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 2020/21 to all segments of the society.

**THEME: “STIMULATING THE ECONOMY TO SAFEGUARD LIVELIHOODS, JOBS, BUSINESSES AND INDUSTRIAL RECOVERY.”**

- Prioritized spending is key in stimulating economic recovery. In FY 2020/21, Government Expenditure and Net Lending is Ksh 2,790.4 billion, of which:
  - Ksh 1,254.4 billion Ministerial Recurrent Expenditure; Ministerial Recurrent Expenditure include Judiciary Ksh 15.3 Bn and Parliament Ksh 35.2 Bn
  - Ksh 633.1 billion allocation for Development Expenditure;
  - Ksh 586.5 billion for Interest Payments and Pensions;
  - Ksh 316.5 billion Shareable Transfer to Counties;

Composition of the Ksh 1,892.6 Bn Total Revenue inclusive of A.I.A

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added Tax</td>
<td>25.4%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>36.2%</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>12.8%</td>
</tr>
<tr>
<td>Import Duty</td>
<td>6.6%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>6.3%</td>
</tr>
<tr>
<td>A-I-A</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

**Overall Budget and Financing**

- Total Revenue Ksh 1,892.6 Bn
- Grants Ksh 57.2 Bn
- Deficit (Ksh 840.6 Bn)

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi concessional Loans</td>
<td>Ksh 124.1 Bn</td>
</tr>
<tr>
<td>Project Loans</td>
<td>Ksh 250.5 Bn</td>
</tr>
<tr>
<td>Commercial Financing</td>
<td>Ksh 6.2 Bn</td>
</tr>
<tr>
<td>Program Support</td>
<td>Ksh 152.0 Bn</td>
</tr>
<tr>
<td>Foreign Payments</td>
<td>— 179.6 Bn</td>
</tr>
<tr>
<td>Net Domestic Financing</td>
<td>Ksh 493.7 Bn</td>
</tr>
<tr>
<td>Deficit Financing</td>
<td>Ksh 840.6 Bn</td>
</tr>
</tbody>
</table>

NB: *Excludes Redemptions

**Some of the Spending Plans are:**

**The “Big Four” Drivers & Enablers**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ksh 18.3 Bn</td>
<td>Support Value Addition and Raise the Manufacturing sector’s share to GDP to 15% by 2022.</td>
</tr>
<tr>
<td>Ksh 52.8 Bn</td>
<td>Enhancing Food and Nutrition Security to all Kenyans by 2022.</td>
</tr>
<tr>
<td>Ksh 50.3 Bn</td>
<td>Providing Universal Health coverage to guarantee quality and affordable healthcare to all Kenyans.</td>
</tr>
<tr>
<td>Ksh 6.9 Bn</td>
<td>Provision of Affordable and Decent Housing for all Kenyans.</td>
</tr>
</tbody>
</table>

**Other Key Allocations**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ksh 314.7 Bn</td>
<td>Enhanced Security for investment, Growth and Employment.</td>
</tr>
<tr>
<td>Ksh 324.7 Bn</td>
<td>Investing in infrastructure to unlock growth potential.</td>
</tr>
<tr>
<td>Ksh 497.7 Bn</td>
<td>Enhancing access and transforming Educational system.</td>
</tr>
<tr>
<td>Ksh 78.8 Bn</td>
<td>Environment Management and protection, flood control and water Harvesting.</td>
</tr>
<tr>
<td>Ksh 88.4 Bn</td>
<td>Equity, poverty reduction &amp; social protection for vulnerable groups.</td>
</tr>
<tr>
<td>Ksh 14.9 Bn</td>
<td>Leveraging on Information, Communication and Technology.</td>
</tr>
<tr>
<td>Ksh 369.9 Bn</td>
<td>Transfer to County Governments Including: Equitable Share Ksh 316.5 Bn and Conditional Allocation Ksh 53.4 Bn</td>
</tr>
</tbody>
</table>
The Kenyan economy is currently facing adverse effects of the COVID-19 Pandemic. In addition, the economy is confronted by the impact of desert locusts and floods that have caused deaths, displacement of people and destruction of infrastructure across the country. From these three simultaneous shocks, all sectors of the economy have been adversely affected. To stimulate economic activities and safeguard livelihoods, the Government will implement a rapid Economic Stimulus Programme and lay down a firm ‘Post Covid-19 Economic Recovery Strategy.

