

PUBLIC FINANCE MANAGEMENT WORKSHOP

NYANZA BRANCH

BUDGET 2018; FOCUS ON THE BIG FOUR AGENDA

28th – 29th August 2018

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@ Nyakoe Hotel, Kisii

OBJECTIVES OF THE SESSION



Explore the
FY 2018-19
Budget
Imperatives

Outline the
Tax Measures
on Big Four
Agenda

Discuss the
Big Four
Agenda

Highlight the
Threats to
the success
of Big Four
Agenda

OBJECTIVES



PRESENTATION OUTLINE



Overall budget and financing

Sources of revenue

The Fiscal framework

Sectoral growth rate

Big Four Agenda

Tax Measures on Big Four Agenda

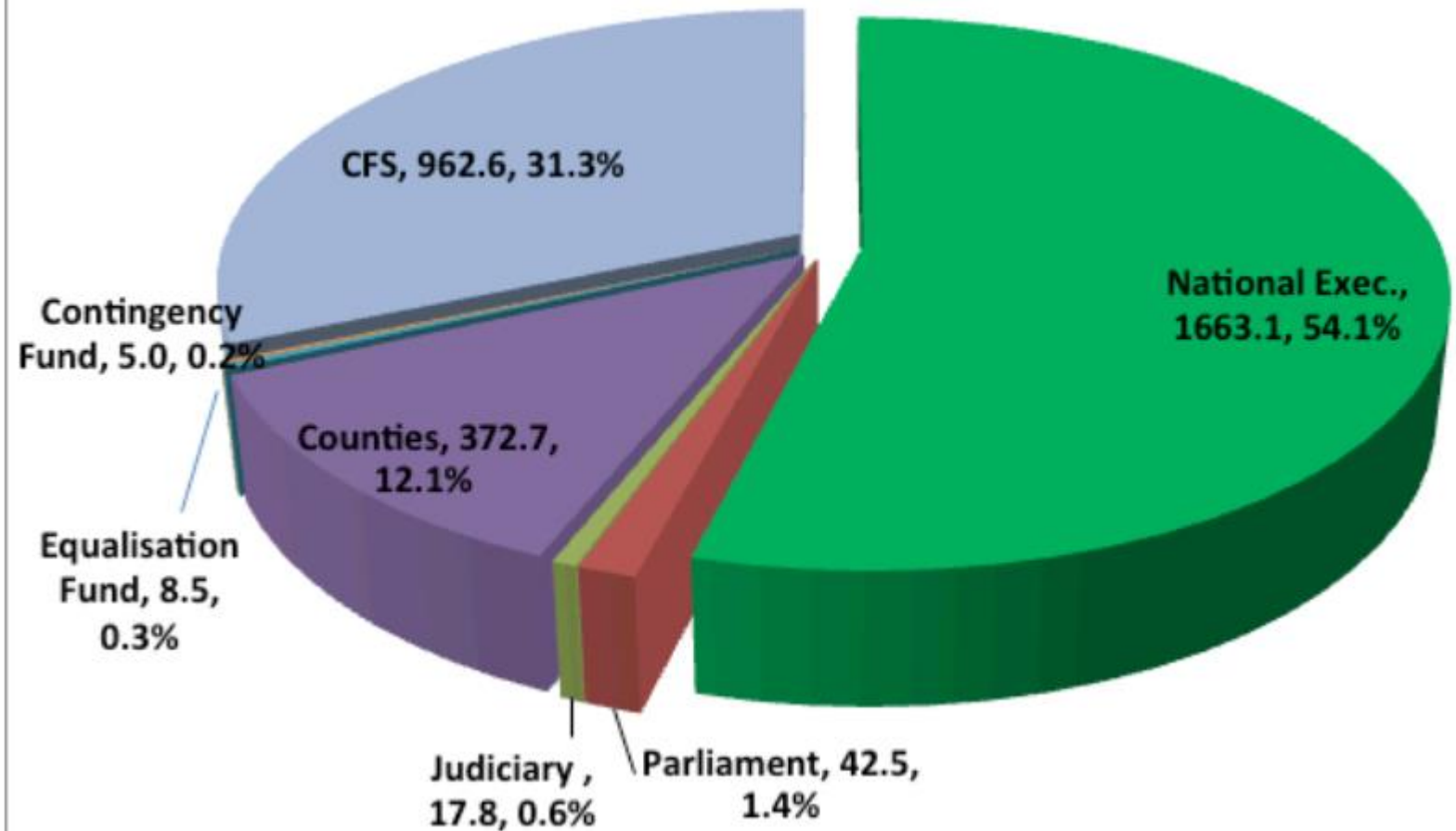
Threats to the success of Big Four Agenda

