Institute of Economic Affairs

The Citizen Alternative Budget

2018 Issue

INSIDE

By Institute of Economic Affairs

1.0. INTRODUCTION

The Institute of Economic Affairs-Kenya is pleased to present the Citizen's Alternative Budget 2018/2019.

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 the 14thand 15th February, 2018. The proposals submitted were consolidated and synthesized by 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 draft budget policy statement 2018/19 as a pre-budget statement that sets the macroeconomic framework through which the Government will prepare the forthcoming budget.

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 transits to a 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.

1.1. Background

1.1.2. Macroeconomic framework

The Budget Policy Statement (BPS) 2018 indicates that Kenya's economy remained resilient despite the prolonged electioneering period, adverse weather condition and

BUDGET PROPOSAL HIGHLIGHTS 2018/19

- Interrogation of Budget 2018/19 framework
- Revenue Projections, and Expenditure
- Enhancing food security and nutrition
- Achieving Universal Health Coverage with an expectation of boosting economic growth

- **Health Sector**

1. Adequate resource allocation to water and sanitation programmes. There is low access to safe water and proper sanitation
2. Scale up the provision of specialized medical equipment to County health facilities and engage more with the County Departments to ensure that County Governments increase investments for human resources for health
3. Expand the "Linda Mama" programme (free maternity programme) to mission hospitals and private hospitals

- **Energy Sector**

1. Zero rating of all biomass products and denatured alcohol for cooking.
2. Reduction of import duty of efficient stove and VAT exemption of locally manufactured efficient stoves.
3. Zero rating of ethanol stoves.

- **Agriculture Sector**

1. Crop diversification- promotion of orphaned crops, e.g. legumes.
2. Increase public investment in research and development, and extension services.

- **Housing Sector**

1. Conduct reforms in the sector of human resources to ensure that professionals provide high quality services. The National Government should ensure that all Quantity Surveyors and Civil engineers among others are registered to weed out quacks.
2. Regulate construction industry by ensuring construction workers are paid decently, safety is prioritized, provision of medical and accident insurance for the duration when they offer their services to the construction industry.

- **Art and Culture**

1. Healthcare coverage and tailor-made insurance facility for artistes, sportsmen and athletes in the country
2. Create enabling infrastructure for creative industries including offering incentives to filmmakers who chose Kenya as a filming location.

subdued credit growth to the private sector which combined weakened the economic growth in the first half the year. Economic growth for the year 2017 was estimated at 4.8 per cent which is a lower figure compared to the year 2016 which had 5.8 per cent. This level of growth, compared to the year 2016, though low, is attributed to the ongoing public infrastructure investments, improved weather towards end of 2017, recovery in the tourism sector and a stable macroeconomic environment.

To maintain this level of growth, the Government will need to put the necessary fiscal strategy by maintaining strong revenue measures while at the same time putting controls on the growth of total expenditure. The challenge of maintaining a stable macroeconomic environment can be addressed by fixing factors such as structural inefficiencies in the sectors, product diversification and improving business environment for the investors. Behind the wage bill debate lays a broader fiscal reform agenda. High and unsustainable spending on public wages crowds out resources and poses serious risks to macroeconomic stability.

The outlook therefore, points to a continued coordination of monetary and fiscal policies for overall macroeconomic stability which will support robust growth, lower fiscal deficits, contain inflation within the target range and a gradual improvement in the current account balance. In addition, measures being undertaken by the Government under "The Big Four" Plan are aimed at boosting manufacturing sector; enhancing food security and nutrition; creating affordable housing; and achieving Universal Health Coverage with an expectation of boosting economic growth, creating jobs and ultimately promoting inclusive growth.

1.2. Budget Enviroment

1.2.1. Revenue Projections

The fiscal framework for the fiscal year 2018/19 Budget is based on the Government's policy priorities and macroeconomic policy framework. In the fiscal year 2018/19 revenue collection including Appropriation-in-Aid (AiA) is projected at Ksh 1,849.4 billion (18.9 percent of GDP) from Ksh 1,643.1 billion (19.0 percent of GDP) in the fiscal year 2017/18. This revenue performance will be underpinned by the on-going reforms in tax policy and revenue administration. Ordinary revenues are projected at Ksh 1,684.0 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in fiscal year 2017/18.

1.2.2. Expenditure Projections

The fiscal year 2018/19, overall expenditure and net lending, are projected at Ksh 2,488.4 billion from the estimated Ksh 2,323.1 billion in the year 2017/18. These expenditures comprise recurrent of Ksh 1,509.1 billion. In terms of percentage of gross domestic product, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.5 percent of the GDP in the fiscal year 2018/19 from 4.6 percent in the fiscal year 2017/18. The ceiling for development expenditures including foreign financed projects (including net lending) in nominal terms amounts to Ksh 658.9 billion in the FY 2018/19. Most of the outlays are expected to support critical infrastructure. Part of the development budget will be funded by project loans and grants from development partners, while the balance will be financed through domestic resources.

