Path to recovery, stabilisation and growth – Tough choices

National budget bulletin

June 2023

www.pwc.com/ke

In this bulletin...

1

Economy

Economic inclusivity as the way to recovery

- The Government has projected economic growth of 5.5% for FY 2023/2024. This is against a backdrop of global economic slowdown, elevated global inflation, persistent supply chain disruptions and prolonged drought. The total expenditure is set to increase from KES 3.38 trillion in FY 2022/2023 to KES 3.67 trillion in FY 2023/2024 with a projected ordinary revenue increase from KES 2.19 trillion to KES 2.57 trillion.
- The Government has projected the fiscal deficit to fall from the current KES 824 billion (about 5.8% of GDP) to KES 718 billion (4.4% of GDP) in FY 2022/23. To achieve this, KRA will need to collect KES 380 billion more in FY 2023/2024. The deficit will be funded by borrowing KES 587 billion from the domestic market and KES 131 billion from the international market.

Table 1: Fiscal deficit as a percentage to GDP

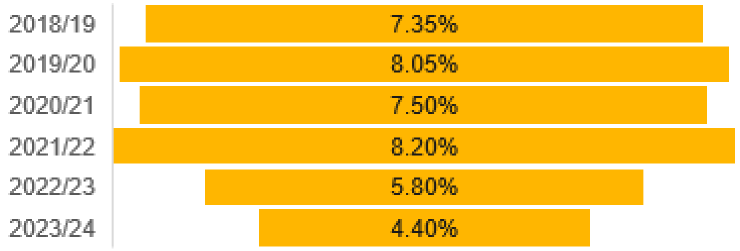
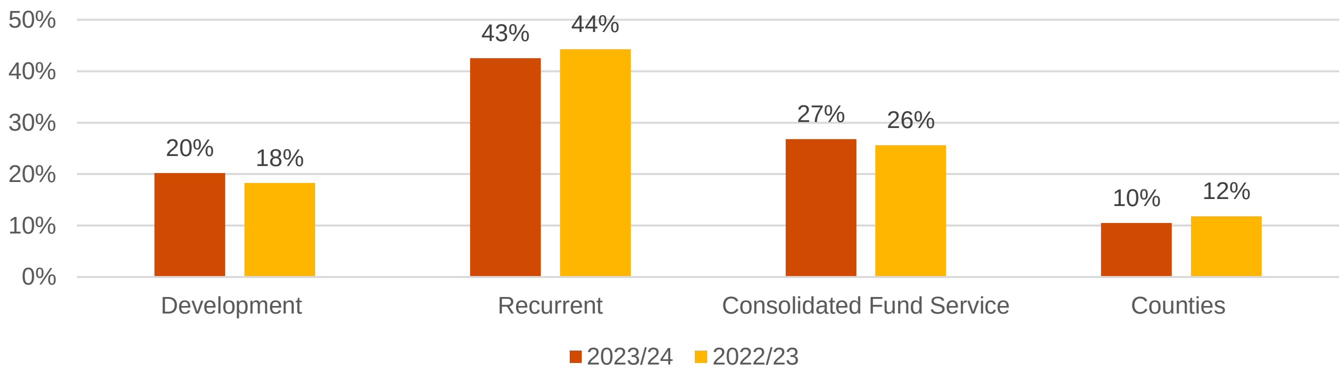


Table 2: Expenditure allocation



- Expenditure has been projected to increase by KES 290 billion while total revenue (Appropriation in Aid and Ordinary) is projected to increase by KES 401 billion. To ensure the fiscal deficit projections are met, the Government is keen to ensure that ordinary revenue targets are met. Failure to meet the targets will result in additional borrowing. Funding of the deficit from the domestic market (KES 587 billion) is likely to face a challenge or become expensive due to the limited market capacity as Central Bank of Kenya (CBK) has warned. Access to the international markets is likely to be constrained.

- Expenditure allocation has remained largely constant as compared to the previous year. Development expenditure continues to remain below the Public Fund Management Act (PFM) requirement of 30%.

- The projected deficit of KES 718 billion will have to be met through borrowing - raising the total debt ceiling towards KES 10 trillion. The Government is keen on changing the debt ceiling from an absolute number to a percentage of GDP. A 2 billion Eurobond is also maturing in FY 2023/23.

- The Government plans to mobilise revenue by initiating reforms in tax policy and expanding the tax base. Key proposed tax measures include: Increase in VAT of petroleum products from 8% to 16%; zero rating of LPG products from VAT; increase of turnover tax from 1% to 3% with the upper threshold lowered to 25%; harmonization of corporate tax for both residents and non-residents at a rate of 30%; introduction of a 5% withholding tax on digital content monetization; introduction of 1.5% of employees' gross salary to support the affordable housing program and create employment for the youth among others.

Economic inclusivity as the way to recovery

- The inflation rate in Kenya rose to 8% in May 2023, up from a ten-month low of 7.9% in the prior month. Increase in VAT of petroleum products from 8% to 16% is likely to have an effect on inflation due to its far reaching consequences.

- The monetary policy committee of the Central Bank of Kenya (CBK) raised the central bank rate to 9.5 percent in March 2023. This coupled with improved agricultural production as a result of easing of the prolonged drought, supported by the fertilizer subsidy program and the importation of key food items under the duty free window eased domestic pressure on food items and reduced inflation. To further anchor inflation expectations the Government will implement the following reforms: refining macro economic forecasting frameworks, improving the functioning of the interbank market and continued improvement of communication on monetary policy decisions.

- The Government is keen on addressing the issue of pending bills which as of 31 March 2023 amounted to KES 537.2 billion. Aware of the positive impact this will have on the economy, the National Treasury is in the process of establishing a pending bills verification committee to carry out an analysis of the pending bills and advice on settlement. Adhering of the PFM Act, 2012 on expenditure spending and clearing of pending bills as a first charge on the budget of public entities will be key.

- The Government's Bottom Up Economic Transformation Agenda (BETA) is geared towards economic turn around and inclusive growth. The five sectors earmarked to have the largest impact and linkages to the economy have been allocated as follows: Agriculture transformation and inclusive growth – KES 49.9 billion; Transforming the Micro, Small and Medium Enterprise (MSME) economy – KES 10.6 billion; Housing and settlement – KES 35.3 billion; Affordable healthcare to all – KES 141.2 billion and Digital superhighway and creative economy – KES 15.1 billion.

- Allocation to other thematic areas is as follows: Education – KES 628.6 billion; National Security – KES 332.8 billion; Manufacturing sector – KES 26.9 billion; Infrastructure development – KES 244.9 billion; Energy – KES 62.3 billion among others.

Contacts

Dr. Benson Okundi
Partner,
Government and Public Sector Leader for East Africa
+254 20 285 5241
benson.okundi@pwc.com

Anthony Njeeh
Senior Manager, Assurance
+254 20 285 5301
anthony.njeeh@pwc.com

Kelvin Wainaina
Manager, Assurance
+254 20 285 5569
kelvin.wainana@pwc.com

Key points

- The Government is keen on stabilizing the fiscal deficit. Revenue mobilization and expenditure rationalization will be key to achieve that.

- How Government will balance between revenue mobilization; expenditure rationalization; public debt management and other externalities will be key in achieving the economic growth projected.

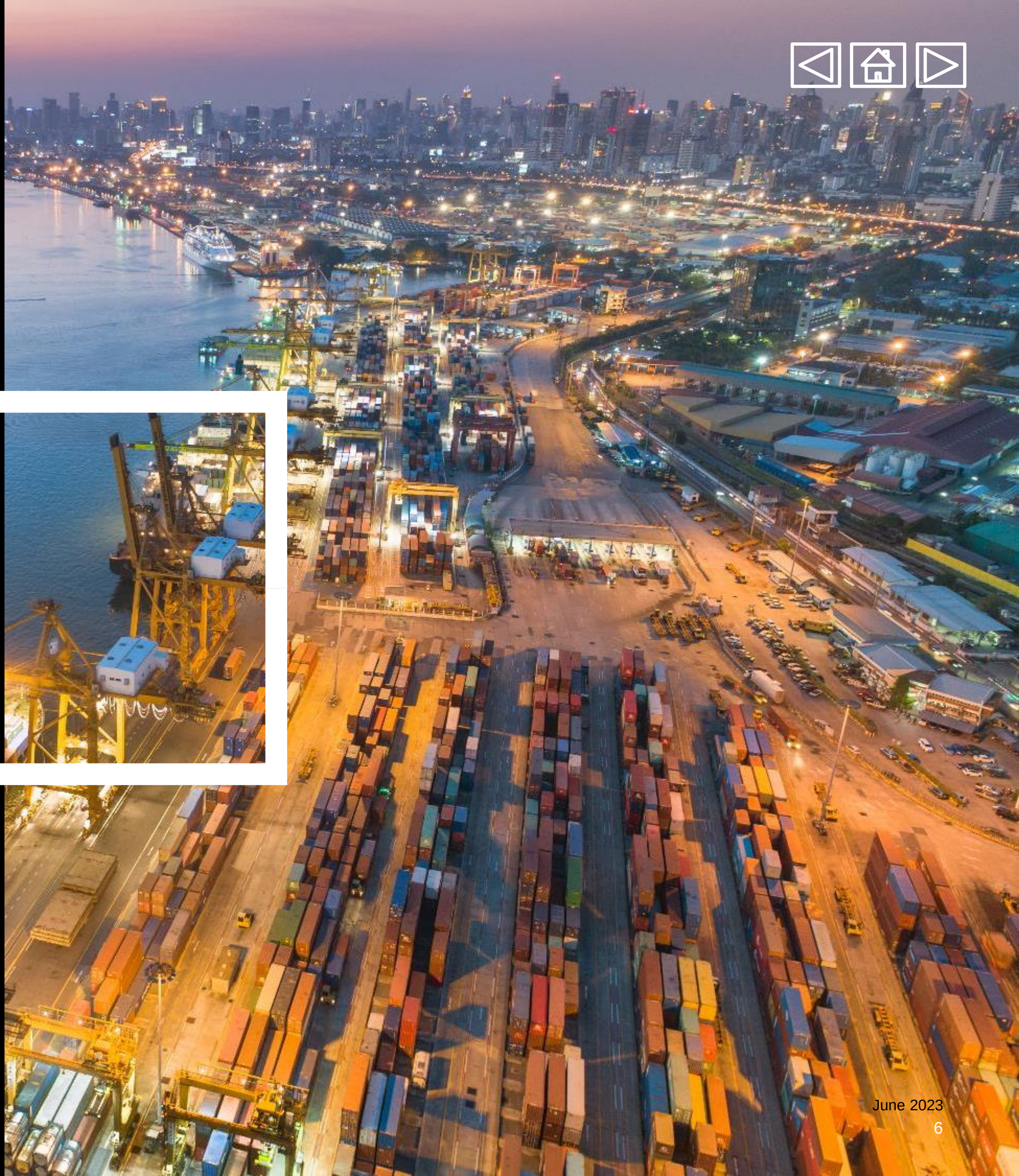
- Government should continue seeking new ways of increasing revenue – predictability in tax system, tax base expansion, simplification of the tax process is called for.

- Addressing of inflation and cost of living is key, the Government should constantly keep this under watch and manage it using fiscal and monetary policies.

- Debt sustainability management is key for the Government.

2

Tax



Tax proposals anchored towards revenue mobilisation

The Cabinet Secretary (CS), National Treasury proposed to amend several provisions that were included in the 2023 Finance Bill. We have extensively discussed this year's Finance Bill in our 5 May 2023 Tax Alert. The Finance Bill had elicited a lot of discussion due to the tax measures intended to increase the tax rates and also subject certain new streams of income to tax.

Below are some of the significant highlights captured in the FY 2023/2024 budget.

Corporate taxes

Aligning the taxation of Permanent Establishment (PE) and subsidiaries

The CS has proposed the introduction of tax on repatriated profits at the rate of 15%.This proposal means that the effective tax rate for non resident with permanent establishment in Kenya will be 40.5% similar to companies with non resident shareholders 40.5%.

The Finance Bill proposed the reduction of the corporate tax rate of a PE from 37.5% to 30% and introduced tax on repatriated profits. However, the tax rate of the repatriated profits was missing from the Finance Bill.

Reduction of withholding tax rate applicable to payment to digital content creators

The Finance Bill 2023 proposed to subject payments to digital content creators to withholding tax at 15%. The CS addressed concerns raised by the content creators and has reduced the withholding tax rate to 5% - aligning to the withholding tax rate applicable to professional and management fees paid to residents.

Retained the turnover tax lower threshold at KES 1 million

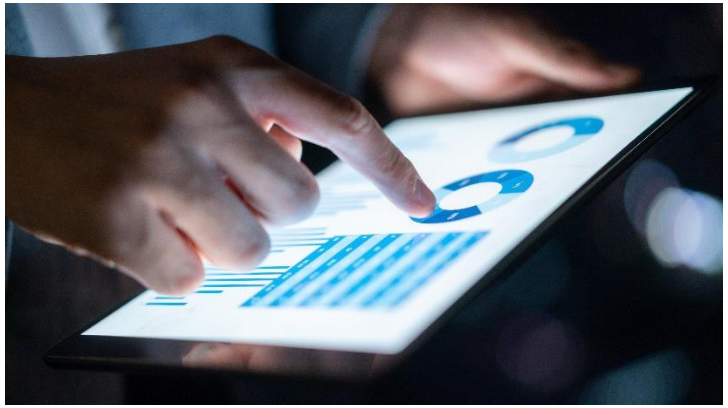
In a bid to expand the tax base, the Finance Bill 2023 proposed to lower the threshold of turnover tax to KES 500,000. To cushion taxpayers earning below KES 1 million, the CS proposed to retain the current threshold of KES 1 million but lowered the upper threshold from KES 50 million to KES 25 million.

Tax administration

Provision data-management and reporting of data

The CS proposed an amendment to the Tax Procedures Act that would require the Commissioner General to provide a data management and reporting system that taxpayers would use to electronically submit standardized transactional data in real time.