Way forward and conclusion

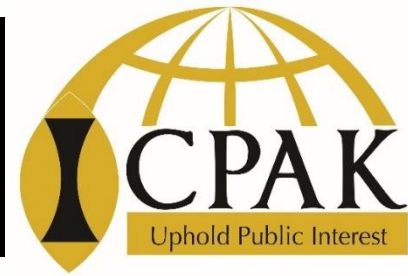
FY 2018/19 OVERALL BUDGET



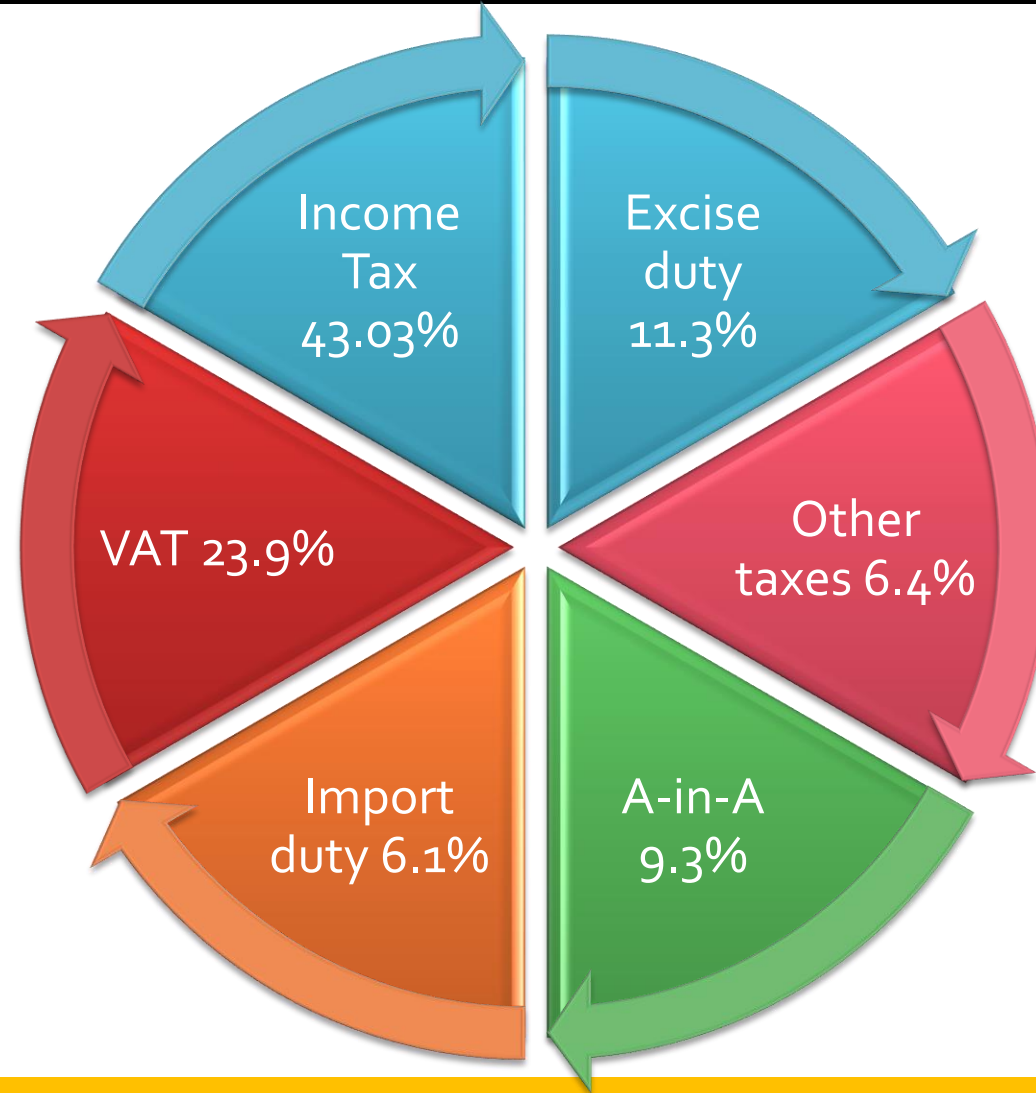
Distribution of the 3.07trillion Budget



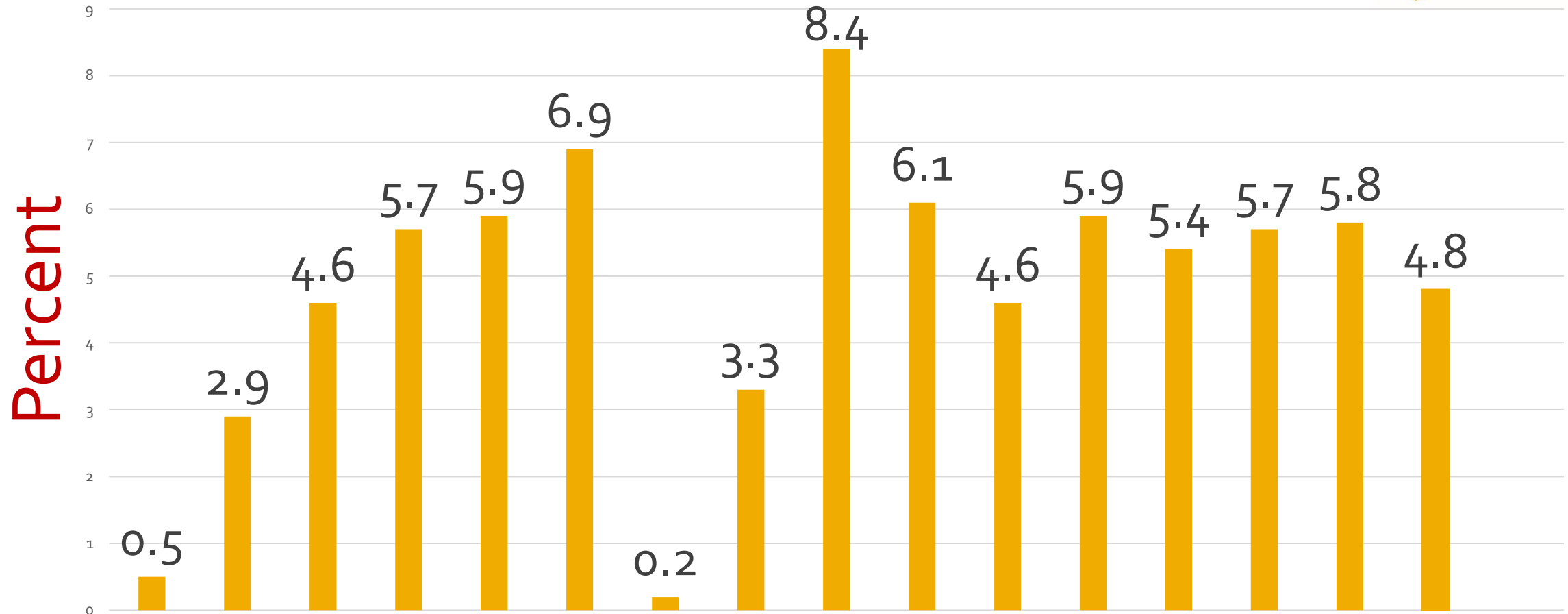
FINANCING FY 2018/19 BUDGET - TAX



KShs. 1949.2 b
TAX REVENUE
Including AIA



THE ECONOMIC ENVIRONMENT & FORECAST

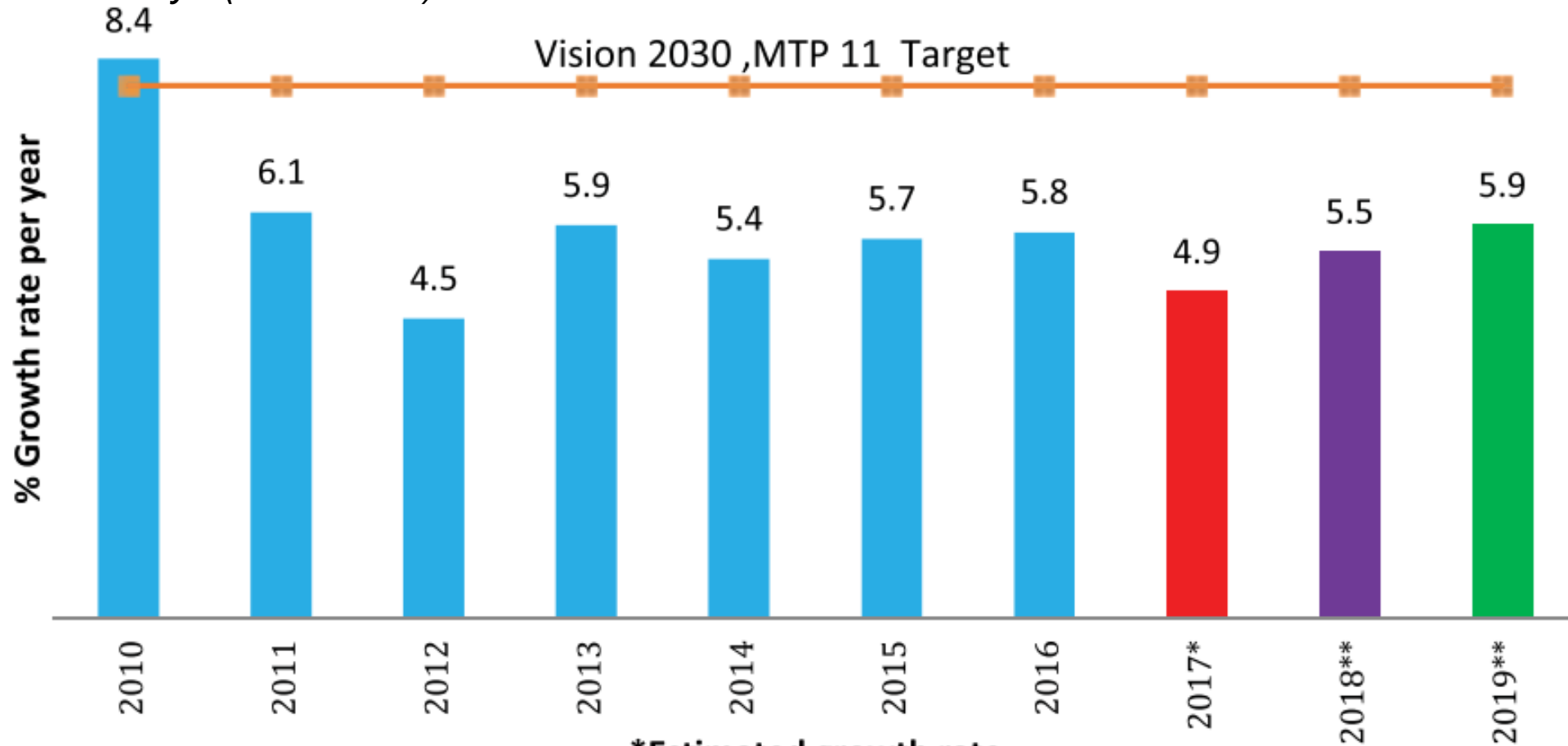


Economic growth rates for 2002 to 2017

THE ECONOMIC ENVIRONMENT & FORECAST



GDP growth rate for Kenya (2010-2018)

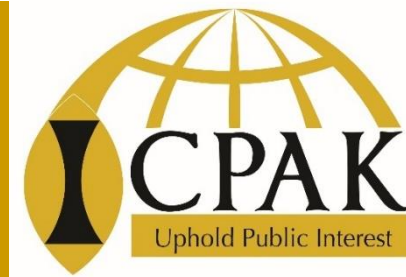


*Estimated growth rate
** Projected Growth rate

THE BIG FOUR AGENDA



BIG FOUR PLAN



15%
of GDP from the
manufacturing
sector

100%
Food and Nutrition
Security



500,000
affordable new
houses for Kenyan
families

100%
Universal Health
Coverage (UHC)

Enabled by macro-economic stability

Youth in jobs
through
vocational
training and
education

Targeted
infrastructure
investments