To address the negative impact of COVID-19 Pandemic the Government has:

♦ Granted 100% tax relief for persons earning up to Ksh. 24,000 per month;
♦ Reduced Personal and Corporate Income Tax rates from 30% to 25% to enhance personal earnings and purchasing power and provide incentives to businesses to retain staff and operations;
♦ Reduced Value Added Tax from 16% to 14% to boost liquidity in the economy;
♦ Reduced Turnover tax rate from 3% to 1% to cushion Micro, Small and Medium Enterprises;
♦ Initiated pilot cash transfer of Ksh 1,000 to vulnerable households in Nairobi County per week via MPESA being implemented in 11 Sub-Counties namely Kasarani, Embakasi, Mathare, Westlands, Kibra, Langata, Dagoreti, Maka- dara, Starehe, Kamukunji and Njiru; and
♦ Established and operationalized COVID-19 Emergency response Fund to receive and distribute donations to vulnerable persons.

⇒ To further enhance liquidity in the economy, the following allocations were made in the FY 2019/20 Supplementary Estimates No. 2:

♦ Ksh 13.1 billion for clearance of pending bills;
♦ Ksh 10.0 billion for settling outstanding VAT refunds;
♦ Ksh 10.0 billion for cash transfers to vulnerable persons;
♦ Ksh 5.0 billion to support Counties response; and
♦ Ksh 1.0 billion for hiring additional health personnel.

To address the negative impact of floods & the locust invasion, the Government is:

♦ Providing food and non-food necessities to the affected families;
♦ Relocating affected families to higher grounds and public schools; and
♦ Deploying significant resources to fight locusts through aerial spraying for flying swarms and ground spraying for the hatched ones.

Additional Measures to Enhance Liquidity in the Economy:

♦ Reduced the Central Bank rate from 8.25% to 7.25% in March and 7.0% in April 2020 to signal lower lending rates;
♦ Reduced the Cash Reserve Ratio from 5.25% to 4.25% to avail additional liquidity to banks for lending; and
♦ Raised the maximum limit for mobile money transactions from Ksh 70,000 to Ksh 150,000.
EIGHT POINT ECONOMIC STIMULUS PACKAGE - COVID-19 RESPONSE

1. Improving Road Infrastructure and Urban Renewal whose initiatives include:
   - A Ksh 10.0 Bn “Kazi Mtaani Programme” targeting 100,000 unemployed youth in the major cities and urban settlements of Nairobi, Mombasa, Kisumu, Eldoret, Nakuru and other major towns to be engaged in fumigation, storm water drainage, cleaning of markets and informal settlements;
   - Ksh 5.0 Bn for rehabilitation of access roads and foot bridges affected by the heavy rains, using local labour in all constituencies.

2. Improving Education Outcomes:
   - Allocations to support education include:
     - Ksh 2.4 Bn for recruitment of 10,000 teacher interns to support the 100 percent transition and employment creation;
     - Ksh 2.1 Bn for rehabilitation and construction of classrooms;
     - Ksh 1.9 Bn to cater for fabricated desks for secondary and primary schools.
     - Ksh 0.7 Bn for capitation and improving infrastructure in low cost boarding schools in ASAL using local labour; and
     - Ksh 0.3 Bn for hiring of 1,000 ICT interns to support digital learning in public schools and employment creation.

3. Enhancing Liquidity for Small & Medium Enterprises (SMEs):
   - Allocations to enhance liquidity for SMEs include:
     - Ksh 5.0 billion to fast-track payment of outstanding VAT refunds owed to local businesses;
     - Ksh 5.0 billion for payment of pending bills; and
     - Ksh 3.0 billion seed capital for the SME Credit Guarantee Scheme.

