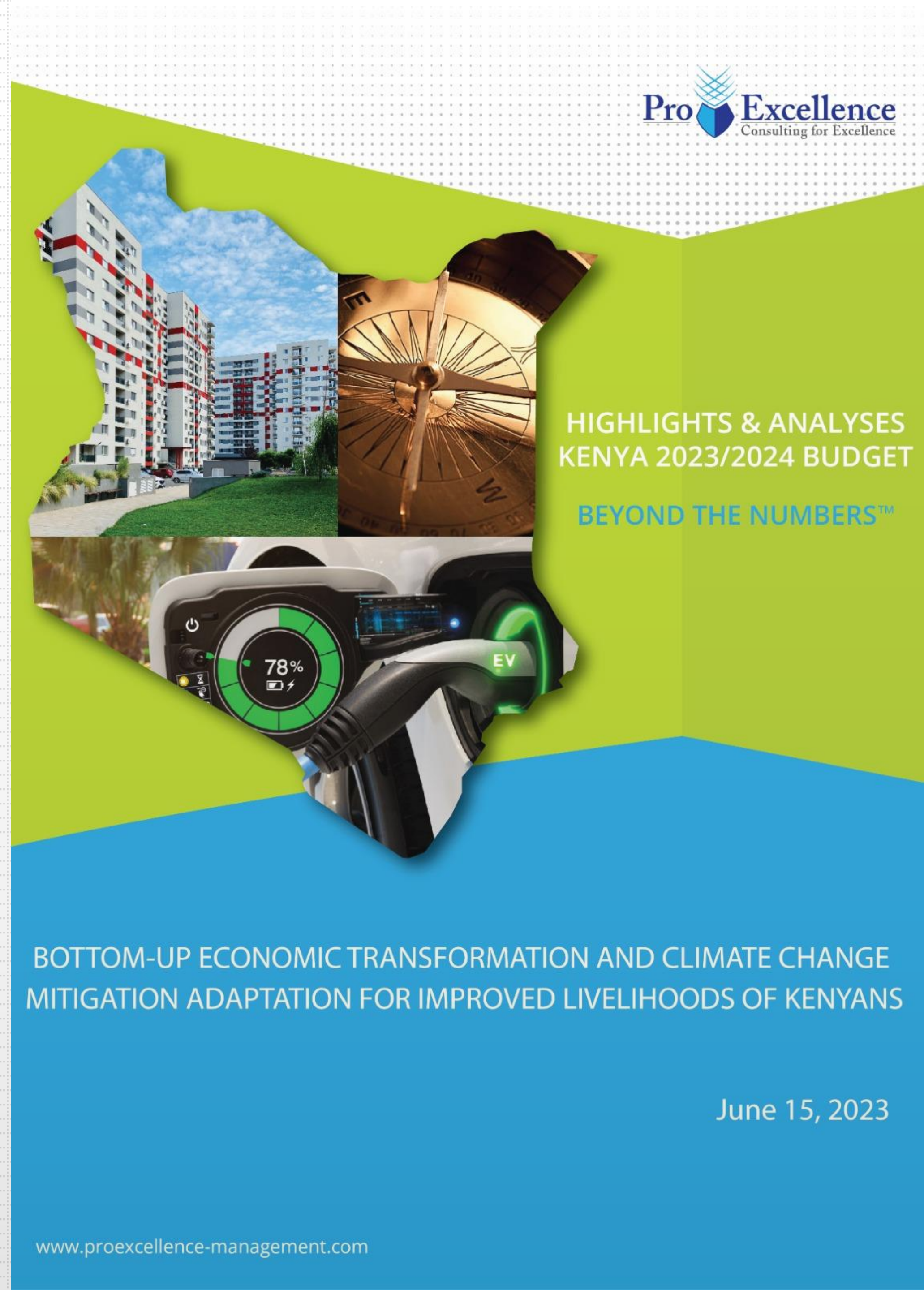
Kenya Budget 2023

Beyond the Numbers Report™



Welcome to our FY2023/24 Beyond the Numbers™ report.

The FY23/24 theme is "Bottom-Up Economic Transformation and Climate Change Mitigation Adaptation for Improved Livelihood of Kenyans".

In this report, we conduct a sectoral analyses, policy considerations therein and the Taxation proposals presented.

Given that sustainable economic transformation is a multi-faceted issue, the report seeks to add context to the current economic climate by broadening the narrative on critical issues such as Affordable Housing and Climate Change to reflect reality accurately and objectively.

The FY2023/24 Budget statement presents a mix of unique revenue raising proposals aimed at kickstarting the economy.

Being in a tight fiscal space, there is need to cushion Kenyans from a harsh economic environment.

It takes boldness, pragmatism and innovation to bridge these two ideal positions and lay a foundation for recovery.

Sincerely,

Robert Kanyua

Robert Kanyua,
Managing Principal
Pro Excellence Management Consultant

Contents

Global economic growth forecast is projected at **2.8%** moderated by the Russia-Ukraine conflict that is impacting demand and supply of commodities such as oil, wheat & fertilizer.

GLOBAL ECONOMIC PERFORMANCE, 2022

In 2022, the global economy recovered minimally from the effects of the pandemic to register a growth of 6%.

The European conflict occasioned supply shocks through the global economy with severe grain and fertilizer shortages and high oil prices.

REGIONAL ECONOMIC PERFORMANCE, (EAC).

In 2022, the combined EAC region grew by 4% driven by an increase in Trade and the service sector.

However, FDI into the EAC region fell with most nations experiencing a decline. Growth in FY23/24 is expected to remain at the 4% range.

KENYA'S MACRO-ECONOMIC ENVIRONMENT

In 2022, Kenya's economic performance was subdued by a rare confluence of circumstances. Drought, irregular weather patterns; pest invasion and fiscal pressures impacted the economy.

As a result, economic growth rate decelerated to 4.8%.

Economic growth for FY2023/24 is projected at 5.5% driven by improved food production and private sector growth.

Looking ahead, the near term growth outlook is tempered though we remain optimistic that the policies and measures undertaken will deliver a 'hockey stick' growth trajectory if prudently implemented.

Macro Overview - at a glance

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Budget Highlights - FY 2023/24

- A Kshs. 3.7 Tn budget.
- Legislature - Kshs. 41 Bn
- Judiciary - Kshs. 23.2 Bn

3.7 Tn

Public debt

- Public Debt: Kshs. 7.7 Trillion
  (77% of Kshs. 10 Tn National Debt ceiling)
- Net External Financing (0.8%): Kshs 131.5 Bn
- Net Domestic Financing (3.6%): Kshs 586.5 Bn
- Debt Service Amount: 475.6 Bn

7.7 Tn

Strategic Priorities

- Decrease our debt levels
- Grow the economy
- Reduce income inequality
- Cushion households
- Encourage FDI
- Spur the MSME sector / Create Jobs.

Revenue & Expenditure Breakdown

- Projected Tax Revenue FY 2023/24
  - Kshs. 2.4 Tn *(Including A-in-A & grants, 17.5% of GDP)*
  - Ordinary Revenue: 2.57 Trillion
  - Budget Deficit Estimate: 718 Bn. *(4.4%) of GDP).*
- Projected Expenditure: Kshs. 3.7 Tn *(15.6% of GDP).*
  - Recurrent Expenditure 2.53 Tn
  - Development Expenditure: 743 Bn
  - County Equitable Share - Kshs. 385.4 Bn

2.14 Tn

Key Indicators

- Inflation target: Projected at 5%. (+-2.5%)
- Interest rates are expected to remain stable to support growth of private sector credit.

Economic Growth Projection

5.5%

Forex (FX) Cover

- Foreign Exchange reserve adequacy: slightly above the 4-month import cover benchmark *(as at 8/6/23)*

4.15

Data from The National Treasury

POLICY DIRECTION

Solving Key Socio-economic and Environmental challenges facing the country.

