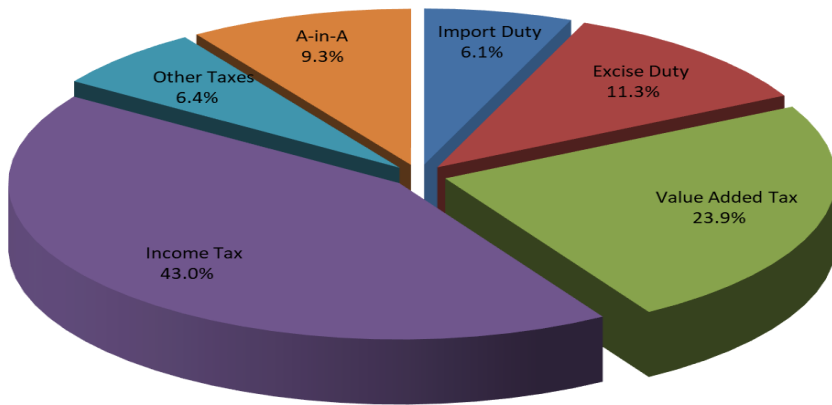
Government expenditure and net lending for the Financial Year 2018/19 is **Ksh 2,556.6bn**.

Of which:

◆ **Ksh 1,073.0bn** ministerial recurrent expenditure; *Ministerial Expenditures includes Judiciary (Ksh 15.2bn) and Parliament (Ksh 36.8bn)*

- ◆ **Ksh 671.6bn** allocation for development expenditure;
- ◆ **Ksh 490.5bn** CFS excl domestic bond redemptions;
- ◆ **Ksh 314.0bn** sharable transfer to Counties
- ◆ **Ksh 5bn** for contingency fund
- ◆ **Ksh 2.5bn** for net lending

Sources of the Ksh 1,949.2bn Total Revenue inclusive of A.I.A



Overall Budget and Financing

Total Revenue Ksh 1,949.2bn

Grants Ksh 48.5bn



Deficit (Ksh 558.9bn)

Deficit Financing

- Project Loans **Ksh 235.8bn**
- Commercial Financing **Ksh 298.9bn**
- Program Support **Ksh 2.5bn**
- Foreign Payments **Ksh -250.3bn**
- Net Domestic Financing **Ksh 271.9bn**

Where are some of your taxes going?

Priority areas for the FY 2018/19

The "Big Four" Plan

Ksh 2.4billion

Support Value Addition and Raise the Manufacturing sector's share to GDP to 15% by 2022.

Ksh 20.25billion

Enhancing Food and Nutrition Security to all Kenyans by 2022.

Ksh 44.6billion

Providing Universal Health coverage to guarantee quality and affordable healthcare to all Kenyans.

Ksh 6.5billion

Provision of Affordable and Decent Housing for all Kenyans.

Enablers of the "Big Four" Plan

Ksh 57.5billion

Enhanced Security for investment, Growth and Employment.

Ksh 273.8billion

Investing in infrastructure to unlock growth potential.

Ksh 200.6billion

Enhancing access and transforming Educational system.

Ksh 60.4billion

Environment Management and protection, flood control and water Harvesting.

Ksh 68.9billion

Equity, poverty reduction & social protection for vulnerable groups.

Ksh 22.1billion

Leveraging on Information, Communication and Technology.

Ksh 314.0 billion

Transfer to County Governments

Achievements under the Economic Transformation Agenda

Some of the achievements realized over the last 5 years of implementation of the transformative agenda include:

- ◆ Economic growth remained resilient and broad based averaging 5.6% in the past 5 years and generating a total of 3.4million new jobs since 2013. Growth is projected at 5.8 percent in 2018.
- ◆ Macroeconomic stability (inflation within target, stable interest rates and competitive exchange rate for high adequate reserves) and improved security created a conducive business environment for investment.
- ◆ Improved infrastructure : Operationalized phase 1 SGR (Mombasa to Nairobi), commissioned SGR freight service for efficient cargo transportation and embarked on construction of Phase 2 of the SGR (Nairobi to Naivasha).
- ◆ Increased access to electricity : Over 6.7 million Kenyans connected to electricity compared to 2.3 million in 2013
- ◆ Food security; expanded irrigation schemes, increased access to agricultural inputs, supported large-scale production of staples.
- ◆ Increased health facilities to 11,000 in 2017 from 9,000 in 2013, equipped hospitals with specialized medical equipment and expanded NHIF coverage to expectant mothers.
- ◆ Improved education sector: Free education program expanded to include free day secondary school , introduced new curriculum and upgraded technical training institutes across the country.
- ◆ Expanded Fibre Optic Backbone Infrastructure across the Counties which has facilitated reliable high-speed networks and supported e-government service and innovation among businesses.
- ◆ Enhanced service delivery through devolution: Over Ksh 1.3 trillion released to County Governments since 2013 to support devolution.

