

KEYNOTE ADDRESS BY HON. (AMB) UKUR YATANI, Ag. CABINET SECRETARY, NATIONAL TREASURY & PLANNING DURING THE OFFICIAL LAUNCH OF THE FY2020/21 AND THE MEDIUM-TERM BUDGET PREPARATION PROCESS AT KENYATTA INTERNATIONAL CONVENTION CENTRE, NAIROBI ON 12th SEPTEMBER 2019

Cabinet Secretaries;

Chairperson, Budget and Appropriation Committee;

Chief Administrative Secretaries;

Principal Secretaries and Accounting Officers;

Development Partners;

Members of the Media;

Distinguished Guests;

Ladies and Gentlemen;

1. Good Morning. I am delighted to address you this morning as we launch the preparation of the FY2020/21 and the Medium-Term Budget process. Today's event is a yearly activity in the Budget Calendar that marks the beginning of the annual-budget making process of the Government.

2. I wish to thank you all for finding time to come and participate in this very important event.

3. Throughout this process, the Government working through the Sector Working Groups will be engaging with stakeholders in line with the requirements of the Constitution. The input from the stakeholders will enrich the prioritization and resource allocation to the planned programmes and projects. I have no doubt that the forthcoming Budget will greatly benefit from

engagement with stakeholders and will therefore undoubtedly reflect the wishes of the citizen of this Country.

Ladies and Gentlemen;

4. As we gather here today, we need to note that the FY2020/21 Budget will be prepared against a background of subdued global growth. According to the latest IMF forecasts, global growth is projected at 3.2 percent in 2019 though slightly expected to pick up to 3.5 percent in 2020.

5. The Growth prospects for sub-Saharan Africa continue to strengthen, with a projected growth of 3.4 percent in 2019 and 3.6 percent in 2020. Although Kenya's economic growth has remained strong and resilient, we need to be cautious taking into account the emerging global challenges that could result into external economic shocks that may significantly affect our economy. In the face of the slowdown in global growth, our Government has adopted an all-inclusive fiscal consolidation policy package, encompassing fiscal, monetary, and financial policies.

Ladies and Gentlemen;

6. Allow me to reflect on the fiscal performance of the FY 2018/19 budget. The intended performance was below target on account of revenue shortfall to the tune of KSh. 91 billion and rising expenditure pressures. In order to contain the resultant fiscal gap, we have initiated a number of revenue and expenditure measures in line with our fiscal consolidation plan. The expenditure control and policy measures include budget rationalization on non-core expenditures which include foreign and domestic travel, hospitality, training,

communication supplies, printing and advertising, purchase of furniture, office and general supplies, use of Government Vehicles, and Size of Government Delegation in meetings outside the country. In this regard the Government will be issuing directive on this matter in due course.

7. It is imperative, to mention that, going forward, in the medium-term, we shall steadily continue with the fiscal consolidation policy in this regard, as a proportion of the GDP, we expect budget deficit to reduce to 3.5 per cent of GDP in 2022/23 from a high figure of 7.7 percent of the GDP in 2018/19. Economic recovery is well on course going by the latest economic indicators which clearly point to renewed confidence in the economy and return to stability.

Ladies and Gentlemen;

8. We expect revenue collection in the FY 2019/20 to spring back buoyed by the improving economic environment, enhanced tax policy and revenue administration measures that we have put in place. Together with expenditure rationalization measures we have introduced in the FY2019/20 budget, we expect the funding pressures to ease and create fiscal space for priority programmes in the FY2020/21 Medium-Term Budget.

9. The FY 2020/21 and the Medium-Term Budget will continue to be anchored on third Medium Term Plan (MTP III) and will build on the progress made in the previous financial years. The Government will continue to address the remaining policy, legal, regulatory, and governance challenges as a priority to ensure that we attain our full potential.

Ladies and Gentlemen;

10. In nominal terms, spending will be maintained at the current levels. The Government will commit to gradually reduce spending from 25.3% of GDP in 2018/19 to around 23% of GDP in 2022/23, in line with the fiscal consolidation policy which has been in force over the last two financial years.

The medium-term Budget will be premised on the following:

- (i) Achieving economic growth rate of 7 percent over the medium-term
- (ii) Increasing revenue collection to 18 percent of the GDP;
- (iii) Maintaining spending at 23 percent of the GDP;
- (iv) Reducing budget deficit to about 3.5 percent of the GDP;
- (v) Containing the public sector wage bill to below 6 percent of the GDP;
- (vi) Maintain the current policy of reorienting expenditures to the Big Four Agenda;
- (vii) Restructuring/reforming Semi-Autonomous Government Agencies including Public Universities; and
- (viii) Deepening robust governance measures across the entire public sector to eliminate pilferage and wastage of public resources.