Competitive cost
of power

Governance

Security

Technology
innovation

Uphold .

Public .

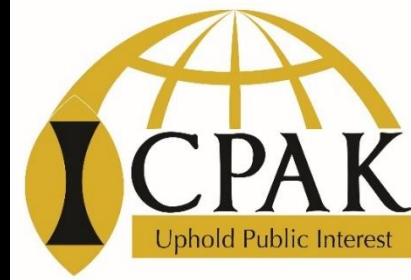
Interest

The “Big Four” agenda was launched in December 2017 by President Kenyatta.

The key purpose is to **transform standards of living and put Kenya on the path of becoming an upper middle-income nation by 2030.**

Aims to **create employment, reduce cost of living, income inequality, poverty.**

PERFORMANCE ON THE BIG FOUR SECTORS



	Big Four plan	2013	2014	2015	2016	2017
Agriculture	Food security	5.4	4.3	5.5	4.0	1.6
Mining		-4.2	14.9	12.4	9.5	6.9
Manufacturing	Raising the share of manufacturing to GDP	5.6	2.5	3.6	3.5	2.4
Electricity and water supply	Raising the share of manufacturing to GDP	6.6	6.1	8.5	7.1	5.2
Construction	Housing	6.1	13.1	13.9	9.2	7.0
Health	Universal healthcare	7.7	8.1	6.1	5.8	-
Service sectors		5.4	6.3	6.3	6.8	6.3

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Uphold .