Creating Jobs, Transforming Lives and Sharing Prosperity; through the “Big Four “ plan

1. Supporting value addition and raising the manufacturing sector’s share of GDP to 15 percent by 2022;
2. Focusing on initiatives that guarantee food security and nutrition to all Kenyans by 2022;
3. Providing Universal Health Coverage to guarantee quality and affordable Healthcare to all Kenyans;
4. Providing at least 500,000 affordable and decent housing;

1. Support Value Addition and Raise Manufacturing sector’s share of GDP to 15% by 2022

The Government targets to raise contribution of manufacturing sector to GDP to 15% by 2022 , hence increasing manufacturing sector jobs by more than 800,000, accelerate economic growth and reduce poverty.

- special emphasis will be on:
 - (i) Textile and Apparels;
 - (ii) Leather products;
 - iii) Agro - processing;
 - iv) Manufacturing of construction materials.
- Other important sectors will be Oil, Mining and Gas; Iron and Steel; ICT; and Fish Processing



Leather centre in Nairobi. Ksh 0.4bn has been allocated for the development of Kenian leather industrial park



Workers at EPZ Athi River, Ksh.0.4bn has been allocated for Textile Development

Key allocations for the development of industries in the FY 2018/19 include;

- ◆ Ksh 0.4bn for Kenian Leather Industrial park;
- ◆ Ksh 0.4bn for Textile development EPZ hub;
- ◆ Ksh 1.43bn for Modernization of RIVATEX;
- ◆ Ksh 200mn for Modernization of New KCC;

2. Enhancing Food and Nutrition Security to all Kenyans

To achieve food security and improved nutrition, the Government will focus on three broad areas, namely: enhancing large-scale production; boosting smallholder productivity; and reducing the cost of food .

- i) To enhance large scale production; the Government will place an additional 700,000 acres through PPP under maize, potato, rice and feeds production; expand irrigation schemes and secure water towers and river ecosystems.
- ii) To enhance agricultural productivity among smallholder farmers, the Government will upscale crop and livestock insurance with the goal of cushioning farmers against climate related risks.
- iii) To reduce cost of food, the Government will provide affordable energy; enhancing market distribution infrastructure; and availing incentives for post-harvest technologies to reduce post-harvest losses from 20 percent to 15 percent



Ksh 1.3bn for Bura irrigation project to ensure food security



To ensure Food security, Ksh 300 million allocated for Fall Army Worm Mitigation.

For food security in FY 2018/19, Government has allocated;

- ◆ Ksh 8.5bn for ongoing irrigation projects
- ◆ Ksh 4.3bn for Fertilizer subsidy
- ◆ Ksh 0.3bn for Crop Insurance Scheme
- ◆ Ksh 1.4bn for Strategic Food Reserve
- ◆ Ksh 1.9bn for Kenya cereal enhancement
- ◆ Ksh 1.5bn for Issuance of Title Deeds
- ◆ Ksh 0.9bn for Crop diversification
- ◆ Ksh 0.3bn for Army Worm Mitigation; and
- ◆ Ksh 0.5bn for mechanization of Agriculture
- ◆ Ksh 0.75bn digitalization of land registration

3. Providing Universal Health Coverage

The Government targets Universal Health Coverage (UHC) for all households by 2022. This will guarantee access to quality and affordable health care for all Kenyans. This will be achieved by

- i) Increasing NHIF enrolment from the current 16.5 million to 25 million Kenyans by the end of 2018;
- ii) Expansion of the “Linda Mama” programme to mission hospitals and private hospitals;
- iii) Provision of specialized medical equipment and increasing the number of health facilities.

