Kenya Budget Policy Statement 2019:
Review and Proposals to Enhance Food and Nutrition Security

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1 Abbreviations and special terms

BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CS, NT	Cabinet Secretary, National Treasury
FNS	Food and Nutrition Security
FNSP	Food and Nutrition Security Policy
IPM	Integrated Pest Management
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 Introduction

The Route to Food Initiative ("RTFI") submitted a proposal with recommendations for consideration by the National Treasury in the finalization of the Budget Policy Statement (BPS) 2019. The submissions make a contribution to enhancing food and nutrition security (FNS) in Kenya. They were prepared by the RTFI pursuant to Section 25 of the Public Finance Management Act in its capacity as an interested person within the meaning of Section 25(5)(g). We acknowledge the contributions of the RTFI stakeholders including, the Institute of Economic Affairs, the Network for Food and Nutrition Security, Kenya Parliamentary Human Rights Association and the Biodiversity and Biosafety Association of Kenya, who provided valuable input in developing the proposal.

The RTFI recognizes that the Constitution of Kenya 2010 in The Bill of Rights (Chapter 4) imposes on the Government a constitutional obligation to progressively achieve the right to food for all Kenyans. In Article 43(1)(c), the Constitution explicitly recognizes the right to "adequate food of acceptable quality" as an integral part of the right of citizens to seek the highest attainable standard of health.

Additionally, in Article 53(1)(c), the Constitution recognizes the right of every child to "basic nutrition, shelter and health care." Kenya's obligations under international treaties and conventions that guarantee the right to food further bind the country as these conventions when ratified have the force of domestic law under Article 2(6). The most notable of which include the Sustainable Development Goals set by the United Nations General Assembly and the International Covenant on Economic, Social and Cultural Rights (ICESCR) ratified in 1972.

Food and nutrition security is one of the pillars of the "The Big Four" Plan adopted by Government in 2017, as the nation's overarching policy initiative.

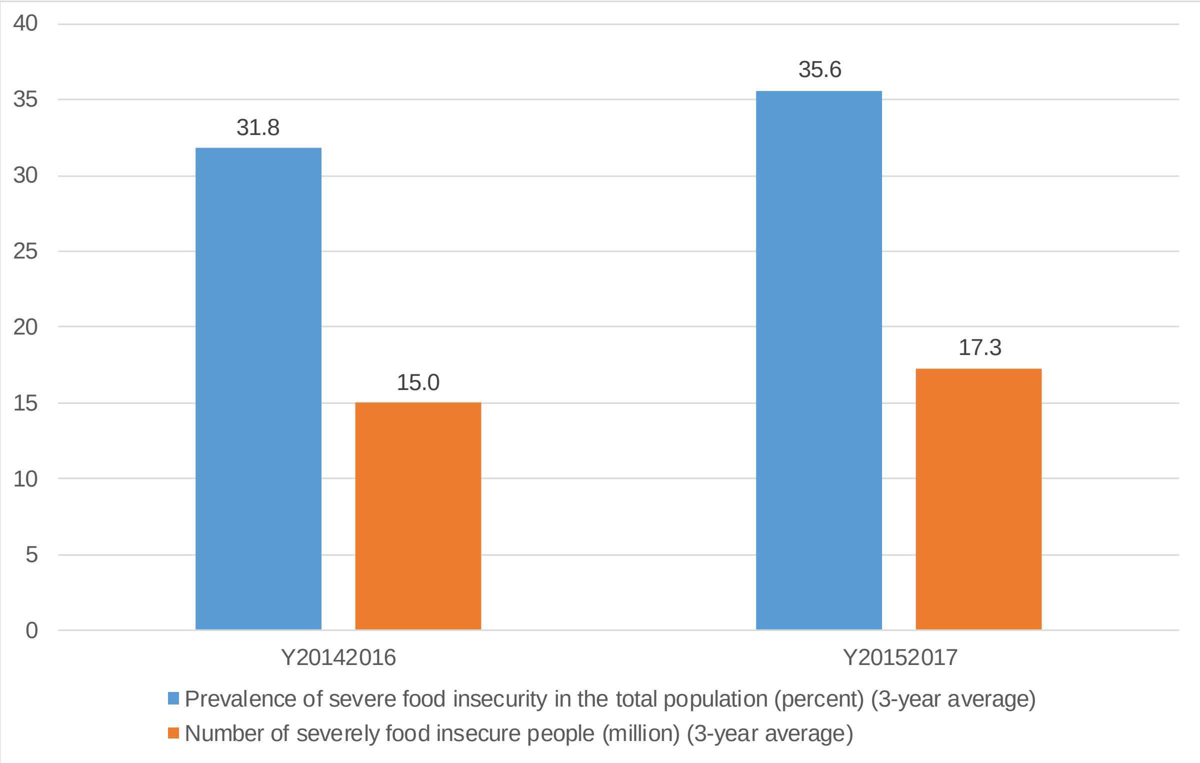
Consistent with the goals of "The Big Four" Plan, the BPS issued on 15 February 2019 expressly commits the country to enhance food and nutrition security through aligning Government policies, programmes and projects in the agriculture sector towards "increasing food production, boosting smallholder productivity, and reducing post-harvest losses and the cost of food" (BPS 2019, p. 19).

3 Rationale for submissions made by the RTFI

The RTFI submissions address the reality that a significant portion of Kenya's population suffer from acute or chronic food shortages from a combination of poverty and inadequate incomes at the individual and household level. Accordingly, a large portion of the nation's citizens, most of whom are small-scale farmers, lack access to adequate food and nutrition.

Food insecurity in Kenya has risen by about 25% over the last decade. The prevalence of severe food insecurity measured over 3-year averages shows an alarming picture. As shown in Figure 1 below, 31.8% or 15 million Kenyans experienced severe food insecurity in 2014-2016 (FAO classifications). Contrary to the right to food and the constitutional requirement to progressively increase access to food and better nutrition, the number of Kenyans suffering severe food insecurity increased to **17.3 million**, or 35.6% of the population, in 2015-2017.

Figure 1: Trends in Prevalence of Food Insecurity in Kenya



Source: FAO Kenya Country Data: Hunger and Food Insecurity Indicators

Note: "Severe Food Insecurity" is a measure of food hunger and extreme food insecurity experienced by individuals or households obtained through direct national surveys across countries using standardised tools and methods (including FAOs Food Insecurity Experience Scale FIES). The latter is derived from responses to eight simple, short questions incorporated into national surveys for example proportion of people who respond to "not having eaten the whole day."

The submissions (set out in detail in Section 6 of this report) address inherent problems in the country's food system. Emphasis is placed on the inability of an industrial approach to food production being an effective solution to chronic food insecurity in a context where small-scale farming is prevalent, critical biodiversity is declining, unpredictable weather conditions and warming climate pose a significant risk to Kenya's economic outlook.

3.1 The impact of poverty on food and nutrition security

Kenya's national food poverty headcount rate is an alarming 32% of the population. This means **14.5 million Kenyans** are classified as "individuals unable to consume the minimum daily calorific requirement of 2,250 Kilocalories (Kcal) based on expenditures on food" (KNBS, 2018).

