

**Deloitte.**



Deloitte Kenya  
Budget 2022/23 Webinar  
Accelerating growth in uncertain times

April 2022






## Program

- 0900 ● Opening Remarks:  
*Joe Eshun*
- 0910 ● Emerging Markets Outlook: Managing Director, Emerging Markets & Africa, Deloitte Africa  
*Dr. Martyn Davies*
- 0930 ● Economic Outlook: Deloitte East Africa Financial Advisory Leader  
*Gladys Makumi*
- 0945 ● Budget Overview & Direct Tax Measures: Deloitte East Africa Tax & Legal Leader  
*Fredrick Omondi*
- 1000 ● Indirect Tax Measures: Deloitte East Africa Indirect Tax Partner  
*Lilian Kubebea*
- 1010 ● Panel Discussion: Facilitator – Deloitte East Africa Risk Advisory Leader  
*Julie Nyang'aya*
- 1110 ● Questions & Answers
- 1130 ● Closing Remarks  
*Anne Muraya*

# Welcome & Introduction

## Joe Eshun





# Anxiety grips importers months to Kenya's election

SATURDAY MARCH 19 2022

## Rosier times for Kenya's post-Covid economy despite election jitters: analysts

TUESDAY MARCH 08 2022

## Fuel Shortages in Kenya as Government Delays Subsidy Payment

- Government yet to pay fuel marketers \$113 million for subsidy
- Subsidy program left fuel prices unchanged for five months

## Kenya: 2022/23 Budget to Be Released Two Months Earlier

## Uhuru allocates Sh34b to cushion Kenyans from high fuel costs

04 MAR 2022

BY GUARDIAN REPORTER

NEWS  
The Guardian

### EAC calls for ceasefire, talks on Russia, Ukraine

WITH the Russia-Ukraine conflict entering the eighth day, the East African Community (EAC) has called upon the relevant parties to exhaust all diplomatic options in an effort to find a lasting solution, urging for restraint and an immediate ceasefire.

LAZY GENERALISATIONS

## Covid-19 in Africa: Kenya, Côte D'Ivoire and Ghana disprove generalisations

Posted on Tuesday, 29 March 2022 11:41



## Accelerating growth in uncertain times

means the focus of the 2022/23 Budget should be on stimulating resilient and sustainable economic recovery and growth through the execution of policy initiatives, focusing on the government's strategic priorities under the "Big-Four" Agenda and implementing the third Economic Stimulus Programme. . .

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What ramifications will our geopolitical environment (elections, COVID and the Ukraine-Russia war) continue to have on the Kenyan economy?

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How do we strike a balance between stimulating the economy, but also achieving fiscal sustainability?