Socio-Economic Challenges

In our view, our current Socio-Economic Challenges are;
- Rising cost of living.
- High debt level.
- Low Economic Growth
- Low FDI
- Income inequality
- Unemployment

How these Strategic Priorities have been addressed in the Budget

Taming the Rising Cost of Living:
- Change in policy direction towards subsidizing production of goods.
- Support for Agriculture Production.
- Drought Mitigation and Climate adaptation measures

Reducing the High Debt Level:
- Expand tax base to enhance revenue mobilization to finance development.
- Raise the debt anchor to allow it flexibility to grow with the economy.

Low Economic Growth
- Spur MSME
- Accelerate Financial Inclusion and liquidity access for the BoP segment.
- Increase Forex Earnings.

Unemployment
- Raise Employment by spurring growth in five (5) strategic sectors

Strategic Priorities

The focus of the FY2023/24 Budget proposals include;
- Decreasing our debt levels
- Growing the economy
- Encouraging FDI
- Reducing income inequality
- Cushioning households (Bringing Down the Cost of Living)
- Creating jobs / Spurring the MSME sector

Whereas the near term growth outlook is tempered, we hold the view that the policies and measures undertaken will deliver a ‘hockey stick’ growth trajectory if prudently implemented.

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Sectoral Review

A sectoral analysis

EDUCATION Sector

Developing Human Capital

Going forward, **Technology Solutions w**ill be critical in Expanding Access to Education and bridging the gaps to learning.

Sector Allocations:
Education as a flagship program was allocated **Kshs. 628.6 Bn**.
Key allocations include;

- Kshs. 316.7 Bn for Teachers Service Commission;
- Kshs. 97.5 Bn towards University Education;
- Kshs. 65.4 Bn for Free Day Secondary Education *(including NHIF for students);*
- Kshs. 30.3 Bn for Higher Education Loans Board;
- Kshs. 12.5 Bn for Free Primary Education
- Kshs. 25.5 Bn for Junior Secondary School Capitation;
- Kshs. 6.0 Bn for Primary and Secondary schools' infrastructure
- Kshs. 2 Bn towards the School feeding programme;
- Kshs. 1.9 Bn for construction and equipping of Technical Training Institutes and Vocational Training Centers;
- Kshs. 4.8 Bn for Recruitment of 20,000 Intern Teachers;
- Kshs. 1.5 Bn to promote Youth Employment & Vocational Training;
- Kshs. 1.3 Bn to Train teachers on Competency Based Curriculum;
- Kshs. 1.0 Bn for Promotion of teachers
- Kshs. 940 Million for Provision of sanitary towels;
- Kshs. 980 Million TVET and Entrepreneurship;
- Kshs. 749 Million for Research, Science, Technology & Innovation.
- Kshs. 400 Million for Digital Literacy Program & ICT Integration in Secondary Schools;
- Kshs. 1.8 Bn to increase access and improve the quality of TVET programs under the East Africa Skills Transformation and Regional Integration Project.

Overview of the Sector: Kenya's Education sector is rebalancing after the structural weaknesses therein were addressed.

The Evolving Picture:.

- As regards education financing, the reforms effected are reorienting mindsets from exchequer funding to generating resources competitively with support for needy bright students.
- The newly established National Open University *(set to receive its Charter in June 2023);* will make higher education inexpensive, affordable, accessible, inclusive and attainable to all.

Our View:
University education reforms tilted towards realizing the true cost of higher education as opposed to funding operations in learning institutions.

Outlook:
The sector is expected to build on this transformation to improve education outcomes while ensuring an equitable society.

HOUSING Sector

Reimagining Urban Environments

The Affordable Housing Agenda is good for employment, good for business and good for economic growth. The right framework and adequate funding need to be in place for this virtuous chain reaction to be set off.

An Overview of Kenya Housing Sector

Kenya's housing sector is marked by a housing deficit of 2 million units. The country is rapidly urbanizing and has a youthful population that fuels the need for urban, affordable and decent housing.

Structurally, the youth & middle-class bulge is projected to sustain for a long time.

Competing Priorities: The private sector has failed to meet Kenya's housing demand as private investments are largely driven by return.

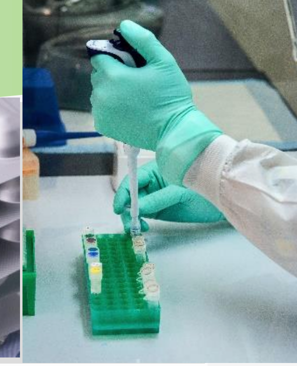
Hitherto, the housing units developed largely catered for the mid-top segment of society. Thus, the real housing deficit is on the low-bottom segment of our population and the deficit increases as each year passes.

Trends Shaping Kenya's Housing Agenda
- Currently, there are about 14 million urban dwellers in Kenya.
- Currently, there are about 7 million slum dwellers in Kenya.
- Our urban population projected to grow at 4% p.a. for the next 10yrs.
- 50% of citizens projected to live in cities by 2050. (World Bank, 2016),
- By 2030, 22 Mn projected to live in cities. To rise to 40 Mn by 2050.

Housing sector was allocated **Kshs. 35.2 Bn**. Key allocations include:
- Ksh 7.3 Bn for the Kenyan Urban programme (KenUP).
- Ksh 3.3 Bn to Construct Affordable Housing Units.
- Ksh 3.2 Bn to Construct Social Housing Units.
- Ksh 5.0 Bn to enhance KMRC's capital and for use in on-lending to primary mortgage lenders;
- Ksh 5.5 Bn Kenya Informal Settlement Improvement Project - Phase 2;
- Ksh 5.2 Bn for the construction of markets;
- Ksh 1.1 Bn to build Housing Units for National Police & Prisons;
- Ksh 1.2 Bn to Construct Social Housing units
- Ksh 1.0 Bn to Construct affordable Housing Units;
- Ksh 637 million for the Kenya Municipal Programme;
- Ksh 300 million to develop Appropriate Building Technology.;

Our View:
Having a youthful population is not enough. Employment opportunities are necessary. Large scale development of Affordable and Social housing will create opportunities for the youth.

HEALTH
Sector



Shoring Health, Domestically and Regionally

As we build our local healthcare, we are also building our capacity to serve the region as well".

Sector Overview:

Kenya continues its quest for quality healthcare.

Health Infrastructure has increased with the commissioning of level 3 hospitals across the counties and the number of health professionals has also risen.

Nonetheless fragilities remain including donor dependency, sub-optimal national health insurance coverage and supply chain weaknesses.

National Health Insurance coverage is challenged by low contributions, strained payouts and limited benefits.

On the sub-national level, revenue raising threatens to limit access to healthcare as hospital fees amount to 40%-50% of some county OSR.

BUILDING LOCAL PHARMA INDUSTRY: *Vaccine Production*

In an era of black swan health risks, vaccine production is a competitive advantage. We have a direct opportunity to leverage our first-mover advantage to bridge regional vaccine supply chain gap.

The sector was allocated **Kshs. 141 Bn**. Key sector proposals include;

- Ksh 24.8 Bn Global Fund (HIV, Malaria, TB)
- Ksh 21.6 Bn for Kenyatta National Hospital;
- Ksh 12.8 Bn to Moi Teaching & Referral Hospital;
- Ksh 8.8 Bn to Kenya Medical Training Centres;
- Ksh 18.4 Bn for rolling out of Universal Health Coverage;
- Ksh 3.7 Bn for the Kenya COVID-19 Emergency and Response Project;
- Ksh 4.1 Bn for Free Maternity Health Care;
- Ksh 5.9 Bn for Managed Equipment Services;
- Ksh 1.7 Bn for medical cover for the elderly & severely disabled persons;
- Ksh 4.6 Bn to enhance Vaccines and Immunizations Programme;
- Ksh 3.3 Bn to Kenya Medical Research Institute;
- Ksh 1 Bn to buy equipment for the National Blood Transfusion Services
- Ksh 1.0 Bn to buy Family Planning and Reproductive health commodities;
- Ksh 352 million for the Digital Health Platform;
- Ksh 1.4 Ksh for the Equipping of Laboratories and Classroom at KMTC;
- Ksh 500 Million for the establishment of cancer centre Management at KNH;
- Kshs 2.4 Bn to construct a Burns and Pediatrics Centre at KNH;

Our View:

Reforming our National Health Insurance coverage reform is an imperative. There is need to boost insurance coverage and boost governance to shore up its utility.