In rural areas alone, the food poverty headcount rate is greater at 35.8%, translating into **10.4 million Kenyans** who lack adequate food. In core urban areas the food poverty headcount rate is still high at 24.4% or **3.2 million individuals.**

Kenya's overall poverty headcount rate at the national level is estimated at 36.1% of households classified as "poor households". Hence an estimated 16.4 million Kenyans have limited or diminished access to food at all price levels. Table 1 summarises the food and overall poverty rates in Kenya.

Table 1: Food and Overall Poverty Rates in Kenya by National / Sub-national Level

	Overall Poverty Headcount		**Food Poverty Headcount**	
	Rate (%)	Individuals (Millions)	Rate (%)	Individuals (Millions)
National Level	36.1	16,40	32.0	14,54
Rural Areas	40.1	11,69	**35.8**	10,42
Peri-urban Areas	27.5	0.92	28.9	0.97
Core-urban Areas	29.4	3,79	24.4	3,16

Source: KNBS Economic Survey 2018 & 2015/16 Basic Report on Well-Being in Kenya. Table 19.2: Summary of Headcount Poverty Measures, 2015/16. Page 298.

Note: KNBS defines Food Poverty as individuals unable to consume minimum daily calorific requirement of 2,250 Kilocalories (Kcal) as per expenditures on food.

3.2 Budget policy focus

Small-scale farmers consistently produce the bulk of Kenya's food accounting for over **70% of the value of gross marketed production** of agriculture and food (refer Table 2).

Table 2: Gross Marketed Production from Large and Small Farms

Year	Large Farms		Small Farms		Total		Small Farms % Share
	KSh Million	Annual % Change	KSh Million	Annual % Change	KSh Million	Annual % Change	
2009	58,323	17.1	140,055	1.98	198,379	6.0	**70.6**
2010	75,536	29.5	177,516	26.75	253,053	27.6	**70.2**
2011	93,173	23.4	238,640	34.40	331,813	31.1	**71.9**
2012	93,867	0.7	250,725	5.10	344,612	3.9	**72.8**
2013	90,375	-3.7	244,468	-2.50	334,843	-2.8	**73.0**
2014	89,643	-0.8	243,602	-0.40	333,245	-0.5	**73.1**
2015	101,219	12.9	272,283	11.80	373,502	12.1	**72.9**
2016	111,251	9.9	300,789	10.50	412,040	10.3	**73.0**
2017	120,669	8.1	326,252	8.10	446,921	8.1	**73.0**

Source: KNBS Statistical abstract. Table 7.3: Gross Marketed Production from Large and Small Farms, 2010 – 2017.

Note: KNBS does not define the land size of small vs. large farms. On average small farms in Kenya are less than 10 acres. Large farms would be above 100 acres.

Kenya's fiscal policies and budget allocation need to support small-scale farmers to enhance the food and nutrition security of the country because

- Small-scale farmers produce the bulk of Kenya's food and,
- Small-scale farmers are the biggest group of people affected by food poverty

Accordingly, the RTFI submissions on budget measures and policy, focus on small-scale farmers who are integral to enhancing food and nutrition security in Kenya

4 BPS 2019 policy priorities under "The Big Four" Plan

In terms of the agricultural sector, the BPS 2019 has policy preference and emphasis **on large-scale, industrial farming** despite the evidence that small-scale farmers generate over 70% of marketed food production The policy position is reflected in the BPS Budget Allocations to

Agriculture and Food and will have an adverse impact on food and nutrition security.

4.1 BPS 2019 Policy Priorities on food production

The BPS 2019 policy priorities under "The Big Four" Plan in respect of food production include:

Principal policy stance to continue support for development of industrial infrastructure:

- Development of Export Processing Zones (EPZs), Special Economic Zones (SEZs) and establishment of modern Industrial Parks (Naivasha, Dongo Kundu, Mombasa and Lamu)

- Implementing a National Exports Strategy to enhance export of manufactured products, broaden and diversify the nations products range and export markets that continues the policy emphasis on large-scale, non-staple food export crops (tea, coffee, flowers, cotton)

- Formulating a legal and policy framework for the leather value chain for development of leather industrial parks, establishment of Leather Products Production Centres and Centres of Excellence, improving infrastructure at Leather Parks, leather Manufacturing Facilities and the Training and Production Centre for Shoe Industry (TPSCI) in Thika.

Principal policy stance on agro-processing:

- Invest in warehousing and cold chains, aquaculture, fish feed processing

- Develop *Trade and Logistics Clusters (TLCs)* for the Coastal Region to facilitate industrial investments targeting high value sectors for local and export market.

- Fund 15 agro-processing projects (by advancing KSh 514mn)

- Continue investments in value addition for tea, coffee, cotton, meat, milk, hides, skins and leather, fruits, nuts and oils.

This *feed-the-markets-first* approach that targets non-food agricultural production for export markets, departs materially from a *feed-thyself-first* approach that's integral to food and nutrition security for a nation with 36% of its population lacking food. Additionally, tea, coffee and cotton are not small-scale enterprises.

The BPS 2019 (p. 20) states that "the Government has approved commercialization of genetically modified cotton such as Bacillus Thuringiensis (BT) cotton seeds to be availed to farmers", going further to argue that "the hybrid BT cotton will boost production due to its resistance to bollworm which has adversely affected yields from the traditional breeds in the past".

There is a contradiction inherent in the fiscal framework. Environmental conservation is recognised as a key "Big Four Enabler." Indeed, Environment Protection, Water and Natural Resources will receive KSh.85.168 billion amounting to 4.7% of total voted expenditure of the budget in FY2019/20.

However, the use of Bt cotton undermines efforts at achieving food safety and environmental protection. These modified seeds and farm produce represent a take-over of the country's food systems by large corporations. Overdependence on corporates for seeds and other farm inputs has increased Kenya's vulnerability to shocks related to food production. It lures farmers into the use of agrochemicals and stands in the way of sustainable solutions such as ecological agriculture.

Burkina Faso and South Africa are both case studies illustrating that Genetically Modified Organisms (GMOs) are part of a form of agriculture which throws farmers into long term dependencies, undermines critical biodiversity and, by promoting large scale industrial infrastructure, drives millions into greater not lesser poverty.

Principal policy stance on the blue economy:

- Operationalize the *Liwatoni Fishing Complex* and create the *Kenya Coast Guard.*
- Prepare and submit a *Fishing Fleet Development Plan* to the *Ocean Tuna Commission* to enable Kenyans to harvest fish from the country's Exclusive Economic Zone (EEZ)
- Develop a domestic fishing fleet through a Public Private Partnership (PPP) arrangement including allocating fishing access rights and supporting joint ventures and licensing

The **BPS 2019 budget and policy priorities** for food production under "The Big Four" Plan outlined above share the common feature of being **geared towards large-scale, industrial farming,** and not directly addressing the needs and requirements of small-scale farmers that account for over 70% of Kenya's marketed food production. This is a major gap that the RTFI proposes to avoid through its budget recommendations to the National Treasury.

4.2 BPS 2019 policy priorities on food and nutrition security

The principal policy focus in the BPS 2019 under "The Big Four" Plan to ensure food and nutrition security is to expand irrigation schemes, increase access to agricultural inputs, implement programs to support smallholder farmers, fishermen and pastoralists to sustainably produce and market various commodities, and support large-scale production of staples.