This is provision will improve efficiency within the tax system and increase the use of technology, but may also result in penalties to the taxpayer for failure to comply with timelines.



Tax proposals anchored towards revenue mobilisation

Personal taxes

Current PAYE tax rates

Tax band	Monthly income (KES)	Tax rate
First	24,000	10%
Next	8,333	25%
Above	32,333	30%

The CS proposes an amendment to the ITA to adjust the individual rates of tax (commonly known as PAYE), by introducing two additional tax bands i.e., 32.5% applicable to individuals earning monthly incomes between KES 500,000 and KES 800,000, and 35% applicable to individuals earning monthly incomes of more than KES 800,000.

According to the National Treasury, this move is aimed at making the tax bands more progressive in sharing the tax burden across different income groups.

Overall, the proposed changes will result in additional PAYE revenue for the Government and reduced net take home pay for individuals. For illustrative purposes, individuals earning monthly incomes of KES 100,000, KES 600,000 and KES 1,000,000 will experience a reduction of approximately 2%, 3% and 5% respectively in net pay.

Proposed PAYE tax rates

Tax band	Monthly income (KES)	Tax rate
First	24,000	10%
Next	8,333	25%
Next	467,667	30%
Next	300,000	32.5%
Above	800,000	35%

The CS stated that up to 79.7% of the 3.3 million workers in Kenya fall below the 30% tax bracket. The two new bands will affect approximately 26,676 employees who constitute 0.8% of the total employed workers.

As such, it remains to be seen how much additional tax revenue will be generated from the two new tax bands and whether the Government will achieve its objective in making the tax system more progressive.

Affordable housing levy

1.5%

The CS proposes to allocate a budget of KES 35.3 billion to the housing programme to reduce proliferation of slums and create more jobs for the youth.

To fund this initiative, the CS proposes to amend the Employment Act, 2007 to introduce an affordable housing levy payable by employers and employees at an uncapped rate of 1.5% of an employee’s gross monthly salary departure from previous housing fund.

This proposed levy will be an additional salary deduction that will reduce the net take home pay of employees.

Tax proposals anchored towards revenue mobilisation

Value Added Tax

The CS has retained most of the proposals contained in the Finance Bill, 2023. Below are some of the new changes proposed by the CS:

Zero rating of Liquid Petroleum Gas (LPG)

The CS proposed to zero rate VAT on LPG. Whereas the Bill proposed to exempt LPG from VAT, it is refreshing to note that the CS has appreciated the fact that VAT exemption is laden with hidden sticking costs.

The proposal to zero rate VAT on LPG is a much welcome move as suppliers will be eligible to deduct/claim input tax, ensuring that *mwananchi* enjoys reprieve from VAT. This move will lead to a reduction in the product cost, making it more affordable. Additionally, LPG being a cleaner source of energy is healthy and environmentally friendly.

Introduction of VAT exemption on machinery and equipment purchased locally for use in pharmaceuticals

The CS proposed to extend exemption from VAT, on machinery and equipment purchased locally for use in manufacture of pharmaceuticals. Currently, such exemption is applicable on imported plant and machinery only. This is in line with the Government’s agenda to promote local manufacturers, create employment as well as ensure access to quality and affordable healthcare.

‘Removal’ of VAT on exported services

AddItionally, the CS proposed the ‘removal’ of VAT on exported services. Whereas this is a welcome move, we note that the term ‘remove’ used by the CS is not anchored in the VAT law and leaves
room for ambiguity as to whether the proposed amendment shall result to either zero rating or exemption from VAT. However, we note that the Bill had proposed to exempt exported services from VAT.

This year’s proposed amendments are anchored in revenue mobilization and expansion of the tax base to create a simple, broad-based and fair VAT regime.

Contacts

Titus Mukora
Partner/Director
titus.mukora@pwc.com

Job Kabochi
Partner
job.kabochi@pwc.com

Edna Gitachu
Associate Director
edna.gitachu@pwc.com

Gideon Rotich
Associate Director
gideon.rotich@pwc.com

Nicholas Kahiro
Senior Manager
nicholas.x.kahiro@pwc.com

Shreya Shah
Senior Manager
shreya.shah@pwc.com

Corazon Ongoro
Senior Manager
corazon.ongoro@pwc.com

Michael Wachinga
Manager
michael.w.wachinga@pwc.com

Ben Kangangi
Associate
ben.kangangi@pwc.com

Tax proposals anchored towards revenue mobilisation

Excise Duty

Excise duty continues to feature prominently as a preferred measure to broaden the tax base and raise revenue for the Government. In line with this preference, the CS has retained most of the proposals contained in the Finance Bill, 2023.

However, the CS has proposed the below new amendments;

Reduction of excise duty rate on imported fish

The Finance Bill had proposed to introduce excise duty at the rate of 20% on imported fish. The CS has proposed to reduce the rate to 10%, in a bid to align with other excisable products. The introduction of excise duty on imported fish aligns with the Government's agenda to protect local fish industries which is a major livelihood source for many Kenyans.

Reduction of excise duty rate on money transfer services

Currently, excise duty at the rate of 12% is chargeable on fees charged for money transfer services by cellular phone service providers. The Finance Bill had proposed increasing the excise duty rate to 15% as well as expanding the scope to include fees charged by payment service providers licensed under the National Payment System Act, 2011.

In his budget speech, the CS has proposed to reduce the rate to 10% in line with the Government's agenda to encourage financial inclusivity, encourage retail transactions and promote economic activity for MSMEs.

Increase of excise duty rate on Betting, Gaming, Lottery and Prize Competition

Currently, an excise duty of 7.5% is applicable on betting, gaming, lottery and prize competition. The Bill had proposed to increase the rate to 20%.

However, the CS in his budget speech proposed the reduction from 20% to 12.5% on betting, gaming, lottery and prize competition.

The increase in rate is in line with the Government's agenda to discourage participation in these activities by Kenyans, especially young people, school-age children and vulnerable members of society.

Customs & International Trade

Incentives for manufacturers and farmers

Kenya is an East African Community (EAC) Partner State. Accordingly, changes to its customs laws are published through an EAC Gazette Notice (GN) at the end of June each year and take effect on 1 July 2023. The CS highlighted some proposals presented by Kenya during pre-budget consultations, which will be effective on 1 July 2023.

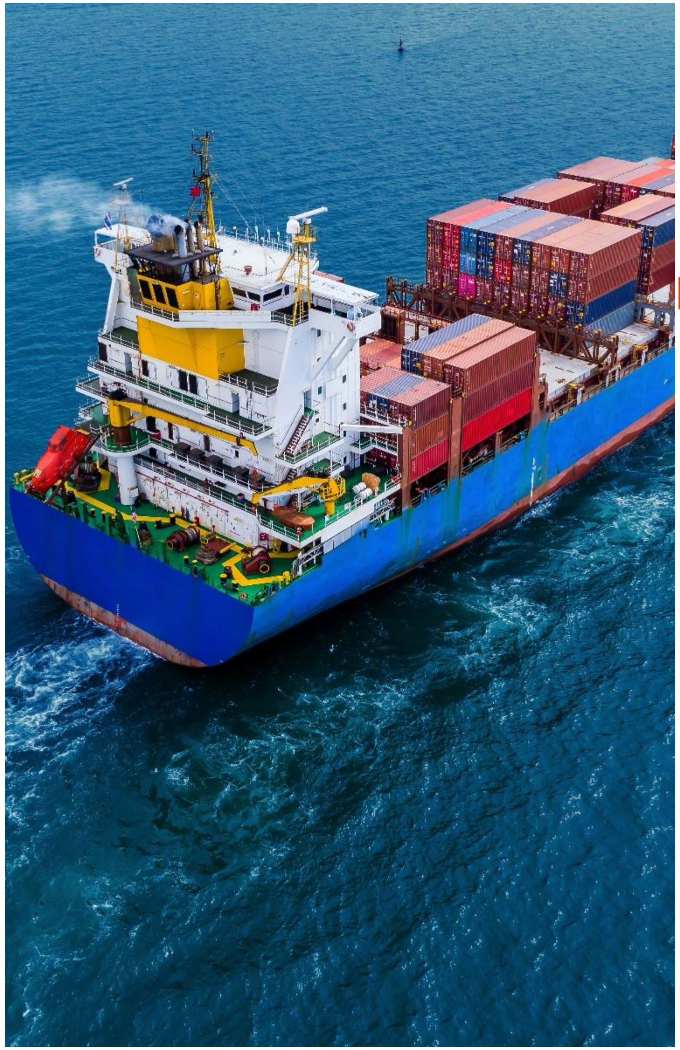
- Duty remission will apply for one year on importation of wheat, raw materials for the manufacture of parts used in auto assembly (e.g. leaf springs and radiators, Completely Knocked Down (CKD) kits for motorcycle assembly, inputs for the manufacture of animal feed, baby diapers, footwear products and roofing tiles). Additionally, inputs for assembly of smartphones and other cellular phones will also enjoy duty remission.
- Stays of application of import duty rates per the EAC Common External Tariff (CET) will apply for one year on: Rice (35%), imported iron and steel products (35%), vegetable products (35%), baby diapers (35%), leather and footwear products (35%), paper and paper products (35%), articles of timber (e.g. plywood and particleboard USD 120/MT – USD 200/MT), furniture (45%), articles of plastic and rubber (35%), smartphones (25%), and billets (10%). Interestingly, one of the reasons for the introduction of a four-band EAC CET (version 2022) was to minimize the request for stays by partner states, but it seems this trend persists.

EPZ/SEZ incentives

The CS National Treasury has proposed to amend the Export Processing Zones (EPZ) Act and the Special Economic Zones (SEZ) Act to exempt from import duty, goods sold in the local market by EPZs and SEZs to the extent that they incorporate raw materials/inputs from within the Customs Territory (EAC). It's worth noting that EPZs and SEZs already enjoy tax incentives on their raw materials that are not available to ordinary businesses. Exempting their supplies within the customs union from import duty may result in an uneven playing field for manufacturers outside the preferential economic zones.

Counties violate free market protocol

The CS highlighted complaints emanating from EAC Partner States in relation to charges applied by Counties on inward transfers of goods from within the Customs Union. Such charges violate the EAC law and Common Market Protocol and expose Kenya to a trade disruption risk in case of retaliation from its partners. The CS indicated that the National Assembly is set to formulate a county revenue bill to *inter alia* provide governance around revenue generation for counties – and hopefully curb potential diplomatic tiffs.



Other non-tax legislative reforms to consider

The National Treasury indicated that the government is considering the following non-tax legislative amendments:

Payment Services Reforms

- To modernize Kenya's payments legal and regulatory framework in line with emerging trends and innovations and in line with the National Payments Strategy 2022-2025, the Central Bank of Kenya (CBK) will undertake review of the National Payment System Act No. 39 of 2011 and the National Payment System Regulations, 2014.

Public Finance Reforms

- To make debt management more sustainable, there is a proposal to amend the Public Finance Management Act No.18 of 2012 to change the public debt ceiling from a numerical number to a debt anchor in form of a ratio of public debt to Gross Domestic Product (GDP) in present value terms. Currently, Kenya has a debt ceiling set in absolute terms at KES 10 trillion.
- The introduction of the Public Finance Management (Disaster Management Fund) Regulations 2022 to establish the Disaster Management Fund to strengthen disaster risk management in the country.

State Corporation Reforms

- There is a proposal to repeal the Privatization Act No. 2 of 2005 by introducing the Privatization Bill, 2023 with the aim of streamlining privatization processes and to restructure state corporations/state owned enterprises.

Unclaimed Financial Assets Reforms

- Proposed amendment to the Unclaimed Financial Assets Authority Act No. 40 of 2011 to allow for claimants to designate beneficiaries of unclaimed assets. Currently, the Act does not provide for claimants to designate a beneficiary of their assets or to a cause of their choice and therefore any claim must be paid to the claimant.

National Rating Reforms

- Proposal to repeal the Valuation for Rating Act (Cap.266) and Rating Act (Cap 267) via the National Rating Bill, 2022 which provides for, among others, standards in the way rating and valuation is conducted in the country and payment of Contribution in Lieu of Rates (CILOR). Importantly, the Bill would also align property rating legal regime with the devolved system of governance.

SACCO Reforms

- An amendment to the SACCO Societies Act No. 14 of 2008 to provide for licensing and supervision of Shared Sacco Services which will enable small SACCOs to achieve economies of scale while at the same time mainstreaming regulatory compliance in a cost-effective manner. It has further been proposed that the Act to be amended to secure the financial stability of SACCOs, by providing a framework for appointment of trustees to the Deposit Guarantee Fund for SACCOs in Kenya.

Insurance Reforms

- Proposed amendment to the Insurance Act (Cap. 487) to introduce offences and penalties relating to the management of insurers by directors and senior management.
- Additional amendment to enhance the efficiency of the Insurance Regulatory Authority which has rolled out a macro-insurance scheme to increase penetration to individuals with low income.

Competition Reforms

- To support the start-up economy and digital businesses, the Competition Authority of Kenya (CAK) will exempt MSMEs from merger notifications. The CAK will also monitor and conduct surveillance audits in the retail, insurance, manufacturing and agro-processing sectors to protect MSMEs from abuse of buyer power.
- Abuse of dominance practices such as excessive pricing, price discrimination, predatory pricing and margin squeeze will be monitored to ensure a level playing field.

Other non-tax legislative reforms to consider

Achievements in the current financial year and legislative plans for the next financial year were cited in the 2023/2024 budget.

Digital Credit Regulations

- The CBK introduced the Central Bank (Digital Credit Providers) Regulations in 2022 which provide the licensing and oversight of previously unregulated Digital Credit Providers (DCPs). The CBK will continue to work with other agencies and regulators including the Office of the Data Protection Commissioner to ensure all DCPs are brought into the regulatory perimeter to protect consumers.