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# Emerging Market Outlook

Dr Martyn Davies, Managing Director, Emerging Markets, Deloitte

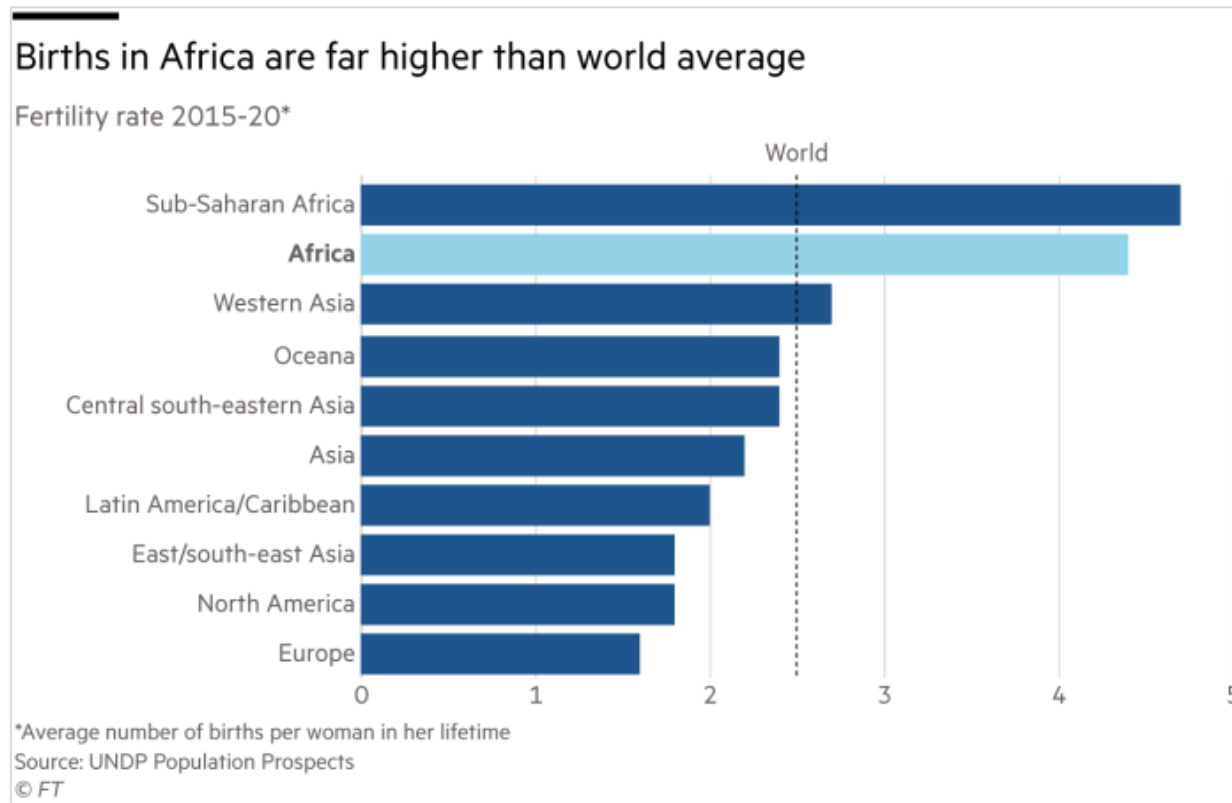




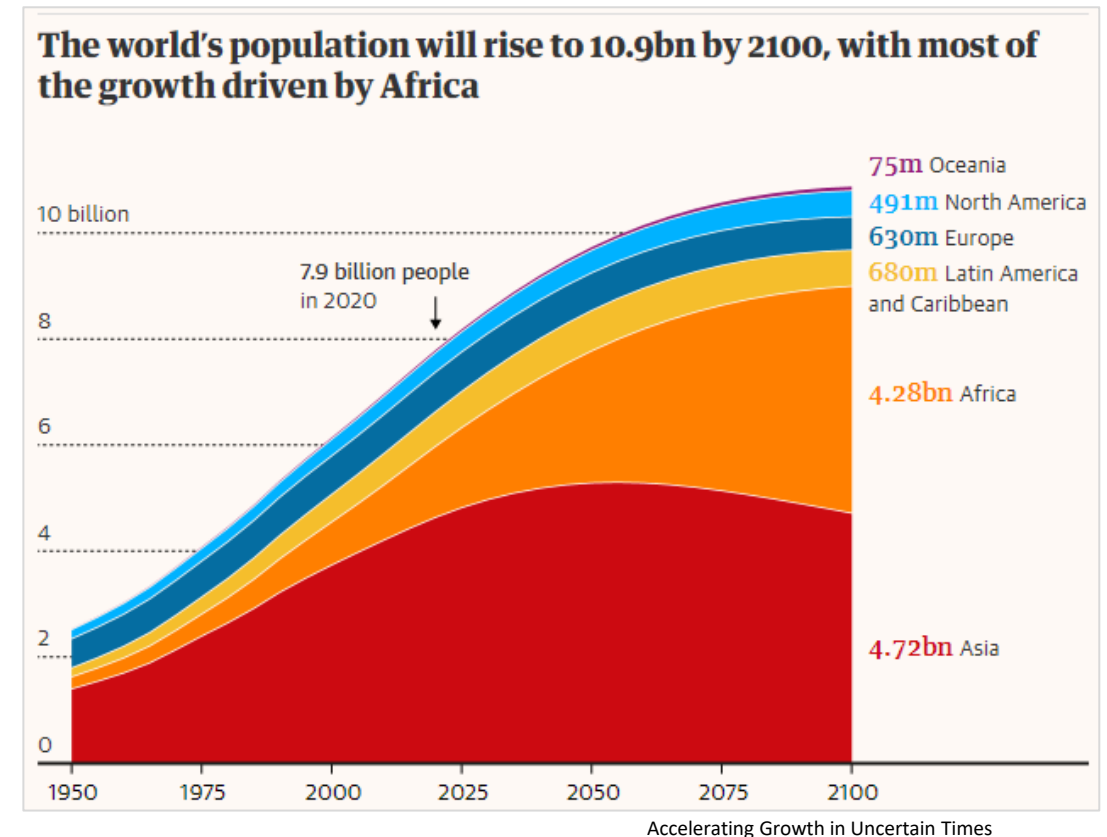
# Macro Outlook

## 1. The baby bust (but not for Africa)

Due to relatively low fertility rates, the populations of Europe, North America, East/South-East Asia and Latin America are expected to stagnate or even decline. In contrast, Africa's high fertility rate will drive population growth on the continent and globally. It is expected that by 2050, about 1 in 4 people will live in Africa. Capital