4. Improving Health Outcomes
   - Key initiatives and allocations include:
     - Ksh 1.2 billion for recruitment of 5,000 diploma and certificate level health interns for one year; and
     - Ksh 0.5 billion for expansion of bed capacity in public hospitals through supply of locally sourced beds and beddings.
5. Agriculture and Food Security:

- Allocations have been made for the following initiatives:
  - Ksh 3.0 Bn for provision of subsidized supply of farm inputs through the E-Voucher System to about 200,000 small scale farmers to ensure adequate food supply;
  - Ksh 1.5 Bn to provide temporary support to enable horticultural farmer’s access the international markets; and
  - Ksh 0.5 Bn to enhance working capital for the Kenya Meat Commission to support livestock farmers.

6. Supporting Tourism Recovery:

- Allocations to support the Tourism industry include:
  - Ksh 3.0 Bn Soft loans to hotel and related establishments to support renovation of facilities and restructuring of business operations to be channelled through the Tourism Finance Corporation;
  - Ksh 1.0 Bn to promote aggressive post COVID-19 tourism marketing by the Kenya Tourism board to boost the tourism sector;
  - Ksh 1.0 Bn to engage 5,500 community scouts; and
  - Ksh 1.0 Bn to support 160 community conservancies.

7. Improving Environment, Water and Sanitation:

- Allocations here include:
  - Ksh 3.4 Bn to enhance community/household irrigation; and
  - Ksh 1.0 Bn for flood control measures and mitigation using local labour;
  - Ksh 0.9 Bn for rehabilitation of wells, water pans and underground tanks in Arid and Semi Arid areas; and
  - Ksh 0.5 Bn for the Greening Kenya campaign.

8. Supporting Manufacturing:

- Local manufacture of face masks at Kitui County Textile Center. The Government will enforce the Policy of “Buy Kenya, Build Kenya” in furniture, stationery, beverages, and uniforms among others.

- Locally assembled Volkswagen in Thika, Ksh 600 Million allocated to promote purchase of locally assembled cars for use by MDAs in order to support our manufacturing sector.
1. Providing Universal Health Coverage

⇒ Realization of Universal Health Coverage (UHC) will guarantee access to quality and affordable health care for all Kenyans. The Government is keen to roll out UHC to all counties after completion of the pilot phase Progress in implementation of UHC thus far include:

⇒ Key allocations for UHC in the FY 2020/21 include:
  ♦ Ksh 15.0 Bn for Kenyatta National Hospital;
  ♦ Ksh 12.6 Bn for rollout of Universal Health Coverage;
  ♦ Ksh 10.0 Bn for Moi Teaching and Referral Hospital;
  ♦ Ksh 6.2 Bn for Managed Equipment Services;
  ♦ Ksh 5.3 Bn for Transforming health systems for UHC;
  ♦ Ksh 4.3 Bn for Conditional Grants to level 5 hospitals;
  ♦ Ksh 4.1 Bn for Free Maternal Health Care;
  ♦ Ksh 4.0 Bn for Health Sector Support for UHC;
  ♦ Ksh 1.9 Bn for NHIF cover for the Elderly and severely disabled; and
  ♦ Ksh 1.4 Bn for Vaccines and Immunization.

2. Enhancing Food and Nutrition Security to all Kenyans

♦ The overall strategy is to reduce the number of food insecure Kenyans by expanding irrigation schemes, supporting large-scale production of staples, increasing access to agricultural inputs and supporting smallholder farmers in the use of appropriate farming techniques;

♦ To reduce over-reliance on rain-fed agriculture, the Government will continue to expand land under irrigation. Ksh 10.6 Bn has been allocated to increase agricultural productivity and build resilience to climate change risks under the Kenya climate Smart Agriculture Project.