Central Securities Depository Upgrade

- The CBK will soon launch the upgraded Central Securities Depository (*DhowCSD*) to improve financial market liquidity and enhance operational efficiency in the domestic debt market. This will help scale services to the public, market participants and support diaspora investors via a versatile and highly scalable digital solution with capacity to deliver seamless investor experience and convenience.

Capital Markets Regulations

- The CS cited the introduction of the Capital Markets (Public Offers Listing and Disclosures) Regulations 2022 which will enable MSME's to raise debt and equity capital through the Nairobi Securities Exchange (NSE).
- The Capital Markets (Investment-based Crowdfunding) Regulations 2022 which were gazetted earlier this year will enable start-ups to raise capital from both local and international investors.

Other non-tax legislative reforms to consider

Investment REIT

- The LAPTRUST Income Real Estate Investment Trust ("I-REIT") is the first I-REIT by a pension fund at the NSE by LAPTRUST, Kenya's oldest pension scheme. It will provide investors with a unique opportunity to invest in a diversified portfolio of income-generating real estate assets.

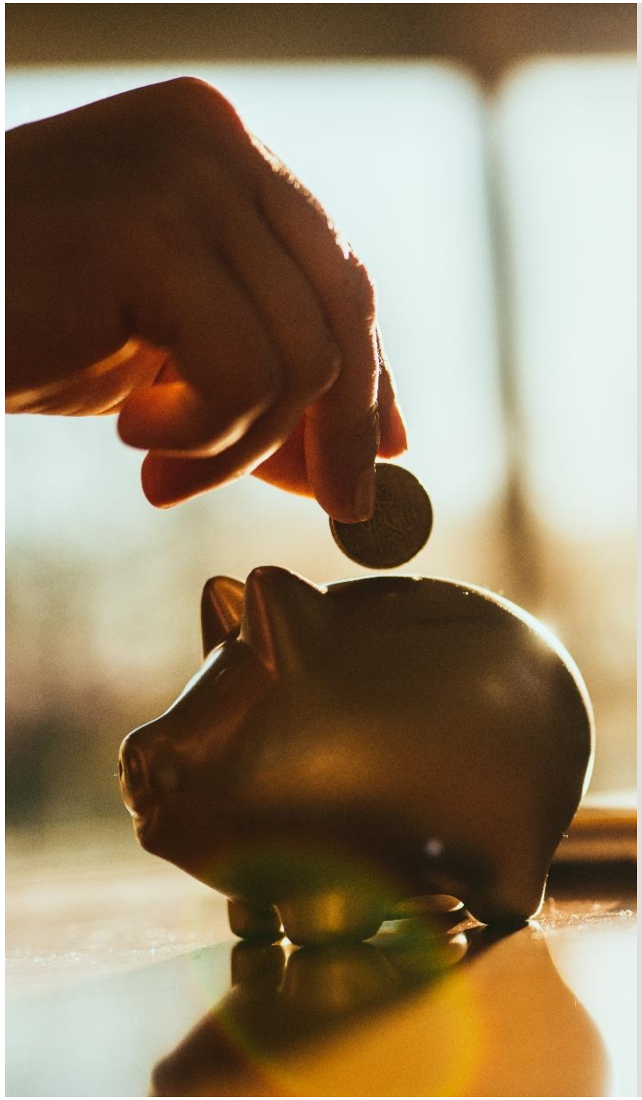
Public Investment Regulations

- The Public Finance Management (Public Investment Management) Regulations were passed in 2022, providing the National and County Governments and their entities with a standardized approach in project cycle management to enhance transparency.
- This includes the development and rolling out of the Public Investment Management Information System (PIMIS) that automates the public investment management process.

Policy Initiatives

Finally, the 2023/2024 budget highlighted the following policy initiatives:

- **National Pension Policy**: Government is working on a policy which will enhance portability of schemes and mitigate fragmentation in the sector.
- **The Kenya National Entrepreneurs Saving Trust (KNEST)**: The National Treasury has established this scheme to facilitate voluntary pension contributions for individuals in the informal sector.
- **Procurement**: The Government's priority is to review procurement policy and procedures to enhance good governance and achieve efficiency given limited financial resources. Plans to roll out its e-Government procurement program is set for December 2023 to manage all government procurement and asset disposal processes digitally. Access to Government Procurement Opportunities (AGPO) portal also being re-engineered to improve prompt payment and liquidity access.



Contacts:

Janet Lavuna
Associate Director, Tax Controversy and Dispute Resolution
janet.lavuna@pwc.com

Caroline Kipkulei
Manager,
Legal Business Solutions
caroline.kipkulei@pwc.com

Herbert Njoroge
Manager,
Legal Business Solutions
herbert.njoroge@pwc.com

Ronnie Sigei
Senior Associate,
Legal Business Solutions
ronnie.sigei@pwc.com

Jade Makory
Senior Associate,
Legal Business Solutions
jade.makory@pwc.com

Lavelyne Nusu
Associate,
Legal Business Solutions
lavelyne.nusu@pwc.com

3

Devolution: How the Counties have been affected

Resourcing County Governments

Equitable Share

The equitable share has increased to KES 385.4 billion in FY 2023/24 (KES 370 billion in FY 2022/23):

- This being 23% of the latest audited accounts of revenue (FY 2019/20) approved by Parliament. The proposed allocation is above the 15% Constitutional minimum threshold ((Article 203(2)).

Conditional Allocations

The County Governments will receive conditional allocations of KES 56.7 billion compared to KES 37.1 B in FY 2022/23.

Equalization Fund

The Equalization Fund allocation is KES 10.9 billion compared to KES 7.1 billion in FY 2022/23.

Mineral Royalties

Expected to be shared among the National (70%), County (20%) and Communities (10%):

- A framework submitted to Parliament to facilitate sharing of KES 2.9 billion outstanding royalties among 32 counties.

KES **442.1 billion**
total allocations

KES **385.4 billion**
equitable share

KES **56.7 billion**
conditional & unconditional grants

Bottom-Up Economic Transformation Agenda (BETA) Strategic Sectors

- In addition to the county allocations, investment by the National Government in the BETA strategic sectors (***Agriculture, MSMEs, Healthcare, Housing and Settlement, Digital Superhighway and Creative Economy***) will supplement county development plans as these sectors are largely devolved functions.
- Out of KES 26.9 billion allocated to manufacturing, KES 4.7 billion will support establishment of ***County Integrated Agro-Industrial Parks.***

Own Source Revenue (OSR) Enhancement

- **Property rates account for largest share of OSR.** The National Rating Bill is under legislation in Parliament. The Bill once enacted will require counties to develop ***updated valuation rolls*** to facilitate levying of property rates at market prices as opposed to current rates based on outdated valuation rolls developed by defunct local authorities. Use of old valuation rolls has contributed to OSR underperformance.
- **County Governments' (Revenue Raising Process) Bill, 2023** outlines the process to be followed by counties in exercising their power under Articles 209 and 210 of the Constitution to impose, vary or waive taxes, fees, levies, Contribution in Lieu of Rates (CILOR) and other charges. This will eliminate cases of multiple charges within Counties and across the East Africa Community borders.

Other policy and legislative reforms

Pending Bills - County Governments reported pending bills of KES 159.7 billion (as of 31st March 2023)

- Establishment of a Pending Bills Verification Committee to carry out a thorough analysis of pending bills and advise on how the bills will be settled. Once the outstanding pending bills are cleared, the National Treasury will direct all entities to ensure strict adherence to Public Finance Management Act, 2012 and ***clear pending bills as a first charge on the budget*** of the concerned entity in the subsequent financial year.

Procurement reforms – e-Government Procurement System (e-GP) to be rolled by December 2023 at National and County Governments.

- e-GP will enhance efficiency and transparency in the procurement functions, ease cost of doing business with government, and has capabilities of monitoring and tracking of all procurement and asset disposal.

Public Investment Management (PIM) Regulations, 2022 - to provide the National and County Governments and their entities with a standardized approach in project cycle management

- The regulations will enhance transparency, accountability, prudent use of public resources and public participation.

Public Investment Management (PIM) Regulations, 2022 - to provide the National and County Governments and their entities with a standardized approach in project cycle management

- The regulations will enhance transparency, accountability, prudent use of public resources and public participation.

Transfer of Functions between National Government and County Governments

- Draft legislation to operationalize Articles 187 and 189 of the Constitution on Transfer of Functions and Cooperation between the National and the County Governments and amongst County Governments will be submitted for Cabinet approval and onward transmission to Parliament.

Contacts

Dr. Benson Okundi
Partner
Government and Public Sector Leader for East Africa
benson.okundi@pwc.com

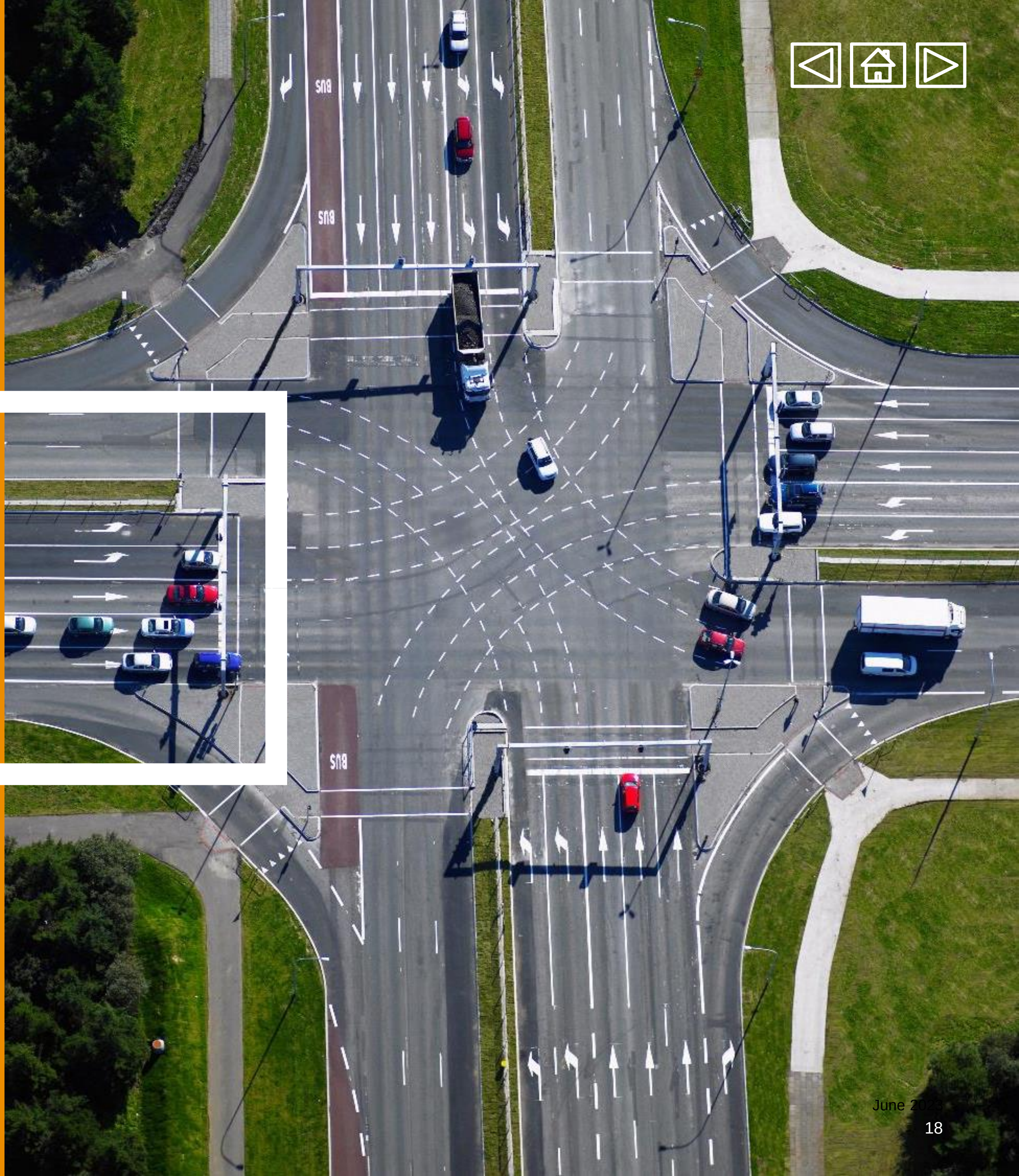
Stella Muysawa
Senior Associate
Advisory
stella.musyawa@pwc.com

Paul Otsola
Senior Manager
Advisory
paul.otsola@pwc.com

Barnabas Kiprotich
Senior Associate
Advisory
barnabas.kiprotich@pwc.com

4

Sectoral Analysis



Financial Services

Resilience and stability of the banking sector

The Cabinet Secretary noted that the banking sector remained resilient in 2022 and is expected to remain stable in 2023. The sector recorded growth in customer deposits, higher pre tax profits and improvement in the non-performing loans ratio. The presence of strong banking sector players has provided opportunities for consolidation and regional expansion.

Enhancing consumer protection

Following the introduction of the Digital Credit Providers Regulations, 2022, the Cabinet Secretary stated that 32 Digital Credit Providers (DCPs) were licensed by 31 March 2023 with other DCPs at different stages of the approval process. He also noted that the Central Bank of Kenya (CBK) was working with other agencies including the Office of the Data Protection Commissioner to ensure all DCPs are licenced.

The CS announced that the Kenya Deposit Insurance Corporation (KDIC) was in the process of reviewing the current coverage limit of KES 500,000 in order to enhance protection of depositors. In addition, KDIC has developed an Alternative Dispute Resolution (ADR) framework to address disputes between financial institutions that have been closed and their respective stakeholders to fast track the release of available resources and winding up banks under liquidation.

