Kenya Post Budget Review:
What the Budget means for Food and Nutrition Security FY2019/2020

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1 Abbreviations and special terms

BPS	Budget Policy Statement
CAGR	Compound Annual Growth Rate (CAGR)
CBK	Central Bank of Kenya
CS, NT	Cabinet Secretary, National Treasury
FAO	Food and Agriculture Organisation (UN Agency)
FNS	Food and Nutrition Security
FNSP	Food and Nutrition Security Policy
IPM	Integrated Pest Management
KEMRI	Kenya Medical Research Institute
MDAs	Ministries, Departments and Agencies (agencies mainly state corporations)
MSMEs	Micro, Small and Medium Sized Enterprises
NT	National Treasury
PCP	Pest Control Products
PBB	Programme Based Budget

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2 Executive Summary

The Cabinet Secretary for the National Treasury (CS NT) presented the FY 2019/20 Budget Statement to the National Assembly on 13 June 2019 based on the Printed Estimates of Recurrent and Development Expenditure and the Program Based Budget (PBB), finalized earlier in May.

Budgetary Allocations to Food and Nutrition Security (FNS) in FY2019/2020. Agriculture and Food and Nutritional Security (FNS) has been allocated KES 51,678.8 Bn, an increase of KES 6.4 Bn or 14.1 percent over expenditure for FY2018/19 but lower than the BPS 2019 projections by KES 420mn. The level of spending represents 2.8% of Total Voted Expenditure, lower than the 2.9% expenditure allocated under BPS 2019 (February 2019).

Inadequate Budgetary Allocations to Food and Nutrition Security. Kenya's budgetary allocations to FNS remain inadequate for its citizens to progressively realise the right to food. The allocations are not consistent with an important economic sector that accounts for 34% of Kenya's GDP, employs 56% of the labour force and generates 65% of the country's merchandise goods exports. Further, expenditure on FNS as a share of National Government's *total voted expenditure* continues to decline steadily. Growth in budget allocations to the sector are not keeping pace with the growth of the total budgets over the most recent 3 and 5 year periods.

Budget Policy Targeting. The National Budget does not yet prioritise public resources, fiscal incentives and policies for food production**.** It continues to place greater emphasis on large-scale commercial and industrial agriculture and to focus incentives on supporting agricultural outputs, including coffee, tea, textiles, sugarcane and miraa. The budget also reallocated significant sums of money away from areas important for food production including KES 2,608.9mn that was cut from the crops development Tax proposals to be presented in the Finance Bill 2019 similarly do not target measures for increasing agricultural production of food crops by small-scale farmers.

Implications. The trends of declining allocations of budgetary resources to the sector are likely to result in lower food production, growing food insecurity and an increase in the prevalence of undernourishment. We can expect rising food prices that undermine access and affordability of food. The health and nutrition status of the population, particularly the low income and vulnerable segment of the population, are mostly adversely affected. Kenyans need to be concerned about the trend of falling expenditures on agriculture and food; and the clear trend of other budget areas receiving priority in budget allocations.

Recommendations. At a national level, the RTFI calls for vigilance in implementation to cater for needs of smallholder farmers; clarity from National Treasury on allocations to FNS-related programmes – such as cereal enhancement programme, strategic grain reserve, agricultural mechanisation and crop diversification; and the upscaling of micro-irrigation for schools. Agriculture is a devolved function, meaning in practice County Governments bear the responsibility for achieving food security. Accordingly, the progressive realisation of the right to food enshrined in the Constitution of Kenya, 2010 are a joint responsibility of the National and County Governments. Independent of the central government, County Governors can, and should, allocate more of their own county budgets towards FNS.

3 Introduction

The Cabinet Secretary for the National Treasury (CS NT) presented highlights of the Budget for the financial year 2019/20 to the National Assembly on 13 June 2019, in compliance with Section 40 of the Public Finance Management Act, 2012.