⇒ Other key allocations in FY 2020/21 include:
  ♦ Ksh 5.5 Bn for National Agricultural and Rural Inclusivity Project;
  ♦ Ksh 4.2 Bn for Kenya Cereal Enhancement Programme;
  ♦ Ksh 1.8 Bn for the Aquaculture Business Development Project;
  ♦ Ksh 1.6 Bn for Processing and Registration of Title Deeds;
  ♦ Ksh 1.3 Bn for Small Scale Irrigation and Value Addition Project;
  ♦ Ksh 1.3 Bn for Regional Pastoral Livelihood Resilience Project;
  ♦ Ksh 1.1 Bn for Drought Resilience and Sustainable Livelihood Programme;
  ♦ Ksh 0.4 Bn for Fall Armyworm Mitigation;
  ♦ Ksh 0.2 Bn for Rehabilitation of Fish Landing Sites; and
  ♦ Ksh 0.2 Bn for Cotton Industry Revitalization.
3. Supporting Value Addition in the Manufacturing Sector

⇒ The Government continues to promote development of the Textile Industry, Special Economic Zones (SEZ), Industrial Parks and the Automotive sub sectors across the country.

⇒ Key allocations in the FY 2020/21 include;
  ♦ Ksh 3.1 Bn for SEZ in Naivasha (Textile Park);
  ♦ Ksh 1.4 Bn for Kenya Industry and Entrepreneurship project;
  ♦ Ksh 0.8 Bn for Development of various SMEs in Kenya;
  ♦ Ksh 0.7 Bn for Industrial Research Laboratories;
  ♦ Ksh. 0.6 Bn for locally Assembled Motor Vehicles
  ♦ Ksh 0.3 Bn for Athi River Textile Hub;
  ♦ Ksh 0.3 Bn for Development of Kenanie Industrial Park; and
  ♦ Ksh 0.3 Bn for Constituency Industrial Development centres.

4. Provision of Affordable and Decent Housing for All Kenyans

⇒ The Government has operationalized the Kenya Mortgage Refinance Company (KMRC) to address funding constraints, increase access to affordable credit, grow the primary mortgage market and reduce the funding cost of residential mortgages.
  ♦ The Government has identified land to develop 100,000 units under the Urban Areas and Cities Act.
  ♦ National and County Governments will avail appropriate land for affordable housing projects at no cost.
  ♦ County Governments will prioritize funding and development of infrastructure that will support the creation of sustainable affordable settlements.
  ♦ The National Social Security Fund will construct 30,000 low cost houses at Mavoko and 300 low cost affordable houses in Machakos.

⇒ Key allocations towards affordable housing and urban development in the FY 2020/21 include;
  ♦ Ksh 4.2 Bn for Kenya mortgage refinance company;
  ♦ Ksh 1.3 Bn for construction markets;
  ♦ Ksh 0.3 Bn for Housing Units for Police and Kenya Prisons.

Enablers for the “Big Four” Plan;

A. Conducive Business Environment for Investment

Macro Economic Stability

⇒ Macroeconomic stability will be maintained through prudent fiscal and monetary policies to support economic recovery, price stability, safeguard livelihoods, jobs and businesses.
  ♦ Fiscal policy will prioritize development expenditures to stimulate recovery of the economy,
  ♦ 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.
Improving National Security

⇒ The Government continues to create a safe and secure environment to enable attainment of priority programmes, attract investment, promote employment creation and accelerate growth.

⇒ **Key allocations to enhance security** include:
  
  ✦ **Ksh 10.7 Bn** for Lease Financing of Police Motor Vehicles;
  
  ✦ **Ksh 3.4 Bn** for Police and Prison Officers Medical Insurance Scheme;
  
  ✦ **Ksh 1.5 Bn** for National Communication and Surveillance System; and
  
  ✦ **Ksh 0.3 Bn** for Equipping the National Forensic Laboratory.