To address the challenges being faced in the SACCO sector, the CS stated that the Sacco Societies Regulatory Authority (SASRA) is working on amendments to the Sacco Societies Act which will provide for licensing and supervision of shared SACCO services platform and provide a framework for appointment of trustees to the Deposit Guarantee Fund (DGF) for SACCOs. The cost-sharing digital platform will enable small SACCOs to achieve economies of scale, regulatory compliance in a cost-effective manner and establish a mechanism for financially distressed SACCOs.

Improving affordability of payment services

To improve quality, access and affordability of payment services, the CBK plans to:

- undertake a comprehensive review of the National Payment System Act, 2011 and National Payment System Regulations, 2014 to modernise Kenya's payments legal and regulatory framework, and
- develop and implement an interoperable payments platform to unlock cost effective, real time, and retail payments across the banks, payment service providers, card schemes and other regulated financial institutions.

Tax measures

- The Cabinet Secretary has retained the proposal to amend the Excise Duty Act as introduced by the Finance Bill, 2023 to decrease the Excise Duty rate on fees charged for money transfer services by banks, money transfer agencies, and other financial service providers from 20% to 15%. This will reduce the cost of transacting within formal financial channels which will ultimately increase the volume and value of transactions.
- Additionally, the CS has proposed to reduce the Excise Duty rate on fees charged by payment service providers licensed under the National Payment System Act, 2011 from 15% to 10%. The reduction in the proposed rate will encourage retail transactions at a more affordable rate and promote economic activity for Micro Small and Medium Enterprises.

Financial Services

Growing capital markets access

Upgrade of the Central Securities Depository *'DhowCSD'*

The Cabinet Secretary noted that the CBK plans to launch an upgraded Central Securities Depository code dubbed *"DhowCSD"* which is expected to improve financial market liquidity and enhance operational efficiency in the domestic debt market. The Central Securities Depository is also expected to scale up services to the public, market participants and diaspora investors.

New Capital Markets Regulations

In order to support Micro, Small and Medium Enterprises (MSMEs) and Kenyan start ups in accessing alternative funding, the Capital Markets Authority has developed the following regulations:

- Capital Markets (Public Offers and Disclosures) Regulations, 2023 which will provide a framework for MSMEs to raise debt and equity capital through the Nairobi Securities Exchange, and
- The Capital Markets (Investment Based Crowdfunding) Regulations, 2022 which will support Kenyan startups to raise finance from both global and local investors.

It is expected that MSMEs and start-ups will benefit from this expansion in the source of funding in terms of increased access and reduced cost.

Pensions and insurance

Increasing pension coverage

The Cabinet Secretary acknowledged that only 22% of the working population was covered under a pension scheme. The proposed reforms seek to increase the coverage by focusing on the informal sector which constitutes the majority of the workforce.

Through the Kenya National Entrepreneurs Saving Trust (KNEST), strategic partnerships and diverse pensions solutions, the Government is seeking to facilitate voluntary pension contributions for self-employed individuals and those in the informal sector.

The pension reforms also seek to make the administration of Public Service pensions more efficient through technology and digitisation of services. The Cabinet Secretary indicated that the National Treasury will invest in modern digital solutions that will streamline the pension processes and improve user functionality.

Enhancing insurance penetration

The Cabinet Secretary noted that the insurance sector has been growing consistently in the last two years. To further enhance the growth, the Insurance Regulatory Authority (IRA) intends to increase insurance penetration through the Micro-insurance Framework, targeted at low income individuals.

In line with the Government's focus on key sectors, the IRA will also seek to strengthen private insurer role in Universal Health Coverage (UHC), crop and livestock insurance and support insurance for MSMEs.

The Cabinet Secretary also submitted the Insurance (Amendment) Bill, 2023 that seeks to provide deterrent measures for offences relating to the management of an insurer. The Bill also seeks to strengthen IRA's authority in regulating the industry.

Other proposals

Unclaimed Financial Assets amendment

The Cabinet Secretary seeks to amend the Unclaimed Financial Assets Authority Act to allow claimants to designate beneficiaries of their unclaimed assets or a cause of their choice.

Enhancement of KYC and CDD processes

The CBK has enhanced the banking sector Know Your Customer (KYC) and customer due diligence (CDD) processes to reduce money laundering vulnerability.

Contacts

Richard Njoroge
Partner, Assurance
richard.njoroge@pwc.com

Brian Ngunjiri
Partner, Assurance
brian.ngunjiri@pwc.com

Daniel Kiilu
Senior Manager, Assurance
daniel.kiilui@pwc.com

Infrastructure

Infrastructure highlights

Introduction

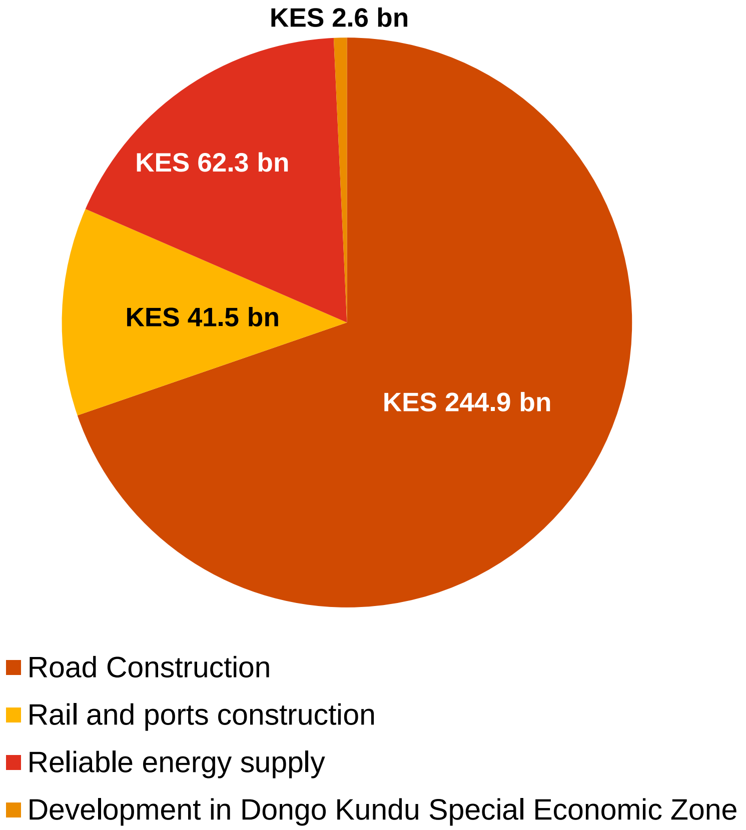
> “
>
> The government will continue to expand critical infrastructure in roads, railways, sea and airports to create an enabling environment for economic recovery and employment creation.
>
> **CS, National Treasury and Economic Planning, Professor Njuguna Ndung’u**

With uncertainty still looming in the economy, the Government has identified infrastructure as one of the key economic enablers. Being President Ruto’s first budget, infrastructure has received a generous allocation of KES 351.3 billion although slightly lower than the FY22/23 allocation of KES 368.5 billion.

The Government plans to continue expanding critical infrastructure in roads, railways, sea, and airports to create an enabling environment for the economic recovery of the country. A total of KES 244.9 billion (70% of the total infrastructure budget) has been allocated to the construction of roads and bridges, an indication of the Government’s plans to intensify national connectivity to promote access throughout the country in a bid to foster economic growth.

Now a common theme, Private Public Partnerships (PPPs) have been emphasized as a key tool for funding and implementing infrastructure development - we will now see the introduction of the Project Facilitation Fund (PFF).

Investment in critical infrastructure



Roads, railways and ports

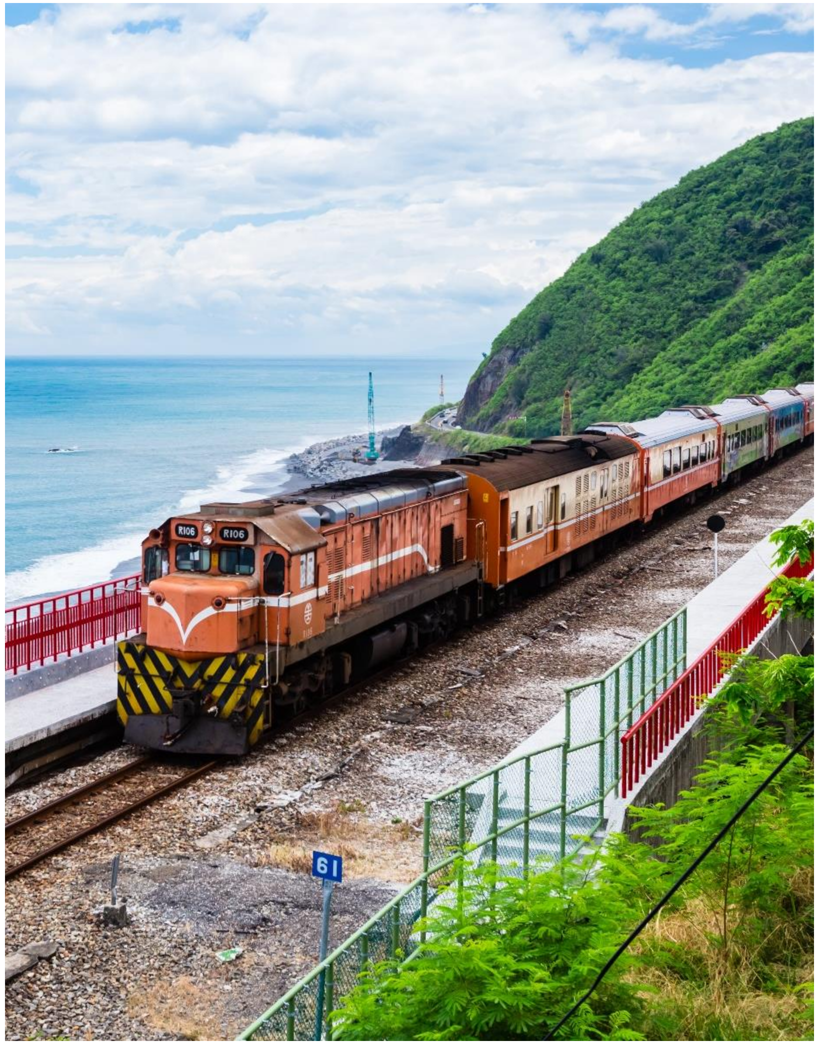
In a bid to boost mobility for the efficient movement of people and goods, as well as provide accessibility to a wide variety of commercial and social activities, the Government plans to continue to intensify its investment in the construction of roads, railways, and ports.
The budgetary allocation for roads has increased from 212.5 billion in FY22/23 to KES 244.9 billion in FY23/23. Below is the breakdown of the allocation on roads, railways and ports:

Roads Funding

- Construction of roads and bridges – KES 113.9 bn
- Maintenance of roads – KES 50.9 bn
- Rehabilitation of roads – KES 80.1 bn

Rail and Ports Funding

- Standard Gauge Railway– KES 37.4 bn
- Nairobi Bus Rapid Transport Project – KES 1.1 bn
- Rehabilitation of roads – KES 80.1 bn
- Construction and expansion of airports and airstrips – KES 0.7 bn
- Rehabilitation of Locomotives – KES 0.6 bn
- Smart driving license – KES 0.5 bn



Rail and ports construction (continued)

- Development of Nairobi Railway City – KES 0.9 bn
- Acquisition of ferries for Lake Victoria – KES 0.3 bn

KES 244.9 bn

Funding for roads and bridges construction, maintenance, and rehabilitation of roads

Kenya Airways (KQ)

Long reliant on Government support, KQ is poised to be (re)positioned as a Pan-African carrier to help it reduce dependency on the exchequer. It is expected that this will see the continued effort to arrive at a merger with South African Airlines (SAA), though the CS did not share the details of this plan.

Energy

Liquified petroleum gas, power distribution and reliable energy supply

Reliable and affordable energy

As promised in the Kenya Kwanza manifesto, the CS proposed measures to lower the cost of Liquefied petroleum gas (LPG) to the consumer. Apart from zero rating, the Government also proposed to remove Import Declaration Fees (IDF) and Railway Development Levy (RDL) fees and levies from LPG. It also aims to continue to attract private sector investment into the sector which will see the implementation of a common user bulk storage and handling facility for LPG to help enhance price and market stability.

The Government has also entered into a Memorandum of Understanding (MoU) with Governments of oil producing countries for the supply of petroleum products on extended credit periods of up to 180 days. This MoU is expected to:

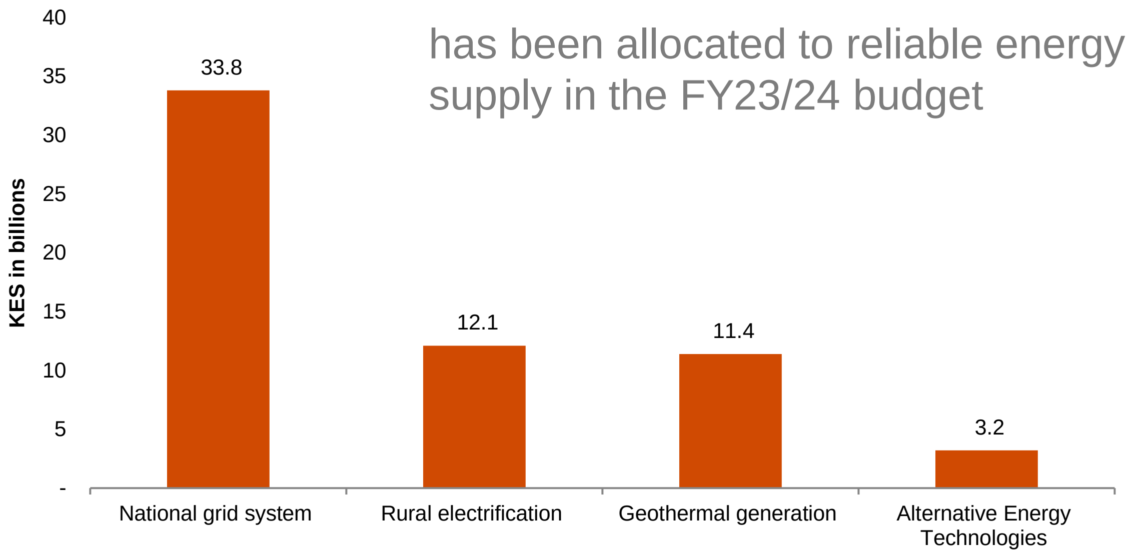
- ease the monthly demand on the US dollar given the current high demand in relation to petroleum products
- reduce the cost of petroleum products by leveraging on the economies of scale due to longer supplier contracts
- reduce currency speculation as there will be time to activate the interbank foreign exchange market
- reduce supply disruption; and
- allow for restructuring of the fuel pricing which will be dependent on market conditions.