The Budget Policy Statement (BPS 2019) was finalised and issued mid-February 2019. After a formal process of further consultations and engagements with the National Assembly, through the relevant committees and with MDAs, the National Treasury on 24 May 2019 posted the **Printed Estimates of Recurrent and Development Expenditure** and the **Program Based Budget** (PBB) on its website. These documents collectively with supporting documents released by the CS as part of the formal **2019-2020 Budget Statement Speech** comprise the **National Budget.**

4 Budgetary Allocations to Food and Nutrition Security (FNS) in FY2019/2020

The National Government Budgetary Allocations to **agriculture and food security** in FY2019/2010 are set out below in Summary (Table 1)

Table 1: Budgetary Allocations for Agriculture by Department

Summary Expenditure By Vote And Category/ State Dept	FY 2018/19 Actual	FY 2019/20 Printed Estimates		FY 2019/20 BPS 2019 Projections	
	KSh.Mn	KSh.Mn	+ / -	KSh.Mn	+ / -
State Dept - Crops Development	23,374.7	21,799.0	-1,575.7	28,503.0	-6,704.0
State Dept - Livestock	6,230.8	6,657.2	426.4	6,663.9	-6.7
State Dept - Fisheries & Blue Economy	2,749.2	7,915.7	5,166.5	4,081.9	3,833.8
State Dept - Irrigation	7,469.6	8,950.6	1,481.0	8,237.0	713.6
State Dept - Agricultural Research	5,456.1	6,356.3	900.2	4,613.0	1,743.3
Agriculture, Rural & Urban Development	**45,280.4**	**51,678.8**	**6,398.4**	**52,098.8**	**-420.0**
Total Voted Expenditure KSh.Mn	**1,750,207.6**	**1,841,357.6**	**91,150.0**	**1,822,802.4**	**18,555.2**
FNS Expenditure as % of National Government Voted Expenditure	**2.6%**	**2.8%**		**2.9%**	

Notes 1. + / - Increases /decrease
2 Actuals for 2018/19 and FY2019/20 Printed Estimates per PBB May 2019
3. Total Voted Expenditure refers to National Government Voted Expenditure

Agriculture, food and nutrition security (FNS) has been allocated **KES 51,678.8 Bn**, representing an increase of **KES 6.4 Bn** or **14.1 percent** over the actual expenditure for the previous financial year FY2018/19. FNS expenditure in FY2019/2020 based on the Printed Estimates **is lower** by KES 420mn from the BPS 2019 projections.

This level of spending represents just 2.8% of National Government's Total Voted Expenditure. While spending on FNS shows a negligible increase over the 2.6% of National Government's Total Voted Expenditure on FNS in the previous financial year, it was lower than the projected 2.9% share of FNS expenditure allocated under BPS 2019 (February 2019).

4.1 Inadequate budgetary allocations to food and nutrition security

Kenya's budgetary allocations to FNS are inadequate to realise the right to food. It also represents a misallocation of resources away from an important economic sector that accounts for 34% of the nation's output (GDP), employs 56% of the labour force and generates 65% of the country merchandise goods exports.

FNS expenditure continues to decline steadily as a share of the National Government's Total Voted Expenditure – as recently as FY2016/17 the FNS budget share was 3.5%. Growth in agriculture and food budget allocations remains consistently slower than the growth in total voted expenditure. While FY 2019/20 shows an increase over the previous year of 11.6%, allocations to agriculture and food over the most recent 3 financial years show a tiny 0.6% compound annual growth rate (CAGR) compared to 2.8% compound average annual growth of total voted expenditure. Over the previous 5-years spending on agriculture and food has increased at a CAGR of 8.5% that significantly lags behind the 10% compound annual growth rate of total voted expenditure.