Ladies and Gentlemen;

11. To strengthen public debt management, we have enhanced the capacity of the Public Debt Management Office at the National Treasury, which is responsible for debt operations to ensure the public debt remains sustainable. Additionally, we have initiated set of reforms to promote the domestic debt market and to ensure sustainable financing of our development programs.

12. The Government will continue with reprioritization of expenditure so as to align with its priorities of the Big Four Agenda. This approach will continue in the Medium-Term Budgets to ensure that spending's reflects the development agenda. As we prepare for the FY 2020/21 Budget, emphasis will be put on high priority and strategic service delivery programmes that provide value for money. In this regard, a careful scrutiny of individual Ministries, Departments and Agencies (MDAs) budget execution will be undertaken while preparing expenditure estimates for the FY 2020/21 and the Medium-Term.

Ladies and Gentlemen;

13. In preparing the FY 2020/21 and the Medium-Term Budget, MDAs will be required to prioritize allocations towards the achievement of the 'Big Four' Plan. This will build on the progress made so far to confront the perennial challenges of unemployment, poverty and inequality that the economy continues to face.

14. To create fiscal space and guarantee appropriate phasing out of expenditure programmes, Sector Working Groups will be required to conduct a thorough review of all proposed MDAs Budgets for FY 2020/21 to ensure that they are not only directed towards improving productivity but also aligned to the achievement of the objectives of the "Big Four" Plan either directly as 'drivers' or indirectly as 'enablers'. The exercise should involve the following:

- Identifying and prioritizing the "Big Four" 'drivers' and the 'enablers' in the sector budget proposals. Significant progress has already been made in this regard and the necessary Cabinet approvals granted. This

should form the basis for prioritization and allocation of resources to the 'Big Four' ;

- Initiating Zero Based Budgeting to create fiscal space for the “Big Four” interventions;
- Establishing the resources required for individual programmes and projects and the level of provision within the ceilings provided;
- Justifying each proposed programme funding with supporting documentation; and
- Ensuring that no new project is budgeted for without the express approval of Cabinet.

15. In this regard, the FY 2020/21 Capital Budget will only focus on completion of ongoing projects. In particular, emphasis should be on projects nearing completion to ensure that citizens benefit from such public investments. Further, projects that seek to implement/facilitate the realization of the 'Big Four Plan' should receive the highest priority.

16. All ongoing multi-year projects should be allocated adequate funds in accordance with the contract signed between Government and third parties within the projected ceilings before a new project is allocated budgetary resources.

17. Sector Working Groups are reminded to demand from individual MDAs comprehensive information to support the existence of ongoing projects. This should include a list of the ongoing projects with details of total cost, source of funding, start and end date, cumulative expenditure to date, balance to

completion, physical status of completion levels, and the amount required over the medium term including counterpart funding where it is required, among others.

Ladies and Gentlemen:

18. The Government recently directed that no new projects should be started without the approval of the Cabinet. In this regard, Sector Working Groups will be required to ensure that all new projects are adequately prepared, appraised and approved by the Cabinet before prioritization and resource allocation.

19. Further, to increase efficiency and effectiveness of public spending, the National Treasury has developed a Public Investment Management (PIM) Framework and adopted the Public Investment Management Guidelines. These Guidelines will be applied in the preparation, appraisal and approval of all projects before their inclusion in the budget.

Ladies and Gentlemen;

20. As you embark on this process, ensure that externally financed projects are in line with overall MDAs priorities, and have adequate provision for GOK counterpart funding in accordance with the financing agreement. The SWGs should also ensure that performance for results projects as well as programmes with disbursement linked indicators (DLIs) are properly identified with supporting financing agreement and adequately funded. MDAs are required to provide proof to support the allocation for counterpart funding.

Ladies and Gentlemen;

21. Public participation and involvement of other stakeholders in the Medium-Term budget process is a constitutional requirement. Sector Working Groups must therefore identify its critical stakeholders including Development Partners, and private sector players among others and engage them in programme prioritization. Such engagements should be documented for reference purposes.

22. Further, Sector Working Groups should ensure that the Cabinet Secretaries in the sector are briefed and collectively approve the sector budget proposal/detailed budgets of their MDAs before they are submitted to the National Treasury.

23. Accounting Officers are reminded that the SWGs are the only recognized avenue for bidding for resources. MDAs are therefore required to fully participate in the relevant Sector and bid for resources within the available ceilings. No spending proposal will be factored in the budget unless approved and considered within the SWGs.

Ladies and Gentlemen;

24. Finally, I wish, to call upon all Ministries, Departments and Agencies to strictly adhere to the guidelines issued on the preparation of the budget including the hard sector ceilings to be provided, and timeline to facilitate timely finalization and appropriation of the FY 2020/21 Budget.

25. It is now my pleasure and duty to declare the FY 2020/21 and the Medium-Term Budget preparation process officially launched.

THANK YOU AND GOD BLESS YOU!