The Government has also suggested a number of reforms to Kenya Power and Lighting Company (KPLC) to improve its efficiency, increase their revenue and reduce their costs. These reforms include:

- Transfer of transmission assets to Kenya Electricity Transmission Company (KETRACO)
- Settlement of the outstanding Rural Electrification Schemes (RES) operations and maintenance costs deficit of KES 19.4 billion as of June 2022
- Reduction of system losses from the current 22.4% to 14.4% by end of June 2025
- Establishment of a governance framework at KPLC that gives the private sector fair representation

There should be clear guidelines on how these reforms can be achieved, to ensure successful implementation, without transferring the burden from one institution to another.

Reliable energy supply



KES 62.3 bn

has been allocated to reliable energy supply in the FY23/24 budget

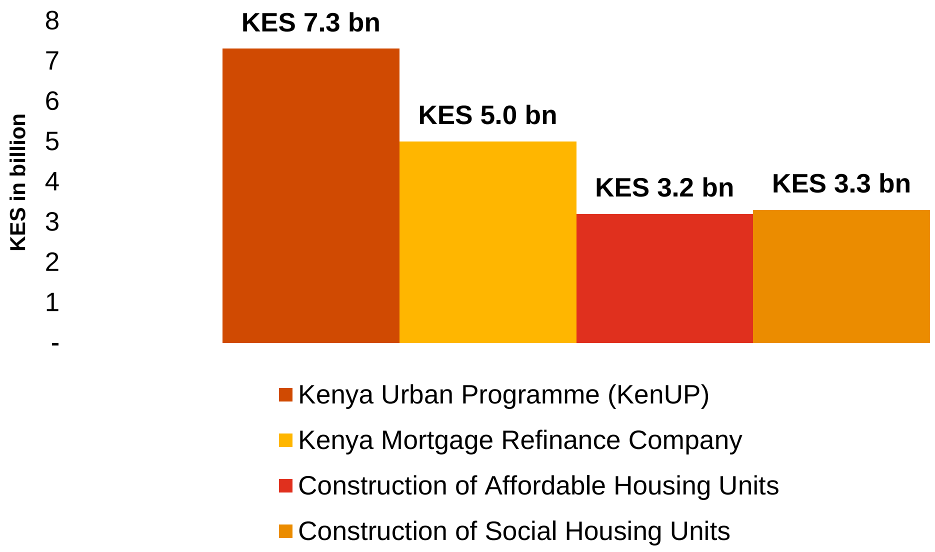
Affordable housing

Affordable housing

The Government has been very vocal on turning around the housing challenge in Kenya, and has allocated a total of KES 35.2 billion for the housing program in FY24. The housing gap will be reduced by facilitating delivery of 250,000 houses per annum and enabling affordable housing mortgages. To actualize this, the Government plans on putting in place policies and administrative reforms to lower the cost of construction and improve access to affordable housing finance while creating jobs, while funding the exercise through the implementation of a 1.5% affordable housing levy of employee pay, payable by both the employee and employer.

To ensure the success of the initiative the following allocation has been recommended to the National Assembly.

Affordable housing programme



Public Private Partnerships

Private sector participation in infrastructure development

Public Private Partnerships

As part of measures to manage the Government's fiscal deficit, the Government has strengthened the public-private partnership (PPP) framework to leverage on the private sector expertise and financing in infrastructure developments.

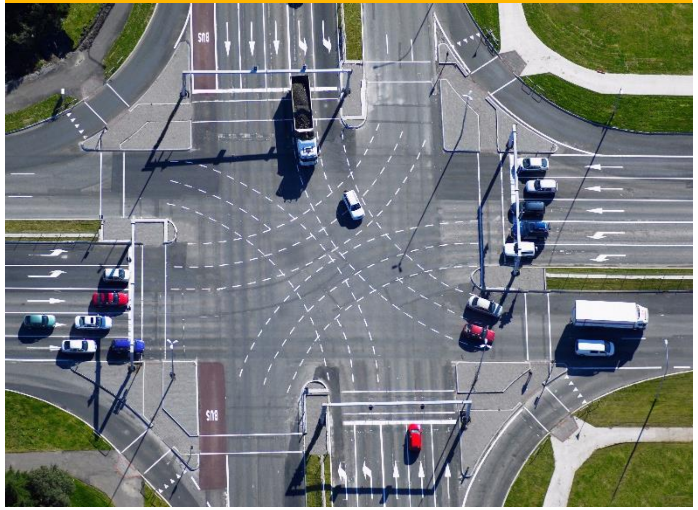
The Government intends to operationalise the project facilitation fund (PFF). This fund will support project preparation through the provision of viability gap funding which will ensure bankability of the PPP projects and provide the necessary security to the private sector. This fund will also cover any contingent liabilities that may arise from these PPP projects and provide the much-needed liquidity to meet payment obligations.

The Government will also attract the private sector to invest in the construction of bulk water supply, which is estimated to increase water supply by 200,000 cubic meters per day.

The National Treasury in conjuction with the Ministry of Water have developed a Water Purchase Agreement which will enable private sector participation in the water sector, perhaps to the great strides with independent power producers (IPPs), where its seen as regional model.

KES 100 bn

Private sector capital to be mobilized to support delivery of priority infrastructure projects



The National Treasury has embarked on developing a 10 y ear Infrastructure Plan to support delivery & prioritisation of projects - an estimated KES 100 billion in private sector capital will be mobilised.

The National Treasury will also leverage on local private sector participation through pension funds, capital markets and commercial bank in scaling up private sector capital into infrastructure projects, while also encouraging local content into these developments.

These investments will help in the delivery of projects across sectors, including housing for the security forces under PPP arrangements.

Contacts

Isaac Otolo
Partner
Isaac.otolo@pwc.com

Edward Kerich
Partner
Edward.kerich@pwc.com

Gideon Rotich
Associate Director
Gideon.rotich@pwc.com

Mose Kombo
Associate
Mose.kombo@pwc.com

Peter Kiprono
Associate
Peter.kiprono@pwc.com

Consumer Business

Manufacturing

The Government has adopted a value chain approach through the Bottom-Up initiative that will address the bottlenecks that impede the growth of the manufacturing sector.

Allocations to promote enterprise and revival of key business sectors

Key Allocations

A total of KES 26.9 billion has been allocated under various implementing Ministries, Departments and Agencies. Key allocations include:

- KES 4.7 billion – Establishment of County Integrated Agro-Industrial Parks
- KES 3.1 billion – Supporting Access to Finance and Enterprise Recovery Project
- KES 3.0 billion – Construction of six Export Processing Zones flagship projects
- KES 1.8 billion – Construction of an Effluent Treatment Plant (Kenanie)
- KES 1.5 billion – Kenya Industry and Entrepreneurship Project
- KES 500 million – Development of Special Economic Zones (SEZ) Textile Park, Naivasha

Revival of Cash Crops

The Government is making further investments towards the revival and enhancement of output of various cash crops, whose budget allocations are as follows:

- KES 120 million – Cotton
- KES 62 million – Coconut
- KES 35 million – Cashewnut
- KES 150 million – Pyrethrum

Other Allocations

- KES 300 million – Kenya Youth Employment and Opportunities
- KES 332 million – Construction of Industrial Research Laboratories
- KES 182.9 million – Constituency Industrial Development Centres

Policy Interventions

- Kenyans will import inputs for the manufacture of animal feeds duty-free under the EAC Duty Remission scheme for one year.
- Imported iron and steel products shall continue to attract a duty rate of 35% with the corresponding specific rates for a further one year for Kenya.
- Raw material and capital goods to be imported duty-free; imported intermediate goods to attract duty at a rate of 10%; while finished goods not available in the region will attract a 25% import duty. All finished goods available in the region in sufficient quantities to attract a common external tariff rate of 35%.

It is important to address the issue of pending bills, which stands at a value of KES 537.2 billion as at March 2023 (KES 79.3 billion of which are under Ministries, Departments and Agencies). The delay in settling payments of pending bills has led to the deterioration of financial positions of businesses in particular Micro, Small and Medium Enterprises, including businesses owned by Women, Youth and Persons with disabilities.

Micro, Small and Medium Enterprises (MSMEs)

The Government considers SMEs as one of the five strategic pillars envisaged to have the largest impact and linkages to the economy.

The Financial Inclusion Fund (The Hustler Fund)

The Financial Inclusion Fund, commonly known as the Hustler Fund, was set up in November 2022 to provide affordable credit to individuals and MSMEs. KES 11 billion has already been invested in the fund, and the Cabinet Secretary (CS) proposed the allocation of an additional KES 10 billion to the fund.

Since its launch, 43.5 million transactions have been made on the Hustler Fund by an estimated 16.07 million customers, of which 7.1 million are repeat customers. Individuals and MSMEs have borrowed a total of KES 30.8 billion from the Fund, saved KES 1.5 billion as mandatory savings, and KES 17 million on a voluntary basis.

On 1 June 2023, the Government launched the second product of the Financial Inclusion Fund, aimed at access to finance via lending groups such as chamas and saccos, who can now borrow loans of KES 20,000 – KES 1.0 million.

Additional MSME Interventions

The National Treasury has reengineered the Access to Government Procurement Opportunities (AGPO) portal to enable real-time registration and monitoring, alongside directed all procuring entities to ensure prompt payment of all contracts successfully implemented under the AGPO. This is with an aim of facilitating access to Government procurement opportunities, empowering MSMEs and enabling businesses owned by the target groups to access liquidity promptly.

To further support MSMEs, the Government has allocated the following in the current budget:

- KES 300 million – SMEs in manufacturing
- KES 182.8 million – Women Enterprise Fund
- KES 175 million – Youth Enterprise Development Fund
- KES 192 million – Uwezo Fund

Competition Authority of Kenya (CAK) incentives to ease the cost of doing business and minimise compliance costs for MSMEs

1 MSMEs exempted from merger notifications, thus enabling startups, digital businesses, among others. Monitor and conduct surveillance audits specifically in manufacturing and agro-processing to protect MSMEs from incidences and abuse of buyer power.

2 Implement codes of practice to ensure that MSMEs in the retail and insurance sectors are protected from powerful buyers.

3 Screen and investigate infractions such as suspected cartels or abuse of dominance conducts such as excessive pricing, price discrimination, predatory pricing and margin squeeze to ensure a level playing field.

4 Actualize the initiative earlier started with the National Assembly to address the issue of price fixing by professional services to make the fee competitive and improve quality of services.

Tourism and Air Travel

The tourism sector has recovered significantly since the onset of the COVID-19 pandemic. While the previous budget focused on the recovery of the sector, the current budget focuses on a job-creating tourism industry.

Tourism

While the FY 2022/23 budget focused on the recovery of the tourism sector in light of the effects of the COVID-19 pandemic, the FY 2023/24 budget focuses on a Bottom-Up, job-creating tourism industry. To this end, the CS proposed an allocation of KES 4.1 billion for the Tourism Fund and KES 2 billion for the Tourism Promotion Fund; a 28% and 11% increase, respectively, when compared to the allocations in the FY 2022/23 budget.

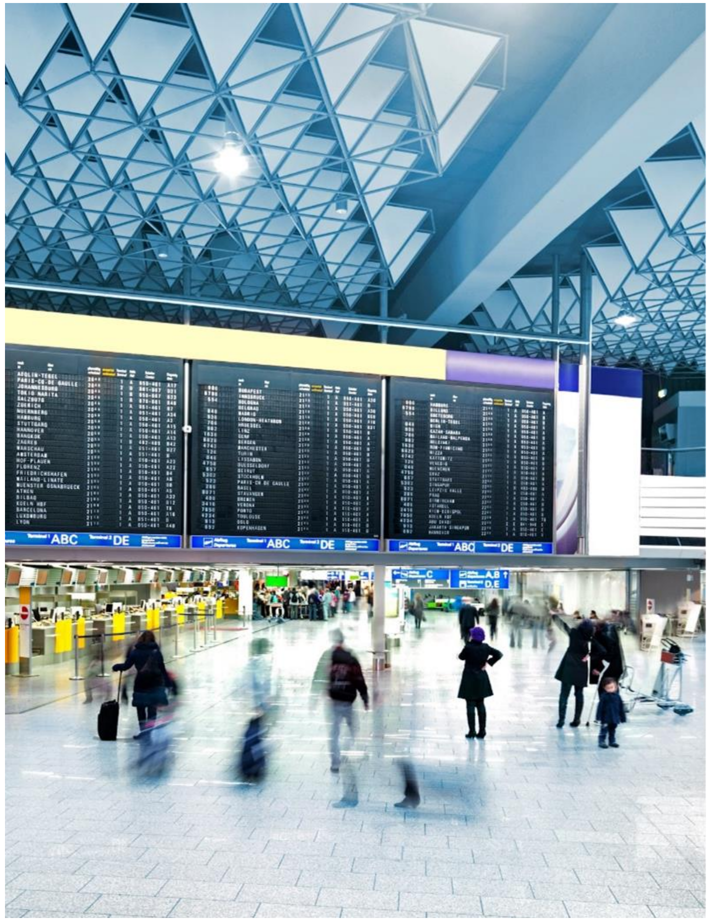
Air Travel

KES 727 million has been allocated for the construction and expansion of airports and airstrips.