Key allocations in the FY 2018/19 include:

- ◆ Ksh 4.3bn for free maternal healthcare;
- ◆ Ksh 9.4bn for leasing medical equipment;
- ◆ Ksh 4.7bn for Kenya Medical Training centers;
- ◆ Ksh 11.7bn for Kenyatta National Hospital;
- ◆ Ksh 7.7bn for Moi Teaching and Referral Hospital;
- ◆ Ksh 1.7bn for Kenya Medical Research Institute;
- ◆ Ksh 2.9bn for Doctors, Clinical officers, Nurses internship;
- ◆ Ksh 7.0bn for CT (Computed Tomography) Scanners used in screening for diseases such as cancer.
- ◆ Ksh 2.5bn rolling out of Universal Health care to counties.



Ksh 0.7bn for computed tomography scanners Equipment



Bringing specialized treatment closer to Kenyans

4. Provision of Affordable and Decent Housing for All Kenyans

The Government is keen on delivering 500,000 housing units by 2022 to enable more Kenyans own decent and affordable houses.

Measures are already in place to reduce the cost of mortgages, cut the cost of construction, and raise low-cost funds from private and public sector for investment in large-scale housing construction.

- To increase access to affordable credit, the Kenya Mortgage Refinance Company (KMRC) was incorporated in April 2018.
- KMRC will make it easier for banks to access long-term finance for home loans.



Housing units in Kibera, Ksh 1.0 bn has been allocated for the construction of Affordable Housing units



Government is planning to construct 8,000 houses in Mavoko, Machakos County

Key allocations towards affordable housing and urban development in the FY 2018/19 include;

- ◆ Ksh 1.0bn for construction of affordable housing;
- ◆ Ksh 2.0bn for construction of social housing units;
- ◆ Ksh 1.5bn for construction of housing or police and Kenya Prison;
- ◆ Ksh 1.5bn for Civil Servant Housing Scheme;
- ◆ Ksh 2.5bn for Kisumu urban programme;
- ◆ Ksh 4.3bn for Nairobi Metropolitan services;
- ◆ Ksh 11.7bn for Kenya Urban Programme.

Enablers for “The Big Four” Plan;

A. Conducive Business Environment for Investment

Improving National Security

National security remains critical to economic stability and attracting investments and in turn accelerating growth and creating employment, especially for the youth.

Key allocations to enhance security include;

- ◆ Ksh 9.2bn for lease financing of police motor vehicles;
- ◆ Ksh 9.0bn for enhanced security operations;
- ◆ Ksh 29.8bn for police and military modernization;
- ◆ Ksh 3.0bn for securitization of borders;
- ◆ Ksh 4.8 billion for Police and Prison Officers Medical Insurance Scheme,
- ◆ Ksh 1.7 billion for Group Life Insurance for Police.

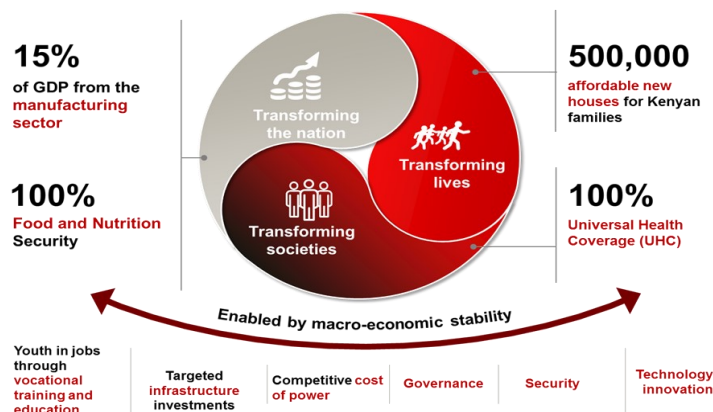


President Uhuru presides over graduation of police officers at Kiganjo Training College

Macro economic Stability

The Government will pursue prudent fiscal and monetary policies that support strong economic growth, ensures price stability and maintains our debt at sustainable levels .

- ◆ Fiscal policy will prioritize development expenditures to support growth, while curtailing growth of non-productive recurrent expenditures.
- ◆ Monetary policy will maintain inflation within the target range of 2.5% on either side of 5.0%.
- ◆ Interest rates will be kept low and stable, and ensure the exchange rate remains broadly stable and competitive to support our exports.