2.0. TAXATION PROPOSALS

2.1. Tobacco Taxation

2.1.1 Simplification of tobacco tax structure by re-introduction of a uniform specific tax rate for all cigarettes

- In the budget statement of June 2015, the Minister for Finance, in efforts to: "deepen tax Administration Reforms and ease compliance", introduced a uniform specific rate of Kshs.2500 per mille through the excise duty Bill 2015.
- Achievements reported include a drop of 17% in consumption of cigarettes and increase of revenue by approximately 7billion (from 8billion to 15 billion).

The table below show the trends from the fiscal year 2011/12/ to fiscal year 2016/17.

Year	Excise Duty Paid (Cigarettes)	% increase from previous period
2011/12	8,678,018,460	-
2012/13	10,026,152,603	16
2013/14	10,554,190,582	5
2014/15	8,229,839,592	-22
2015/16	11,093,617,100	35
2016/17	15,559,740,850	40
2017/18	_	_

Source: Own Computation

In his budget statement for 2017/ 2018, the Minister of Finance reverted back to a tiered system with introduction of two bands of Ksh. 2,500 per mille for cigarette with filters and Ksh. 1,800 per mille for plain cigarettes: Results? Tobacco tax administration difficulties reported by Kenya Revenue Authority Manipulation of the tax system. Whereas nominal prices of cigarettes has remained constant, real prices have shrunk contributing to affordability of cigarettes and this has led to lose in Government revenue.

Why is tiered tax system a bad practice?

- It encourages down-trading, rather than quitting.
- It destabilizes revenue predictions, since brands may reposition themselves to lower-taxed brands.
- The damage caused by tobacco is not reflected in the excise tax.

2.1.2 Increase of the flat cigarette tax rate from Ksh. 2,500 per mille to Ksh. 3,100 per mille

Reduce affordability and consumption of cigarettes: 10% increase in tobacco prices will decrease tobacco consumption by about 6%, raise more revenue for the Government as well as Comply with WHO guidelines of Excise taxes on tobacco comprising 70% of the retail price and prevent initiation among potential users.

Why Increase the tax rate?

- Reduce affordability and consumption of cigarettes.
- 10% increase in tobacco prices will decrease tobacco consumption by about 6%.
- Raise more revenue for the Government.
- Comply with WHO guidelines of excise taxes on tobacco comprising 70% of the retail price.
- Prevent initiation among potential users.

2.2 VAT refunds filed under old system

There are VAT claims that are outstanding filed under the old system which date back to the fiscal year 2014/2015. They cannot be paid due to non-entry of export data by the Customs Department. Section 17 (5) of VAT Act, 2013 reads as follows "Where the amount of input tax that may be deducted by a registered person under subsection (1) in respect of a tax period exceeds the amount of output tax due for the period, the amount of the excess shall be carried forward as input tax deductible in the next tax period: Provided that any such excess shall be paid to the registered person by the Commissioner where— (a) the Commissioner is satisfied that such excess arises from making zero rated supplies; and (b) the registered person lodges the claim for the refund of the excess tax within twelve months from the date the tax becomes due and payable".

Proposal:

KRA to take up with the Customs Team and get these entries entered in the system and process claims for payment. Need to allow reasonable proof of export from exporters if the entries are missing in the register. Establish a fast-track process for low-risk (exporters) refund claims.

2.3. Refund Withholding VAT Credits

The main concern on withholding VAT refunds is the failure to provide for refunds arising from withholding VAT. The situation of refunds arises when a manufacturer does not have sufficient out-put to offset the input and withholding VAT credit and therefore their only mechanism to address this is through recovering the excess credit through a refund by the Kenya Revenue Authority. This issue continues to affect manufactures access to capital and cash flows that they can maximize to spur economic growth. There is need to examine with urgency the issue above on refunds from withholding VAT and its impact to business and to come up with legislative action

Proposed solution

Claim for VAT refund must be paid regardless of its arising from withholding VAT as provided for in the KRA website. Inclusion of legal provisions to provide for refund of withholding VAT Claims.

2.4 Taxation Promoting Industrialization

2.4.1 Zero rating of input and output of VAT for registered Textiles and Apparels manufacturers

Under the current state; local textiles and apparels manufacturers compete in the market with EPZ based textiles and apparels manufacturers in spite of the fact that EPZ based manufacturers enjoy taxation and logistical benefits as outlined in the EPZ act. This puts local manufacturers at a disadvantage since they cannot compete effectively with their counterparts in the EPZ. This is threatening to kill the value chain in addition to distorting the EAC market as experienced in the recent trade barriers that have been put on textiles and apparels products originating from non EPZ based Kenyan firms.

Outcome: It will bridge the unlevelled playing field between EPZ based manufacturers and Local manufacturers. It will also make local manufacturers more competitive against imports.

2.4.2 Provide power support to the textiles and apparels manufacturers at $0.09 per kWh

The textiles and apparels industry is a high consumer of power and it sometimes goes as far as 40% of the unit cost of manufacture in some elements. The cost of power is significantly high as compared to neighbouring countries and Asian countries currently competing in the global textiles and apparels industry. Providing power support to the companies will reduce their cost of production and enhance their competitiveness in the global market.

Outcome: Increased competitiveness of Kenyan companies in the global textiles and apparels sector. Attract more Foreign Direct Investments (FDI) in the textiles and apparels sector.

