

KEYNOTE ADDRESS BY HON. (AMB) UKUR YATANI, EGH CABINET SECRETARY, THE NATIONAL TREASURY & PLANNING DURING THE VIRTUAL LAUNCH OF THE FY2021/22 AND THE MEDIUM-TERM BUDGET PREPARATION PROCESS ON 11th SEPTEMBER 2020

Cabinet Secretaries;

Chairperson, Budget and Appropriation Committee;

Chief Administrative Secretaries;

Principal Secretaries and Accounting Officers;

Development Partners;

Distinguished Guests;

Ladies and Gentlemen;

1. Good Morning. I am delighted to join you this morning for the official launch of the preparation process of the FY2021/22 and the Medium-Term Budget. The process which we are launching today, marks the beginning of another cycle in budget making. Let me take this earliest opportunity to thank you for finding time out of your busy schedules to participate in this important event in our budget calendar.

Ladies and Gentlemen;

2. This process has traditionally been officially launched in a physical meeting with Ministries, Departments and Agencies (MDAs) and our Stakeholders. As you have noticed, we are operating under a totally different environment which calls for new ways of conducting Government business. In view of the COVID-19 pandemic, and for us to remain within the legal timelines for delivering the budget, we are compelled to launch this process and for the first time in our history, virtually as opposed to what we have been used to.

Ladies and Gentlemen;

3. The emergence of the Coronavirus (COVID-19) as a global pandemic has presented unprecedented challenges to all countries including Kenya. As we implement the current budget and move forward in preparing the next budget, we have to contend with the reality of trying to meet the funding requirement for our development objectives against the prevailing unfavourable macroeconomic conditions.

4. This means that we have to live within our means and calls for a critical review of our existing programmes and policies to ensure that they are not only consistent with our development agenda but also informed by emerging realities brought about by emergence of COVID-19 pandemic and other economic shocks in the future.

Ladies and Gentlemen;

5. Budget making remains a consultative process. Article 201 of the Constitution lays emphasis on public participation as one of the key principles underpinning the budget making process. In this regard, the Government will be working through the Sector Working Groups to engage stakeholders in the formulation and preparation of the budget. The inputs from our stakeholders will enrich identification and prioritization of programmes and subsequent resource allocation. In the ensuing Sector Working Group process, I expect fruitful engagement with stakeholders to ensure that Sector budget proposals are informed by the requirements of the wananchi.

Ladies and Gentlemen;

6. The Medium-Term Budget for 2021/22 – 2023/24 will be framed against a background of the emergence of the COVID-19 pandemic. The pandemic has forced many countries to go into partial or total lockdown to control the spread of the disease. On account of this pandemic, most countries are expected to face recessions in 2020 and beyond.

Ladies and Gentlemen;

7. The latest forecasts for the global economy by the International Monetary Fund (IMF) point to a historic downturn. The IMF is projecting Global growth at minus 4.9 percent (-4.9%) in 2020 which is 1.9 percentage points below the April 2020 forecast. The COVID-19 pandemic has had a more negative impact on economic activities in the first half of 2020 than anticipated. If no cure is found for the pandemic, the outlook points to the worst economic recession since the Great Depression of the 1930s. In 2021 global growth is projected at 5.4 percent.

Ladies and Gentlemen;

8. On the domestic front, the economic impact of the pandemic is already being felt across all sectors of the economy. The emergence of the pandemic towards the beginning of the second half of the FY2019/20 fuelled the underperformance of the economy in the last financial year. Prior to the outbreak, Kenya's economy was strong and resilient despite the challenging global environment.

9. In 2019, the economy recorded growth of 5.4 per cent which was a slight drop from 6.3 per cent recorded in 2018. Further, the economy remained resilient in the first quarter of 2020 and grew by 4.9 percent compared to a growth of 5.5 percent in the same quarter in 2019. Growth in 2020/21 is expected to be below the initial

projections. Indeed the COVID-19 pandemic is likely to cause a major economic shock and underperformance of the economy since independence.

Ladies and Gentlemen;

10. On a positive note, the Ministry of Health has been reporting on the drop of infections in recent days and this gives hope that many sectors of the economy are going to recover and provide the much needed relief to those who have been rendered unemployed by the pandemic.

11. The interventions by the Government during the FY 2021/22 and the Medium-Term will continue to provide an enabling environment for stimulation of the economy to safeguard livelihoods, jobs, businesses and industrial recovery. We will endeavour to provide an enabling environment for implementation of the ‘Big Four’ Plan and other flagship projects.

Ladies and Gentlemen;

12. The 2021/22 – 2023/24 Medium-Term Budget will be anchored on the Medium-Term Plan III of the Vision 2030 and will build on progress made in previous financial years. We will continuously monitor developments on the global front with a view to developing the Post - COVID-19 Economic Recovery Strategy that focuses on making the economy more resilient so as to cushion vulnerable wananchi and set the stage for sustainable growth.

Ladies and Gentlemen;

13. Let me now turn to the key highlights of the medium-term fiscal framework. During the Medium-Term, we shall continue with the fiscal consolidation policy. To strengthen public debt management and to ensure public debt remains

sustainable, the Government will continue to focus on the fiscal consolidation programme which is aimed at reducing the overall fiscal deficit and debt accumulation. The fiscal consolidation policy will be supported by enhanced revenue mobilization as well as prioritization and rationalization of expenditures. This will ultimately reduce public debt and create fiscal space over the Medium-Term.