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**Leveraging on Information, Communication and Technology**

⇒ Data Protection Act, 2019 and Computer Misuse and Cybercrimes Act, 2018 enacted. To further enhance service delivery and open new frontiers for employment creation, the following has been allocated in the FY 2020/21:

  ✦ **Ksh 6.3 Bn** for Development of Konza Horizontal Infrastructure;
  
  ✦ **Ksh 5.1 Bn** for Konza Data Center and Smart City Facilities;
  
  ✦ **Ksh 2.2 Bn** for National Optic Fibre Backbone Infrastructure (Phase II) Expansion;
  
  ✦ **Ksh 0.8 Bn** for Digital Literacy Programme (School Laptop Project);
  
  ✦ **Ksh 0.7 Bn** for Government Shared Services;
  
  ✦ **Ksh 0.4 Bn** for Construction of Konza Complex Phase 1B; and
  
  ✦ **Ksh 0.4 Bn** for Connectivity to Health Facilities (UHC).
### B. Infrastructural Development

#### Rail and Ports Construction

- By December 2019, Madaraka Express had ferried about 3.96 million passengers and 7.1 million cargo tonnage. To further develop and manage efficient and safe railway transport and modernize ports, the following have been allocated in FY 2020/21:
  - **Ksh 18.1 Bn** for Contraction of SGR Phase II (Nairobi—Naivasha)
  - **Ksh 6.0 Bn** for THE LAPSSSET project;
  - **Ksh 5.0 Bn** for Mombasa Port Development Project (Donor Funded); and
  - **Ksh 3.0 Bn** for Dongo Kundu SEZ.

#### Road Construction

- To support ongoing road construction, rehabilitation and maintenance of roads and design of roads and bridges the following allocations have been made in FY 2020/21:
  - **Ksh 92.0 Bn** for Ongoing Road Construction;
  - **Ksh 31.6 Bn** for Rehabilitation of Roads;
  - **Ksh 61.8 Bn** for Maintenance of Roads; and
  - **Ksh 1 Bn** for Design of Roads and Bridges.

#### Energy

- Access to stable, reliable and affordable energy supply is directly linked to all aspects of socio-economic growth. To ensure reliable energy supply and enhance electricity connections, allocations in FY 2020/21 include:
  - **Ksh 50.8 Bn** for Power transmission and distribution;
  - **Ksh 9.3 Bn** for Geothermal Development;
  - **Ksh 6.8 Bn** for Electrification of Public Institutions;
  - **Ksh 0.9 Bn** for Constituency transformers.

#### Sustaining Water Supplies

- Significant resources have been allocated for water and irrigation infrastructure, sewerage and flood control to safeguard livelihoods as follows:
  - **Ksh 42.6 Bn** for Water & Sewerage Infrastructure;
  - **Ksh 10.9 Bn** for Water Resource Management;
  - **Ksh 10.9 Bn** for Forests & Water Tower Conservation;
  - **Ksh 10.8 Bn** for Wildlife Conservation & Management;
  - **Ksh 8.1 Bn** for Water Storage & Flood control.

#### Water Supply

- Napuu borehole in Turkana County which will serve more than 25,000 persons
Quality and Relevant Education

- Human capital development is central to promoting shared prosperity. The following allocations in the FY 2020/21 are aimed at promoting focus on learning and competencies to develop quality and relevant skills for the 21\textsuperscript{st} century.
  - Ksh 94.9 Bn for University Education.
  - Ksh 59.4 Bn for Free Day Secondary Education;
  - Ksh 16.8 Bn for Higher Education Loans Board;
  - Ksh 12.4 Bn for Free Primary Education;
  - Ksh 6.3 Bn for Construction and Equipping of Technical Training Institutes;
  - Ksh 4.0 Bn to KNEC for Examination Fee Waiver; and
  - Ksh 2.0 Bn for Recruitment of Additional 5,000 Teachers.