2.4.3 Government to consider Energy subsidies for the Glass Sector to spur growth and save precious forex

Kenya remains one of the most expensive energy……….. countries in the region for both electricity and oil. Glass making is a continuous production process. Power interruption in the form of outages and flickers result in excessive production downtime .Materials for glass production are 100% locally available and enabling the country to be self-sufficient in glass production will save the country expenditure in foreign exchange spent to import container glasses.

Outcome: More investment as a result of savings in form of forex

2.4.4 Reduce VAT rate from 16% to 0% on building materials which are locally manufactured for use in construction of affordable housing

Realization of agenda four on affordable housing for the Government of Kenya's Big Four priority sectors for the next five year.

Outcome: Affordable new houses to Kenyans and thereby improve the living conditions for Kenyans.

2.4.5 Exempt raw materials and packaging materials for locally manufactured pharmaceutical goods destined for official aid-funded projects from payment of Import Declaration Fee (IDF) and Railway Development Fee (RDL) when imported or purchased before clearance through customs

Import Declaration Fee (IDF) and Railway Development Levy (RDL) does not apply to goods imported or purchased before clearance through customs for goods destined for official aid-funded projects and the implementation of an official aid funded project respectively. Manufacturers within the pharmaceutical sector import raw materials and packaging materials to manufacturer pharmaceutical products and supply official aid-funded projects. For this, they are required to pay IDF and RDL on their raw materials and packaging. In contrast, importers on the other hand, who import directly for donor funded projects are exempted from IDF and RDL. Importers have an advantage over local manufacturers since their supplies are exempted from taxes and levies. This paints a picture that, it is better to import and supply than manufacture and supply. We therefore propose exemption of IDF and RDL for manufacturers in the pharmaceutical sector, supplying to official aid-funded projects. This will enable a level playing field between local manufacturers and importers as well as encourage more local production of pharmaceutical products. Both the sector and the Government lose out in terms of revenue and employment, which is not in tandem with Vision 2030 to attain middle income status and to fast-track industrialization.

Outcome: Enhanced competitiveness of the local manufacturing pharmaceutical sector. Increased jobs due to lower cost of production and a level playing field created between importers and local producers thus encouraging a conducive environment created for investment within the sector and local production.

2.4.6 Under the paper and paperboard sector, stop the Stay of Application for 25% rate and use Applicable Tariff Rates of 10% on the HS CODES 4805.91.00, 4805.92.00, 4805.93.00, 480524.00, 48051900

A Study by EAC Secretariat informed tariff reduction from 25% to 10% (Study- EAC Study Specified Products 11 - 23 April 2011). These are Intermediate grades in the value chain and should be at 10% .The paper makers have been given adequate temporary relief of over 7 years on these intermediate grades. The 25% tariff is for finished products, otherwise it is granted for products in EAC.

Outcome: This will create a level playing field for Kenyan products in the region. More revenue is generated and hence more taxes to the Government. Correction of duty makes converters more competitive regionally and reduces cost.

2.4.7 Permit local manufacturers of automotive seats to import Isocynate chemical at 0% duty remission plus VAT

Amino-resins, phenolic resins and polyurethanes chemical is a raw material for seat foam manufacturing. It is not available locally.

Outcome: Reducing the duty on importing amino-resins, phenolic resins and polyurethanes chemical will make the locally manufactured seat cost competitive with take effect on Job creation and Increase in local content for motor vehicle assembly, technology transfer from assembler to the parts manufacturer leading to skill development.

2.4.8 Offer 100% margin preference to local pharmaceutical companies during evaluation of tenders

Currently, almost 95% of KEMSA's purchases of Pharmaceutical products are imported. Local manufacturers are not guaranteed any of the tender opportunities to encourage local production and investment in the pharmaceutical sector. During evaluation of tenders, the procurement agency should take into account the local industries and offer them preference.

Closure of pharmaceutical industries and low investment and growth are being experienced in the sector. In the event of closures or reduced growth, the Government stands to lose revenue and employment.

Outcome: Enhanced opportunity for investment in local production of pharmaceutical products and increased employment due to access to markets for goods.

2.4.9 Approvals for granting Withholding VAT Exemption

"The Tax Procedure Act (TPA) provides that if a tax payer demonstrates to satisfaction of the Commissioner that due to the nature of business, he is going to be in a continuous credit position for the period of not less than twenty four months, the Commissioner may exempt such a supplier at any time"

The Withholding VAT exemption provisions provide that the Commissioner may at any time exempt any supplier from Withholding VAT requirements if such supplier has sufficiently demonstrated that due to the nature of his business, and due to the application of this section, he is going to be in a continuous credit position for the period of not less that twenty-four months. The concern is that despite existence of this provision, manufacturers have not been exempted to date. This is despite the fact that manufacturers who have sought exemption have demonstrated that they are in a continuous credit position for more than twenty four months.

Proposal: Fast-track the development and publishing of the guidelines to facilitate the exemptions. KRA should adopt a Risk-based approach by examining sectors of the economy. Companies who have been in a perennial claim position should be exempted from this provision and timely settlement of VAT refunds should be ensured.