Public

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Interest

Big 4 Agenda- BUDGETARY ALLOCATION



Manufacturing

Ksh. 2.4
Billion

Universal
healthcare

Ksh. 44.6
Billion

Food security

Ksh. 20.3
Billion

Affordable
housing

Ksh. 6.5
Billion

Big 4 Agenda- BUDGETARY ALLOCATION

Priority areas for the FY 2018/19

The “Big Four” Plan	Enablers of the “Big Four” Plan
Ksh 2.4billion Support Value Addition and Raise the Manufacturing sector’s share to GDP to 15% by 2022.	Ksh 57.5billion Enhanced Security for investment, Growth and Employment.
Ksh 20.25billion Enhancing Food and Nutrition Security to all Kenyans by 2022.	Ksh 273.8billion Investing in infrastructure to unlock growth potential.
Ksh 44.6billion Providing Universal Health coverage to guarantee quality and affordable healthcare to all Kenyans.	Ksh 200.6billion Enhancing access and transforming Educational system.
Ksh 6.5billion Provision of Affordable and Decent Housing for all Kenyans.	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

MANUFACTURING PILLAR



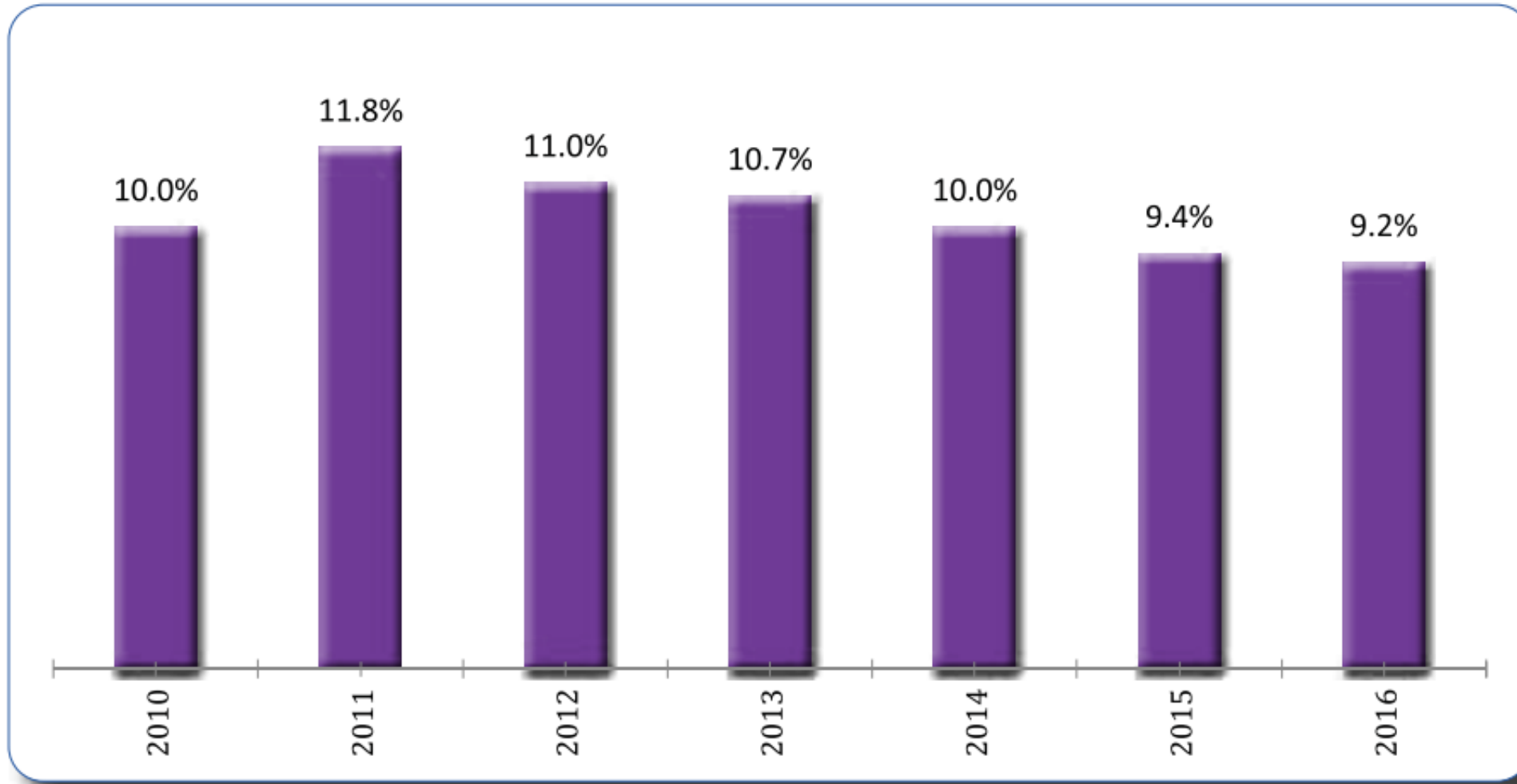
Objective

support value addition, create jobs and raise manufacturing sector's GDP to 15% by 2022. currently at 9%

- ❖ Develop key infrastructure
- ❖ Giving incentives to investors.
- ❖ Providing training to youth and women.
- ❖ Establishing industrial parks and sheds
- ❖ Developing industrial infrastructure such as special economic zones