The Government aims to turn around Kenya Airways by improving efficiencies, reducing costs and increasing revenue in order to position the airline as a profitable Pan-African carrier, thereby reducing the airline's dependence on budgetary support.

KES 6.1 billion

Amount allocated to the tourism sector – KES 4.1 billion for the Tourism Fund, and KES 2 billion for the Tourism Promotion Fund



Contacts

Michael Mugasa
Partner, Assurance
michael.mugasa@pwc.com

Alex Murage
Associate Director, Consulting
alex.murage@pwc.com

Shanice Obong'o
Management Consultant, Advisory
shanice.obongo@pwc.com

Gakenia Siika
Management Consultant, Advisory
gakenia.siika@pwc.com

Healthcare

Access to quality and affordable healthcare remains critical for socio – economic development

Budget decline to KES 141.2 billion from KES 148 billion in FY 2022/2023

Highlights of healthcare budget

In the FY 2023/2024 budget, Government continues to prioritize investments towards achieving Universal Health Coverage by ensuring;

- National Health Insurance Fund (NHIF) coverage for all Kenyans through a bottom up approach and by reforming NHIF and National Social Security Fund (NSSF) to level the playing field among all Kenyans in terms of health and old age security;
- Investment in primary healthcare systems through establishment of stakeholder managed primary health care funds as strategic purchasers at each level 4 facility;
- Build up of supply management systems;
- Management of healthcare workforce and harmonize working conditions and terms;
- Investment in health products and integrated information communication and technology systems to enhance telemedicine and health management information systems;
- Establishment and operationalization of emergency medical fund and establishing a fund to bridge the financial gaps in the wake of diminishing donor funding in support of key programmes including HIV/AIDS, TB, Malaria, RH/FP, vaccines and nutrition.

"The health sector has been allocated KES 141.2 billion to enhance healthcare services across the country.

-5%

Healthcare

Government aims to revitalize and sustain the aspirations of Universal Health Coverage (UHC)

The key sector programme priorities for the FY 2023/2024 – FY 2025/26 include:

Preventive, Promotive and Reproductive, Maternal, Newborn, Child and Adolescent Health (RMNCAH) Services; National Referral and Specialized Services; Health Research and Development; General Administration and Support Services; and Health Policy, Standards and Regulations.

The prioritized programmes and projects aim at achieving improved accessibility, affordability of health services, reduction of health inequalities and optimal utilization of health services across the sector.

Health care remains a core thematic area of the government

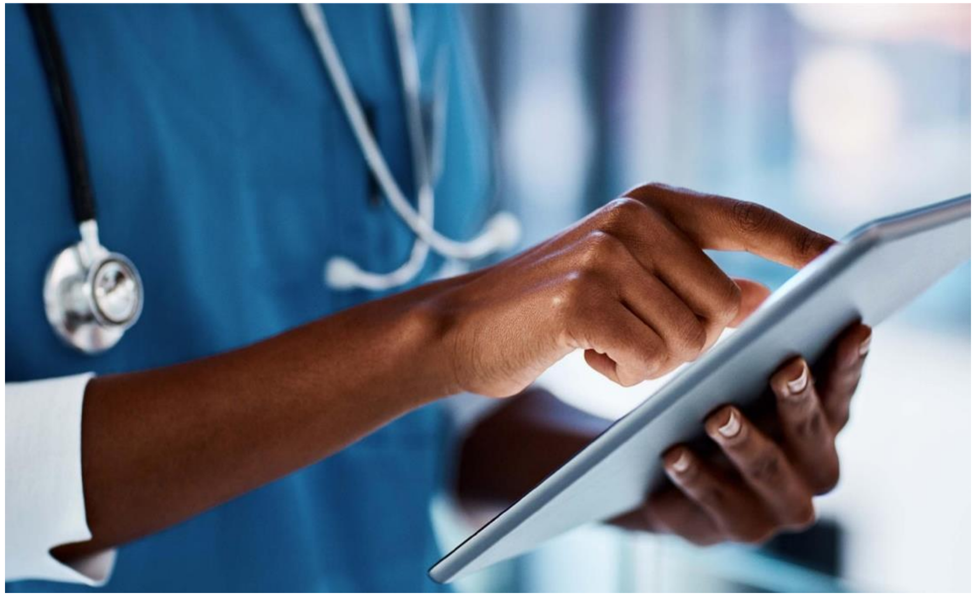
The FY 2023/2024 national budget is within the current Government's Bottom-Up Economic Transformation Agenda (BETA).

The Agenda is geared towards economic turnaround and inclusive growth, and aims to increase investments in at least five sectors envisaged to have the largest impact and linkages to the economy as well as on household welfare.

The Government will therefore promote investment in five core thematic areas that are expected to have the highest impact at the bottom of the economy;

These include: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; **Healthcare**; Digital Superhighway and Creative Industry.

.



Allocations in healthcare budget

- Curative and reproductive health – KES 21 billion
- Health research and innovations – KES 4.9 billion
- Preventive and promotive health services – KES 7.3 billion
- Medical services – KES 116.6 billion
- Health policy, standards and regulations – KES 1.8 billion
- National referral and specialized services – KES 63.5 billion
- Health resources development and innovation – KES 15 billion

Healthcare

Specific allocations for various activities and programmes include:

- KES 1.7 billion for medical cover for elderly and severely disabled persons in the society
- KES 24.8 billion to lower cases of HIV/AIDS, malaria and tuberculosis proposed under The Global Fund
- KES 4.6 billion to enhance vaccine and immunization program

To promote early diagnosis and management of cancer

- KES 1.9 billion for construction of cancer centre at Kisii Level 5 Hospital
- KES 500 million to strengthen cancer centre management at Kenyatta National Hospital
- KES 155 million for establishment of regional cancer centres

To improve health service delivery

- KES 21.6 billion - Kenyatta National Hospital
- KES 12.8 billion - Moi Teaching and Referral Hospital
- KES 8.8 billion - Kenya Medical Training College (KMTC)
- KES 3.3 billion - Kenya Medical Research Institute
- KES 2.4 billion - Construction of Kenya national Hospital banks and pediatric Centres
- KES 1.4 billion - Equipping of laboratories and classrooms for KMTC
- KES 1.1 billion - Renovation of Kenyatta National Hospital
- KES 1.0 billion - Procurement of family planning and reproductive health commodities
- KES 1.0 billion - Procurement of equipment for the National blood transfusion Service
- KES 352 million - Digital Health Platform

Contacts

Stella Githinji
Associate Director,
Government & Public Sector
stella.githinji@pwc.com

Joseph Kagiri
Senior Manager,
Government & Public Sector
joseph.kagiri@pwc.com

Virginia Maneno
Manager,
Government & Public Sector
virginia.manenoi@pwc.com

Agriculture

Revamping agriculture through subsidy, value chain development and other interventions

Overview

The agricultural sector remains the backbone of Kenya's economy contributing an average of 21.4% of the GDP directly and up to 33% of GDP indirectly. As a result the agricultural sector continues to play a fundamental role in Kenya's economy contributing approximately 65% of Kenya's total exports.

It continues to have the highest employment contribution; employing more than 40% of total population and 70% of the rural population.

Despite this, agricultural productivity of the country has been declining. This has been occasioned by the prolonged droughts as well as the doubling of the global fertilizer prices due to appreciation of the dollar and disruption of the supply chain.

As one of the cornerstones of the Kenyan economy, development of the agriculture sector is a key focus area. There should be an urgent but gradual shift in Kenyan agriculture towards technology, information and knowledge management systems for farming systems, integrated value chains and favorable policymaking.

Proposed interventions and allocations

The proposed interventions intended to improve agricultural productivity over the medium term include among others:

- access to credit for working capital to farmers through cooperatives
- deployment of modern agricultural risk management instruments that guarantee minimum returns
- input finance and intensive agricultural extension support projects
- enhanced productivity of key value chains (maize 8 - 15 bags an acre, dairy 2.5kg- 7.5kg a cow a day)
- reduction of dependence on basic food imports by 30%
- revamp underperforming and collapsed export crops while expanding emerging ones

The major funding has been channelled to:
National Agricultural Value Chain Development Project – KES 8.6 billion, Blue Economy Priority Projects – KES 4.5 billion, Fertilizer Subsidy Programme – KES 4.5 billion, Kenya Cereal Enhancement Programme – KES 2.1 billion, National Agricultural and Rural Inclusivity Project KES 2.7 billion, Emergency Locusts Response – KES 4.5 billion and Improve Livestock Production – KES 4.5 billion

Agriculture allocation in FY 2023/2024 - KES 49.9 Billion vs FY 2022/2023 63.9 Billion

Revamping agriculture through subsidy, value chain development and other interventions

Government focus

The government aims at ensuring food security and through interventions that will circumvent the challenge of climate change and create jobs through direct and indirect involvement in agriculture. Rolling out specific interventions to this end will require synchronization of agriculture strategy and food security to harness maximum benefit from the combined allocation of KES 87.9 billion. In particular, the focus on the critical pillars below will significantly impact positive outcomes.

- **Productivity** – the government should continuously focus on high yield crops, improved agriculture, land reforms etc to enhance productivity. Irrigation allocated KES1.4 billion and will require further financing given the capital intensive nature.
- **Governance** – extensions services and the reach to the farmers is currently close to collapsing and will require stimulation. This will help in dissemination of the required information on both crop and animal husbandry.
- **Climate smart agriculture** – the continued decline in productivity has lately been attributed largely to the vagaries of climate change. Acceleration of climate smart agriculture, especially through adoption of resistant crop varieties and water management measures, will enhance the ability to counteract effects of climate change.

The other critical focus area on creation of aggregation centres in the 47 counties will enhance market linkage and reduce post harvest losses. However, concerted effort will be required in synergism of the county interventions with the national government focus areas in order to achieve the intended results.

Value chains are also anchored in the agriculture strategy like in prior year but with the allocation of KES 8.6 billion it remains to be seen how National Agricultural Value Chain Development Project will link up with other interventions under different strategies - particularly fast tracking agro-processing.

Revamping agriculture through subsidy, value chain development and other interventions

We note that many policies and schemes have been set up to tackle the challenges faced by various stakeholders in the agricultural sector. However, certain areas need further intervention and attention from policymakers across various sub-sectors:

- There is a need to increase agri-exports by strengthening the registration and regulation process. Greater focus on research and development, and innovation is necessary in the face of climate change. Agriculture infrastructure also needs to be modernised and improved, considering the requirements. The Kenyan agriculture sector is yet to reach its mechanisation potential. Hence, it is necessary to promote the inclusion of technology on a larger scale while reducing the dependency on rainfall through the widespread adoption of irrigation, especially micro-irrigation.
- Access to agriculture finance and insurance also remains a challenge for many farmers who lack awareness and infrastructure. The last-mile delivery of these services needs to be strengthened along with the development of more customised products suited to farmer needs and a more robust and effective agricultural extension service.
- Agriculture marketing and linkages play a crucial role in farmer remuneration and profitability. Gaps in the value chain linkage hinder price realisation by farmers. Another area of improvement is farmers' access to market information and technical support. Agro-processing needs to be promoted to strengthen linkages.
- A key aspect of overall growth in the sector is going to be innovation and public-private partnerships (PPPs). Policies and incentives that are oriented towards the promotion of private sector participation and innovation need to be in place. Thus, it is necessary to build a conducive policy environment, which would support the holistic and sustainable growth of the agriculture sector.

The budget statement emphasizes agricultural transformation and inclusive growth

Contacts:

Simon Mutinda
Partner
simon.mutinda@pwc.com

Titus Rotich
Senior Manager
titus.rotich@pwc.com

Nelly Muriungi
Manager
nelly.muriungi@pwc.com

Technology and Digital Economy

Doubling down on increased digitisation and automation

In support of the government's bottom-up economic transformation agenda, the current budget has earmarked investments towards digitisation and automation to spur productivity and competitiveness, reducing information asymmetry and easing access to markets. The budget also seeks to boost revenue collection through automated Value Added Tax (VAT) systems.

Allocation	Initiatives
KES 600 million	Government Shared Services
KES 755 million	Digitisation of Land Registries
KES 352 million	Digital Health Platform
KES 400 million	Digital Literacy Program and ICT Integration in Secondary Schools
KES 4.8 billion	Konza Technopolis - Horizontal Infrastructure Phase 1
KES 1.2 billion	Konza Technopolis - Data Centre and Smart City Facilities
KES 5.7 billion	Konza Technopolis - Construction of Kenya Advanced Institute of Science and Technology
KES 475 million	Konza Technopolis - Construction of Konza Complex Phase 1B
KES 1.3 billion	National Optic Fibre Backbone Phase II Expansion Cable
KES 583 million	Last Mile County Connectivity Network.

Digitisation Platforms

Kenya continues to benefit from digitisation of Government services in service delivery. Some of the key implementation initiatives highlighted in the budget are as follows:

- digitisation of 3,750 government services so far and targeting to onboard a total of 5,000 services by the end of 2023
- development of digital platforms to streamline public service pensioner processes and improve service delivery
- digitisation of land registries
- development of a digital health platform, and;
- Digital Literacy programme and ICT integration in secondary schools.

ICT Initiatives

16.1bn

FY 23/24

Technology and Digital Economy

Digitisation Platforms

- Kenya Revenue Authority (KRA) - electronic submission of standardised data and reporting.
- Central Bank of Kenya (CBK) Payment System:
  - Review National Payment System Act 2011 and National Payment System Regulations 2014
  - Development of interoperable payments platform for retail payments across banks, payment service providers and card schemes and other regulated financial institutions
- CBK Central Securities Depository (CSD) - digital platform (DhowCSD) for enhanced investor experience and convenience.
- Sacco Societies Regulatory (SASRA) - Licensing of cost-sharing digital Shared Services platform to support digitisation of smaller SACCOs.