will increasingly seek investment opportunities in infrastructure to support Africa's population growth.



Source: FT, The Guardian



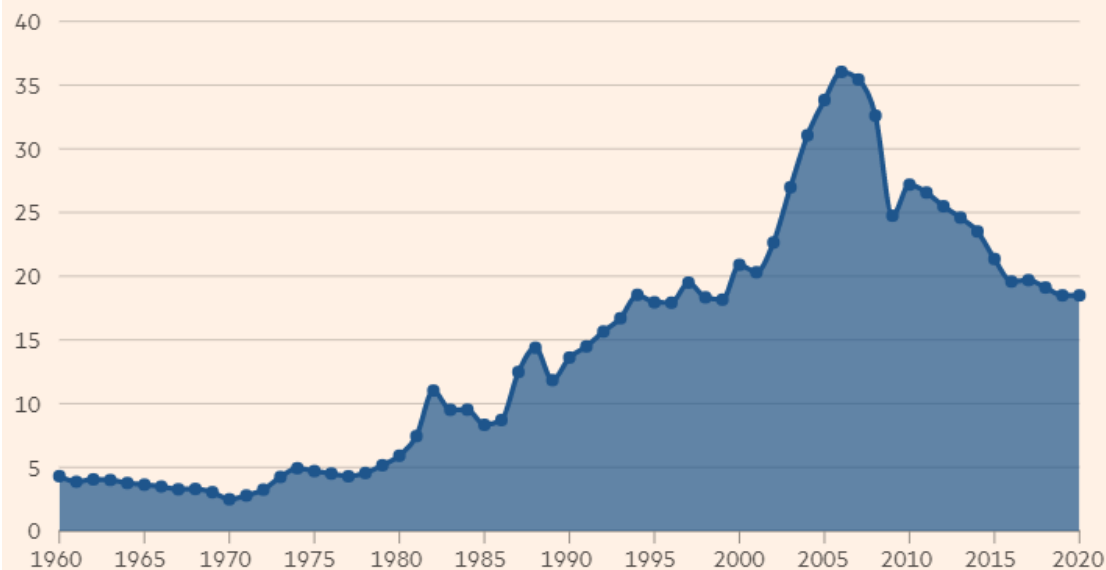
# Macro Outlook

## 2. Peak China?

While China accounted for about one-third of global growth prior to the pandemic, China's contribution to growth has slowed to one-quarter. The country's zero-Covid strategy and recent surge in cases may impact on China's growth. Due a move away from trade towards self-reliance, China is loosening its ties to other countries, notably seen in the decoupling of growth in China and other emerging markets.