B. Infrastructural Development

Road Construction

To expand roads, reduce congestions, and increase coverage of rural access roads, the following has been allocated:

- ◆ Ksh 87.5bn for Ongoing Road Construction (Domestically Financed).
- ◆ Ksh 34.2bn for Foreign financed roads.



A completed section of the Outer Ring Road in Nairobi

Rail and Ports Construction

To develop and manage efficient and safe railway transport and modernize ports, the following have been allocated:

- ◆ Ksh 74.4bn Construction of SGR Phase II (Nairobi – Naivasha)
- ◆ Ksh 8.9bn for LAPSET Project
- ◆ Ksh 2.7bn for Mombasa Port Development Project
- ◆ Ksh 1.4bn for expansion of Airports and Airstrips



The SGR phase one completed and operational



Inside the refurbished Malindi International Airport. Expansion of the airport is ongoing

Energy

To ensure reliable energy supply and enhance electricity connections, allocations in FY 2018/19 include:

- ◆ Ksh 10.2bn for Geothermal Development
- ◆ Ksh 5.5 billion for Eastern Electricity Highway Project
- ◆ Ksh 2.0bn for Installation of Transformers & substations
- ◆ Ksh 5.9bn for Rural Electrification
- ◆ Ksh 4.8bn for Exploration and Distribution (Oil & Gas)
- ◆ Ksh 6.7bn for Last Mile Connectivity
- ◆ Ksh 1.0bn for National street Lighting Programme
- ◆ Ksh 9.6bn for Loiyangalani-suswa Transmission line
- ◆ Ksh 1.0bn for connectivity Subsidy



Transportation of Crude oil from Ngamia 8 oil fields in Turkana County to Mombasa on June 3, 2018.

Leveraging on ICT

To further enhance service delivery by Government agencies the following has been allocated in the FY 2018/19:

- ◆ Ksh 0.3bn for single window support programme
- ◆ Ksh 0.7bn to integrate IFMIS with other systems
- ◆ Ksh 8.3bn for Development of Konza Metropolis
- ◆ Ksh 11.9bn for Digital Literacy programme (school laptop project)
- ◆ Ksh 0.3bn for Digital migration (KBC)
- ◆ Ksh 0.1bn for Presidential digital talent

Sustaining Water Supplies

Resources have been allocated for control of floods and rain water harvesting among others as follows:

- ◆ Ksh 7.2bn for Water Resource Management,
- ◆ Ksh 33.6bn for Water and Sewerage Infrastructure,
- ◆ Ksh 2.9bn for Environment Management and protection,
- ◆ Ksh 2.2bn for Meteorological services,
- ◆ Ksh 9.1bn for Integrated Regional Development,
- ◆ Ksh 10.8bn for Forests and water Towers conservation.

C. Sustained Investment in Social Services for the Welfare of Kenyans

Quality and Relevant Education

The following allocations in the FY 2018/19 are aimed at promoting focus on learning and competencies to develop quality and relevant skills for the market.

- ◆ Ksh 59.4bn for free day Secondary Education,
- ◆ Ksh 13.4bn for free primary education,
- ◆ Ksh 5.0bn for recruitment of additional teachers,
- ◆ Ksh 16.0bn for Vocational and Technical Training institutes,
- ◆ Ksh 2.0bn for school feeding program,
- ◆ Ksh 4.0bn to KNEC for examination fee waiver,
- ◆ Ksh 9.6bn for Higher Education Loans Board,
- ◆ Ksh 91.0bn for University Education.



Mechanical Engineering equipment at Kisumu National Polytechnic on 13th May 2018

Equity, Poverty Reduction and Social Protection for Vulnerable Groups

Under National Safety Net (Inua Jamii) Programme, Government continues to extend cash transfers to vulnerable groups in the FY 2018/19 as follows:

- ◆ Ksh 7.9bn for Orphans and Vulnerable Children,
- ◆ Ksh 17.3bn Cash Transfer to elder persons,
- ◆ Ksh 1.2bn Cash Transfer to persons with severe disability.

To support youth and women empowerment, allocations in FY 2018/19 include:

- ◆ Ksh 0.3bn for Youth Enterprise Development Fund (YEDF),
- ◆ Ksh 0.3bn for Youth Employment and Enterprise (Uwezo Fund),
- ◆ Ksh 0.5bn for Women Enterprise Fund.