Perspective

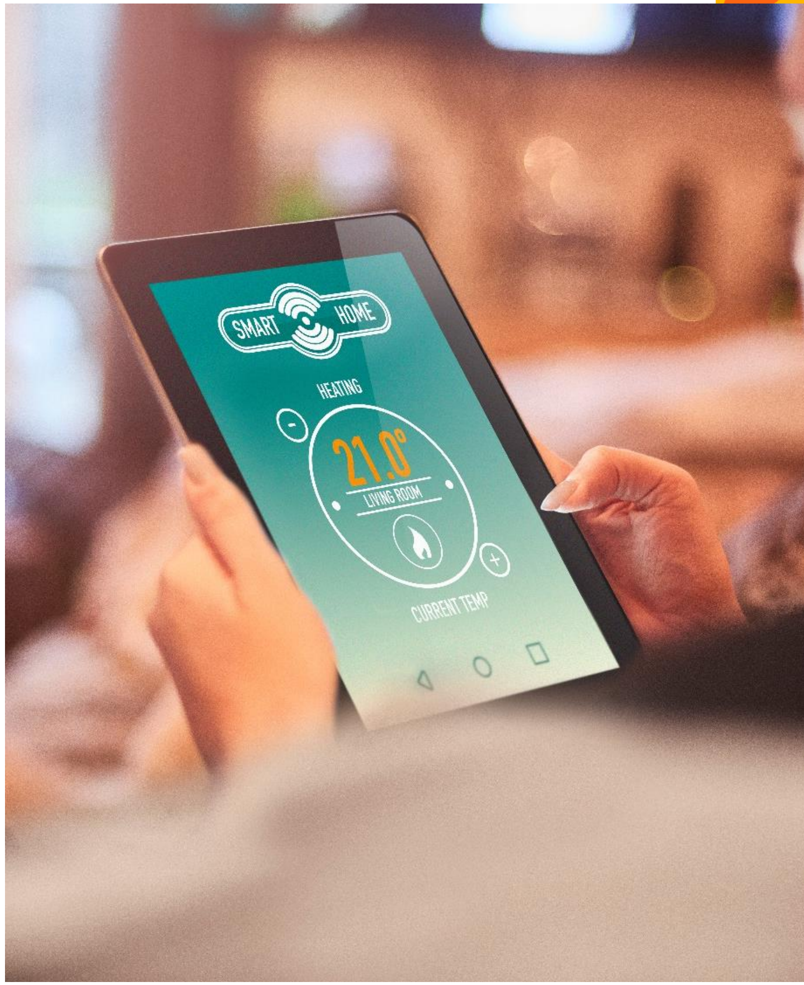
The Government is keen on digital transformation to improve citizen service delivery through infrastructure development and digitisation of its services.

With increasing digitisation, service delivery will evolve how citizens interact with Government. Digitally enabled transformation will drive tremendous value for economic transformation.

Successfully harnessing large scale government digital transformations can however be an overwhelming proposition. Transformations are undertaken amidst a myriad of concerns around fit-for-purpose implementations, navigating cybersecurity, and data privacy risks, and ensuring business continuity.

An outcome driven and citizen centric approach to leveraging digital is imperative to improve public services and create a better experience for citizens and businesses.

Connect the government "why" with the technology "how" and align regulation, policy, modern platforms, operating model and workforce design, security and risk, and digital product innovation to drive sustained outcomes.



Contacts

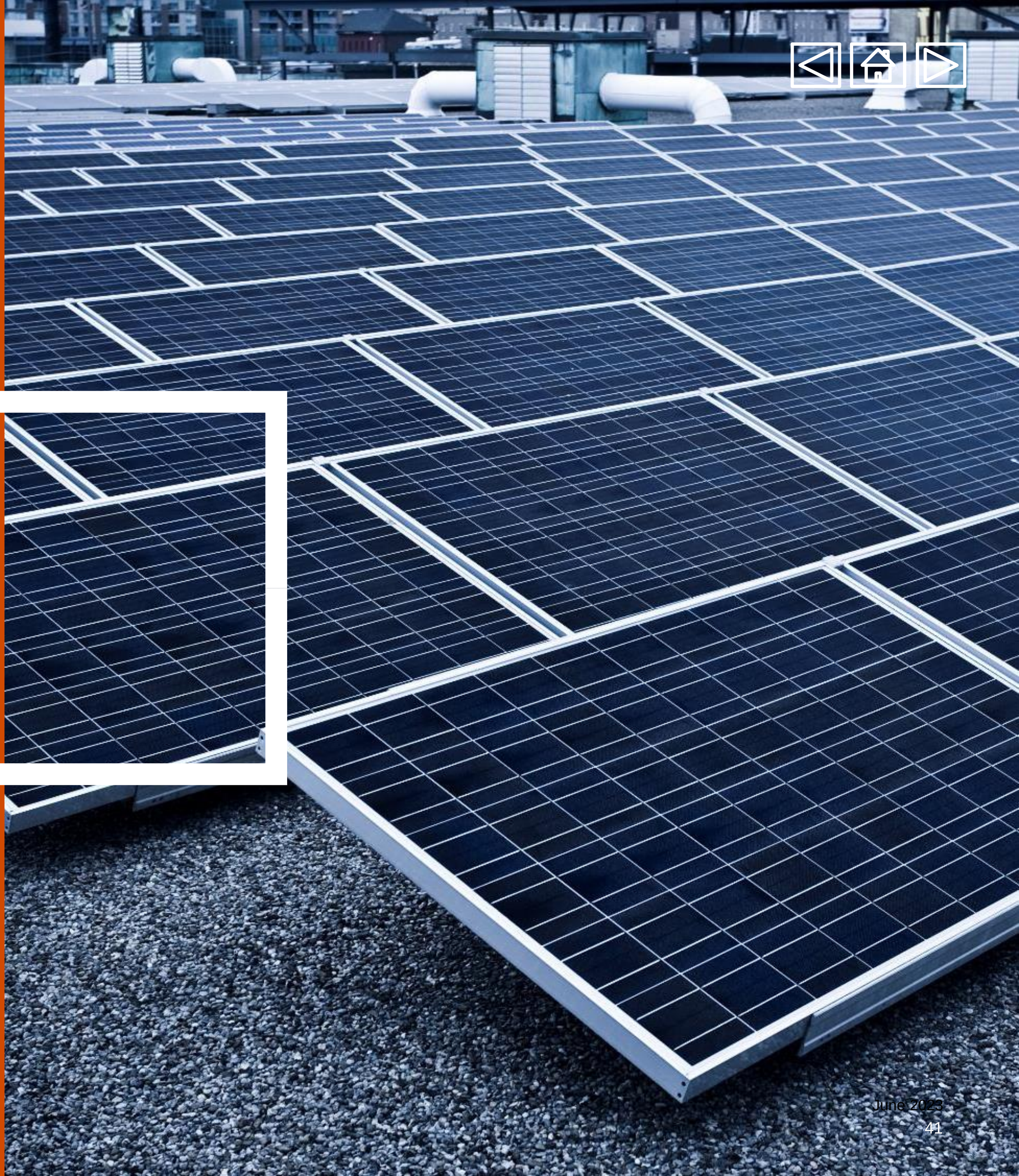
Laolu Akindele
Partner, Technology Advisory
laolu.x.akindele@pwc.com

Conrad Siteyi
Senior Manager,
Technology Advisory
conrad.siteyi@pwc.com

Jane Muli
Manager,
Technology Advisory
jane.muli@pwc.com

5

East Africa Highlights



East Africa highlights

Tanzania

Summary of growth in FY 2022/2023

Despite the economic challenges caused by the Ukraine-Russia war and resurgence of COVID-19 in China, the economy performed satisfactorily in 2022. Real GDP growth was 4.7% compared to 4.9% in 2021.

In 2023, Tanzania's GDP is projected to grow by 5.2% reinforced by growth of credit to the private sector, improving business and investment conditions, rebounding of tourism activities as well as prudent monetary and fiscal policies

Economic drivers in FY 2022/20233

The growth of the GDP was mostly driven by agriculture (15.6%), construction (11.8%), manufacturing activities (8.1%), arts and entertainment (19%), mining and quarrying (10.9%), finance and insurance (9.2%), lodging and food service (9.0%) and power supply (7.6%) are among the economic activities that registered rapid expansion.

2023 economic constraints

Like many other countries, Tanzania suffered from shortage of US dollar, caused by four major factors:

- Ongoing conflict between Russia and Ukraine which led to an increase in the prices of goods and services globally;
- Tightening of US monetary policy which focused on raising interest rates that influenced investors to direct their capital to the US and caused US dollar shortages in other countries;
- Resumption of economic activity after the effects of COVID-19 pandemic, which increased the demand for US dollars compared to the amount available in the financial markets
- Effects of climate change which reduced production especially in developing countries, and increased demand for importation of goods and services using US dollars.

Revenue policies

The government is keen to increase revenue in FY 2023/2024 using the following strategies;

- Improve investment and business environment and continue amending various laws to increase private sector participation in business and investment;
- To widen the tax base by registering businesses and new taxpayers as well as continue implementing various measures to reduce tax evasion and create awareness on voluntary tax payment;
- To strengthen and encourage the use of ICT systems for the collection of Government revenue;
- Continue to encourage the use of the Government Electronic Payment Gateway (GePG) system by ministries and other government institutions and ensure usage of control number in all government transactions;
- Ensure proper use of Electronic Fiscal Device (EFD) to increase efficiency in tax collection.

East Africa highlights

Tanzania

Revenue Policies (Cont'd)

- To limit tax exemptions below 1% of GDP by assessing the legal framework used to provide and manage tax incentives and sensitise investment using non-tax incentives such as land, provision of water, roads and energy infrastructure;
- Conduct research aiming at strengthening the collection of Government revenue;
- Continue to strengthen the systems and management of public institutions, agencies and entities to increase efficiency and ensure eligible contributions are timely submitted to the consolidated fund;
- Continue to raise public awareness to encourage investment in the domestic government bonds market;
- Strengthen cooperation with development partners including implementing contractual agreements to facilitate access to grants and loans as planned;
- Utilise opportunity resulting from credit rating exercise to raise additional resources from international financial and capital markets for investing in strategic development projects; and
- Continue to implement the Strategy to Finance Development Projects using Alternative Project Financing (APF) to increase the scope of access to funds for the implementation of development projects.

East Africa highlights

Tanzania

Government priorities for FY 2023/2024

The Government will continue to implement the flagship projects that are expected to have large multiplier effects in the economy. In the FY 2023/2024 budget the government has specifically focused on five priority areas as presented below:

Enhancing Competitive and Inclusive Economy:

- Improvement of roads
- Construction of large bridges
- Improvement of marine transport
- Rehabilitation and improvement of ports
- Construction and rehabilitation of the airports
- Continuing and implementation of energy projects
- Digital Revolution

Human Capital Development

- National Skills Development Programme for employment 32 creation
- Improving the youth development fund; construction and renovation of vocational training centers for people with disabilities
- Implement the country's Decent Work Programme.

Deepening Industrialization and Service provision

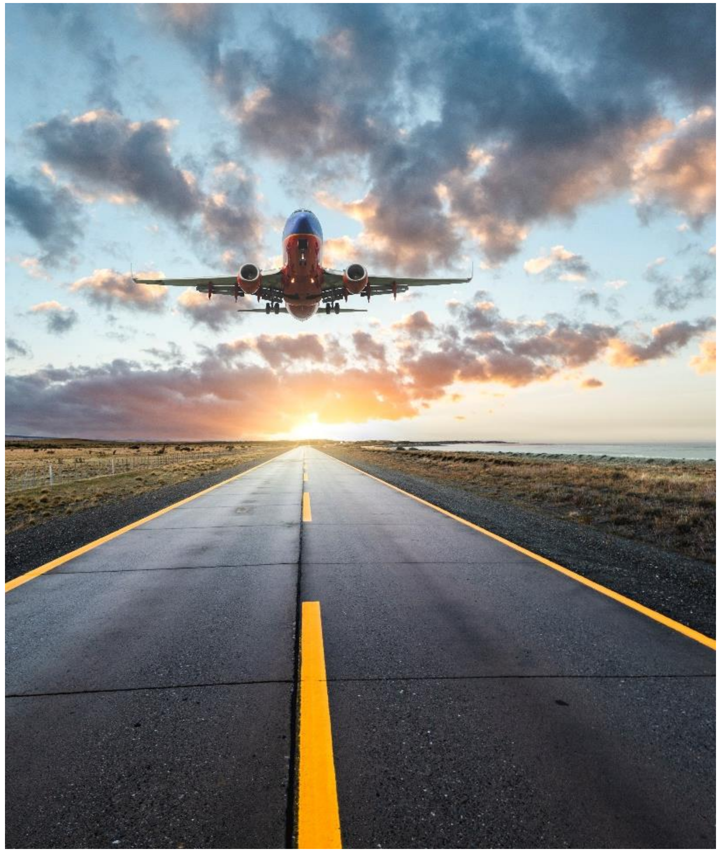
- Strengthening marketing infrastructure for livestock and its products
- Strengthening of irrigation infrastructures by constructing new 25 schemes and
- Rehabilitating 30 schemes with a total of 95,005 hectares in various regions; and
- Enhancing extension services improvement of small and medium enterprises – SIDO and Kilimanjaro Machine Tools Plant

Investment and Trade Promotion:

- Monitoring the implementation of Blueprint for regulatory reforms to improve the business environment
- Enhancing business and marketing services
- Coordinating institutional, legal and regulatory frameworks and measures related to a reduction in the cost of doing business; and
- Improving the services provided to investors at One Stop Centre.

Promoting Human Development:

- Strengthening health services in rural and urban
- Strengthening the access to medical suppliers in health service provision centers
- Continuing with the implementation of fee-free basic and secondary education
- Increasing access to higher education student loans
- Continuing with construction, rehabilitation and expansion of water projects; and
- Continue with planning, surveying and titling of land and strengthening international boundaries.