3.0. SECTOR PROPOSALS

3.1 Agricultural Sector

Introduction

Agriculture is a crucial sector of the country's economy contributing 33 percent to the Gross Domestic Product (GDP) (KNBS, 2017). Further, it is estimated that the sector provides employment to about 40 percent of the population and supports approximately 70 percent of the country's rural people. Over 80% of the population, especially those living in rural areas, derive their livelihood mainly from agricultural related activities (FAO, 2018). Due to its important role; the Government has recognized the sector as one of the 'Big Four' sectors that will be prioritized in the medium term.

Agricultural productivity has been stagnating in recent years with the country facing severe food insecurity. These are depicted by a high proportion of the population having limited access to food in the right amounts and quality. About 2.6 million people were severely food insecure following the negative impact on the agricultural production and pastoral livelihood following lower than expected amounts of rainfall in 2016 and 2017 s (FAO, 2017). Further, other factors such as pests and diseases outbreaks, high costs of production, limited access to credit facilities, inadequate research and development, declining land sizes, deterioration of soil nutrients and poor market participation compound this worsening situation.

To address these issues, the Government implemented several interventions such as subsidy on farm inputs, provision of rural credit for farming (e.g. the Kilimo Biashara Initiative), improvement in rural infrastructure especially road network, encouraging of diversification of crops, involvement of the NCPB in the purchase of maize from farmers at prices higher than market prices to provide incentive to producers among other interventions. However, these initiatives have not realized the desired effect, and in 2017, the Government was forced to provide food subsidy to bring down the consumer prices for maize meal.

By prioritizing agriculture as one of the 'Big Four,' the Government aims to address perennial food insecurity issues, transform the sector from being highly subsistive to highly commercialized and in the process improve incomes for producers, create employment along the value chain and in agro-based industries. This brief evaluates the budget proposals contained in the Budget Policy Statement Paper and makes further recommendations in line with the proposals in the "Big Four' agenda.

Situational Analysis of Agriculture Sector

The agriculture sector recorded modest gains at the turn of the century with the implementation of the Strategy for Revitalizing Agriculture (SRA) and the Economic Recovery Strategy for Employment and Wealth Creation (ERS). The government also invested more in the sector during this period. However, the sector faced internal and external shocks. These include the post-election violence of 2007, the oil price shock in 2008, pest and disease outbreaks and weather-related shocks in 2011, 2012 and 2015. These shocks negatively affected the overall performance in the sector.

The government implemented several initiatives in an effort to boost performance and productivity within the sector. For example, in 2008, the Government started the fertilizer subsidy program. Further actions followed including the provision of seed subsidy, targeted (smart) seed and fertilizer subsidies, producer price support for maize, debt waivers for coffee and tea farmers, tax incentives to promote mechanization, insurance programmes for crops and livestock, and investment in large-scale irrigation programs. Further, following the devolution of the majority of the functions in the sector to the County Governments, they now play a critical role in the overall performance of the sector and in the realization of the growth targets.

Problem Statement (Challenges Facing Agricultural Sector)

Despite its importance, it is faced with myriads of problems. Farming is mainly rain-fed, exposing farmers to unpredictable weather patterns and climate-related shocks. In addition, there have been increased incidences of pests and diseases. Increased and unsustainable land subdivision has resulted in uneconomical land sizes. Also, the soil quality has been declining. Farmers also produce at uncompetitive costs primarily due to high costs of farm inputs. The levels of post-harvest losses are significantly large. Farmers also have limited access to credit facilities, inadequate access to information on new and modern technologies owing to weak linkages between research and extension. Financing of the sector has been a key constraints in the development of programs that adequately address the inherent challenges within the sector. This is inspite the Government's commitment to increase funding to the sector.

There is need therefore to address the above issues in order to increase agricultural output. This can be done through increasing budget allocation to the agricultural sector both at the National and County levels, expanding the irrigation infrastructure, crop diversification, promoting disease and drought resistant crops, support water harvesting techniques such as water pans and small dams and post-harvest handling technologies.

The following proposals are made for consideration for the next financial year budget. The proposals do not contain specific programs but point out areas for investments that have been largely underfunded in the past budgets.