TOURISM Sector

ICT Sector

Recovery is Slow but Certain

To sustained sector recovery, we must drive action towards more tourist arrivals, choice and spend.

Sector Overview:
Sector recovery is apparent with tourist arrivals rising up in 2022 as COVID-19 travel restrictions relax though the sector is yet to return to pre-covid levels.

Sector Shifts & Revenue Implications:
Domestic spending has outpacing International spending and Business spending has outpaced leisure spending. 83% of the total sector spend was domestic spending while 17% was international spending.

On the other hand, the amount spent on leisue accounted to 51% of the total spend while 39% accounted for 39%.

Going Forward:
Going Forward MICE and sports events will become prominent sub-sectors. The sector can achieve this easily as sufficient investment has been made.

Sector Allocations:
The direct allocation to the sector was **Kshs. 12.5 Bn.** Key allocations are;

- Ksh 4.1 billion for the Tourism Fund;
- Ksh 2.0 billion for Tourism Promotion Fund;

Our View:
We expect the sector to continue on a growth path. The sector can secure additional long-term growth through optimizing MICE travel.

The Future is Digital

We are in the Digital Era. There is a need to capitalize on the Digital and Gig economy that is generating multiple income earning opportunities".

Sector Overview:
The ICT sector continues to play a significant role in the economy. Digitizing government services is significantly expanding access and introduce Efficiency and Effectiveness in Public Service Delivery.

Growth Factors
Content creation is a rising mainstay riding on the back of increased access to digital platforms enabled by high mobile penetration and connectivity and a youthful population.

Proactively entering this space is critical even where revenue optimization may be delayed.

The ICT sector was allocated **Kshs. 15.1 Bn**. Major allocations include;

- Ksh 600 Million for Government Shared Services;
- Ksh 4.8 Bn to develop Konza Horizontal Infrastructure, Phase 1;
- Ksh 1.2 Bn for Konza Data Centre and Smart City Facilities;
- Ksh 475 million for construction of Konza Complex Phase 1B.;
- Ksh 5.7 Bn to construct Kenya Advanced Institute of Science and Technology (KAIST);
- Ksh 583 million to Maintain and Rehabilitate the Last Mile County Connectivity Network
- Ksh 1.3 billion Maintenance and Rehabilitation of NOFBI cable and expansion cable.

Our View:
Tapping into the Digital space is critical even if revenue optimization may be delayed. There is need for strong regulation and vigilance in the fast evolving sector.

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TRANSPORT Sector

Time to Green our Transport Sector

Kenya oil imports amount to *Kshs. 628 Bn* per annum. 75%of this is used up within the transport sector. Greening transport, can significantly reduce our oil import bill.

Sector Overview Kenya has attained significant gains in developing its transportation infrastructure. We continue to scale up new development and expand existing infrastructure assets in line with our Vision 2030 development blueprint.

Maritime Transport: infrastructure facilitates a significant share of the EAC region impex traffic and has the potential to help reach the large and growing African market to further spur Trade.

Air Transport: Kenya's air transport sector suffers under a struggling national airline.

Energy Transition & The Transport Sector: The GoK has embarked on a bold climate adaptation and mitigation agenda "Zero Carbon by 2050'. For this reason, the Government has stepped up climate adaptation and mitigation efforts including green energy, smart agriculture, de-carbonized manufacturing, e-mobility and green building, all aimed at the attainment of zero carbon by 2050

Our View:

The transport sector is central to the climate crises. The time to green our transport sector towards Zero Carbon is now.

Whereas the sector makes a vital contribution to economic growth, it is also majorly responsible for our widening trade deficit and negative BOP position.

Opportunity to transition from fossil fuels can bring tremendous savings that will help the environment and close the trade deficit.

Kshs. **244.9 Bn.** was allocated to the transport sector with significant share going into;

- Standard Gauge Railway; Kshs. 37.4 Bn;
- Nairobi Bus Rapid Transport Project - Ksh 1.1 Bn;
- Rehabilitation of Locomotives; Kshs. 579 million;
- Development of Nairobi Railway City - Kshs. 889 million;
- Acquisition of Ferries for Lake Victoria- Kshs. 300 Million;
- Construction and expansion of airports & airstrips - Ksh 727 Mn;
- Smart Driving License – Kshs. 500 million
- Infrastructure Devt. in Dongo Kundu SEZ – Kshs. 2.6 million.

Oil Imports are a growing threat to Kenya's trade balance! Greening the transport sector will ease budgetary pressure and address the worsening transport pollution problem.

FINANCIAL Sector

Sector Overview: The financial services sector remained stable across the Banking, Capital Markets, Insurance sub-sectors.

Banking Sub-Sector: The banking sub-sector maintained a robust growth trajectory and recorded strong earnings with high profit ratios.

The tier-one Kenyan banks now have a strong presence in the region from their ambitious expansion strategy. Overtime, we anticipate further growth and profitability.

Role of Technology: There is stiff competition within the sector and from Telco's at the retail end. As lenders compete with each other, Micro-finance banks that lag in technology adoption are losing out.

Insurance Sub-Sector: The insurance sector continues to experience a low penetration rate in a crowded supplier market. There is potential for industry growth within Agriculture. Climate Change Risks threaten profitability of the sector which may further suffer in the near-term from reduced disposable incomes.

Capital Markets Sector: The Capital Markets Authority is implementing the Capital Markets (Investment Based Crowdfunding) Regulations, 2022 to support Kenyan Start-ups to raise finance from both global and local investors.

Investment Based Crowdfunding will make it easier for International Capital to invest in local companies.

Kenyan banks expansion in the region will aid commerce and generate further growth and profitability.

Pensions Sub-sector: In Kenya, pension coverage is low at 22% of the working population. This excludes informal sector workers who make up the majority of our workforce.

The proposed National Pensions Policy seeks to broaden coverage, enable portability of schemes; facilitate reciprocal arrangements to address concerns of Kenyans in diaspora and mitigate the fragmentation in the sector.

In terms of investment, pension funds can play a larger role of funding development. our pension funds remain insufficient and hence under-utilized. A strong savings culture will help turn this around to enable them play a larger role in funding development.

Our View: In the near-term, we anticipate a tough economic environment that will reduce disposable incomes. This may affect some financial services sub-sectors through falling member contributions in the Pension and Sacco sectors.

MSME Sector

Scaling what works

The benefits of a proven intervention are immense. The Hustler Fund stretches liquidity further for MSMEs as they recycle repayments into new transactions thus facilitating Business, Employment and Productive Capacity across multiple sectors.

Sector Overview: The MSME sector contribution has been stiffled by the perennial issue of pending bills that stand at Ksh 537.2 Bn. for the National Government and 159.7 Bn at the Sub-National Level.

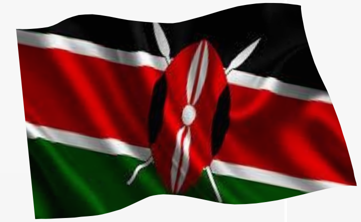
Liquidity Interventions: Technology has enabled the Financial Inclusion Fund to reach wide and scale with evidence with high rates of success.

Sector Allocation: The MSME sector was allocated **Kshs. 20.6 Bn**. Notable allocations include;

- Ksh 10 Bn to the Financial Inclusion Fund, aka the Hustlers Fund
- Ksh 300 million to SMEs in the Manufacturing Sector;
- Ksh 175 million for the Youth Enterprise Development Fund; and
- Ksh 192 million for UWEZO Fund.