East Africa highlights

Tanzania

Key tax highlights

Income Tax

- Exclusion of (i) issuance of shares and (ii) transfer of shares in a Tanzanian entity from change in control provisions (Section 56) i.e. the same will not result in a deemed disposal of assets and liabilities of that company at market value.
- Exemption from Capital Gains Tax on internal restructuring of the mining companies in accordance with the Framework Agreement entered into between the Government and the investor to form a partnership entity.
- Capital gains derived by small property sellers to be taxed based on sale value (at a rate of 3%) rather than profits (which were taxed at 10%).
- Capital gains derived by small property sellers to be taxed based on sale value rather than profits
- Removal of the requirement for individual tenants to withhold tax on rental payments unless such payments are made in conducting business.
- Introduction of income tax at a rate of 2% of payments to Artisanal and Small Miners (ASM)
- Income tax on Verified Emission Reduction (VER) scheme at 10%

Value Added Tax

- Increase the threshold from TZS 100 million to TZS 200 million and gradually increase to TZS 500 million. The measure is intended to reduce compliance burden to SMEs while increasing government revenue by lessening TRA’s administration on small players and increasing focus on large players.
- Expansion of the VAT deferment scheme to capture domestically manufactured capital goods and cease VAT deferment on importation after 3 years (i.e. by 1 July 2026). The intention is to attract manufacturing and ensure availability of capital goods locally at affordable prices.
- Amendment of the exemption schedule under the VAT Act to align with the HS codes in the current version of the Custom External Tariff (CET) handbook of 2022.
- Zero rate VAT on textile products manufactured using domestically produced cotton for a period of one year.
- Extension of zero rate on locally manufactured fertiliser for another year.

- **VAT Exemptions include:**
  - Inputs used to manufacture insecticides and acaricides under HS code 2916.32.00
  - Imported prefabricated structures used by the poultry farmers under HS code 9406.20.90
  - Sale and lease of aircraft, aircraft engine or parts by a local operator of air transportation
  - Supply of precious metals, gemstones and other precious stones at buying centres, mineral markets and gem houses designated by the Mining Commission under the Mining Act or refinery situated in Mainland Tanzania
  - Inputs used to manufacture packaging materials under headings 3902 and 3907
  - Moulds used solely by pharmaceutical manufacturers; and
  - Inclusion of gaming odds and gaming software as part of gaming supply that qualifies for exemption

East Africa highlights

Tanzania

Key tax highlights – Cont'd

Excise Duty

- Proposed inflationary adjustments on specific excise duty tariffs for non-petroleum products as follows:
  - 20% excise duty increase on both imported and locally manufactured beer and tobacco products; and
  - 10% excise duty increase on all other non-petroleum products with the exception of domestically manufactured wines, spirits and confectionery products due to the national strategy to enhance growth of the industrial economy.
- The Government proposes to freeze the excise duty fixed tariffs on non-petroleum products for the next 3 years from 1 July 2023 (i.e. up to 30 June 2026). The aim is to improve the investment climate and enhance economic stability.
- Amendment of the Excise (Management and Tariff) Act to harmonise and align to the HS codes in the current version of the Custom External Tariff (CET) handbook of 2022.

Other levies and taxes

- Proposal to exempt refinery centres from payment of the clearance (or inspection) fee of 1%. The aim is to promote small-scale refining of minerals in Tanzania.
- Change in gaming tax rates including a reduction of tax rate to 18% (from 25%) on gross gaming revenue for forty machines site operations.
- Increase road and fuel toll by 100 shillings per litre (of petrol and diesel).
- Increase property taxes to reflect the actual value of the property as highlighted below.
  - from TZS 12,000 to TZS 18,000 for a normal building, and
  - from TZS 60,000 to TZS 90,000 per each storey building.
- Reduce billboard fees on non-illuminated boards from TZS 10,000 to TZS 7,000 per square feet; and on illuminated, from TZS 13,000 to TZS 10,000 per square feet.
- Billboards with business names and placed within the respective commercial areas will not be subject to billboard fees.
- Transfer the mandate to collect billboard fees from the commissioner general of TRA to the president's office regional administration and local government aimed at increasing efficiency.
- Integrate property tax and land rent to be paid through one control number and revenue collected be remitted to the consolidated fund.
- Empower the Minister responsible for local government to collect service levy (0.3% of turnover) from Electronic Money Issuance Licenses (EMI) on behalf of the local government authorities and distribute the collected amount to the respective councils.
- Removal of mobile money transaction levy on sending and receiving monies electronically but also to increase the levy on withdrawals by 50% of the current rates (i.e. to a minimum of TZS 15 and a maximum of TZS 3,000).

East Africa highlights

Uganda

Summary of growth in FY 2022/2023

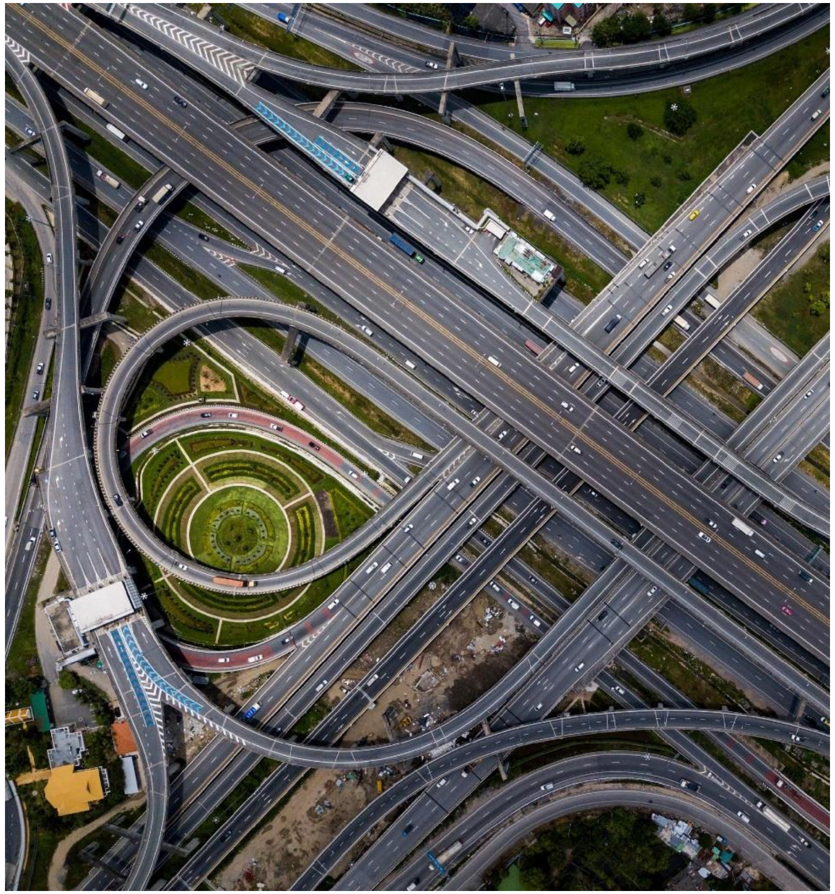
- The economy is projected to grow by 5.5% compared to 4.6% last year. This year’s performance compares favourably with the average growth rate for Sub-Saharan Africa estimated at 3.6% for calendar year 2023. The size of the economy is estimated at UGX 184.3 trillion, compared to UGX 162.9 trillion last year. This is equivalent to USD 49.4 billion compared to USD 45.6 billion last year.
- Inflation has significantly decreased since October 2022 when it peaked at 10.7%. Last month, the pace at which prices were rising slowed down to 6.2%.
- Total private sector credit increased from UGX 19.5 trillion in May 2022 to UGX 20.5 trillion in April 2023, representing annual growth of 4.8%. The growth in lending to industry and agriculture was 6.2% and 3.3%, respectively. Trade and personal lending recorded annual growth of 14.1% and 19.1%, respectively.

Economic drivers in FY 2022/2023

- Economic growth is accounted to good performance of the services sector which grew by 6.2%, compared to 4.1% in 2022.
- Agriculture has also performed strongly growing by 5.0%, despite the dry spell in the first quarter of the financial year. In particular, food crops, livestock and fishing performed well.
- Industry grew at 3.9%, driven largely by manufacturing and construction activities, especially in the oil and gas industry.

Government priorities for FY 2023/2024

- Urgent completion of key public investments with higher multiplier effects on the attainment of National Development Plan III targets and the National Resistance Movement 2021-2026;
- Enhanced revenue mobilization and collections;
- Full-scale operationalisation of the Parish Development Model (PDM); and
- Enhanced government's efficiency and effectiveness through rationalisation of public expenditure, payroll, audit etc.



East Africa highlights

Uganda: Key tax highlights

Value Added Tax

- Expansion of electronic services and digital services to include all services supplied through an online or digital network and to introduce new services such as streaming platforms, subscription-based services, cab-hailing services and cloud storage services

- Additional restrictions for claiming input VAT

    - Non-residents providing electronic/digital services in Uganda will not be entitled to input VAT credits;
    - Input VAT incurred on gyms, sporting associations or on recreational activities is now categorised as entertainment and thus not claimable; and
    - Claims for input VAT can only be made against the related business generating the taxable supply

- VAT on auctioned goods to be charged by the auctioneer;
- Introduction of VAT on diapers. These were previously VAT exempt;
- Expansion of the scope for exemption of animal feeds to include concentrates.

Income Tax

- Winnings derived from sports betting and pool betting deleted from the definition of property income
- 15% withholding tax ("WHT") will not apply to gaming however, the gaming tax has been revised from 20% to 30%
- Removal of a limitation on interest deductibility for microfinance deposit taking institutions and tier 4 microfinance institutions
- Repeal of 50% and 20% initial allowance on eligible property and buildings respectively
- Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account information ("MCAAA"), with effect from 1 January 2024, a reporting financial institution must conduct a due diligence and annually submit a return to the Uganda Revenue Authority on its existing and new customer reportable accounts held by non tax residents.

Excise Duty

- Extending the exemption of excise duty to incoming calls from The United Republic of Tanzania (USD 0.09 per minute)

- Decrease of excise duty on opaque beer (from 20% to 8% for the ad valorem rate or Shs. 230 to Shs. 150 for the fixed rate)

- Exemption from excise duty, undenatured spirits used in manufacture of sanitizers

- Reduction of the threshold for investment capital for strategic projects from USD 50 million to 35 million USD for non-residents and to USD 5 million USD for citizens.

East Africa highlights

Uganda: Key tax highlights

Tax Administration changes

- Introduction of a requirement for local authorities, government institutions or regulatory bodies to demand for Tax Identification Numbers where persons lodge instruments liable to stamp duty with such bodies
- Clarification on the order of payment of tax, all tax payments to be applied to the principal tax first until it’s fully paid up
- Powers of the Minister to waive tax due to be subject to Parliamentary approval
- Waiver of interest and penalties outstanding as of 30 June 2023 if the taxpayer pays all tax due by 31 December 2023
- Information relating to the past three financial years requested for by the URA and not provided by the taxpayer will not be considered at objection and alternative dispute proceedings
- Introduction of penalties for unauthorised interference with digital tax stamps machines
- Introduction of a penalty on fixing tax stamps on wrong goods, brands or volumes

East Africa highlights

Rwanda

Summary of growth in FY 2022/2023

- The Rwandan economy grew by 6.2% in 2022/2023 compared to an 8.2% growth in 2021/2022. This is attributed to economic uncertainties such as high inflation and supply chain issues caused by the Russia-Ukraine war as well as climate change. The economy is expected to grow by 6.7% in 2023/2024.
- Inflation increased to 19.3% in 2023 from an average of 13.9% in 2022.

Economic drivers

The key economic drivers for the year identified by the government include:

- Prioritising fiscal consolidation through:
  - ✓ streamlining and gradually reducing subsidies particularly those related to energy and fuel; and
  - ✓ new Organic Budget Law (OBL) - reforms to budget processes, including a new Pre-Budget Outlook Paper that sets expenditure ceilings for spending ministries earlier in the process
- Focusing on continued economic recovery through supporting businesses affected by Covid-19;
- Easing inflation; and
- Investing in agriculture

Government priorities

The government's key priorities for 2023/24 will be focused on its economic transformation, social transformation and transformational governance pillars which include:

- Strengthening the health system;
- Increasing agriculture and livestock productivity;
- Scaling up social protection coverage;
- Improving the quality of education,
- Creating employment opportunities through investment in public works;
- Support to micro, small, medium and large enterprises affected by COVID-19 through the economic recovery fund and manufacture to build and recover programs;
- Support for Made in Rwanda;
- Promotion of digital technologies to improve service delivery;
- Eradication of malnutrition and stunting; and
- Strengthening disaster preparedness and management among others

Contacts

Kenya

Titus Mukora
Partner/Director
+254 20 285 5395
titus.mukora@pwc.com

Nelson Ogara
Associate Director
+254 20 285 5001
nelson.ogara@pwc.com

Nicholas Kahiro
Senior Manager
+254 20 285 5788
nicholas.x.kahiro@pwc.com

Rwanda

Frobisher Mugambwa
Associate Director
frobisher.mugambwa@pwc.com

Victor Omurunga
Associate Director
victor.omurunga@pwc.com

Tanzania

David Tarimo
Partner/Director
+255 (0) 22 219 2600
david.tarimo@pwc.com

Ali Dawoodbhai
Associate Director
+255 (0) 22 219 2620
ali.dawoodbhai@pwc.com

Jonia Kashalaba
Associate Director
+255 (0) 22 219 2617
jonia.k@pwc.com

Johnson John
Manager
+255 (0) 22 219 2642
johnson.o.john@pwc.com

Uganda

Pamela Natamba
Partner/Director
+256 771 010881
pamela.natamba@pwc.com

Richard Marshall
Associate Director
+256 785 288893
richard.marshall@pwc.com

Trevor B. Lukanga
Senior Manager
+256414236018
trevor.b.lukanga@pwc.com

Juliet Najjinda
Senior Manager
+256 782 054856
juliet.najjinda@pwc.com

www.pwc.com/ke