### China's economy has become less reliant on exports in recent years

Exports as a share of China's GDP (%)



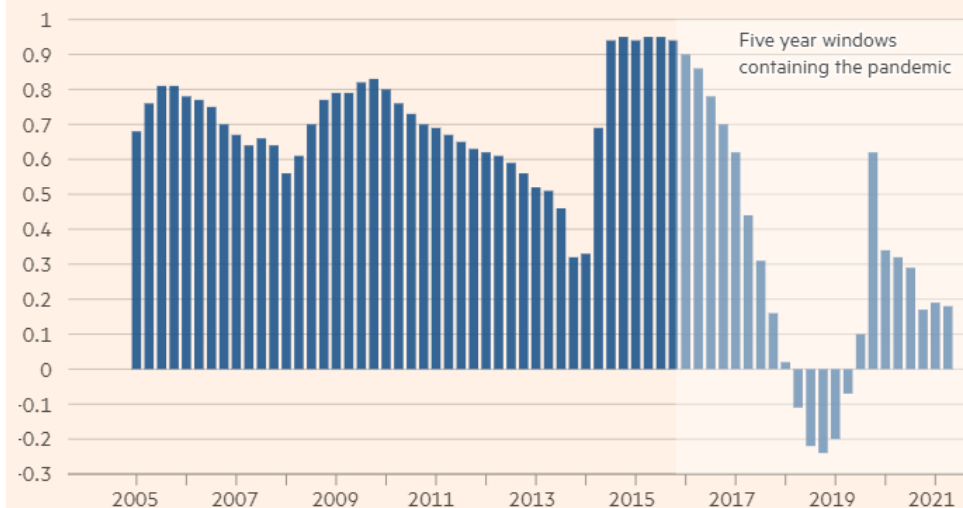
FINANCIAL TIMES

Source: World Bank

Source: FT

### Since the pandemic hit, China's economy has fallen out of sync with other emerging markets

Rolling five year correlation\* between quarterly growth in China vs other emerging market economies



FINANCIAL TIMES

Source: Author's analysis

\*Correlation coefficient for 20 quarterly periods of year-on-year growth in a) China and b) a group of other emerging market economies



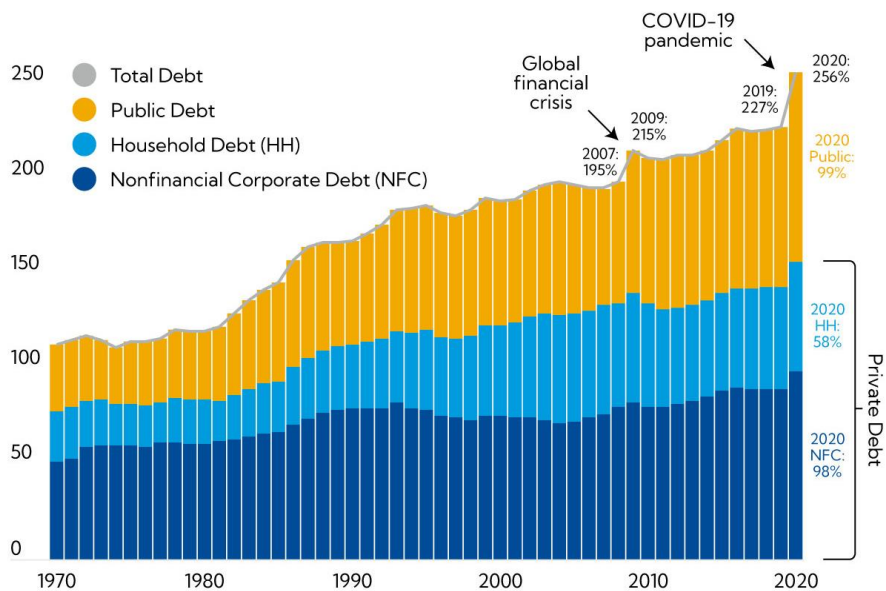
# Macro Outlook

## 3. Debt trap

During the pandemic, global debt levels saw a major uptick, driven by government borrowing. China and the US are among the 25 countries that have total debt above 300% of GDP – back in the mid-1990s no country had such high debt levels. These rising debt levels are likely to push many central banks to tighten their monetary policies. The IMF has warned about an emerging market debt crisis as capital outflows are expected to intensify due to potential interest rate hikes in major economies including the US.