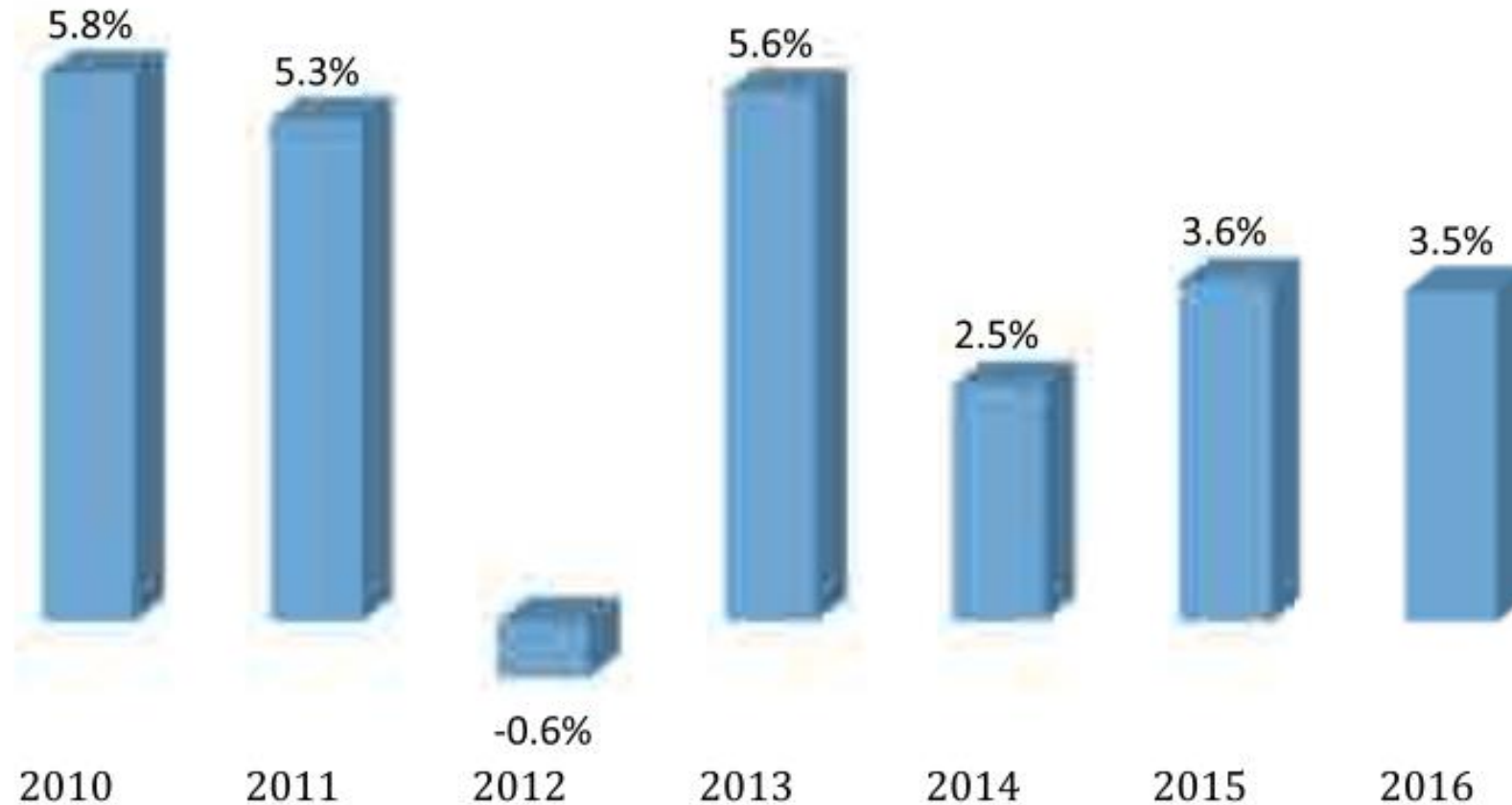
- ❖ Reviewing import rules for finished leather products
- ❖ Supporting value addition to agricultural produce
- ❖ Reforming legal and policy frameworks
- ❖ Supporting debt waiver for growers
- ❖ Expanding access to credit and inputs by farmers
- ❖ Facilitating exploration of coal and iron ore deposits
- ❖ Developing policy and incentive framework to attract international investors to the oil, mining and gas sector
- ❖ Implementing an elaborate marketing strategy to diversify our export market
- ❖ Strengthening enforcement measures to curb illegal fishing
- ❖ Enhancing processing before export

MANUFACTURING SECTOR CONTRIBUTION TO GDP IN KENYA, 2010-2016



Data source: KNBS, 2017

ANNUAL GROWTH RATE FOR THE MANUFACTURING SECTOR IN KENYA, 2010-2016



Data source: KNBS, 2017

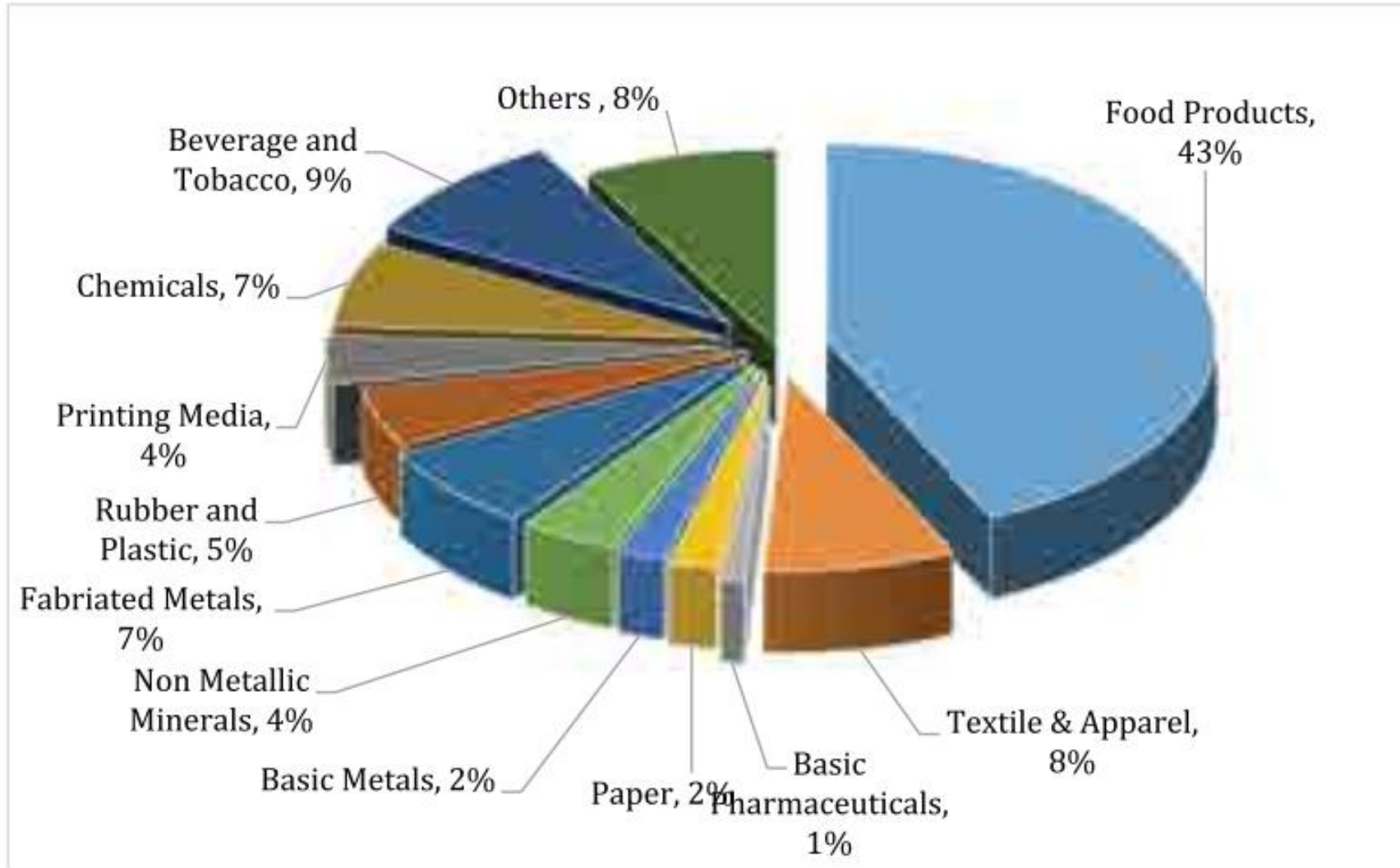
THE BALANCE OF TRADE



	2010	2011	2012	2013	2014	2015	2016
Balance of Trade	(537,412)	(788,145)	(856,740)	(911,029)	(1,081,085)	(996,532)	(853,678)
Total Exports	409,794	512,604	5,17,847	502,287	537,236	581,045	578,067
Total Imports	947,206	1,300,749	1,374,587	1,413,316	1,618,321	1,577,577	1,431,745
Cover ratio (%)	43.26	39.41	37.67	35.54	33.20	36.83	40.37