Our View:
Supporting grassroot entrepreneurs by providing liquidity has powerful distributional effects. However, the issue of pending bills, if not addressed conclusively, will hurt other government equity initiatives as some MSME constituents *(Women, Youth and Persons living with Disabilities)* shy off from public sector contracts.

SECURITY Sector



Stability for Regional Trade

There is a costs of conflict. Sustained regional conflicts and our active involvement could heap further pressure on our budget.

An Overview of the Security Situation
Security risks exist and which may have adverse effects on the business climate. There are concerns around frontier risks, internal skirmishes; and preparations for the upcoming elections.

Conflict Related Risks: The ongoing crises in Congo DRC, Sudan and instability in Somalia and Ethiopia generate risks.

Internal Skirmishes: Current instability in the northern frontier area poses a threat to lives and property of citizens.

Sustained Political Impasse: The current political impasse between the government and the opposition is a threat to business and stability.

The sector was allocated **Kshs. 317.9 Bn**. Notable allocations include;

- Ksh 10.7 Bn Lease Financing of Police Motor Vehicles;
- Ksh 4.8 Bn Police and Prison Officers Medical Insurance Scheme;
- Ksh 2.3 Bn Group Personal insurance for police and prisons
- Ksh 1.0 Bn National Communication and Surveillance System;.

Our View:
There is a costs of conflict. Sustained regional conflicts and our active involvement could further increase our spend on security and heap pressure on our strained budget. .

AGRICULTURE Sector

Importance of Food Sufficiency

From a strategic viewpoint, Agriculture may be our best bet to reverse the rising cost of living.

Sector Overview The Agriculture sector has faced multiple challenges including failing rains caused by Climate change effects paired with migratory and invasive pests that have had a devastating impact on crop and pasture conditions.

The sector was allocated **Kshs. 49.9 Bn**. Notable allocations include;

- Ksh 5.0 Bn for the Fertilizer Subsidy Programme;
- Ksh 8.6 Bn for National Value Chain Support Project;
- Ksh 2.7 Bn National Agricultural and Rural Inclusivity project;
- Ksh 2.1 Bn to the Kenya Cereal Enhancement Programme;
- Ksh 2.8 Bn for the Emergency Locusts Response;
- Ksh 1.4 Bn to Small Scale Irrigation & Value Addition Programme;
- Ksh 1.3 Bn for Food Production and Nutrition Security Programme;
- Ksh 500 Mn to Agricultural Sector Development Support Program;
- Ksh 3.5 Bn to Kenya Marine Fisheries & Socio-Economic Devt Project
- Ksh 2.6 billion for the Aquaculture Business Development Project.

A Strategic Sector: FOOD SECURITY

From a strategic viewpoint, Agriculture may be our best bet to reverse the rising cost of living.

Key Issues Facing the Sector:

Climate Change Impacts: *Too hot, Too Wet, Too Cold, Too Dry*
Significant exposure and vulnerability to climate variability poses a challenge to the sectors productivity as it causes poor crop yields, negatively impacts food sufficiency and leads to higher food prices that have an immediate impact of decreasing disposable income.

Mechanization: Mechanization of Agriculture is affecting employment for the rural workforce.

Our View
The challenges continue being addressed through targeted interventions that aim to protect livelihoods, raise crop yield and develop all the value chains within the sector.

Nonetheless, mechanization is an evolving challenge in a sector that provides employment to 70% of the rural workforce. Multiple concerns must be considered including how to manage job losses and the politics of change.

Outlook: In the near term, we expect food production to rise. In the long-term climate change impacts will be a key hurdle if we adopt a do-nothing approach.

TRADE
& Industry



Spurring Industry & Growing Trade Competitively

As we engage in Trade, it is critical that we do not define ourselves in only one way.

Sector Overview:
Kenya's export agenda is gaining momentum and on track to see us progressively move away from commodity-oriented exports towards 'higher value' manufacturing and service.

Automotive Industry:
Our automotive industry is on track … Automotive Policy. With good policies and sustained … we expect to draw in more vehicle manufacturers.

Focus On Regional Expansion:
As we Secure, Speed Up and Optimize Trade, it is critical that we do not define ourselves in only one way. We must reorient our trade to ride on regional competitive advantages as the core driver as opposed to reliance on trade pacts.

Our View: *Safeguard Competitiveness*
Lack of competitiveness is a major threat to our regional export agenda. There's a need to balance the twin objectives of raising revenue and maintaining our competitiveness to support cross-border trade and corner regional markets.

Ksh 26.9 billion was allocated to support manufacturing for job creation. Major allocations include;

- Ksh 1.0 Bn to establish County Integrated Agro-Industrial Parks;
- Ksh 6.0 Bn to construct six Export Processing Zones flagship projects;
- Ksh 3.1 Bn to Support Access to Finance & Enterprise Recovery (SAFER) Project;
- Ksh 1.8 Bn for Effluent Treatment Plant at Kenanie;
- Ksh 1.5 Bn to support Kenya Industry and Entrepreneurship Project;
- Kshs 410.4 million to support modernization of RIVATEX.
- Ksh 300 million to Kenya Youth Employment and Opportunities Project;
- Ksh 332 million to Construct Industrial Research Laboratories;
- Ksh 182.9 million Constituency Industrial Development Centre;
- Kshs 500 million for developing the SEZ Textile Park in Naivasha

Our View:
Import substitution will create local job opportunities, limit expensive imports and help shore up our currency.

The prioritization of and increase on SEZ is a positive move that will boost manufacturing and grow exports.

ENERGY Sector

Scaling up Investment in Green Energy will significantly lower the cost of electricity to ensure Kenya's attractiveness as a Market.

Sector Overview:
The demand for electricity increased in 2022.

Key Sector Challenges:

- The high cost of power is a major challenge for household consumers and manufacturers as electricity costs drive up production costs.
- Depressed Rainfall: There were shortfalls in hydro-electricity generation owing to depressed rainfall.

Funding towards the development of geothermal energy is welcome as it is the sure path to cover these shortfalls.

Our View:
For Kenya to reap optimally from its hydro-electric infrastructure, climate change mitigation measures must be actioned.

Need to Pursue a Green Energy Future:
Kenya's total import bill of petroleum products rose by **80.4%** to **KSh 628.4 Bn** in 2022.

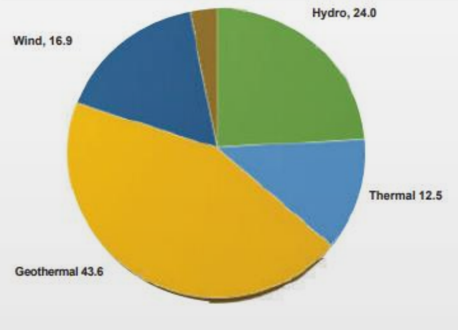
Key Sector Allocations:
The sector was allocated **Kshs. 62.3 Bn**. Key allocations include;

- Ksh 33.8 Bn for the National Grid System;
- Ksh 12.1 Bn for Rural electrification of public facilities;
- Ksh 11.4 Bn to development of geothermal energy;
- Ksh 3.2 Bn for Alternative Energy Technologies.

Investing in Clean, Reliable and affordable energy
The GoK intends to adopt a low carbon-climate resilient development path, our Climate-Change realities and global trends in clean energy development.

Kenya's Current Energy Mix:

Electricity Generation by Source, 2022



KNBS, 2023 Economic Survey

CLIMATE MITIGATION

A Renewed Sense of Urgency

Towards a Low Carbon-Climate Resilient Development Path.

Environmental stewardship delivers economic prosperity and social well-being and inter-generational equity. There is need to propel the Climate Change and Mitigation Agenda forward through local action.

Climate Finance Mobilization Strategy: GoK has initiated a Climate Finance Mobilization Strategy to address the financing challenge of climate change actions.