To promote equity, social development and development in the marginalized areas, the Government has allocated:

- ◆ Ksh 35.7bn for National Government Constituency Fund,
- ◆ Ksh 2.3bn for Affirmative Action for social development for women representatives,
- ◆ Ksh 8.5bn for Equalization Fund.



Registration of the Elderly for the Inua Jamii Programme,



Green House farming under the YEDF

D. Continued Support to Counties for better Service Delivery

In FY 2018/19, Equitable share allocation to County Governments is **Ksh 314.0 bn**.

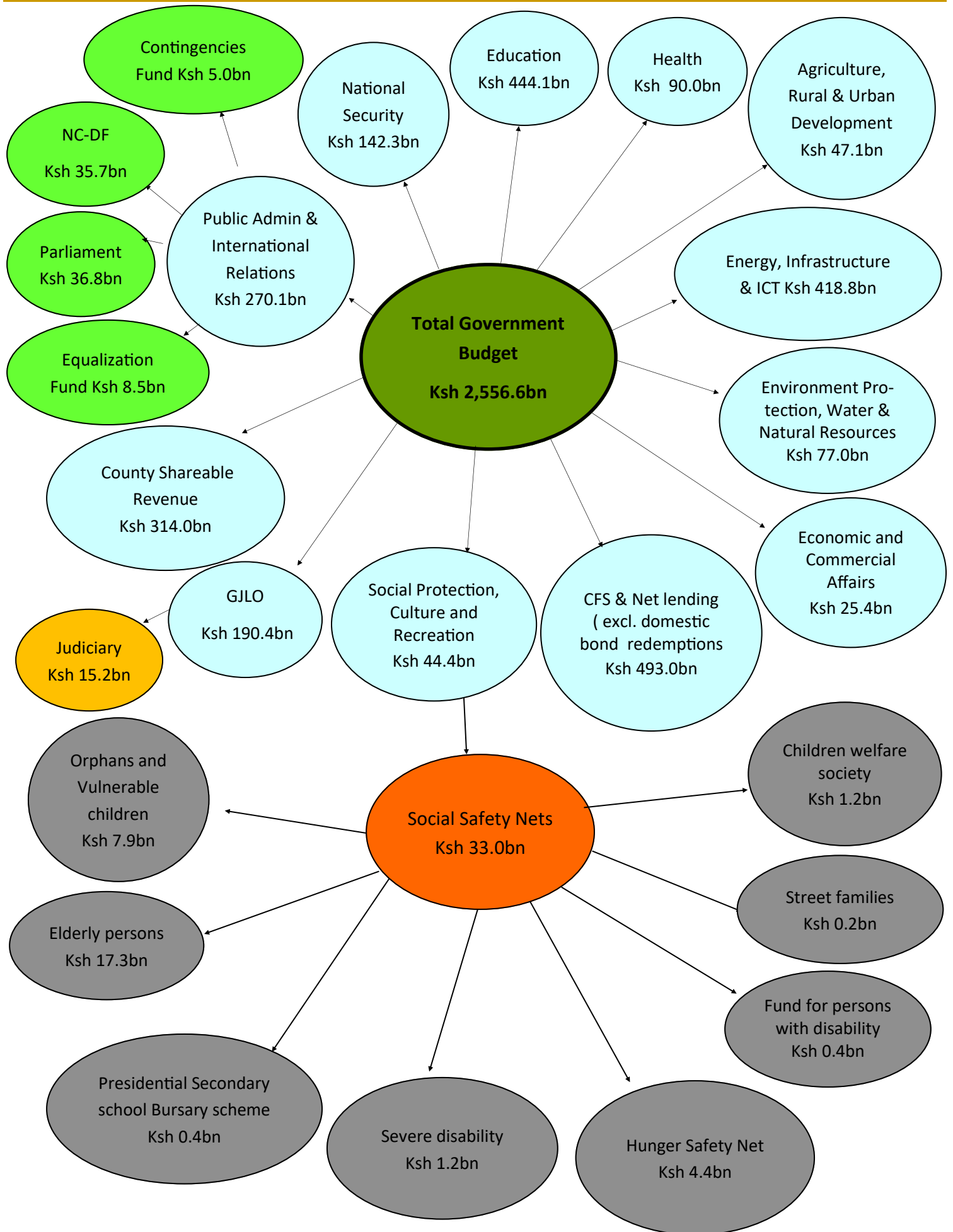
In addition, County Governments will receive **Ksh 62.5bn** conditional allocations constituting:

- ◆ Ksh 4.3bn for level-5 hospitals;
- ◆ Ksh 0.9bn for compensation of foregone user fees;
- ◆ Ksh 9.4bn for the leasing of medical equipment;
- ◆ Ksh 0.6bn to supplement construction of County headquarters;
- ◆ Ksh 2.0bn for rehabilitation of youth polytechnics; and
- ◆ Ksh 8.3bn from the Road Maintenance Fuel Levy Fund.

Other Conditional allocations from donor loans and grants include:

- ◆ Ksh 26.5bn loan and grants from World Bank,
- ◆ Ksh 1.92bn proceeds of a European Union grant,
- ◆ Ksh 1.0bn proceeds of a Danish Government grant,
- ◆ Ksh 1.0bn proceeds from Sweden Government,
- ◆ Ksh 6.5bn loan from international Development Association (IDA).

PUBLIC EXPENDITURE TRACKING



Summary of Proposed Tax Measures

Customs Measures

To protect our local manufacturers and industries from competition from cheap and subsidized imports, encourage local production and create jobs for our youth

- ◆ Increased Import duty from **25% to 35%** on iron and steel products and paper and paper board produced in the region.
- ◆ Introduced a specific rate of import duty of **USD5 per unit or 35%** whichever is higher, on textile and footwear.
- ◆ Introduced specific rate duty of **USD110/MT** on particle board, **USD120/MT** on medium density fiber board, **USD230/M3** on plywood and **USD200/MT** on block boards, **or 35%** whichever is higher,
- ◆ Introduced a specific rate of **USD 500/MT or 35%** whichever is higher on vegetable oils.
- ◆ Remission of duty on inputs and raw materials for the manufacture of pesticides and acaricides.
- ◆ Remission of duty on motor cars, sightseeing buses and overland trucks imported by licensed tour operators.
- ◆ Remission of duty on taxable inputs and raw materials for assembly of clean energy cooking stoves imported by local manufacturers.

Value Added Tax

- ◆ VAT exemption on Parts Imported or purchased locally for the assembly of computers to encourage local manufacture, innovation and job creation
- ◆ VAT exemption of equipment to be used in the construction of grain storage facilities to support safe storage of food.
- ◆ VAT exemption for raw materials for animal feeds to make animal feeds affordable to farmers and attract investors.

Excise Duty

- ◆ Excise duty of **Ksh 20 per Kg** on sugar confectionaries and chocolates.
- ◆ Excise duty of **12%** on cellular phones money transfer fees.
- ◆ Excise duty rate of **30%** on private passenger motor vehicles whose engine capacity exceeds 2500cc for diesel and 3000cc for petrol powered vehicles.
- ◆ Excise duty of **0.05%** on any transfer of amounts of **Ksh 500,000** or more by banks/ financial providers.

Income tax

- ◆ Replaced turnover tax with presumptive tax based on the business permit or trading license fees at a rate of **15%**.
- ◆ Withholding tax rate of **20% for** payments for demurrage charges made to non-resident persons.
- ◆ Introduced capital gains tax of **5%** on transfer of property by general insurance companies
- ◆ Withholding tax rate of **5%** on insurance premium paid to non-residents excluding for insurance of aircraft.
- ◆ Introduction of tax on untaxed distributed profits to replace compensating tax.
- ◆ Expansion on the transactions giving rise to dividend subject to withholding tax.

Export Levy

- ◆ Introduced an export levy of 20% on copper waste and scrap to protect local manufacturers.

ABBREVIATIONS

A.I.A	Appropriations in Aid	PAIR	Public Administration & International Relations
CFS	Consolidated Fund Services	NG-CDF	National Government constituency Development Fund
EPZ	Export Processing Zone	SGR	Standard Gauge Railway
NHIF	National Hospital Insurance Fund	LAPSSET	Lamu Port-South Sudan-Ethiopia-Transport
GECA	General Economic and Commercial Affairs		
GJLO	Governance, Justice, Law and Order		

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matumizi bora ya fedha wajibu wetu