Data source: KNBS, 2017

THE SUB-SECTORS

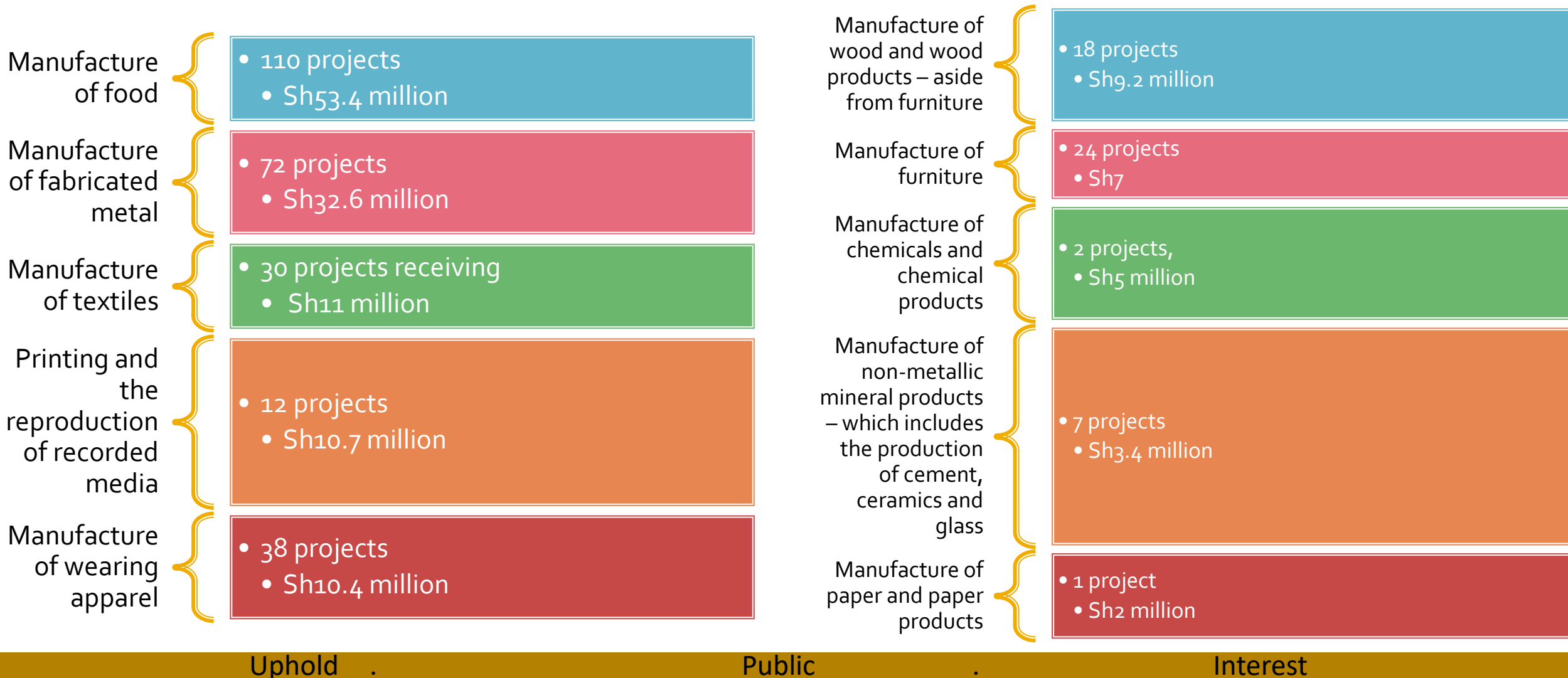


Data source: KNBS, 2016

MANUFACTURING OPPORTUNITY



Kenya Industrial Estates (KIE)



FOOD SECURITY



Objective

Provide food security and improve nutrition to all Kenyans.

Currently stands at 47% due to drought that caused acute food shortage

Enhanced
Large-Scale
production

Increased
small-
holder
productivity

Reduced
cost of food

- ❖ Forming Agricultural and irrigation sector working group
- ❖ Using locally blended fertilizer
- ❖ Availing incentives for post harvest technologies
- ❖ Placing additional 700,000 acres under agriculture through PPP
- ❖ Contracting farmers for strategic food reserve
- ❖ Eliminating multiple levies across counties
- ❖ Rehabilitating and operationalize fish landing sites in lake Victoria
- ❖ Securing investments through PPP in post harvest handling
- ❖ Redesigning subsidy model to maximize impact by focusing on specific farmer needs
- ❖ Improving access to credit/input for farmers

FOOD SECURITY- Current Situation and gaps



	Maize (90 Kg)	Rice (50 Kg)	Irish potatoes (100 Kg)	Wheat (MT)	Sugar (MT)
Production	40,000,000	112,800	1,310,000	395,000	630,000
Consumption/ Demand	52,000,000	538,370	1,486,000	990,000	860,000
Deficit	12,000,000	425,570	176, 000	595,000	230,000



Productivity improvement
Market access
Diversification
Regulation



Product development
Cottage industries
Industrial parks
Value addition



Uphold

Public

Interest

AFFORDABLE HOUSING__





AFFORDABLE HOUSING - SUPPLY CHAIN OPPORTUNITIES



Material requirements for delivery of the 500,000 affordable homes programme in Millions