SECTOR BUDGET PROPOSAL

No	Proposals	Justification
1.	Increase public investment in research and development, and extension services	Investment in Research and Development (R&D) has fallen below 1% of GDP against a recommended 2% or higher. In the sector, we propose that investments in R&D be maintained at 2% relative to the overall sector allocation.
2.	target crops	Increase in the areas under irrigation will help reduce overreliance on rainfall, increase production cycle and increase productivity. The Government has already increased funding for irrigation although attention has mainly been on flagship projects. Efforts should also be directed to small and micro-irrigation schemes and water harvesting and management practices at smallholder farmer level.
3.	Crop diversification- promotion of orphaned crops, e.g. legumes	Majority of farmers in the country will try to grow staple food crops regardless of their suitability in the region they are being grown. Promotion of crop diversification for example orphaned crops, which are drought resistant, high yielding, early maturing and nutritious and are better suited for specific ecological environments will be a good alternative for households in semi-arid areas.
4.	Post-harvest loss	Currently, it's estimated that one-third of food produced in the country is lost post-harvest. Investments in storage facilities and adoption of better storage at farm level can help reduce these losses and improve the amount of produce available.
5.	Warehouse receipts and access to credit	Farmers have limited access to credit and the situation worsens with the credit rationing by formal sources that followed the interest capping by the Central Bank of Kenya. As such, farmers either face extremely high-interest rates from the informal lender or are unable to borrow entirely. This affects their level of investments and lowers productivity. Warehouse receipts systems, provide an avenue that can help remedy this situation as farmers can borrow against their receipts. Warehouse receipts systems also improves market participation which has been poor, as farmers try avoiding post-harvest storage and management costs.
6.	Weather information & early warning systems	Improvement in weather information can be critical in helping farmers make production decisions. The information is also useful in accessing the risks in production and can help improve uptake of crop and livestock insurance. At the moment, the information provided is not adequately reliable and does not cover many areas following limited infrastructure and inability to give predictions at localized levels.
7.	Livestock/Dairy	The livestock value chain has gone backwards and is epitomised by the poor performance of the Kenya Meat Commission. Further, key industries that rely on the sector such as the leather industry have also stagnated or registered negative growth. The uncompetitive nature has given rise to growth in imports. There is need to allocate resources to boost production in the livestock sector and enhance value addition and growth in performance for industries that rely on the sector. Also, promotion of small stock such as poultry is likely to have a high impact on women and youth given the resource requirements that are much lower than those of cattle or dairy.
8.	Fisheries	There is need for continued investment in aquaculture and a build on the success of programs started in the last five years that resulted in higher production of fish in areas that no fish production existed. Further, exploiting opportunities in value addition such as providing raw material for livestock feed and stimulating productivity at reduced cost will help grow the industry

No	Proposals	Justification
9.	IIndustrial and cash crops	Industrial and cash crops have great potential in improving performance and growth in the sectors. However, traditional cash crop such as coffee and sugarcane continue to underperform leading to some farmers exiting the enterprise. Some crops such as pyrethrum have been largely abandoned despite Kenya being a leader of pyrethrum production in the 1980s. The revival of these commodities requires restructuring the industry and building them from the bottom up. The global demand for these commodities is still increasing, and investments should be made to help the country capture lost market shares for these commodities
10.	Blue economy	The Government should invest in the generation of public goods for the blue economy in order to stimulate private sector development.

3.2 Health Sector

Background

TThe most significant feature of the Constitution of Kenya 2010 is the introduction of a devolved system of government. In health, the National Government is responsible for leadership in health policy development; management of National referral health facilities; capacity building and technical assistance to Counties; and consumer protection, including the development of norms, standards and guidelines. Kenya has made tremendous progress towards ensuring the population has improved and increased health. Citizens now have better access to the health services they desire. The investment in the sector however continues to be minimal compared to the required 15% that Kenya signed for in the Abuja declaration. Primary/public health care, Reproductive, Maternal, Newborn, Child. And Adolescent Health (RMCAH) investments, Youth focus and the elderly continue to be the drivers in which health in Kenya requires investments.

Universal Health Care (UHC) means that all individuals and communities receive the health services they need without suffering financial hardship. It includes the full spectrum of essential, quality health services, from health promotion to prevention, treatment, rehabilitation, and palliative care. In December 2017, the Government outlined four key areas of focus which have been referred to as the big four. Among this, Health sector was given a priority targeting health financing with the aim of improving access. However, it is important to have a holistic approach to UHC to ensure that the gains are achieved.

Situational analysis

The health sector has gone through a lot of transformation. Over the last ten years, allocation to the health sector has increased in line with the Economic Recovery Strategy and currently the Government is allocating 7% up from 5% in 2012/2013 budget. As a result, Kenya has invested on interventions which have enhanced health care delivery. In particular, Kenya has given priority to improved care by health workers, procurement, and distribution of drugs, non-pharmaceuticals equipment's and rehabilitation of infrastructure.

Although there has been overall improvements of health indicators (as documented in various documents within sector) in the last decade, the health sector continues to face major challenges that include inequitable access to health services; shortage of qualified health workers with appropriate skills; lack of adequate resources for facility and outreach services and a dilapidated health infrastructure system.

UHC enables everyone to access the services that address the most important causes of disease and death, and ensures that the quality of those services is good enough to improve the health of the people who receive them. Protecting people from the financial consequences of paying for health services out of their own pockets reduces the risk of people being pushed into poverty because unexpected illness requires them to use up their life savings, sell assets, or borrow. Achieving UHC is one of the targets the nations of the world set when adopting the Sustainable Development Goals (SDG) in 2015. Countries that progress towards UHC will make progress towards the other health-related targets, and towards the other goals. Good health allows children to learn and adults to earn, helps people escape from poverty, and provides the basis for long-term economic development.

Improving health service coverage and health outcomes depends on the availability, accessibility, and capacity of health workers to deliver quality people-centered integrated care. Investments in the primary health care workforce are most needed and cost-effective in improving equity in access to essential health care services. Good governance, sound systems of procurement and supply of medicines and health technologies and well-functioning health information systems are critical to achieving UHC. UHC emphasizes not only what services are covered, but also how they are funded, managed, and delivered.