Principal policy stance on irrigation to reduce reliance on rain fed agriculture:

- Develop 85,000 acres of irrigation area under National Expanded Irrigation programme to increase production and productivity (mainly for large scale farmers) while increasing area under smallholder irrigation by 1,617 acres.

  There is a significant disparity in irrigation acreage allocated for a few large farms compared to the allocation for small scale farmers.

- Develop water pans under the household irrigation water harvesting project to increase water storage for irrigation. A positive instance of a budget policy and measure supporting small-scale farmers at the household level.
- Fast-track enactment of the Irrigation Bill to hasten development and coordination of irrigation facilities in the country.

Principal policy stance on increasing maize and rice production:

- Provide subsidized fertilizer to farmers, with KSh 4.3bn "already spent" to acquire and subsidize 119,400 MT of soil friendly fertilizer during the 2018 planting season.
- Provide technical support in eradicating Fall Armyworm through a *Multi-Institutional Technical Team (MITT*).
- Expand Mwea Irrigation Scheme by 10,000 acres through constructing dams, and improving roads and other infrastructure.

Budget policies are silent on investments that go beyond the large-scale production of staples, towards supporting food diversity and indigenous food crops that are climate resilient and nutritionally rich. Budget policies are silent on what inputs / services will be subsidised (and whether they follow an ecological approach to farming) and for whom.

The National Food and Nutrition Security Policy (2012) recognises that most Kenyans still subsist on diets based on staple crops (mainly maize) that are lacking in nutritional diversity and have particularly devastating consequences on development of children. Food security therefore encompasses availability of adequate quantities of a diversity of food commodities such as other cereals, fruits, vegetables and animal products.

Additionally, under the NFNSP (2012) the Government further commits to promote sustainable food production systems with particular attention to increasing soil fertility, agro-biodiversity, organic methods and proper range and livestock management practices. The **BPS 2019 does not reflect this approach to agricultural production**.

Principal budget stance on promoting the livestock sub-sector:

- Review and finalize the National Livestock Policy; Livestock Feeds Policy, Livestock Breeding Policy, Livestock Feeds Regulations and Enact the Dairy Industry Bill.
- Improve livestock productivity through producing and expanding livestock vaccination, livestock breeding materials (indigenous chicken, pigs, bee colonies, and rabbits) and fodder and pasture production and conservation.

Bee colonies are declining in Kenya, due to the widespread availability and use of harmful pesticides, most notably neonicotinoids. It is estimated that **32% of the pesticides used in the country are banned in Europe**, either because they have high toxicity levels affecting human and environmental health and/or have a lasting detrimental effect to the environment.

Costly vaccinations to protect Kenya's bee population can be avoided, through building on the skills and capacity of the Pest Control Products Board and other related regulatory agencies to continually review the allowable chemical inputs in the country and enforce existing regulations on the use of prohibited and harmful chemicals.

Note: For further reading and references see also https://routetofood.org/higher-tax-on-pesticides-another-challenge-in-food-production/

- Improve value addition and marketing through procurement and installation of milk coolers, promote diversification of livestock products and establish feed lots which are measures that could help to support small farms.

- Sustain control and suppress Tsetse and Trypanomiasis in tsetse belts areas.

Principal budget stance on the blue economy and fish production:

- Review the *National Oceans and Fisheries Policy 2008* and provide regulatory and institutional framework for the development and coordination of the blue economy.

- Operationalize Fisheries Management and Development Act (FMDA) 2016 and the institutions established underact including Kenya Fisheries Services (KeFS); Kenya Fish Marketing Authority (KFMA); Fish Levy Trust Fund (FLTF); Kenya Fisheries Advisory Council; and Kenya Fishing Industries Corporation Order, 2018.

- Develop Key Fish Ports, and build capacity for deep sea fishing and marine research including facilities for fish processing, cold storage, jetties, landing sites, market and auction centers; and fish quality assurance laboratories.

- Promote aquaculture innovations and technology transfer.

Principal budget stance on reducing post-harvest losses:

- Upscale crop and livestock insurance to cushion farmers against climate related risks and stabilize farmers' incomes by enhance risk mitigation. This policy does not embrace the simple measure of providing hermitically-sealed bags to smallholder farmers for secure food storage which is a simple, low-cost but high-impact intervention to reduce post-harvest losses, included in the recommendations of this report.

Principal budget stance on reducing the cost of food:

- Provide affordable energy to reduce the cost of production.

- Enhance market distribution infrastructure to reduce losses by use of cold storage for production and storage of seeds.

- Avail **incentives for post-harvest technologies** to reduce post-harvest losses (with no clear and specific plans and corresponding budget allocation)

5. Budget allocations to agriculture and food production under BPS 2019

The BPS 2019 budget allocations to agriculture and food production in the **FY2019/20 amount to KSh 52.1bn** compared to the current FY 2018/19 printed estimates of KSh 45.7bn. The estimates and changes are summarised in Table 3.

Table 3: BPS 2019 Budget Expenditure Allocations Detailed by Vote and Category

BPS 2019 Budget Expenditure Allocations Detailed By Vote And Category	FY 2018/19 Estimates	FY 2019/20 Ceilings	Increase/Decrease Over FY 2018/19 Estimates		
	Total	Total	Recurrent	Capital	Total
Agriculture & Rural Development (ARD)	**52,958.5**	**59,117.2**	**5,668.7**	**490.0**	**6,158.7**
Percentage of total voted expenditure	***3.0%***	***3.2%***	***5.7%***	***-1.9%***	***8.5%***
Total Agriculture and Food	**45,662.4**	**52,097.9**	**5,713.3**	**722.2**	**6,435.5**
Percentage of total voted expenditure	***2.6%***	***2.9%***	***5.8%***	***-2.7%***	***8.9%***
1165 State Dept. for Crop Development	**23,568.4**	**28,503.0**	**5,141.0**	**-206.4**	**4,934.6**
General Admin., Planning & Support Services	2,695.6	3,410.0	168.4	**546.0**	714.4
Crop Development and Management	19,255.6	23,472.0	4,968.5	**-752.1**	4,216.4
Agribusiness and Information Management	1,617.2	1,621.0	4.1	**-0.3**	3.8
1162 State Department for Livestock	**6,258.5**	**6,663.9**	**138.9**	**266.5**	**405.4**
1164 State Dept. Fisheries & Blue Economy	**2,791.4**	**4,081.0**	**1,286.6**	**3.0**	**1,289.6**
Fisheries Development and Management	1,476.3	2,698.0	1,218.7	3.0	1,221.7
General Admin., Planning & Support Services	163.0	192.0	29.0		29.0
Development and Coordination Blue Economy	1,152.1	1,191.0	38.9		38.9
1104/1167 State Department for Irrigation	**7,482.3**	**8,237.0**	**119.7**	**635.0**	**754.7**
Irrigation and Land Reclamation	7,375.3	6,603.0	92.7	**-865.0**	**-772.3**
Water Harvesting and Storage for Irrigation.	-	1,500.0	0.0	**1,500.0**	1,500.0
General Admin., Planning & Support Services	107.0	134.0	27.0		27.0
1168 State Dept. for Agricultural Research	**5,561.8**	**4,613.0**	**-972.9**	**24.1**	**-948.8**
Total Lands and Planning	**7,296.2**	**7,019.3**	**-44.7**	**-232.2**	**-276.9**
Ministry for Lands and Physical Planning	6,035.7	5,785.0	**-18.5**	**-232.2**	**-250.7**
National Land Commission	1,260.5	1,234.3	**-26.2**		**-26.2**
TOTAL VOTED EXPENDITURE KSh.Mn	**1,750,207.6**	**1,822,802.4**	**98,996.3**	**-26,404.3**	**72,594.8**
Percentage of total voted expenditure	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

Key points that stakeholders need to address:

- BPS 2019 includes Land and Planning Ministry and National Lands Commission under the overall ARD Sector, a re-classification that can detract from the focus that food and nutrition requires in its own dedicated sector.