National Tree Planting Campaign:
The Government aims to expand the Country's Tree Cover to 10%, conserve forests, dedicate more areas and resources under the forestry regimes; as well as arrest the catchment degradation that has contributed to the rising lakes phenomenon.

Expanding Forest Cover
The Forestry sector allocated Kshs. ***10.2 Bn***
to support the conservation of Forests & Water towers.

Building Climate Change Resilience at the County Level:
GoK to implement the *"Financing Locally-Led Climate Action Program* (FLLoCA)" – a 10-year financing program aimed at mobilizing climate finances to support local communities build their resilience and adapt to the impacts of climate change in all the 47 Counties.

Our View:
Climate changes generate economic risk. There is a need to safeguard our food production by mitigating climate change. The National Tree Planting Campaign is a natural advancement of this objective.

Bold Local Action

National Tree Planting Campaign aims to enhance enhance our national tree cover to through planting **15 billion** trees by **2032.**

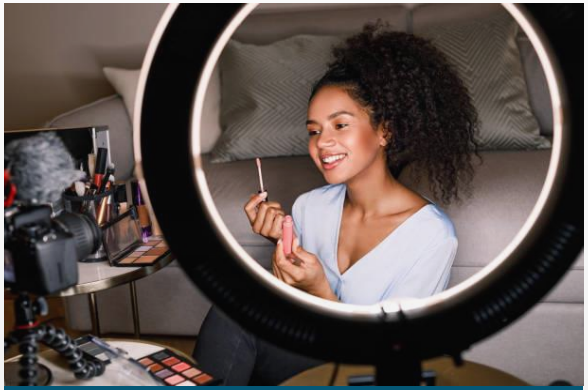
Key Tax Proposals

Key Tax Proposals -WHT

5% WHT on Digital Content Monetization

Proposal to introduce 15% WHT on proceeds of digital content monetization *(w.e.f. 1/9/23)*

Tapping into the Digital sector effectually widens the tax net. With the growing popularity of video content, revenue from digital content monetization will progressively yield significant revenues.



$ 181.4 Bn

Revenues in the global Digital Content Creation Market is projected to reach $ 193.2 million by 2032

24-hr Remittance of WHT

Proposal requiring taxpayers to remit WHT on qualifying payments to KRA within 24 hours. *(w.e.f. 1/7/23)*

The current WHT deadline is on or before the 20th day of the month following the month in which the WHT was deducted.

The move will raise the cost of compliance and impose an administrative burden for both the taxpayers and the Revenue Authority and contradicts the canon of convenience and economy.

WHT on Total Gaming Revenues

Proposal defines the term "winnings" to refer to the gross payout from a betting, gaming, lottery, prize competition, gambling or similar transaction under the Betting, Lotteries and Gaming Act. *(w.e.f. 01/07/2023)*

With this clarity, tax revenues from betting are expected to rise as WHT will be on gross payouts without deducting the amount staked or wagered.

Agency Status bestowed on Rental Agents

Proposal requiring KRA appointed rental agents to collect and remit WHT on behalf of property owners. *(w.e.f. 01/07/2023)*

Giving rental agents agency will improve tax collection by reigning in on unscrupulous landlords who fail to comply or where circumstances do not allow the landlords to remit tax directly.

However, the directive to remit taxes within 24 hours presents a compliance burden as it requires daily filings and payments for transactions that are not automated.

WHT Exemption for Non-Resident Vaccine Manufacturers

Proposal to exempt non-resident vaccine manufacturers from WHT on their interest and royalties payouts. *(w.e.f. 01/01/2024)*

The move is meant to attract more investments and manufacturers into our vaccine manufacturing sub-sector.

Tapping into the Digital space is critical even if revenue optimization may be delayed.

Key Tax Proposals – Income Tax

1.5% Housing Levy

Proposal to institute a 1.5% levy on basic income for those in employment to fund the National Housing Development Fund. *(w.e.f. 1/7/23)*

The funds will be used in developing affordable Housing though the framework on how the funds will be managed is yet to be unveiled.

Change to Taxation of Travel Allowance

Proposal to peg non taxable travel allowance to the Standard mileage rate approved by the Automobile Association of Kenya.

The move promotes uniformity in employee travel allowance.

However, the proposal is silent on whether public officers will be subject to this new proposal or remain guided by the stipulated per diem and cash allowance limits of the Salaries & Remuneration Commission (SRC).

New Income Tax Band

Proposal to introduce a new tax band of 35% for incomes above Kshs. 500,000 per month.

The new Personal Income Tax band aims at promoting greater tax equity by collecting more from taxpayers in the highest bracket.

The move is likely to distort the equity canon if employers result in grossing up pay to absorb the tax hike on behalf of the employees.

Clarity in Defining Market Value as relates to ESOPs

Proposal clarifying the definition of Market Value in relation to shares granted to employees. (w.e.f. 01/01/2024)

Accordingly, the market value will now be determined on the date of exercise of the option by the employee as opposed to the date when the shares were granted by the employer.

Turnover Tax

Proposal to introduce a 5% turnover tax for businesses with annual turnovers above Kshs. 500,000.

A turnover tax will have a low revenue payback and the risk of disincentive is high.

Reimbursing Public Officials for Work Expenses

Proposal to exempt from taxation any reimbursements made to public officers for expenses incurred on official duty notwithstanding the ownership or control of the assets purchased.

Good governance requires that employees prove official expenses by producing receipts and any asset purchased for work purposes reverts to the organization.

This provision will be prone to abuse as the proposal is silent on the ownership or control of the assets purchased.

New Post-Retirement Medical fund relief

Proposal to introduce a post-retirement medical fund relief to resident individuals who contributed to a post-retirement medical fund.

The additional tax relief will cushion the incomes of retires who generally have low earning power after retirement.

Key Tax Proposals – VAT

LPG Exempt from VAT

Proposal to exempt Liquefied Petroleum Gas (LPG) from Value Added Tax. *(w.e.f. 1/7/2023).*

The move aims to cushion households from the high cost of living.

This is aligned to our afforestation efforts and will enable households to shift to clean energy.

Harmonized VAT Regime

Proposal to raise the VAT charged on fuel from 8% to 16%.

The move aims to harmonize the VAT regime on fuels across board. However, minimal price hikes are anticipated but we expect inflation to remain anchored.

Guidance on Insurance Payouts

Proposal to tax VAT on insurance payouts in instances where input tax had been previously claimed.

This proposal align to the principle of indemnity as it seeks to avoid double claims during compensation for the loss of taxable supplies.

VAT Record-Keeping

Proposal obligating taxpayers to maintain VAT records for a period of 5-years and to produce them for inspection if so required.

The records can be in an electronic or paper form and stored at any place of their choice - not limited to Kenya.

Restriction to Input Tax Deductions

Proposal to limit input tax deduction till after the first tax period in which a person holds the documentation prescribed under the Act and after the registered supplier has declared the sales invoice in a return.

Accordingly, the proposal heaps further conditions to input tax deduction and thus adds compliance hurdles.

Exemption on Medicaments

Proposal to exempt various medicaments and medical goods from VAT.

Such include and are not limited to medicaments containing hormones, alkaloids or their derivatives and Chemical contraceptive preparations based on hormones.

VAT Registration Exclusions on Imported Digital Supplies

Proposal to exclude supplies done over the digital marketplace from VAT registration.

Non-residents suppliers of digital marketplace services not obliged to conform to the Kshs. 5 million registration threshold requirements.

VAT Exemption for Manufacturers of Pharmaceutical Products

Proposal to exempt from VAT plant and machinery purchased locally for use by manufacturers of pharmaceutical products.

This aims to encourage investors and manufacturers in the local pharma industry to purchase their plant an machinery locally.

Zero Rating VAT for Inbound Sea Freight

Proposal to Zero Rating VAT for Inbound Sea Freight for shipping lines registered in Kenya.