A fundamental shift in service delivery is needed such that services are integrated and focused on the needs of people and communities. This includes reorienting health services to ensure that care is provided in the most appropriate setting, with the right balance between out- and in-patient care and strengthening the coordination of care. Health services, including traditional and complementary medicine services, organized around the comprehensive needs and expectations of people and communities will help empower them to take a more active role in their health and health system.

Problem statement

The Kenyan Government has been working to ensure the achievement of UHC through different initiatives like introduction of free maternity programme through NHIF, health subsidies for the poor and the elderly, waiving of all health service costs for children under the age of five years, free primary healthcare in all public primary healthcare facilities, equipping major public hospitals across the country with modern diagnostic equipment, development of a National Referral Strategy and Strengthening of PPP initiatives including the Beyond Zero Campaign which has made possible for people in the most remote parts of Kenya access Health services. The County Governments are also making efforts in provision of infrastructure and equipment for health facilities like construction of new wards, provision of Ambulances and recruitment of additional health workers

However challenges still exists in the Kenyan health sector to achieving UHC which includes inadequate and poor distribution of human resource, inadequate and misuse of funding to the health sector, poor health infrastructure, over reliance on donor funding, lack of adequate data and focusing on health financing only without adequately addressing other health systems issues that limit service delivery. Other issues include high direct Out of Pocket Expenditure limiting health access to the poor, Government allocation to health though increasing is still inadequate and low private insurance coverage.

To realize UHC the Kenyan Government should increase funding to the sector through Government, donors and private sector, minimize fragmentation of financing pools both insurance and general tax revenue, define and provide a basic package of essential health services to be purchased from both public and private sector using pooled funds, strengthen the National Hospital Insurance Fund to expand coverage, reform the provider payment mechanism to focus on results and efficiency, strengthen the quality assurance and accreditation system, create an enabling legal and regulatory framework for both public and private sector to provide defined packages and the Government should have strong leadership of the sector- Political leadership affect health policy priorities, budgets and implementation.

Below are proposal for the health sector

No	Proposals	Justification
1.	Increase public investment in research and Adequate resource allocation to water and sanitation programmes. There is low access to safe water and proper sanitation.	Environmental conservation and access to adequate supply of clean water and sanitation is fundamental for the achievement of "The Big Four" Plan. Indeed, a clean environment and adequate safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of labour. There is need for adequate budget allocation both in the National and County level and designated budget codes for sanitation.
2.	Scale up the provision of specialized medical equipment to County health facilities and engage more with the County Departments to ensure that County Governments increase investments for human resources for health.	Match the increasing number of health facilities at the community level including mobile health services in order to increase the number of Kenyans who access specialized healthcare.
3.	Increase funding to the sector through Government, donors and private sector funding	Reduce impoverishment associated with payment for health services and improve health outcomes.
4.	Strong Government leadership of the sector.	Political leadership affect health policy priorities, budgets and implementation.
5.	Government to develop Public private partnership law.	For stronger stakeholder commitment and accelerated momentum for implementation of UHC
6.	Expand the "Linda Mama" programme (free maternity programme) to mission hospitals and private hospitals	Improvement of Public/Private relation currently stuck at 4.3 billion for the last 2 years
7.	Increased recruitment and remuneration of health workers	Restoring confidence in the health workforce and meeting recommended WHO standard of 20HWs for 10000 people (currently doing 9 HWs for 10000)
8.	Improve tier 2 and 3 health facilities and then Increase levies for level 4 and 5	Dissuade citizens from over burdening the Referral facilities.

3.3. Energy Sector

Proposal for Zero Rating of Sustainable and Renewable Fuels, Stoves and Stove Components

Introduction

In 2013 the Government of Kenya introduced VAT over biomass products. With the industry being 99% informal, this action did not generate significant revenues but has in contrast discouraged the sector players from formalizing stifled existing business dealing with sustainable biomass.

With Kenya having a tree cover of less than 5% and dwindling because of the demand and need of affordable cooking fuels in urban and rural areas, the country may not realize the target of 10% tree cover by 2030. The economic reality of much of the population is to ensure that biomass fuels remain essential for the foreseeable future. The country should strive therefore, towards ensuring that the feedstock being used is sustainable and renewable and being consumed using efficient cooking stoves. This will reduce the rate at which deforestation occurs and fights the negative health impact of indoor air pollution from Disability Adjusted Life Years (DALY'S) whilst saving the Government billions of shillings every year spent in health emergency response
.

Situational analysis

The introduction of VAT over charcoal has disincentives informal sector players to formalize. It also discourages private sector investors from entering the sustainable biomass energy sector. This denies the Kenyan Government about Kshs 160,000,000 in revenue annually from VAT. Cookstove manufacturing industry has been on a downward trajectory due to the cost of manufacturing components at the point of entry into the country, forcing traders to import finished products to be able to compete. This makes efficient cooking stoves unaffordable to the normal citizen's, who continue to put their lives at risk of respiratory diseases as well as deny local stove manufacturers employment opportunity.