- Budget ceilings for agriculture and food production in the FY2019/20 have not increased significantly. FY2019/20 budget ceilings reflect a modest increase of KSh. 6.4bn.

- Budget allocations for Agriculture and Food (excluding Lands and Planning) remain very low at 2.9% of total voted expenditure (2.6% in FY2018/19). Trend needs to be reversed to ensure more resources are allocated to Agriculture and Food from the voted public expenditures.

- The increases in budget allocations for Agriculture and Food (excluding Lands and Planning) in FY 2019/20 of KSh 6.4bn result mainly from increased recurrent allocations for Crop Development and Management, Fisheries Development and Management, and a KSh 1.5bn capital expenditure allocation for Water Harvesting and Storage for Irrigation.

- The increases however mask significant budget cuts to capital expenditure of KSh 865mn for Irrigation and Land Reclamation programs; KSh 752mn cut from the Crop Development and Management budgets; and KSh 972mn reduction in the recurrent budgets for Agricultural Research.

- It is recommended to reinstate these budget funds, particularly Agricultural Research which has been proven to generate high returns on investment.

5.1 Budget allocations to agriculture and food security

The BPS 2019 has not altered the adverse trends of low budget allocations for the agriculture and food sector (excluding Lands and Planning). As a proportion of total voted expenditures budget allocations to agriculture and food remain low and have been steadily declining over the last 5 years. It is necessary to address the adverse trends of low and declining budget allocations to agriculture and food, currently at 3.2% of total voted expenditure, down from 3.5% in FY 2016/17.

Table 4: Share of Total Voted Expenditure (% of Budget)

Share of Total Voted Expenditure (% of Budget)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 Estimates	2019/20 Ceilings
Agriculture, Rural & Dev	**3.5%**	**3.5%**	**3.1%**	**3.5%**	**2.7%**	**3.0%**	**3.2%**
Health	**3.5%**	**4.2%**	**3.9%**	**3.6%**	**3.9%**	**5.1%**	**5.1%**
Transport & Infrastructure	13.4%	16.9%	21.9%	22.6%	19.6%	18.0%	16.8%
Energy and Petroleum	7.6%	6.8%	6.3%	7.2%	5.2%	4.1%	4.1%
Education & Skills Training	26.1%	27.3%	22.3%	20.3%	23.8%	25.3%	26.0%
All Other MDAs	**45.9%**	**41.3%**	**42.5%**	**42.9%**	**44.7%**	**44.5%**	**44.8%**
Total Voted Expenditure	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Figure 2: FY2013/14 Budget Allocations to Agriculture and Food as Share of Total Voted Expenditures

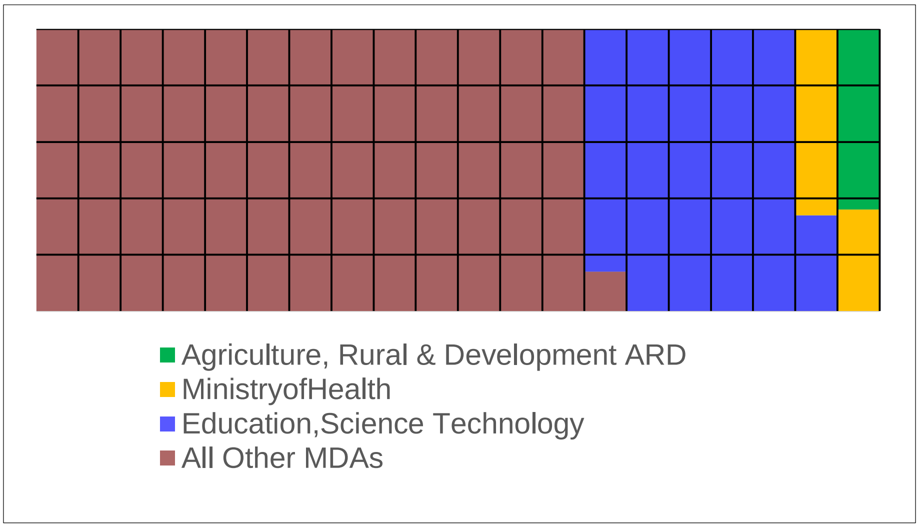
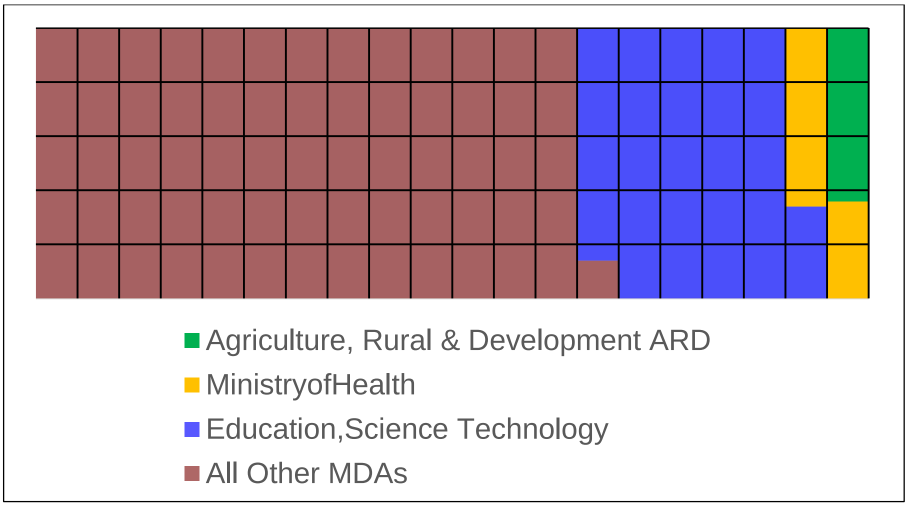


Figure 3: FY2019/20 Budget Allocations to Agriculture and Food as Share of Total Voted Expenditures