The share of spending on agriculture and food in the FY 2019/20 Budget **continues the declining trend of low allocations to the sector** while the economic contribution of agriculture to national output measured by GDP has been increasing. This represents a fundamental mismatch and gross misallocation of resources to the agriculture and food sector that now accounts for 34% of Kenya's GDP, employs about 70% of the country's labour force and generates 65% of its merchandise goods exports. Furthermore, FNS spending growth on both the 3 and 5-year time periods is slower than the average growth in Kenya's budgets. For example, the 5-year CAGR of FNS spending at 8% lags behind the average 5-year CAGR of 10%.

4.2 Implications of inadequate spending on FNS

In the context of climate change, declining biodiversity and unpredictable global markets, the implications of Kenya's steadily declining budgetary allocations to FNS to achieve food self-sufficiency are worrying. Declining allocations to national **food** production results in growing food insecurity. Figure 1 shows that despite agricultural production remaining relatively constant, the prevalence of undernourishment is increasing and the prevalence of severe food insecurity remains the same. This suggests that the relationship between agricultural production and FNS is not linear. Despite this, the emphasis in the Budget is on supporting agricultural (not food) production, including coffee, tea, textiles, sugarcane and miraa.

Anticipated or actual food shortages, spur an increase in food prices which undermines the health and nutrition status of the population, most specifically low income earners and vulnerable people in society. Additional effects are considered later in this Report.

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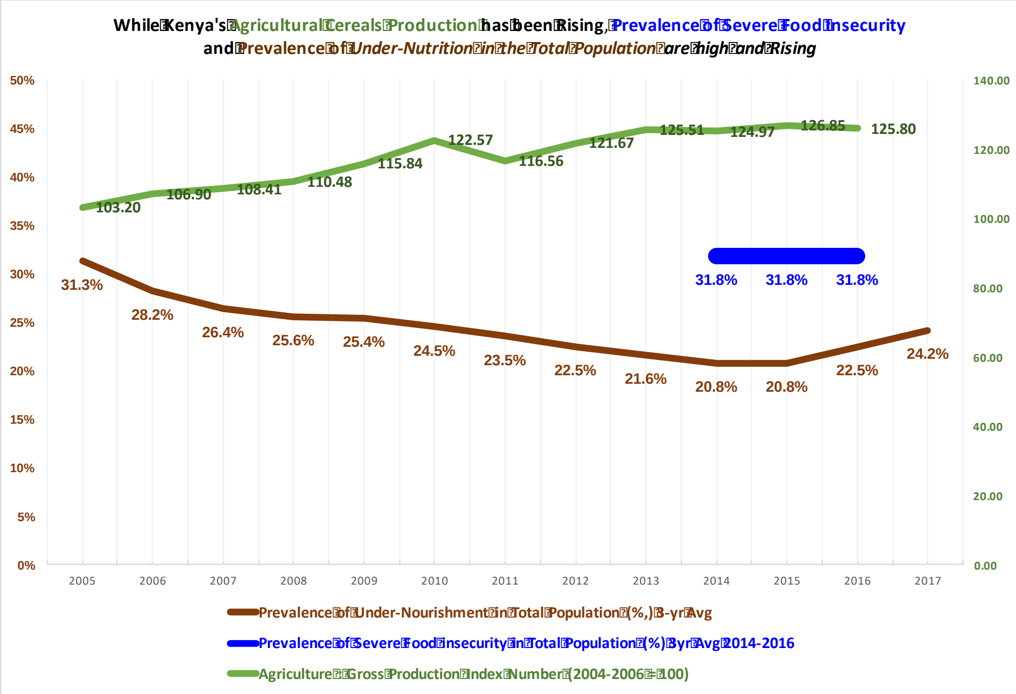
Figure 1: Relationship between agricultural production, severe food insecurity and undernourishment



Source: FAO Kenya Country Data and FAOSTAT Agricultural Production Indices

4.3 Budgetary allocations for crop diversity need to be focused on food crops…

National Budget allocations of KES 1bn were provided as incentives to increase production of miraa (khat plant) which is not a food crop. This measure does not promote food security. While miraa is a commercial crop that may boost farmers' incomes, the leaf and stem of *miraa* are used as a recreational drug that contains stimulants similar to *amphetamines*.