This clarifies and erstwhile grey area where inbound sea freight was deemed to be outside Kenya’s VAT regime.

Key Tax Proposals – Excise Duty

Gambling, Gaming and Alcohol Advertisements

Proposal to introduce 15% excise duty on fees charged for adverts promoting alcohol, betting, gaming, lottery and prize competition on televisions, print media, billboards, and radio stations.

This will discourage uptake of these harmful products and services that come with high societal costs.

Excise Duty Exemption for Local Passenger Vehicles

Proposal to exempt locally manufactured passenger motor vehicles from excise duty.

This will encourage investment in the vehicle manufacturing sector and enhance competitiveness of locally manufactured passenger motor vehicles

The cost of vehicles has fallen since the excise duty exemption was effected.

New Excisable Imports

Proposal to introduce new goods into the excisable goods schedule.

The goods include but are not limited to imported cement, furniture, fish and powdered juice.

This aims to protect local industries who are suffering from cheaper imports and boost employment.

New Penalties for Excise Stamps Offenses

Proposal detailing various offenses in relation to excise stamps.

The proposal specifies fine not exceeding 5 million shillings or imprisonment for a term not Exceeding 3 years, or to both on persons who are convicted for a raft of stamp duty offenses.

Reduction of Money Transfer

Proposal to decrease excise duty on fees charged for money transfer services by financial service providers.

Reduction in excise duty money transfer transactions will spur commerce and support financial inclusion.

Introduction of Export Investment Promotion Levy

Proposal to introduce an Export and Investment Promotion Levy (EIPL).

The objective is to protect local manufacturers from competition arising from cheap imports and discourage the importation of goods that are locally manufactured in a bid to.

CGT, Miscellaneous Fees & Levies

Capital Gains Tax

CGT on Indirect Transfers
Proposal to charge CGT on indirect disposal.

Previously indirect disposals were not captured under the capital gains tax.

Proposal to change the due date for the payment of CGT.

CGT is now to be paid at the earlier of registration of the transfer or receipt of the full purchase price by the vendor.

Taxation of Members' Clubs and Trade Associations
Proposal to tax the gross receipts on revenue account *(excluding joining fees, subscriptions and welfare contributions)* of a members' club or trade association.

The move effectually puts member associations in the tax net with no option to opting out.

Automotive Industry Proposals

Reduction in Vehicle Assembly Inputs

- Extension of duty remission for raw materials imported for use in the manufacture of motor vehicle parts.
- **10% Duty Reduction On Motorcycles** Completely Knocked Down (CKDs) kits imported for assembly of motor cycles under a 10% duty remission.

A strong automotive industry is an evolving future scenario. The move will promote local content as vehicle assemblers source their products locally.

Local assembly of motorcycles will lead to more affordable units and also support the climate mitigation agenda.

Reduction of IDF & RDF

Reduction of Import Declaration Fee (IDF) for qualifying items.
Proposal to lower Import Declaration Fee (IDF) for qualifying items.

Reduction will lower the cost of products.

Reduction of Railway Development Levy (RDL) rates for qualifying items.
Proposal to lower the Railway Development Levy (RDL) rates for qualifying items.

Reduction will lower the cost of products.

Legislative Reforms
& Miscellaneous Proposals

New Legislative Updates
& Tax Administration Proposals

Introduction of a Digital Asset Tax "DAT"

Proposal to introduce a Digital Asset Tax "DAT" taxed at the rate of 3% of gross market value.

The "DAT" will be collected at source by the platform owner who will also be expected to make returns on the same.

As the country pivots to cryptocurrencies, the new tax area may collect modest revenue.

However, taxing the gross market value of cryptos is punitive and not progressive.

1.5% Housing Levy

Proposal to impose a 1.5.% levy on employment income to fund the development of Affordable Housing. (w.e.f. 1/7/23)

The funds will be used in developing affordable Housing though the framework on how the funds will be managed is yet to be unveiled.

State Owned Enterprises

A New Era of Restructuring

State Owned Enterprises (SOEs) are bottom-heavy with a high support staff complement.

The GoK aims to restructure certain SOEs to help them entrench commercial principles and reduce their reliance on exchequer funding.

Scarce public resources are more effectively spent on the productive areas of SOEs as opposed to being directed to support staff.

Debt Anchor

Looking ahead, Towards Policy Flexibility

Proposal to introduce a debt anchor that will be based on GDP as opposed to an absolute figure limit.

Removing the cap will effectually introduce policy flexibility.

Tax Amnesty

Proposal to offer a Tax Amnesty for taxpayers with tax penalties and arrears.

This will effectually encourage compliance and boost trading as many firms lose out on business opportunity for lack of a tax compliance certificate.

Reforming State Owned Enterprises

The Cabinet Secretary proposes to restructure select SOEs to enable them adapt to modern management practices and be fit for purpose.

The Bigger Picture

"Considering issues in their next larger context
provides insight -
a chair in a room, a room in a house; a house in an environment
and an environment in a city".

"Tackling the Housing Challenge"

AFFORDABLE HOUSING

Facilitating the AHP is a strategic imperative to meet the future demands of Urbanization.

CORE HOUSING ISSUE & CURRENT SITUATION IN KENYA:

- A housing deficit of 250,000 units/year
- Kenya is Youthful & rapidly urbanizing.
- Our Youth & Middle-class bulge projected to sustain for a long time.

GoK obligated to meet housing targets as laid out in;

- Kenya Constitution *Article (43) (1)(b)*
- Vision 2030
- SDG *(sdg 11.1)*

IMPORT:

- Kenyans in urban areas spend a significant part of their income on rent. *E.g. Nairobi residents spend over 40% of their income on rent – well above the recommended 30%.*
- Rise in informal settlements.

LIMITATION OF THE TRADITIONAL DELIVERY MODEL.

- Reliance on the market - Private Investments, largely driven by return.
- Competing Priorities
- GoK revenues stretched

OUTCOMES:

- Minimal achievement in previous decades (1980s - 2000).
- Houses built cater for mid-top and low-middle population segments.
- Widening demand & supply gap

CONSEQUENCE:

- Cumulative housing needs keeps growing
- Urban housing that does not cater for low income households.
- Hitherto, the private sector has failed to meet housing demand for low–bottom income households.

NEW DELIVERY MODEL

- Increase focus on PPP model to meet AHP investment needs when public finances constrain.
- GoK as an enabler (Policy & Assets)

RATIONALE:

- Economic Growth goes hand-in-hand with adequate housing.

IMPORT:

- Increase Urban housing to serve low income households.
- Offer a better quality of living

THE BOTTOM LINE

Growth of affordable houses has been constrained by low private sector investment in mid-low housing segment.

There's a need to fast track the development of AHP.

→

DESIRED OUTCOME

- GoK has a central role to play in the development of affordable & decent housing.

(To offer Land, Framework & an Innovative Funding Model)

→

OUR VIEW

- **A Housing Fund is essential:** *Used globally and regionally (Rwanda).*
- **A Framework is needed**.
- **Partners:** Need to *rope in Institutional Investors (with patient & affordable capital); specialist housing organizations & Devt partners to support this shift and close the housing financing gap.*

The Quest for Zero Carbon

A Spotlight on the Transformative Potential of e-Mobility

"Given our vulnerability to climate change, it is imperative that we build a more climate resilient economy. For this reason, the Government has stepped up climate adaptation and mitigation efforts including *Green Energy, E-mobility Smart Agriculture, De-carbonized Manufacturing and Green Building*, all aimed at the attainment of Zero Carbon by 2050".

- CS Treasury, 2023

The Present is here, ***The future as well***

Reality Check

In 2022,

- **99, 239 Motor vehicles were imported** *(USED)*
- **135, 514 Motorcycles were imported** *(NEW)*

KNBS, 2023 Economic Survey Data

Why e-Mobility?