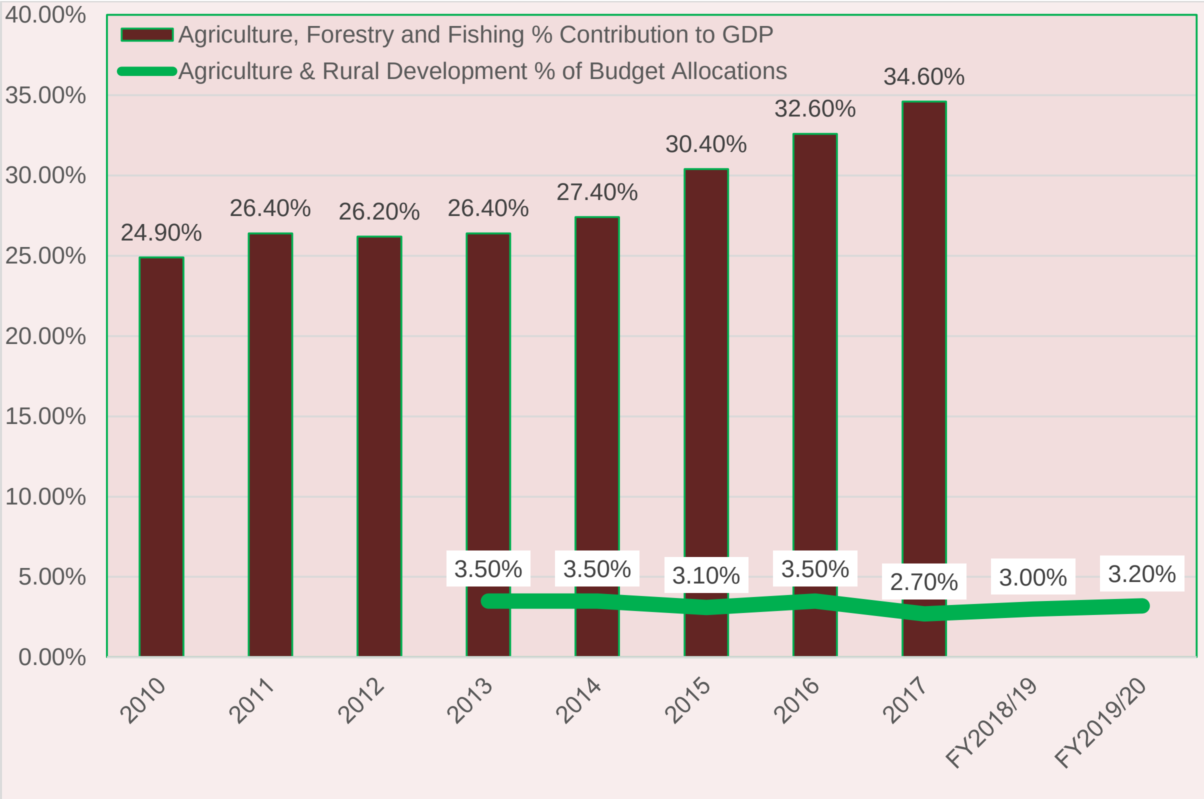
5.2 Growth and trends in budgetary allocations to agriculture and food security

Growth in budgetary expenditure on agriculture and food **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 have been increasing at tiny **0.6%** compound annual growth rate (CAGR) compared to 2.8% compound average annual growth of *total voted expenditure* in the most recent 3 financial years. The 5-year CAGR spending on agriculture and food at **8.5%** lags significantly behind the 10% CAGR growth of total voted expenditure.

The **share of spending on agriculture and food has been declining** while the contribution of agriculture to the nation's output measured by GDP has been increasing. This is a fundamental mismatch of resources to Kenya's food and nutrition sector and poses a great risks to the wellbeing and prosperity of the nation's single most important economic sector as the agriculture and food sector now accounts for 34% of Kenya's GDP, employs about 70% of its labour force and generates 80% of its merchandise exports.

The chart below demonstrates vividly the structural mismatch of **steadily declining budget allocations to agriculture and food sector** that currently stand at 3% compared to the **steady increase in the sector's contribution to GDP to an all-time high of 34.6% of GDP**.

Figure 4: Budget Allocations to Agriculture and Food Sector and Contribution to GDP



Source: Annual Program based Budgets (PBBs) and 2019 BPS

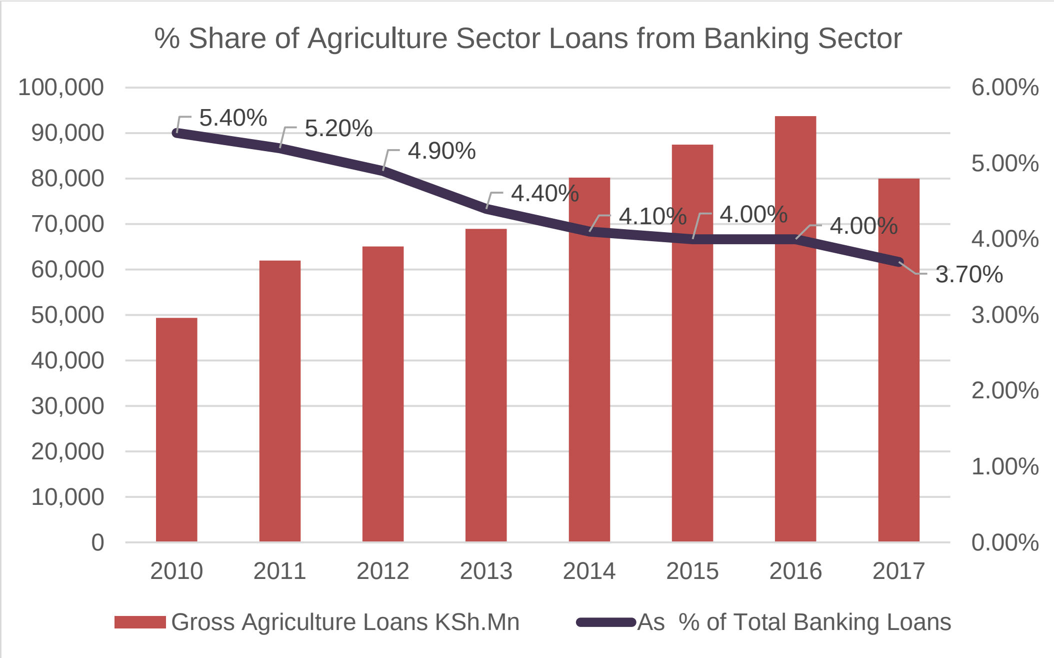
5.3 Private sector financing of agriculture and food sector

Kenya's private banking sector mirrors the public sectors "under-funding" of the agricultural and food sector. **Private sector credit to the agricultural sector as a share of total bank lending has fallen to the same low level of 3%.**

Further trends of low and declining private sector credit to the agricultural sector replicate the adverse trends of low and declining budgetary allocations in the public sector.

While the stock of loans to the agriculture and food sector from the banking sector (in absolute monetary terms) has been increasing, the share of agricultural sector loans to Total Banking Sectors has fallen steadily and consistently from **5.4% in 2010 to 3.7% in 2017.**

Figure 5: Percentage Share of Agriculture Sector Loans from Banking Sector



Source: CBK Annual Bank Supervision Reports

The low level of investment in agriculture and food production by both public sector (through low budgetary allocations) and the private banking sector (through low levels of credit to the agriculture and food sector) endangers Kenya's long term food and nutrition security, jobs and employment as well as the nation's merchandise exports. These two trends that appear to be self-reinforcing pose significant risks to the nation's food and nutrition security.