Problem statement

Informal players, who by definition pay no tax, mostly produce biomass fuels unsustainably which contributes to deforestation. They therefore enjoy an unfair advantage over formal actors who produce and trade sustainable and renewable cooking fuels. It denies the sector the opportunity to transform itself positively by contributing to the country's economy, whilst lack of clean cookstove endangers the lives of millions of mothers and children under 5, costing the Government billions of shillings in hospital bills.

Below are budget proposals for fiscal year 2018/2019

No	Proposals	Justification
1.	Zero rating of all biomass products and denatured alcohol for cooking.	Currently less than 1% of actors in the sector are formal, with the rest being informal and thus not paying any taxes resulting into revenue loss. By zero rating all biomass products, the Government creates an equal playing field and stimulates the growth of the industry from infancy where it has stagnated. Such businesses generate tax revenues from PAYE and corporation tax. Once largely formalised, VAT can be reintroduced fairly allowing for substantial revenue collection.
2.	Reduction of import duty of efficient stove and VAT exemption of locally manufactured efficient stoves.	With the availability of the efficient cooking stove components at an affordable price the local manufacturing company's and artisans will revive the manufacturing sector in Kenya which has been on a down hill trajectory due to the cost of doing business, hence making the stoves more affordable to the average citizen and saving the lives of thousands of Kenyans who are currently at risk due to indoor pollution whilst saving the Government billions of shillings.
3.	Zero rating of ethanol stoves.	The current import duty on ethanol stoves makes it too expensive for the marginalized, thus denying them the benefits it possesses. The benefits of renewable cooking fuels uptake are numerous, such as the reduction of carbon footprint per household, safe guarding of our mothers and children, reducing the pressure on our forests and wood lands and the modernising of our cooking methods as a nation whilst protecting our environment.

3.4. Housing Sector

Introduction

In Kenya, access to adequate housing and sanitation is a Constitutional right as enshrined in Article 43 of the Constitution. Further, housing is a County function but Housing Policy is a National function as provided for by the Fourth Schedule of the Constitution of Kenya 2010.

The rapid population growth has led to overcrowding of available housing facilities hence directing the attention of Governments around the globe to social housing as a possible remedy on housing shortage. The aim now is to provide affordable low-cost housing to individuals and families who need them most.

According to the Budget Policy Statement (BPS) 2018, housing is one of the sub-sectors in Kenya which will be receiving increased attention for the period up to 2022 since it is one of "The Big Four" key areas in which the Government wants to focus on for the next five years. The Jubilee Administration has a vision of delivering 500,000 affordable housing units by 2022. The housing units will be delivered in major urban areas across the Kenya.

In addition to delivering decent homes, the sector is expected to create 350,000 jobs. It will seek to provide market for suppliers and manufacturers of construction materials hence promote economic growth. The Government aims at generating 14% of Kenya's GDP from real estate and construction sector. How? This will happen through rents from residential and commercial building in urban and rural parts of Kenya. The manufacturing of construction materials is key towards achieving the goals.

Situational analysis

Kenya's National Government plans to implement the "Big Four Agenda" in order to achieve the goal of providing 500,000 housing units by 2022 and Universal Healthcare for every citizen. We have reviewed the housing agenda provided our proposals towards making the big four a reality.

The National Government plans to take a number of actions in order to attain their goals. First, they are planning to conduct joint zoning and urban planning with the County Governments in order to streamline public land use. Secondly, the National Government aims at targeting to satisfy known demand by providing affordable housing in ideal locations. This is to ensure that the housing projects do not end as ghost towns. In order to lower the construction of housing costs, the Government is planning to negotiate for discounts on input materials.

Public Private Partnerships (PPPs) Model will play a great role as one of the innovative development financing in the sector, if this is coupled well with fast issuance and transfer of land titles to fast track the delivery of adequate housing.

Problem statement

Currently, Kenya's housing sector is faced with a myriad of challenges such as:

a) Poor construction standards in some cases which leads to collapse of residential buildings in major urban areas (Nairobi and Kisii among others).
b) Skyrocketing land prices especially in urban areas makes it expensive for the vulnerable/marginalized people to afford a house in the major urban areas in Kenya.
c) High cost of construction materials in major cities such as Nairobi, Kisumu and Mombasa.
d) Slow process of land titling discourages investors from investing in the housing sector

Below are key budget proposals to the housing sector for fiscal year 2018/2019

No	Proposals	Justification
1.	Regulate construction industry by ensuring construction workers are paid decently, safety is prioritized, provision of medical and accident insurance for the duration when they offer their services to the construction industry	Construction workers provide essential services yet they are vulnerable.
2.	Conduct reforms in the sector of human resources to ensure that professionals provide high quality services. The National Government should ensure that all Quantity Surveyors and Civil engineers among others are registered to weed out quacks.	High Quality services are key for high quality, safe and affordable housing