4.4 Have budgetary allocations been retained or shifted?

An analysis of the budgetary allocations in the PBB (May 2019) indicates that within a slightly larger spend on FNS compared to the actual outturn for the previous year**, there were significant reallocations of money away from areas important to FNS.**

Compared to last year's expenditure significant amounts of the limited FNS budget resources were reallocated away from programs directly related to food production. These resources were mainly reassigned to new areas where the Government expects to generate economic growth, which differ from **the food needs of the bulk of Kenya's population.** For example, KES 2,608.9mn was cut from the *crops development programs*, inclusive of KES 1,873.3mn reallocated away from programs earmarked for food security initiatives and KES 735.6mn cut from *Land and Crops Development*.

The Budget allocated a net additional amount of KES 2,687.3mn for *Development and Coordination of Blue Economy*. The bulk of these extra and generous allocations comprise KES 2,234.0mn to "Promote Kenya as Agro-based Blue Economy" and KES 876.5mn for *Development and Management of Fishing Ports Infrastructure*. Figures captured in Table 2.

Table 2: Detailed Budgetary Allocations by Program for FNS

Summary Expenditure By Vote And Category	FY 2018/19 Actual	FY 2019/20 Printed Estimates		FY 2019/20 BPS 2019 Projections	
	KSh.Mn	KSh.Mn	+ / -	KSh.Mn	+ / -
Agriculture, Rural & Urban Development	**45,280.4**	**51,678.8**	**6,398.4**	**52,098.8**	**-420.0**
CROPS DEVELOPMENT	**23,374.7**	**21,799.0**	**-1,575.7**	**28,503.0**	**-6,704.0**
General Administration Planning and Support	2,641.4	3,505.4	864.0	3,410.0	95.4
Agricultural Policy, Legal Regulatory	2,588.8	3,450.5	861.6		
Agricultural Planning & Financial Management	52.6	55.0	2.3		
Crop Development & Management	19,117.8	16,706.3	-2,411.5	23,472.0	-6,765.7
Land and Crops Development	8,119.2	7,383.6	-735.6		
Food Security Initiatives	9,153.8	7,280.5	-1,873.3		
Quality Assurance and Monitoring of Outreach	1,844.8	2,042.2	197.4		
Agribusiness and Information Management	1,615.4	1,587.3	-28.1	1,621.0	-33.7
Agribusiness and Market Development	1,573.6	1,545.5	-28.1		
Agricultural Information Management	41.8	41.8	-0.0		
Livestock DEVELOPMENT	**6,230.8**	**6,657.2**	**426.4**	**6,663.9**	**-6.7**
Livestock Policy Development, capacity building	1,665.3	1,960.1	294.8		
Livestock Production and Management	2,164.0	1,704.6	-459.4		
Livestock Products Value Addition & Marketing	1,512.1	1,847.6	335.5		
Food Safety and Animal Products Development	340.4	394.3	53.9		
Livestock Diseases Management and Control	548.9	750.5	201.6		
FISHERIES AND BLUE ECONOMY	**2,749.2**	**7,915.7**	**5,166.5**	**4,081.9**	**3,833.8**
Fisheries Development and Management	1,464.6	3,936.2	2,471.6	2,698.0	1,238.2
Fisheries Policy, Strategy and capacity building	0.0	40.5	40.5		
Aquaculture Development	407.0	1,044.3	637.2		
Management and Devt of Capture Fisheries	434.2	1,005.5	571.3		
Fish Safety, Value Addition and Marketing	155.4	347.8	192.4		
Marine and Fisheries Research	468.0	1,498.1	1,030.1		
General Admin., Planning and Support Services	149.5	157.1	7.6	192.9	-35.8
Development and Coordination of Blue Economy	1,135.1	3,822.4	2,687.3	1,191.0	2,631.4
Maritime Spatial Planning and Coastal Zone	463.6	56.4	-407.2		
Protection, Regulation of Marine Ecosystem,EEZ	28.5	28.5	0.0		
Devt. and Mngt of Fishing Ports Infrastructure	359.0	1,235.5	876.5		
Blue Economy Policy, Strategy & Coordination	56.7	40.7	-16.0		
Promote Kenya for Agro-based Blue Economy	227.3	2,461.3	2,234.0		
IRRIGATION	**7,469.6**	**8,950.6**	**1,481.0**	**8,237.0**	**713.6**
Irrigation and Land Reclamation	7,367.2	7,731.8	364.6	6,603.0	1,128.8
Land Reclamation	0.0	76.0	76.0		
Irrigation and Drainage	7,367.2	7,613.8	246.7		
Irrigation Water Management	0.0	42.0	42.0		
Water Harvesting and Storage for Irrigation.	0.0	1,059.0	1,059.0	1,500.0	-441.0
General Admin. Planning, Support Services	102.4	159.8	57.4	134.0	25.8
AGRICULTURAL RESEARCH	**5,456.1**	**6,356.3**	**900.2**	**4,613.0**	**1,743.3**