The CBK Bank Supervision Reports indicate that the number of loans advanced by commercial banks to the agriculture sector only increased minimally from 117,371 agricultural loans in 2010 to 180,353 in 2015. By 31 December 2017 the number of agriculture sector loanees reduced by about 100,000 to half the levels of 2015, implying agricultural borrowers were either shut out of bank loans by the commercial banks (for a variety of reasons) or opted out of borrowing due to interest costs on loans.

By 2017 the average agricultural sector loan by size **doubled** to KSh 869,900 as banks **halved** the number of farmers accessing bank credit to 91,940 borrowers in 2017 (from a peak of 180,533 farmers' in 2015), with small-scale farmers likely to be the ones shut out of credit.

These findings support the RTFI proposal and submission on the need for budget and policy measures to reduce interest rates farmer's face on agricultural loans from commercial banks.

Table 5: Bank Loans to Agriculture Sector

	2010	2011	2012	2013	2014	2015	2016	2017
Agriculture Sector Loan A/Cs, No.	**117,371**	**109,873**	**118,508**	**130,211**	**127,518**	**180,533**	**108,530**	**91,940**
Gross Agriculture Loans KSh.Mn	**49,400**	**61,937**	**65,085**	**68,926**	**80,195**	**87,456**	**93,712**	**79,975**
As % of Total Banking Loans	**5.40%**	**5.20%**	**4.90%**	**4.40%**	**4.10%**	**4.00%**	**4.00%**	**3.70%**
Average NPLs on Agriculture Loans	9.30%	6.80%	6.80%	8.10%	5.80%	9.60%	9.60%	11.20%
Average Loan Size KSh,000s	**420.9**	**563.7**	**549.2**	**529.3**	**628.9**	**484.4**	**863.5**	**869.9**

Source: CBK Annual Bank Supervision Reports

6. Proposals on food and nutrition security for Kenya's national budget

RTFI submitted proposals and recommendations for consideration in the Budget Policy Statement (BPS 2019). This report refines selected recommendations and submissions as priorities for consideration by the MDAs and relevant committees for the National Assembly during the finalisation of the detailed budget proposals.

6.1 Recommendations to increase funding to the agricultural sector

Despite food and nutrition security being an integral part of "The Big Four" Plan, the sector does not receive commensurate budget allocation to realise the goals and food security objectives set for it under BPS 2019.

It is recommended that MDAs increase funding for the agricultural and food sector in the following specific areas:

1) **Provide extension services** in crop, fish, and livestock farming through conditional (matching) grants to counties for at least five extension officers/ward.

   Returns and benefits:
   - Extension workers are essential to increasing farmers and on farm productivity and are a critical mechanism for information dissemination and capacity building to small-scale farmers. With the view of supporting Kenya's economic growth in 2019 and mitigating against economic risks such as adverse weather conditions or changes in the global economy, extension subjects should focus on post-harvest management, water harvesting and storage, nutritional diversity and agro-ecological / organic systems of farming.

   - Extension workers provide a vital link between farmers and agricultural research institutions as they facilitate improved crop and animal husbandry. Indeed, the absence of extension services diminishes the returns from the heavy investments that Kenya continues to make in agricultural research (KSh 4.613mn total FY2019/20).

   Budgetary costs (cost implication – annual/one off cost):
   - Allocate KSh 3.85bn[1] annually for five county extension workers per ward for each county in the Ministry of Agriculture (MOA) budget (salary KSh 225mn, materials and support KSh 68mn, transport/fuel KSh71mn, administration, support and oversight costs KSh 111mn).

   Fiscal policy
   - Fund county extension workers through conditional grants to county governments.

2) **Increase targeted subsidies to small-scale farmers through e-vouchers for inputs**:

   Returns and benefits:
   - E-vouchers for farm inputs/services can be disseminated directly to farmers by mobile banking platforms and can be linked to soil, crop and climate specific inputs (approved and issued by MOA on a "white list") and inputs that are environmentally friendly to soil, water and human health.

[1] Personnel costs (gross) at 5 wards per county x 47 counties x KSh 80k monthly (for Job Group J to K) x 12 months in year as an estimated budget for the personnel salary costs. Material and support estimated at 30% of personnel costs. Transport and fuel at similar levels. Admin and supervision at MOA national level at 50% of personnel costs.

- E-vouchers shift the balance of purchasing power and choice to farmers, away from middlemen who exploit small-scale farmers and provide substandard, ineffective or dangerous farm inputs, chemicals and pesticides.

- E-vouchers offer an electronic audit trail that minimises graft and diversion of farm subsidies.

- While raising on-farm productivity this measure can supports improved human, animal and environmental health by progressively promoting the use of less harmful inputs.

Budgetary costs (cost implication – annual/one off cost):

- Allocate KSh 10bn annually for e-vouchers, targeting 100,000 small-scale farmers (for example starting with USD 1,000 each) for appropriate farm inputs of their choice but relevant to the soils, crop, climate and region.

- E-vouchers can be provided under various conditions for example farmers can be encouraged to grow designated food crops or apply specific farming practices.

- E-vouchers drawdown requests can be linked to requirements for farmers to seek and act on the advice and counsel of the county extension workers (engaged under above recommendation).

- E-vouchers can be provided in various tranches and levels including **subsidy e-vouchers** that operate as a one-time, annual or seasonal subsidy, or **recoverable e-vouchers** operate as "recoverable advances" with the option of repayment from the first sale of the produce at the point of marketing and sales (with the farmer using the reverse-electronic channel to the one that issued the recoverable e-voucher).

Fiscal policy

- Provide directly to farmers through electronic e-money networks of appointed and contracted participating commercial banks.

- Formal public sector alliances with commercial banks (as a channel for funnelling electronic e-vouchers) is a policy measure that can help farmers build their credit profiles for commercial credit and to bail-in private capital and banks as a way to address the low and declining private sector credit to the agriculture and food sector.

3) Increase funding support for small-scale irrigation including water storage facilities by at least 20%.

Returns and benefits:

- The main benefits of small-scale irrigation and water storage facilities are to provide farmers with adequate and reliable water for their crops and livestock and domestic use as well as to minimise dependence on rain-fed agriculture.

- Smallholder irrigation cushions farmers from risks associated with adverse weather events and rainfall variability and timing (for example delays in the onset of the rainy season or insufficient rains can result in losses and reductions in food production).

- The BPS 2019 includes a new capital spending allocation of KSh 1.500mn under the State Department for Irrigation for water harvesting and storage for irrigation. This allocation appears to target large-scale farming. Hence small-scale farmers who account for over 70% of Kenya's marketed food production (twice the share of large-scale farmers) merit a greater allocation commensurate with their production.

Fiscal policy

- Allocate KSh 3bn in budgetary allocations for water harvesting and storage for irrigation specifically targeting small-scale farmers for food production. These funds can be channelled through conditional grants to county governments.

4) **Expand the school feeding program** from the current 1.4 million children and implement a policy that ensures that the program absorbs local food produce.

Returns and benefits:

- Supports Kenya's National School Meals and Nutrition Strategy 2017-2022 linking children's access to education with nutrition by requiring all children in pre-primary and primary schools to receive at least one nutritious meal per school day. It seeks to ensure that school children are well nourished and provided with healthy, nutritionally sensitive school meals to enable them to learn and develop to their full potential.

- The strategy requires provision of meals on every school day throughout the school year and acknowledges nutrition education as a core component of school meals.