### Historic highs

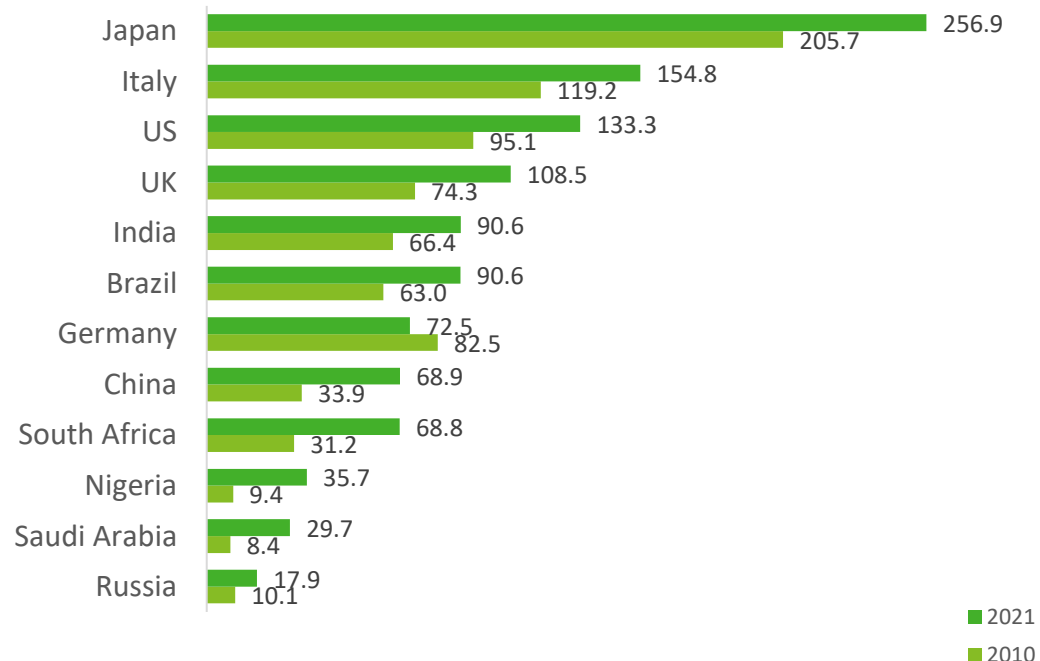
In 2020, global debt experienced the largest surge in 50 years. (debt as a percent of GDP)



Sources: IMF Global Debt Database and IMF staff calculations.  
Note: The estimated ratios of global debt to GDP are weighted by each country's GDP in US dollars.



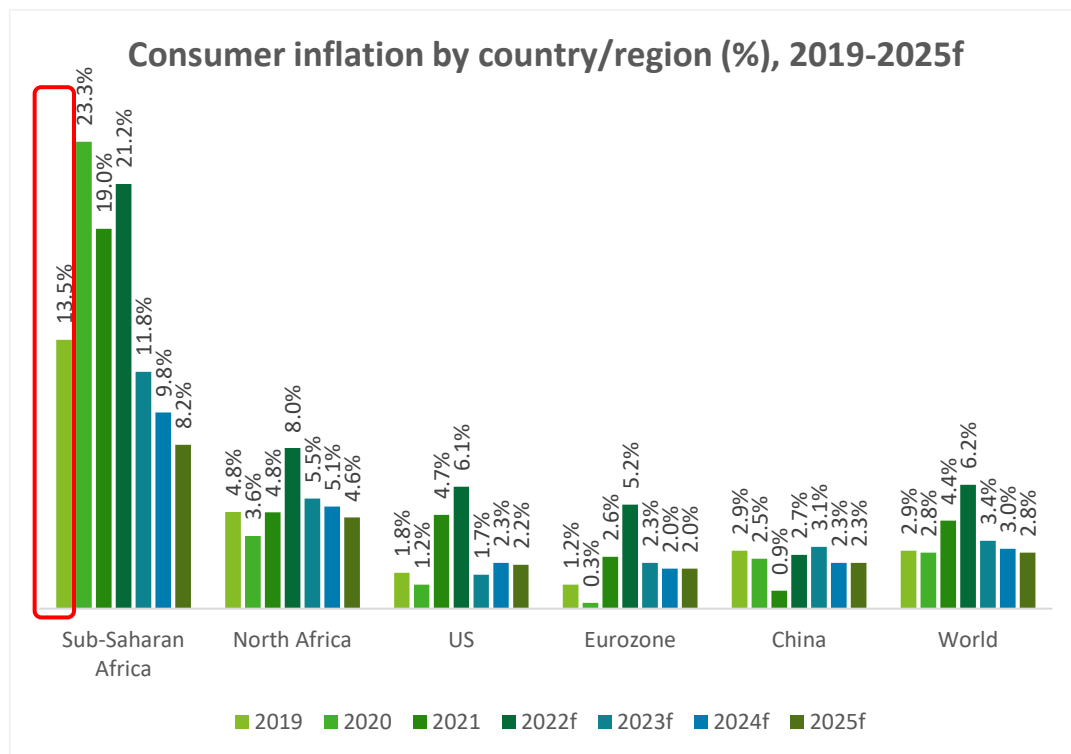
### General government gross debt (% of GDP), 2010 & 2021