Source: Printed Estimates per PBB May 2019

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5 Budget Proposals with Impact and Effects on FNS

5.1 Proposals do not target small-scale farmers and food crops

The Budget Speech presented little in the way of new or concrete proposals for increasing agricultural production by small-scale farmers and improving the nation's food security. The plan to support smallholder farmers is unclear. The CS only talks about "upscaling crop and livestock insurance and promoting use of appropriate techniques, in addition to affordable credit". What is the rationale for continued allocation to Galana Kulalu, which has demonstrably failed?

It is instructive that food and nutrition security are not listed amongst the achievements since 2013, as listed by the CS in his preamble.

Key proposals outlined in the Budget Statement/Speech do not target or offer incentives to growing and producing food, but continue the focus and preference for large scale commercial and industrial farming, including:

- **Funding the National Value Chain Support Programme for KES 2.0 billion**
- **Setting up the Coffee Cherry Revolving Fund with KES 3.0 billion**, and advancing coffee farmers loans with low interest rates of 3%. Previous reviews done by the Route to Food Initiative (RTFI), have made recommendations for subsidised interest rates to be extended to small holder farmers, not just for cash crop farmers.
- **Offering KES700mn subsidy to sugar farmers for a total of KES 2.1 billion** to cover cane deliveries debts owed by public sugar companies (sugar mills).
- **Supporting the miraa industry with KES 1.0 billion** as a measure for achieving "crop diversification".
- **Allocating KES 7.9 billion for ongoing irrigation projects**
- Enhancing large-scale production by placing an additional 700,000 acres of land through PPP
- Supporting the development of agro-parks or hubs to serve as a link between farmers and markets
- Promoting the production of chemical pesticides and acaricides by allowing manufacturers to import raw materials and inputs under EAC duty remission scheme. This incentive supports an approach to agricultural that is expensive for smallholders and in favour of a monoculture[1].

[1] Monoculture is the agricultural practice of producing a single crop in a field at a time. Planting the same crop in the same place each year removes nutrients from the earth and leaves soil weak. Because soil structure and quality is poor, farmers are forced to use chemical fertilizers to encourage plant growth and fruit production. These fertilizers disrupt the natural makeup of the soil and contribute further to nutrient depletion. Monocropping also creates the spread of pests and diseases, which must be treated with yet more chemicals. The effects of monocropping on the environment are severe when pesticides and fertilizers make their way into ground water or become airborne, creating pollution.