- The National School Meals and Nutrition Strategy requires supplies for school meals to be procured locally (and directly) from smallholder farmers, linking them to the demand for "home-grown school meals as a way of providing smallholder farmers with sustainable local markets for their farm produce."

- Increasing smallholder farmers' access to stable local markets can enhance food and nutrition security especially of vulnerable children, low-income households and communities as well as increasing income security and reducing rural poverty.

Fiscal policy

- Allocate KSh 30bn to enhance the school feeding program to cover 3mn school children. The budgetary allocations should be divided equally between the state departments responsible for health, basic education and agricultural and food production, consistent with the National School Meals and Nutrition Strategy which explicitly links school children's health, education and nutrition. The Agriculture Ministry would thus be allocated KSh. 10bn.

6.2 Recommendations to enhance environmental conservation

Many farmers in Kenya continue to use prohibited and harmful chemical pesticides and fertilizers with about 32% of the pesticides in use being banned in Europe on account of high toxicity levels affecting human and environmental health or their detrimental effects on the soils water and the environment.

Accordingly, there is a need to reduce or limit use of harmful inputs and substances that pose risks to on human and environmental health.

5) **Enhance skills and capacity of the Pest Control Products Board**

Returns and benefits:

- Strengthening the Pest Control Products Board can increase the capacity to continually review chemicals and substances allowable for use in the country's agricultural and food sector and helps to enforce existing regulations on prohibited and harmful chemicals.

- This is an essential consumer protection measure. It also ensures more wholesome foods are produced in the domestic market and imported inputs, substances and chemicals are subjected to proper screening and inspection.

6) **Facilitate preferential interest rates for farmers' credit through *inter alia* credit guarantee schemes).**

Returns and benefits:

- Agriculture and food production receives very low budgetary allocations by the public sector amounting to about 3% of national government expenditure. This is mirrored and reflected in the low levels of private sector credit with loans to the agriculture and food sector as a proportion of total loans advanced by commercial banks declining steadily over the years to a low of 3.7%.

- CBK Bank Supervision reports also show declining access to credit by small-scale farmers arising from the high cost of credit combined with commercial banks reluctance to lend to the sector for a variety of reasons including rate capping and new loan provisioning rules (IFRS 9).

- Farmers would benefit from better access to affordable finance by increasing investments in farm infrastructure (e.g. small irrigation schemes to reduce their reliance on rain fed production); water harvesting and acquiring better inputs, seeds and farm equipment. Increased financing can enable farmers to manage their risks better including procuring crop and livestock insurance covers.

Fiscal policy

- Allocate KSh 5.0bn in budgetary allocations to the agricultural credit guarantee scheme (Ag-CGS) to scale up credit; increase financing to the agriculture sector; lower interest costs of loans and expand the range of funding interventions.

- The policy design should include a credit guarantee scheme tailored for the agricultural sector that offers banks a 50% first loss cover, and a 50% loss cover on the balance of non-performing loans above a pre-determined level.

7) **Levy environmental taxes on chemical pesticides on the basis of toxicity to the environment (land, water, air) and human and animal health.**

Returns and benefits:

- An earlier proposal recommended strengthening the capacity of the Pest Control Products Board to improve monitoring and use of harmful chemicals, pesticides and substances.

- The actions of regulatory agencies can be supplemented and enhanced by taxation measures that raise the cost of pesticides through the tax code. This will mobilize fiscal revenues while mitigating the negative effects associated with pesticide application and encourage a shift towards environmentally and ecologically friendly systems.

8) Create or strengthen the institutional framework for effective food testing.

Returns and benefits:

- Effective food testing is an integral part of guaranteeing the right to food for Kenyans, by ensuring food production and preparation processes are hygienic and safe.

- Kenya should establish a specialised food safety agency modelled on best global practices (for example the FDA in the USA) with the mandate for all aspects of food safety across the entire food value chain from farm production, storage, warehousing, distribution, processing to final consumption.

Budgetary and policy measures

- Preparations for drafting and enacting the law that will include establishing the agency can be accomplished in the public sector using existing voted funds and resources. Hence this proposal in the FY2019/20 will not entail additional budgetary resources until the time to operationalise the agency.

6.3 Recommendations to reduce post-harvest losses

Kenya experiences very high post-harvest losses and food wastage estimated at 20-40% annually caused by, or result from, a range of factors including minimal or inadequate on-farm storage facilities; poor food handling processes; near-absence of adequate storage facilities accessible to small-scale farmers (for example grain elevators) and poor infrastructure to access markets.

9) Upscale current hermetic bag programme being rolled out by the Ministry of Agriculture by 20%.

Returns and benefits:

- A widely used and affordable solution is to adopt and issue to farmer's standardized hermetic seal bags and to incentivize their local production. This measure can extend to on-farm management of grain and seeds including seed storage and to complement traditional grain and food storage.

Fiscal policy

- An estimated KSh 1.5bn may be required in budgetary allocations to commence the process of acquiring and issuing the hermetic seal bags to farmers. This can be scaled up progressively as local capacity to manufacture the hermetic seal bags increases.

- Non-budgetary policy measures to accompany the allocations may include fast-tracking enactment of the Warehousing Receipt Bill and implementing its framework. This can increase the demand for storage facilities in general (and thus reduce post-harvest losses) as well stimulate demand by farmers to preserve their grain and food using hermetic seal bags.

7. APPENDIX 1 - BPS 2019 budget allocations to agriculture and food production

BPS 2019 Budget Expenditure Allocations	FY 2018/19 Estimates KSh.Mn			FY 2019/20 Ceilings KSh.Mn			Increase/decrease Over FY 2018/19 Estimates		
By Vote And Category	**Recurrent**	**Capital**	**Total**	**Recurrent**	**Capital**	**Total**	**Recurrent**	**Capital**	**Total**
Agriculture & Rural Development	**15,797.3**	**37,161.2**	**52,958.5**	**21,466.0**	**37,651.2**	**59,117.2**	**5,668.7**	**490.0**	**6,158.7**
Percentage of total voted expenditure	***1.5%***	***5.5%***	***3.0%***	***1.8%***	***5.8%***	***3.2%***	***5.7%***	***-1.9%***	***8.5%***
1165 State Department for Crop Development	3,353.0	20,215.4	23,568.4	8,494.0	20,009.0	28,503.0	5,141.0	**-206.4**	4,934.6
1162 State Department for Livestock	1,976.8	4,281.7	6,258.5	2,115.7	4,548.2	6,663.9	138.9	266.5	405.4
1164 State Department for Fisheries & Blue Economy	607.4	2,184.0	2,791.4	1,894.0	2,187.0	4,081.0	1,286.6	3.0	1,289.6
1167 State Department for Irrigation	823.2	6,659.0	7,482.2	943	7,294.0	8,237.0	119.8	635.0	754.8
1168 State Department for Agricultural Research	5,085.9	475.9	5,561.8	4,113.0	500	4,613.0	**-972.9**	24.1	**-948.8**
Total Agriculture and Food	**11,846.3**	**33,816.0**	**45,662.3**	**17,559.7**	**34,538.2**	**52,097.9**	**5,713.4**	**722.2**	**6,435.6**
ARD Percentage of total voted expenditure	***1.1%***	***5.0%***	***2.6%***	***1.5%***	***5.3%***	***2.9%***	***5.8%***	***-2.7%***	***8.9%***
Ministry of Lands and Physical Planning	2,690.5	3,345.2	6,035.7	2,672.0	3,113.0	5,785.0	-18.5	-232.2	-250.7
2021NationalLandCommission	1,260.5	-	1,260.5	1,234.3	-	1,234.3	-26.2	0	-26.2
Total Lands & Planning	**3,951.0**	**3,345.2**	**7,296.2**	**3,906.3**	**3,113.0**	**7,019.3**	**-44.7**	**-232.2**	**-276.9**
TOTAL VOTED EXPENDITURE KSh.Mn	**1,072,982.8**	**677,226.9**	**1,750,207.6**	**1,171,979.1**	**650,822.6**	**1,822,802.4**	**98,996.3**	**-26,404.3**	**72,594.8**
	100.0%	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