Kenyan pupils following an online education program on TV

Equity, Poverty Reduction and Social Protection for Vulnerable Groups

- The Government through the National Safety Net (Inua Jamii) Programme, continues to share benefits of economic growth through cash transfers to vulnerable groups in the FY 2020/21 as follows:
  - Ksh 17.6 Bn for Cash Transfers to Elderly Persons;
  - Ksh 7.9 Bn for Orphans and Vulnerable Children;
  - Ksh 4.4 Bn for Hunger Safety Net Programme; and
  - Ksh 1.2 Bn Cash Transfer to Persons with Severe Disability.

To support youth and women empowerment, allocations in FY 2020/21 include:
  - Ksh 2.2 Bn for Kenya Youth Empowerment Project;
  - Ksh 10.2 Bn for National Youth Service;
  - Ksh 0.4 Bn for Youth Enterprise Development Fund (YEDF);
  - Ksh 0.2 Bn for Women Enterprise Fund.
To promote equity and social development in marginalized areas, the Government has allocated:

- **Ksh 41.7 Bn** for National Government Constituency Fund (NG-CDF);
- **Ksh 6.8 Bn** for Equalization Fund; and
- **Ksh 2.1 Bn** for National Government Affirmative Action Fund (NG-AAF).

In the FY 2020/21, County Governments have been allocated **Ksh 369.9 billion**, which comprises of:

i) **Ksh 316.5 billion** from the equitable share of revenue raised nationally;

ii) **Ksh 30.2 billion** being external loans and grants;

iii) **Ksh 13.7 billion** in the form of additional conditional allocations from the National Government’s revenue share; and

iv) **Ksh 9.4 billion** from the Roads Maintenance Levy Fund.
Summary of Proposed Tax Measures

Customs Measures to support the Manufacturing Sector

- Retained the import duty at 35% on iron and steel products and 25% on leather and footwear products;
- Inputs used in the textile sector, assembly of mobile phones and manufacture of baby diapers to be imported duty free under the EAC Duty Remission Scheme;
- Supplies for diagnosis, prevention, treatment, and management of Covid-19 Pandemic exempted from import duty;
- Raw materials and inputs for manufacture of masks, sanitizers, ventilators and personal protective equipment including coveralls and face shields to be imported duty free under the EAC Duty Remission Scheme.

Value Added Tax Measures

- Exempted corn or maize seeds from VAT to cushion farmers from the high cost of maize seeds for sowing;
- Exempted ambulance services from VAT to further cushion Kenyans from the high cost of seeking medical services.

Income Tax Measures

- Raised the upper ceiling for the simplified monthly rental income tax regime from **Ksh10 million** to **Ksh 15 million** to allow more landlords to join the simple regime;
- Introduction of Digital Service Tax at 1.5% of gross transactions value to provide a framework for taxing income earned through digital platforms; and
- Introduction of Minimum Tax at 1% of gross turnover to discourage tax planning and avoidance.

Fees and Levies

- Exempted currency notes and coins imported by the Central Bank of Kenya from payment of Railway Development Levy;
- Import Declaration Fees rate harmonized at 1.5 percent for all the manufacturers including those under EAC Duty Remission Scheme.

**ABREVIATIONS**

| A.I.A | Appropriations in Aid |
| Covid_19 | Corona Virus 2019 |
| VAT | Value Added Tax |
| CS | Cabinet Secretary |
| SME | Small & Medium Enterprises |
| ASAL | Arid & Semi-Arid Areas |
| ICT | Information & Communication Technology |
| E-Voucher | Electronic Voucher |
| NHIF | National Hospital Insurance Fund |
| UHC | Universal Health Coverage |
| SEZ | Special Economic Zone |
| KMRC | Kenya Mortgage Refinance Company |
| LAPSSET | Lamu Port-South Sudan-Ethiopia-Transport |
| SGR | Standard Gauge Railway |
| KNEC | Kenya National Examinations Council |
| TV | Television |
| NG-CDF | National Government constituency Development Fund |
| NG-AAF | National Government Affirmative Action Fund |
| GJLO | Governance, Justice, Law and Order |