Measures in the Budget Speech that offered small scale farmers some benefits include:

- allocations of KES 0.8 billion for rehabilitation of fish landing sites
- small-holder dairy commercialisation program allocations of KES 0.7 billion

5.2 Taxation proposals to be unveiled later

The CS proposed to introduce **more tax measures and miscellaneous amendments through the Finance Bill, 2019.** Details were not provided, but these are likely to include:

- **New or enhanced taxes on digital e-commerce and the digital economy**, as these are likely to include new taxes on mobile money they will have a significant impact on virtually all Kenyans rich and poor including small scale farmers due to the near universal usage of mobile and digital channels for most services in the country. These measures will add costs to the economy, adversely impact on the incomes of Kenyans including small scale farmers and the urban poor and reduce access and affordability of food (by reducing consumer resources).
- **Changes to revise the VAT refund formula law to allow exporters to fully recover the excess input tax relating to zero-rated supplies.** These benefits will not directly impact small holder coffee farmers who are far removed from the point of export.

6 Spending of EAC Members States on Agriculture and Food Security

Kenya's regional economic neighbors appear to follow the trend of low allocations of budgetary resources to agriculture and the food sector.

Using a comparable dataset from the FAO the two countries with sizeable economies in the region and common systems of governance inherited from the Commonwealth heritage **all spent below 5% on agriculture** as a share of **central government total outlays.**

Kenya and these comparator countries all fall short of the Maputo Declaration commitments of allocating 10% of budgets to agriculture. Although Kenya ranks better than Tanzania, and Uganda, it is not surprising that all four countries suffer from levels of hunger that are serious or alarming. This is according to the 2018 Global Hunger Index, jointly published by Concern Worldwide and Welthungerhilfe (see https://www.globalhungerindex.org)

Table 3: Regional Peer Economies: Trends in Share of Agricultural Expenditure to Central Government Total Budget Outlays

Agriculture-Specific Expenditure as % of Total Public Budgets								
	2010	2011	2012	2013	2014	2015	2016	Average 2010-2016
Kenya	**4.5%**	**3.2%**	**2.1%**	**2.7%**	**4.9%**	**2.7%**	**1.5%**	**2.9%**
Uganda	**8.3%**	**4.3%**	**4.6%**	**3.7%**	**4.2%**	**5.0%**	**3.4%**	**4.2%**
Tanzania	**5.2%**	**4.5%**	**4.0%**	**3.6%**	**4.1%**	**4.0%**	**NR**	**4.0%**

Source: FAO - Monitoring and Analysing Food and Agricultural Policies (MAFAP) program dataset (figures reported on a comparable basis) and authors calculations.
NR: Not Reported on FAO MAFAP dataset.

6.1 Inadequate budget allocations to FNS are a systemic problem in the region

Table 3 benchmarks expenditure on agriculture and food as a share of total public budget outlays of central governments using a common dataset (FAO-MAFAP). The table indicates regional budget allocations to FNS are similarly inadequate.

Allocations to agriculture and food sector in the budgets of Kenya and Uganda have further similarities with Kenya currently spending about 2.8% of its *total budget expenditure* on FNS. In Uganda's latest national budget agriculture and FNS sector is allocated a similarly low 2.89% of the budget.

6.2 Underinvestment by the public sector is mirrored by the private sector

In Kenya as well as in Uganda the private sector commercial banks follow the lead of the public sector in under-investing in the agriculture and food sector - essentially "starving" the sector of financial resources. Loans and advances to the agricultural sector account for about 3% of commercial banks' portfolio in Kenya and only a slightly larger 8.5% in Uganda.

In both countries agriculture is the largest contributor to national output (GDP) at 34% in Kenya (26% in Uganda); the largest employer at about 70% in both countries; and is the sector that generates the highest amount of foreign currency at 65% in Kenya (about 50% in Uganda,). In both countries very little of the domestic value generated or the export earnings are re-invested and ploughed back into the sector. This underinvestment by the public and private sectors undermines long term food security of the nation and region.

Both Kenya and Uganda (who are also major trading partners of each other) run the real risk that chronic under-investments in the agricultural sector may slowly be building up into permanent “hard” food deficits in each country’s key national food staples without the option of importing shortfalls from each other or from neighboring countries in the region. This endangers regional food security given the current global best practice of sourcing emergency food supplies and food aid that may be required from local and regional markets**.**

6.3 Implications of inadequate budget allocations on FNS (and stability)

The RTFI reports and campaigns on the right to food have highlighted the implications that follow from high levels of food poverty and when large segments of the population are chronically food insecure.