High emissions: A rising problem to local communities

Economic reasons:

- **Oil Imports - A rising threat to Kenya's trade balance!**
  - **100,000** *Vehicles imported into Kenya, each year!!*
  - **Annual oil import spend:** *Ksks. 628. Bn.*
  - **75% of petroleum fuel is used in road transport.**

KNBS 2023 Economic Survey Data

- **e-Mobility will support our Industrialization agenda**
  - **e-Bike Assembly plants**
  - **Open new business opportunities e.g.**
    - **Jobs as EV Charging stations are set up**
    - **Battery swapping stations set up on a commercial scale across the country.**

Turning the Electric Mobility Reality into Action.

Why Motorcycles will electrify first

- **Affordable -** *Unlike vehicles, the price of a motorcycle is within the reach of most citizens.*
- **High Utility -** *Fit for commercial and personal use.*
- **90% of motorcycles are purchased brand new.**
- **Easily Adapted from Fuel to Electricity.**
- **Easy to roll-out support infrastructure such as**
  - **e-Bike Assembly plants** *(Presently available)*
  - **EV Charging points***(Presently available)*
  - **Battery swapping stations** *(Presently available in the marketplace).*

e-Mobility Adoption

When it comes to e-mobility, the sector that will electrify first is the motorcycle sector followed by commercial vehicles.

Main Risks & Challenges to Achieving Budget Objectives

Pro Excellence Commentary

Risks & Concerns

Global & Regional Risks

Russia-Ukraine War

Economic Growth may not be realized as projected due to developing global vulnerabilities.

Sustained conflict in Europe (Russia-Ukraine war) to drive up prices of critical commodities – oil, wheat and fertilizer.

If fertilizer supplies are severely affected food production will be impacted.

Debt Service Related Risk

$2.0 Bn Eurobond (Approx. Ksh 241.8 Bn).

Debt service risks remain elevated.

With the $2 Bn Eurobond maturing in 2024, there exists a risk of significant liquidity strains as we service this dollar denominated debt.

The debt service amount may rise on account of weakened Kenyan Shilling against the US Dollar.

Regional Conflicts

The Rising Cost of Conflict

There is a costs of conflict. Sustained regional conflicts and our active involvement could interrupt trade, delay venture into new regional markets trade and increase our spend on security.

"As taxpayers pay their fair share of taxes, the public sector must be fully accountable for revenue usage".

Poor Public Sector Governance

Poor Public Sector Governance and Financial Management is at the root of perennial issue of pending bills, wastage and revenue shortfalls.

These ills cannot be addressed through higher revenue collection but by proper budget planning and improved budget execution.

High Cost of Cement

VAT on clinker will yield significant revenue instantaneously as clinker is a key input in cement production.

The downside is that it will hike production costs, raise construction costs and make our cement uncompetitive in the region.

This is likely to hurt local cement firms as they seek to expand their exports into EAC and Afcta markets which remain priority markets.

80% - 95%

Clinker constitutes 80% - 95% of cement. VAT on clicker will significantly raise the price of cement.

Risks & Concerns

Elevated Debt

Limited Fiscal Space
There are debt pressures that create a tension between debt service that has a first charge and meeting operational obligations including salary payments.

Low appetite and Uptake for GoK Securities
On the domestic scene there are signals of waning investor appetite for sovereign debt. GoK facing challenges in raising funds from the domestic debt market.

Elevated Debt

Limited Fiscal Space
There are debt pressures that create a tension between debt service that has a first charge and meeting operational obligations including salary payments.

Low appetite and Uptake for GoK Securities
On the domestic scene there are signals of waning investor appetite for sovereign debt. GoK facing challenges in raising funds from the domestic debt market.

High & Uncertain Tax Regime

The substantial increase in taxes and levies could raise the cost of doing business.

Pressure on Employees: Individual income tax is under pressure and the revenue body should quickly widen the tax net to offer reprieve to this segment.

Loading further burden may be detrimental to individual Income Tax payers as it could lead to the negative and unintended effect of decreasing disposable incomes for many households.

Uncertain Tax Regimes: Frequent and multiple adjustments to existing tax regulations can work to reduce our competitiveness as a choice business destination.

"A high cost of living is a challenge to consumer spending and may have knock-on effect on economic growth".

Soaring Cost of Living

Private consumption may not rebound as anticipated if businesses and households suffer significant income losses due to the rising cost of living.

Specifically, projected growth may be muted by the following risks.

Soaring Food Prices: Staple flours including (Maize, Wheat & Cassava) now qualifies for exempt status from a previous Zero-rated status.

This move will lead to higher food prices that and will have an immediate impact of decreasing disposable income to limit growth expectations.

Poor Yields: Fertilizer, fertilizer inputs and pest-control products now qualifies for exempt status from a Zero-rated status.

This will hurt crop yield and food availability and lead to higher prices.

VAT on Fuel: The VAT increase on fuel may heighten inflationary pressures minimally. The household component of fuel (LPG) has no price hike and will cushion household incomes from direct impact.

Risks & Concerns

Additional Pressure on Individual income Tax

Individual income tax is under pressure and the revenue body should quickly widen the tax net to offer reprieve to this segment.

Loading further burden may be detrimental to individual Income Tax payers as it could lead to the negative and unintended effect of decreasing disposable incomes for many households.

Political Risks

Potential to Derail and Distort Growth Trajectory

The current political impasse between the government and the opposition is a threat to business and stability.

The calls for mass action have the potential to distort Kenya's economic growth projections and derail the achievement of developmental objectives.

It is difficult to ascertain how long this period of uncertainty will prevail.

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Regulatory Uncertainty on the AHP Implementation

The housing bill has caused widespread unease as regulatory uncertainty clouds the financing of program.

We anticipate pushback until the government offers greater clarity on this issue.

"Taxation should not hinder Economic activity, Production or Investment. The proposed Turnover tax has the potential to do that for the MSME sector."

Turnover Tax (ToT)

Proposal requiring MSMEs to pay a 3% turnover tax.

The growth of private enterprise is inseparably linked to liquidity.

The proposed ToT may impact profitability and demotivate businessess.

This is because turnover does not isolate operational costs and is therefore punitive.

Impact to the Level of Employment

The multiple levies and fees may lead to an upsurge of loose employment relations as businesses alter their employment models.

A significant number of employees in the manufacturing sector may be affected.

Reduction in Residential Rent Income Tax Rate

Proposal to reduce the residential rent income tax rate from 10% to 7.5.

This change is a boon for landlords and is meant to also benefit the tenants. However, it is likely that landlord will cascade it down to tenants.

Revenue Mobilization

An analyses of what will drive Revenue Growth going forward?

An analyses of the property sector tax collections indicates that KRA could collect **at least 50%** more than it currently does.

eTIMS: *Enhancing Compliance*

Our View: ***eTIMS***
eTIMS is improving transparency in the tax environment as the tax authority gains direct access to business IT systems.

The integration of large taxpayers (e.g. betting firms & Telco's) through APIs that enable Real Time Reporting (RTR) will deters tax evasion and non-compliance.

This enhanced visibility will also net extra revenue for the revenue authority.

Digital Sector: *An Emerging Revenue Source*
The digital sector activities that include content creation and advertising is a growing and promising revenue source.

Our View:
Tapping into the Digital space is critical even if revenue optimization may be delayed.

An Emerging Revenue Source

The Digital Media is one of the fastest growing ecosystems in the word today.

PROPERTY TAX: *A Segment to Watch*

Revenue mobilization is a key determinant to achieving budget objectives and revenue mobilization is essentially a data and information question.

An analyses of the property sector indicates that the tax authority could easily collect more in this segment. Currently, collections in this sector are 50% less than the 2019/20 level.

Given that most urban landlords are individuals, it is likely that the revenue authority may not have an accurate estimate of this potential.

The move to give tax agency to Real Estate Agents is a step in the right direction. Lowering the property tax rate to 7.5% will optimize the hypothesized Laffer curve.

Our View:
The property sector has a significant revenue collection opportunity that has been grossly underutilized.