Stones for walling, Ft	566,5
Roofing tiles, Pcs	309,0
Cement, bags	85,5
Ceramic floor tiles, SM	60,0
Emulsion paint, Litres	40,0
Binding wire, KG	35,5
12mm diameter bars, Bars	20,5
River sand, Tonnes	18,8
Aggregate, Tonnes	16,5
10mm diameter bars, Bars	15,0
Assorted nails, Kg	15,0
Celotex ceiling boards, Pcs	11,0
Gloss paint, Litres	11,0
Pcc window cills, LM	10,5
Wood vanish, Litres	10,0
Ceramic wall tiles, SM	7,5
Steel hinges, Pcs	3,5
Clear window glasses, SM	3,5
Crown paint, Litres	2,5
Assorted flush doors, Pcs	2,5
Mortise locks, Pcs	1,0
Obscured sheet glasses, SM	1,0
Single leaf steel doors, Pcs	1,0
Steel casement windows, Pcs	0,8
15 mm ditto, Pcs	0,8
BRC Mesh fabrics, Rolls	

**Figures provided above are estimates and may be subject to change as project specifications and parameters are defined*



Uphold

Public

Interest

Affordable housing program

Middle to High Income

Income Range: KES 100,000 +

- Share of Formally Employed: 2.85%
- Private Sector will meet this demand



Mortgage Gap

Income Range: KES 50,000 – KES 99,999

- Share of Formally Employed: 22.62%



Low cost

Income Range: KES 15,000 – KES 49,999

- Share of Formally Employed: 71.82%%



Social

Income Range: KES 0 – KES 14,999

- Share of Formally Employed: 2.62%



Project pipeline

FY2017/2018

FY2018/2019

FY2019/2020

FY2020/2021

FY2021/2022

Master planner to support with identification of locations for the funnel projects and development of implementation schedule

Lot 1

- Park road (1,800)
- Makongeni (20,000)
- Muguga Green (900)
- Shauri Moyo (5,300)
- Starehe (3,500)
- Mavoko (5,500)
- Social housing (15,000)
- Counties (48,000)
- Nairobi County (67,800)

Lot 2

- NSSF Land Mavoko (50,000)
- Portlands Athi River 1 (50,000)
- Mombasa 1 (50,000)
- Eldoret 1 (30,000)
- Cooperatives 1 (20,000)
- Private developers 2 (20,000)
- Civil Servants 2 (10,000)
- Police 2 (10,000)
- Nairobi Regeneration (20,000)
- Other Counties (50,000)

Lot 3

- Nakuru 1 (30,000)
- Kisumu 1 (30,000)
- Eldoret 2 (30,000)
- Portlands Athi River 2 (50,000)
- Cooperatives 2 (20,000)
- Private Developers 3 (20,000)
- Civil Servants 3 (10,000)
- Police 3 (10,000)
- Redevelopment of Nairobi Old Estates 2 (20,000)
- Counties (50,000)

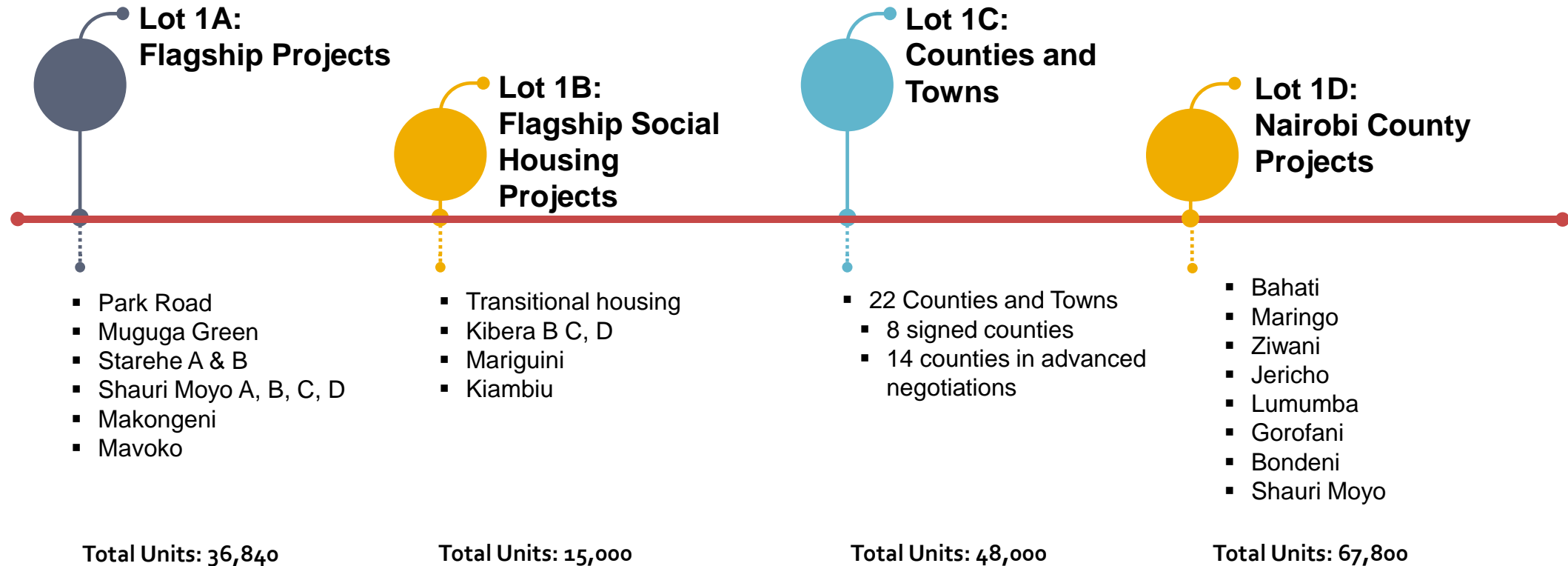
Lot 4

- Nakuru 2 (30,000)
- Kisumu 2 (30,000)
- Mavoko (12,500)
- Cooperatives 4 (20,000)
- Private Developers 4 (20,000)
- Civil Servants 4 (10,000)
- Police 4 (10,000)
- Redevelopment of Nairobi Old Estates 3 (20,000)
- Counties (50,000)

Lot 5

- Mombasa 2 (30,000)
- Cooperatives 5 (20,000)
- Private Developers 5 (20,000)
- Civil Servants 5 (10,000)
- Police 5 (10,000)
- Redevelopment of Nairobi Old Estates 4 (20,000)

Project pipeline – Lot 1 projects



Lot 1 details – National Government Initiatives

Lot 1A: Flagship projects

These projects are intended to build investor confidence and create momentum for the program. These projects are at advanced stages of master planning and urban designing. Park Road will break ground in July 2018.