8. APPENDIX 2 - BPS 2019 budget allocations to agriculture and food production

BPS 2019 Budget Expenditure Allocations Detailed Changes in Allocations	FY 2018/19 Estimates KSh.Mn			FY 2019/20 Ceilings KSh.Mn			Increase/decrease Over FY 2018/19 Estimates		
By Vote And Category	**Recurrent**	**Capital**	**Total**	**Recurrent**	**Capital**	**Total**	**Recurrent**	**Capital**	**Total**
Agriculture & Rural Development	**15,797.3**	**37,161.2**	**52,958.5**	**21,466.0**	**37,651.2**	**59,117.2**	**5,668.7**	**490.0**	**6,158.7**
Percentage of total voted expenditure	***1.5%***	***5.5%***	***3.0%***	***1.8%***	***5.8%***	***3.2%***	***5.7%***	***-1.9%***	***8.5%***
Grand Total Agriculture and Food	**11,846.4**	**33,816.0**	**45,662.4**	**17,559.7**	**34,538.2**	**52,097.9**	**5,713.3**	**722.2**	**6,435.5**
Percentage of total voted expenditure	***1.1%***	***5.0%***	***2.6%***	***1.5%***	***5.3%***	***2.9%***	***5.8%***	***-2.7%***	***8.9%***
1165 State Department for Crop Development	**3,353.0**	**20,215.4**	**23,568.4**	**8,494.0**	**20,009.0**	**28,503.0**	**5,141.0**	**-206.4**	**4,934.6**
0107000P1: General Admin., Planning & Support Services	2,501.6	194.0	2,695.6	2,670.0	740.0	3,410.0	168.4	546.0	714.4
0108000P2:Crop Development and Management	693.5	18,562.1	19,255.6	5,662.0	17,810.0	23,472.0	4,968.5	**-752.1**	4,216.4
0109000P3:Agribusiness and Information Management	157.9	1,459.3	1,617.2	162.0	1,459.0	1,621.0	4.1	**-0.3**	3.8
1162 State Department for Livestock	**1,976.8**	**4,281.7**	**6,258.5**	**2,115.7**	**4,548.2**	**6,663.9**	**138.9**	**266.5**	**405.4**
1164 State Department for Fisheries & Blue Economy	**607.4**	**2,184.0**	**2,791.4**	**1,894.0**	**2,187.0**	**4,081.0**	**1,286.6**	**3.0**	**1,289.6**
0111000P5:Fisheries Development and Management	302.3	1,174.0	1,476.3	1,521.0	1,177.0	2,698.0	1,218.7	3.0	1,221.7
0117000 General Admin., Planning & Support Services	163.0	-	163.0	192.0	-	192.0	29.0		29.0
0118000 Development and Coordination of the Blue Economy	142.1	1,010.0	1,152.1	181.0	1,010.0	1,191.0	38.9		38.9
1104/1167 State Department for Irrigation	**823.3**	**6,659.0**	**7,482.3**	**943.0**	**7,294.0**	**8,237.0**	**119.7**	**635.0**	**754.7**
1014000 Irrigation and Land Reclamation	716.3	6,659.0	7,375.3	809.0	5,794.0	6,603.0	92.7	**-865.0**	**-772.3**
Program2: Water Harvesting and Storage for Irrigation.	-	-	-	-	1,500.0	1,500.0	0.0	1,500.0	1,500.0
Program3:General Admin., Planning & Support Services	107.0	-	107.0	134.0	-	134.0	27.0		27.0
1168 State Department for Agricultural Research	**5,085.9**	**475.9**	**5,561.8**	**4,113.0**	**500.0**	**4,613.0**	**-972.9**	**24.1**	**-948.8**
Grand Total Lands and Planning	**3,951.0**	**3,345.2**	**7,296.2**	**3,906.3**	**3,113.0**	**7,019.3**	**-44.7**	**-232.2**	**-276.9**
Ministry for Lands and Physical Planning	2,690.5	3,345.2	6,035.7	2,672.0	3,113.0	5,785.0	**-18.5**	**-232.2**	**-250.7**
2021National Land Commission	1,260.5	-	1,260.5	1,234.3	-	1,234.3	**-26.2**		**-26.2**
TOTAL VOTED EXPENDITURE KSh.Mn	**1,072,982.8**	**677,226.9**	**1,750,207.6**	**1,171,979.1**	**650,822.6**	**1,822,802.4**	**98,996.3**	**-26,404.3**	**72,594.8**
Percentage of total voted expenditure	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

9. APPENDIX 2 - BPS 2019 budget allocations to agriculture and food production

								1 Year Growth	3 -Year CAGR	5- Year CAGR
Total Voted Expenditure to FNS compared to overall Expenditure	FY2013/14	FY2014/15	FY2015/2016	FY2016/2017	FY2017/2018	FY 2018/19 Estimates	FY 2019/20 Ceilings	FY2018/19 Estimates	FY2016/17	FY2014/15
Agriculture, Rural & Development	**37,388.9**	**39,354.9**	**46,093.2**	**58,120.6**	**43,214.7**	**52,958.5**	**59,117.2**	**11.6%**	**0.6%**	**8.5%**
Health	**37,518.1**	**47,362.3**	**59,183.9**	**60,269.9**	**61,640.5**	**90,007.6**	**93,048.2**	**3.4%**	**15.6%**	**14.5%**
Transport & Infrastructure	141,160.5	190,810.0	330,278.4	378,726.7	309,700.6	314,689.9	305,750.0	**-2.8%**	**-6.9%**	**9.9%**
Energy and Petroleum	79,836.5	76,921.4	94,461.5	121,561.4	82,599.7	71,604.8	74,350.0	**3.8%**	**-15.1%**	**-0.7%**
Education & Skills Training Incl. TSC	276,242.5	308,594.2	336,252.2	339,924.4	375,336.8	442,328.6	473,365.3	**7.0%**	**11.7%**	**8.9%**
All Other MDAs	485,127.5	467,425.7	639,223.0	719,084.4	705,847.8	778,618.2	817,171.7	**5.0%**	**4.4%**	**11.8%**
Total Voted Expenditure KSh Mn	**1,057,274.0**	**1,130,468.4**	**1,505,492.2**	**1,677,687.4**	**1,578,340.1**	**1,750,207.6**	**1,822,802.4**	**4.1%**	**2.8%**	**10.0%**

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