KRA should look for innovative ways to raise tax revenue by reaching the widest possible pool. This can include mapping rental units so as to enforce compliance and raise more tax revenue.

GIS Mapping will provide key information like the exact location of the property and the rental incomes in the area.

Pro Excellence
Consulting for Excellence

Way Forward

Key Recommendations

Recommendations

AHP Levy

"Ringfence the NHDF Funds"

Consider ring-fencing the National Housing Development Fund for use on AHP expenditure.

Targeted Protectionism

"Supporting the Growth of Local Industry"

Targeted protectionism can support the manufacturing sector in its growth phase and help increase exports.

This has been done for locally produced products like furniture, fish and cement.

The time may be ripe for a local "Chaebol" - support for a local business to export products and services across Afcta and other regional trading blocks where we have competitive advantage.

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End Graft and Mismanagement

Corruption and mismanagement is at the root of our financial woes.

The government must step-up efforts to stop revenue leakages and wastage and ensure prudent use of resources.

This improvement in governance will effectively reduce the need for aggressive taxation.

In addition, the judicious use of resources will stretch the shilling further.

Impact of Erratic Tax Regimes

Firms in Kenya suffer under the problem of erratic tax regimes that effectually raise the cost of doing business.

In addition, heavy taxes drive inflation when they are passed on to consumers.

The government must step-up efforts to bring certainty to our tax regime as it affects tax planning.

Pending Bills

"Managing Pending Bills must move from Discretion to Law"

Responsible Public Finance Management and the right budgeting approaches can stem the issue of pending bills as funds are tied to specific programs even if they are not spent within the stipulated time.

Treasury intends to appoint a Pending Bills Verification Committee to rationalize all pending bills and advise on possible options for management this liabilities.

In practice, pending bills linger even though they were required to be treated *'as a first charge'*.

Enhance Debt Transparency

Kenya's rapid debt accumulation has our public debt reach record levels leading to debt vulnerabilities that threaten to undermine macroeconomic stability.

The goal is to minimize debt by sticking to ideal debt ceiling limits.

A Patchwork of Outcomes

Devolution

How Counties Performed on Key metrics FY2020/21

County Budgets' Analysis

Cross-cutting Issues. What Has Changed?

Underperformance in Own-Source Revenue Generation

OSR vs. Potential: In the FY2020/21 counties generated Kshs. 34.4 Bn of OSR against an annual defined target of Kshs.54.3 Bn.

OSR was generated across 6 main revenue streams.

Challenges in Record Keeping

There is poor record keeping at the county level that is inconsistent with the basic practices of revenue accounting and bookkeeping.

Information on collected revenues is not readily available.

A Cautionary Note on OSR Generation

At the county level, there exists a significant gap between county OSR potential and actual revenue collection.

Healthcare fees are easy to collect and account for 40%-50% of revenue collection in some counties.

However, counties must avoid enhancing revenue from health care services as they can discourage citizens from accessing healthcare services. Ultimately this creates inequalities and impacts the wellbeing of citizens.

Low Expenditure on Development Budget

Funding constraints bring about low development expenditure.

Low expenditure on the development budget effectually erodes a County's capacity for future growth.

Enhancing Own Source Revenue

Healthcare fees are not a suitable revenue stream as revenue generation should not hinder access to basic services. Focus should be placed on enhancing productivity to raise incomes and seeking OSR growth in high output sectors.

National Rating Bill, 2022

Streamlining Valuations

The Cabinet Secretary has proposed a National Rating Bill 2022 to guide the valuation for rating and imposition of rates on rateable property.

Effectually, this will unlock the revenue potential of County Governments and boost their development potential.

High Level of Pending Bills

Counties are grappling with the perennial problem of pending bills with a stock of pending bills that amounts to 159.7 Bn.

This effectively constrains business and results in poor service delivery by contractors.

In practice, pending bills linger even though they are to be treated *'as a first charge'*.

Rationalize Expenditure

With our high national debt and a scarcity of funds, it is imperative that counties rationalize expenditure to only maintain essential spending.

This can be achieved by imposing measures to rationalize expenditure and reduce revenue leakages.

Instituting a Lean government by adopting technology *(e.g. biometric registration of staffs)* and rationalizing all government positions.

This is less about firing workers and more about scaling back hiring and reducing graft opportunities through remove "ghost workers" from the county payrolls.

However expenditure on capacity building is essential for government efficiency and service delivery.

Risks & Concerns - County

Delayed Disbursement of Funds

Individual income tax is under pressure and the revenue body should quickly widen the tax net to offer reprieve to this segment.

Loading further burden may be detrimental to individual Income Tax payers as it could lead to the negative and unintended effect of decreasing disposable incomes for many households.

Political Risks

Potential to Derail and Distort Growth Trajectory

The current political impasse between the government and the opposition is a threat to business and stability.

The calls for mass action have the potential to distort Kenya's economic growth projections and derail the achievement of developmental objectives.

It is difficult to ascertain how long this period of uncertainty will prevail.

.

Regulatory Uncertainty on the AHP Implementation

The housing bill has caused widespread unease as regulatory uncertainty clouds the financing of program.

We anticipate pushback until the government offers greater clarity on this issue.

Optimize on OSR Generation

County Own Source Revenue Generation (OSR) remains sub-optimal with a distinct gap between revenue collected and the potential across revenue streams.

To lift OSR performance, county governments should concentrate on their top revenue streams to maximize on them and leave off revenue streams whose payoff is uncertain.

Revenue Leakages Remain

There exists multiple ways by which revenue leaks at the county level. Among the top reasons is poor revenue management practices,

Such include prudent management of resources such as a failure to bank collected revenue.

Technology can help seal these revenue leaks.

Transforming Sub-National Governments through Technology

When technology is insufficient or under-utilized critical day to day activities and service delivery suffers.

Recommendations

Improve Budget Execution

Adopt Budgeting Approaches

The Issues: Counties are grappling with the recurrent and growing problem of pending bills

New administrations take on fresh projects and abandon ongoing projects. As a result, they fail to honor contracts on completed works through prompt payment.

Also, the reallocation and misallocation of funds, wastage and other irregularities derail the realization of development needs.

Our View:
The right budgeting approaches can cure the problems of irregular misallocation and pending bills as funds are ringfenced for use in specific expenditures and projects.

The line budgeting approach can further rationalize expenditures within bundled budgets.

Public Finance Management approaches
Demanding the use of appropriate Public Finance Management approaches can significantly reduce malfeasance in Budgeting.
.

Good Governance

Poor Governance, a risk to development

It is hard to achieve developmental goals when resources are not put to good use.

Poor governance is a risk to development While sound governance lead to higher growth, job creation and service delivery to citizens.

The use of government watchdogs such as the EACC alone will not win the fight against corruption and financial mismanagement.

A multi-pronged approach is required to fight the menace including the use of technology and innovative management models.

A Case for Longer-term Planning

In search of Coherent and Sustainable Development

Whereas Leadership is critical to the success of institutions, the truth is that it takes more than a leader to drive economic development.

Currently, our democratic cycle brings along disruption and divergent priorities as top county leaders have a 5-yr office term.

This has given rise to unfinished projects, white elephants and pending bills as ongoing projects are disbanded and new pet projects taken up.

Transforming Government Operations

Towards Lean, Efficient and Responsive Government

Our View:
Achieving county developmental objectives has more to do with Financing. It is also about closing he delivery gap.

Counties need to increasingly focus on optimizing operations and developing their capacity to run lean.

This change will largely be driven by technology to make processes more efficient.

Other transformations o consider include reducing inefficiency through improving program delivery.

Finally, citizens must benefit fully from basic services. In order to realize the full potential of any county, wastage must be eliminated through effective resource management.

Beyond Leadership: Redirecting Attention to What Delivers most Value
There may be need to ensure alignment to set roadmap at the sub-national level geared at making development continuous and progressive.

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