No	Proposals	Justification
3.	The PPPs stakeholders should plan for design competitions and then pick the best social housing plan for implementation. These competitions should be open for both students studying housing related courses such as architecture and have another category for practitioners.	Design competition will promote local ownership hence public participation in the entire social housing development lifecycle. All citizens (students, architectural firms and members of the public) will get a chance to have a say on how social housing should look like. This will bring on board innovative ideas on construction of housing units. The designers can be encouraged to include eco-features such as Rainwater Harvesting System, ample natural lighting, disability friendly buildings and roof-top solar powered heating systems.
4.	Develop efficient transport infrastructure which makes it possible for Kenyans to live anywhere but still make it to work in good time. For instance, put in place light railway line for mass transit of residents in crowded urban areas.	Adequate housing infrastructure depends on many factors such as auxiliary infrastructure such as roads, water, and electricity among others.
5.	In big urban areas, there is high demand for housing near industries and other work areas. The Government should work on employment creation through establishing manufacturing industries and Government office blocks near the social housing units..	Cutting taxes on construction materials can be a powerful incentive for many individuals, firms and agencies to engage in development of social housing
6.	Zero-rating construction materials in order to reduce construction costs. Government negotiating for discounted prices is a short term remedy for housing crisis in Kenya	Improvement of Public/Private relation currently stuck at 4.3 billion for the last 2 years
7.	The Government should focus on improving the ease of doing business in the real estate sector in order to attract private sector partners to enter into the PPP models.	Major housing corporations which can arrange for housing finance in a Public Private Partnerships (PPPs) model prefer to conduct their business in countries with better terms of taxation and ease of doing business generally. The National Government should create a conducive business environment by providing incentives and making it easier for even foreign firms to register their subsidiaries in Kenya
8.	Effective stakeholder engagement: The National Land Commission should facilitate the process of titling to pave way for quick implementation of affordable housing.	There is need for engagement of all stakeholders starting from the planning stage all through the housing development lifecycle. The National Treasury should allocate resources towards facilitating stakeholder engagement in the housing sector in a bottom-up approach. The major stakeholders are: Counties, intended project beneficiaries, suppliers and manufacturers of construction materials, private construction firms, regulating agencies, communities around the planned project areas among others
9.	In addition to Environmental Impact Assessment (EIA), the National Government should ensure a thorough, well-thought out Social Impact Assessment (SIA) is undertaken and mitigation measures of identified risks not only put in place but also implemented where need be and monitored regularly	Proper planning and stakeholder engagement at all stages of the housing projects can help mitigate future losses if any associated with the project
10.	The units to be constructed per year in order to qualify for reduction in tax rates should be reduced to 20 in order to spur economic growth by promoting Small and Medium Enterprises (SMEs) which are interested in construction of affordable social housing units in Kenya	Providing reduction in tax rates for firms which are able to do construction for a minimum of 100 social housing units will led to supporting large construction firms while making it very difficult for the small and medium firms to compete in the market place

3.5. Art and Culture

The objective of the Social Pillar in Kenya's Vision 2030 is investing in the people of Kenya in order to improve the quality of life for all Kenyans by targeting a cross-section of human and social welfare projects and programmes, specifically education training, health, environment, housing and urbanization, gender, children, and social development in youth and sports.

According to the World Intellectual Property Organization (WIPO) research, the creative economy contributes 5 % of Kenya's total GDP. The art and culture is a new frontier for job creation in Kenya, particularly for the youth; but recognition needs to be broadened.

Art and culture budget proposal are as follows:

No	Proposals	Justification
1.	Government building a National Heritage Mechanising centre	Offering markets and the whole dynamic around merchandising.
2.	Healthcare coverage and tailor-made insurance facility for artistes, sportsmen and athletes in the country.	Artistes, sportsmen and athletes feel motivated and dedicate more in the sectors. More youth will get attracted to the sector
3.	Create enabling infrastructure for creative industries including offering incentives to filmmakers who chose Kenya as a filming location	
4.	Streamline the collection and payment of royalties to musicians.	
5.	Establish a Copyright Police unit to crack down piracy	Law enforcement agencies and individual consumers to differentiate between legitimate and illegitimate works

As per the draft budget policy statement, the Government seeks to raise the share of manufacturing sector from 9%to 15% of the Gross Domestic Product (GDP) by 2022, expand food production and supply, provide Universal Health Coverage for all Kenyan homes and build 500,000 affordable houses.

4.0. Conclusion

These proposals are intended for consideration by the Treasury with the view that they will contribute to maintaining Kenya in its current economic growth and in contributing to wealth creation and poverty reduction.

Annexes

Sector Proposals – Contributors

No	Presentation	Area of Submission
	Corporate Sector	
1.	Mr. Job Wanjohi Kenya Association of Manufacturers	Manufacturing
2.	Ms. Myra Mukulu Kenya cook stoves	Energy
3.	Mr. Rodgers Kidiya International Institute of Legislative Affairs	Manufacturing
4.	Dr Jim Njagi Tegemeo Institute	Agriculture
5.	Ms. Hellen Nyamera Kenya Producers Coalition (KEPCO)	Agriculture
	Social Sector	
1.	Ms Christine Ajulu Health Right Advocacy Forum (HERAF)	Health
2.	Mr. George Orido Tone Theater Productions	Art and Culture
3.	Mr. Peter Ngure AMREF	Health
4.	Geoffrey Kerosi Hakijamii	Housing

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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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Submissions for budget 2018/19
Made by different Stakeholders from the corporate and social sector on
14th and 15th February 2018

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