	Area	No. of units
1	Park Road	1,640
2	Makongeni	20,000
3	Mavoko	5,500
4	Shauri Moyo	5,300
5	Starehe	3,500
6	Muguga Green	900
	TOTAL	36,840

Lot 1B: Flagship social housing projects

These projects are intended to improve informal settlements and slum upgrading.

	Area	No. of units
1	Kibera	4,300
2	Kiambiu	2,700
3	Mariguini	4,000
4	Transitional housing	4,000
	TOTAL	15,000

Lot 1C: County projects

These projects are based on MoUs signed with Counties which will receive support from National Government on the development of infrastructure for land that will be made available for housing developments for 2,000 units per year. Signed counties have identified land and are awaiting master planning for urban centers. Counties in advanced negotiations are reviewing the agreement while identifying suitable land.

	Signed Counties	No. of units		Advanced Counties	No. of units
1	Kiambu	6,000	1	Kitui	2,000
2	Homa Bay	2,000	2	Makueni	2,000
3	Nyandarua	2,000	3	Taita Taveta	2,000
4	Meru	2,000	4	Bungoma	2,000
5	Nyeri	2,000	5	Murang'a	2,000
6	Tharaka Nithi	2,000	6	Laikipia	2,000
7	Uasin Gishu	2,000	7	Narok	2,000
8	West Pokot	2,000	8	Kirinyaga	2,000
			9	Embu	2,000
			10	Kisumu	2,000
			11	Kakamega	2,000
			12	Trans Nzoia	2,000
			13	Mandera	2,000
			14	Isiolo	2,000
	TOTAL	20,000		TOTAL	28,000

UNIVERSAL HEALTHCARE



Enlist at least
100,000
Community
Health Volunteers
to recruit new
members

Digitize health
information to
improve
efficiency for
online
registration

Expand the Linda
Mama program
to Mission and
Private Hospitals

Align NHIF Act to
UHC and review
the Act to Drive
up NHIF uptake

Scaling up the
provision of
specialized
medical
equipment while
increasing the
number of health
facilities.

Objective
**Provide 100%
universal health
coverage to all
Kenyans under
NHIF by 2022.
Currently at 36%**

TAX MEASURES ON BIG FOUR



Agriculture

VAT Exemption of equipment for the construction of grain storage facilities. This will encourage investment in grain store facilities to prevent post-harvest wastage

VAT exemption of additional raw materials for the manufacture of animal feeds to trigger reduction in animal feeds for improved animal husbandry

CONT...



Banking Act to be amended to repeal section 33 B to pave way for interest cap lifting

Robin Hood Tax introduced at 0.055 on any amounts of 500,000 or more through banks and other financial institutions

fees charged for money transfer services by cellular phone service providers from 10% to 12%.

Introduction of export levy on copper waste and scrap at 20%.

Private passenger motor vehicles (diesel powered of above 2500cc and petrol powered of above 2500cc) from 20% to 30%.

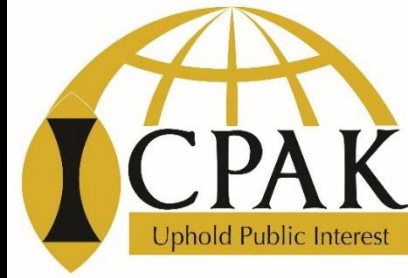
Garments and leather footwear manufactured in an EPZ to be VAT-able upon importation.

Maize (corn) to be subjected to VAT

Introduction of excise duty on sugar confectionery and chocolate at Ksh. 20 per Kg

Wheat and burley that are currently VAT-able to be exempt

CONT...



Manufacturing

A review of the common external tariff to enhance protection of domestic industries

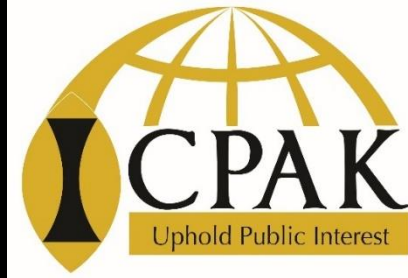
incentives to manufacturers that allow them to deduct an additional 30% of their electricity cost in computing taxable income

an additional 30% of their electricity costs in computing taxable income

Increase of import duties on various products to protect domestic manufacturers from competition from cheap imports

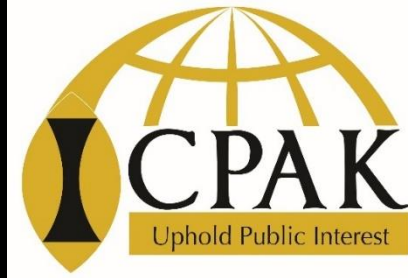
Remission of duty on specific inputs and raw materials used in manufacturing to promote local production

THREATS TO BIG FOUR AGENDA SUCCESS



- ❑ Runaway corruption- A third of Kenya's GDP is lost on corruption.
- ❑ Unchecked imports which frustrate the sale of locally produced goods e.g. The Government paid 500 million for supply of 50 high capacity buses from South Africa
- ❑ Export of foreign professionals reduce local professionals to spectators
- ❑ Lack of political goodwill by some of the leaders in the target sectors for the Big Four Plan
- ❑ Lack of collaboration between the County and National Governments. Most of the Big Four Agenda items fall under shared functions.

WAY FORWARD



- ❑ Combating the runaway corruption through compliance with chapter six requirements and lifestyle audit
- ❑ Help the private sector grow by ensuring high uptake of credit
- ❑ Executing new and innovative financial policies; incentivize cooperatives and MFIs to lend affordably to SMEs to spur economic growth
- ❑ Ministry collaboration; Agriculture, Trade and Industry, Devolution, Transport and Infrastructure.
- ❑ Market incentives; make use of the signed African Continental Free Trade Agreement (AfCFTA) which represents 1.2 B people with \$3.4

CONCLUSION



- ❑ The Big Four Agenda is a promising economic transformation blueprint that can turn around Kenya's economy.
- ❑ It requires massive resources to implement.
- ❑ Its success will depend on how the Government is able to raise the revenue required to implement it.
- ❑ The proposed tax measures in the Finance Bill, 2018 aim at exploring new revenue streams to bring items that were not taxed into the tax net.
- ❑ They are meant to seal the systemic loopholes in tax administration.
- ❑ It requires collaborative efforts of all the players; Government, private sector, and citizens.



Thank You!