Ladies and Gentlemen;

14. As a proportion of the GDP, we expect debt to reduce to 3.0 per cent of GDP in 2023/24 from a high of 8.0 percent of the GDP in 2019/20. We remain hopeful that the economy will rebound in FY2021/22 after being affected by the COVID-19 pandemic in much of the FY2019/20 and FY2020/21.

15. We expect revenue collection in the FY 2021/22 to spring back buoyed by the improving economic environment, tax policy and revenue administration measures that we have put in place. Together with expenditure rationalization measures that were introduced in the FY2019/20 budget, we expect the funding pressures to ease and create fiscal space for priority programmes in the FY2021/22 and the Medium-Term Budget.

16. In nominal terms, the Government will commit to gradually reduce spending from 25.3% of GDP in 2019/20 to around 23% of GDP in 2023/24. This is in line with the fiscal consolidation policy which has been in force over the last two financial years.

Ladies and Gentlemen;

17. SWGs are required to prepare Medium-Term budgets that are consistent with the Medium-Term Fiscal Framework that will be provided in the Budget Review

and Outlook Paper (BROP) to be released in early October 2020, and firmed up in the Budget Policy Statement in February 2021.

Ladies and Gentlemen;

18. The Government will intensify expenditure prioritization to ensure that spending better reflects the development agenda. As we prepare the FY 2021/22 and the Medium-Term Budget, emphasis will be put on high priority and strategic service delivery programmes that provide value for money.

19. The Government will also continue to pursue the economic recovery agenda which is aimed at safeguarding livelihoods, jobs, businesses and industrial recovery impacted by the Covid-19 pandemic. In addition, provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies and implementation of the Constitution will be prioritized.

20. The criteria for prioritization and allocation of resources will include:

- (i) Linkage of Programmes to Post-COVID-19 Economic Stimulus Programme (PC-ESP);
- (ii) Linkage of Programmes to the ‘Big Four’ Plan either as drivers or enablers;
- (iii) Linkage of the programme with the objectives of Third Medium-Term Plan of Vision 2030;
- (iv) Degree to which a programme addresses job creation and poverty reduction;
- (v) Cost effectiveness and sustainability of the programme; and

(vi) Response to the requirements and furtherance of the implementation of the Constitution.

21. In this regard, Sector Working Groups are directed to undertake a critical scrutiny of individual MDAs budgets execution reports to guide allocations when preparing the FY 2021/22 and the Medium-Term Budgets.

Ladies and Gentlemen;

22. Sector Working Groups are requested to ensure that costing of all programmes is anchored on solid assumptions, and is accurate, and the allocation of resources takes into account the ceilings provided to avoid exaggerated or understated resource requirements. SWGs should critically review MDAs requirements to curtail growth of recurrent budgets especially budget items under the category referred to as use of goods and services.

23. The Sector Working Groups are also reminded that recently Government directed that no new projects should be started without the approval of the Cabinet. In this regard, the FY 2021/22 and the Medium-Term Budget will only focus on completion of ongoing, and viable stalled projects. In particular, emphasis should be on projects nearing completion to ensure that citizens benefit from such public investments.

24. All ongoing multi-year projects should be allocated adequate funds in accordance with the contract signed between Government and third parties within the projected ceilings before a new project which must have been approved by Cabinet as indicated earlier is allocated budgetary resources.

Ladies and Gentlemen;

25. The Sector Working Groups are also urged to ensure that projects processed for funding comply with the Public Investment Management Guidelines issued by the National Treasury so as to increase efficiency and effectiveness of public spending. These Guidelines should be applied in the preparation, appraisal and approval of all projects before their inclusion in the budget.

26. Specifically, SWGs should ensure that before a new project is considered for budget allocation to cater for activities related to actual implementation, the relevant Accounting Officer/MDA has fulfilled the following minimum prerequisites;

- i. All conditions precedent are fulfilled, including land acquisition/compensation, stakeholder management and other development partners' requirements;
- ii. Detailed designs are completed and relevant approvals obtained where applicable;
- iii. Project has received necessary regulatory approvals;
- iv. Detailed resource requirements including funding sources and personnel to operationalize the project are planned for; and
- v. Project details are captured in the relevant Public Investment Management Information System.

Ladies and Gentlemen;

27. SWGs should also ensure that externally financed projects are in line with the overall MDAs priorities, and have adequate provision for GOK counterpart funding in accordance with the financing agreement. The performance for results projects as well as programmes with disbursement linked indicators (DLIs) should be properly identified and with proof of the supporting financing agreements, adequately funded.

Ladies and Gentlemen;

28. I wish to emphasise that public participation and involvement of other stakeholders in the budget process is a constitutional requirement. Sector Working Groups must therefore identify their critical stakeholders including Development Partners, and private sector players among others and engage them in programme prioritization.

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

30. Accounting Officers are reminded that the SWGs will continue to remain the avenue for bidding for resources. MDAs seeking for funding of their programmes and projects should therefore fully participate in their relevant Sector Working Groups and bid for resources within the available ceilings. No spending proposal will be factored in the budget unless approved and considered within the SWGs.

Ladies and Gentlemen;

31. Finally, I wish, to call upon all Ministries, Departments and Agencies to strictly adhere to the guidelines that we have issued on the preparation of the budget and the hard sector ceilings to be provided in due course through the BROP. Sectors and MDAs should also observe the strict timelines set so as to facilitate seamless finalization and appropriation of the FY 2021/22 Budget.

32. With these remarks it is now my pleasure and duty to declare the FY 2021/22 and the Medium-Term Budget preparation process officially launched.

THANK YOU AND GOD BLESS YOU!