Kenya is in a delicate positon with regard to income and food poverty. The national **food poverty** headcount rate is already at an alarming level with 32% of the population or **4.5 million Kenyans** being classified as persons “unable to consume the minimum daily calorific requirement of 2,250 Kilocalories (Kcal) based on expenditures on food” (KNBS, 2018). The food poverty headcount rate in rural areas is greater than 35.8%, translating into **10.4 million Kenyans** lacking adequate food. Even in urban areas the **food poverty headcount rate** is still high at 24.4% or **3.2 million individuals.**

The adverse impacts of more people lacking access to basic meals include increased hunger, wasting, stunting and malnutrition especially among the very young and the very old. Great harm to human health can arise when the average citizens’ access to affordable food of the appropriate quantity and quality is interrupted. This can lead to an unacceptably high burden of welfare costs on the society especially among the low income segment of the population who are also income poor,

Rising or entrenched food insecurity and not being food sovereign undermines the security and stability of the nation and breaks social cohesion – these effects would force unacceptably high economic costs on Kenya.

6.4 Should citizens be concerned and worried by the inadequate allocations?

Kenyans have a legitimate reason to be concerned about the country’s food security situation primarily because of the twin investment “deficits” – the grossly inadequate public budgetary investments in the sector that are below 3% which are mirrored by the low sectoral share of commercial bank lending portfolios that is also similarly low at 3%.

Kenyans need to be further concerned about the **trend of falling expenditures on agriculture and food;** and the added worry of growth in FNS spending falling further behind compared to other budget areas that are receiving *priority allocations*.

Indeed, it’s hard for Kenya’s policymakers to justify inclusion of the sector as one of the pillars of the *Big 4 Agenda* when the level of public and private financial resources placed behind the sector simply cannot not justify the political prominence food security has been granted.

7 Recommendations: What can Governments do to support FNS?

Agriculture is a devolved function, meaning in practice County Governments bear the responsibility for achieving food security. Accordingly, the progressive realisation of the rights to food enshrined in the Constitutions of Kenya, 2010 are a joint responsibility of the National and County Governments.

At a national level, the RTFI calls for vigilance in implementation to cater for needs of smallholder farmers; clarity from National Treasury on allocations to FNS-related programmes – such as cereal enhancement programme, strategic grain reserve, agricultural mechanisation and crop diversification; and the upscaling micro-irrigation for schools.

Additional recommendations include:

7.1 County Governments to spending more on FNS as the center scales back

The County Governors can independently of the central government allocate their own county budgets towards FNS, out of the normal budget transfers received form the National Government.

7.2 National Government should earmark 50% of county conditional grants to FNS

Perhaps the strongest measure to get the county governments behind FNS is for the **national government to designate 50% of the conditional country cash transfers as earmarked conditional grants** to be used solely towards preapproved programs and projects that advance agriculture and FNS.

National Government should consider taking up the RTFI recommendation to finance and place, at the National Government's cost, **3-5 extension workers in each county**; and to support them with the requisite tools, facilities and knowledge.

Nothing prevents progressive County Governors from leading (as FNS county champions) and effecting changes on their own beyond central government initiatives in FNS, because agriculture is a devolved function.

7.3 County Government should support expanded school feeding programs

National and County Governments should consider jointly cooperating and working together to ramp up the school feeding program using locally procured food to support local markets. This program, like extension services, can be paid for by the central government and implemented by the respective county governments.

7.4 Disincentivise the use of chemical pesticides

Levy environmental taxes on chemical pesticides on the basis of their toxicity to the environment (land, water, air), human and animal health. This will mobilize fiscal revenues while mitigating the negative effects associated with pesticide application and encourage a shift towards environmentally and ecologically friendly systems.

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