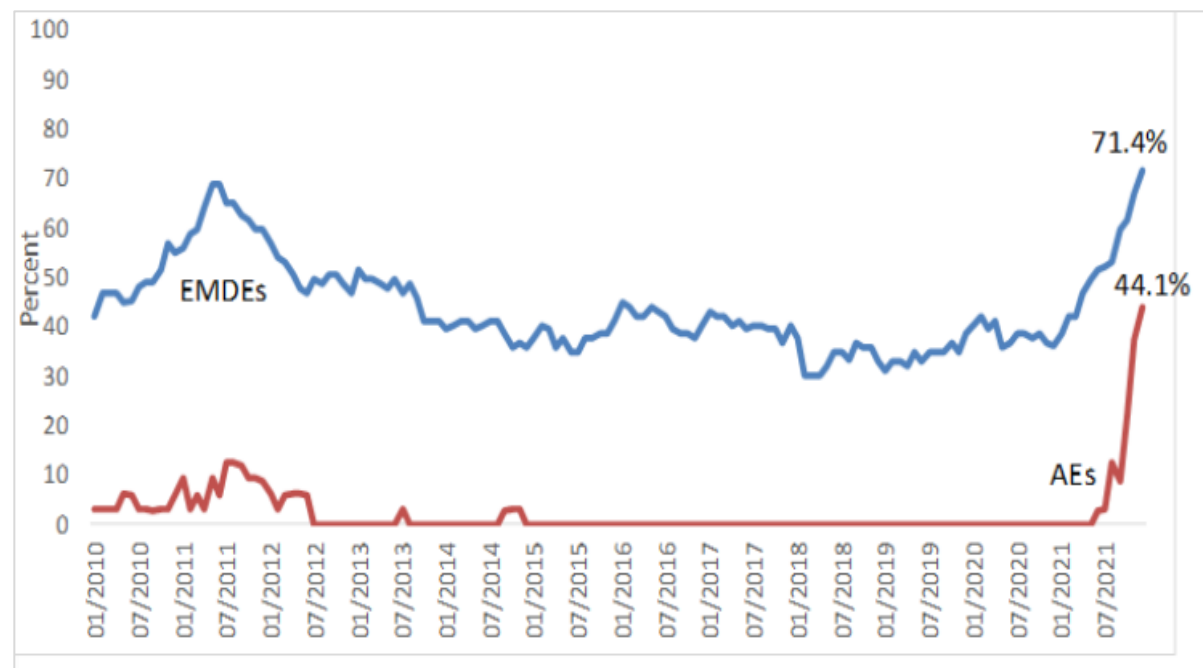
# Macro Outlook

## 4. Inflation – bad news for emerging markets?

Global supply chain disruptions, increase in commodity prices alongside rising demand as well as the Ukraine-Russia conflict has contributed to the rise in inflation across the globe. US inflation reached 7.9% in February 2022 – its highest level since 1982. This sharp increase in prices is expected to push the Fed to increase interest rates in 2022. Goldman Sachs, for instance, expects at least four rate hikes during the course of the year. While some emerging markets look better placed to deal with interest rate hikes in the US compared to a decade ago, a number of key markets including SA and Egypt remain vulnerable.



Share of advanced economies (AE) and emerging markets and developing economies (EMDE) with inflation above 5%, Jan 2010-Dec 2021\*



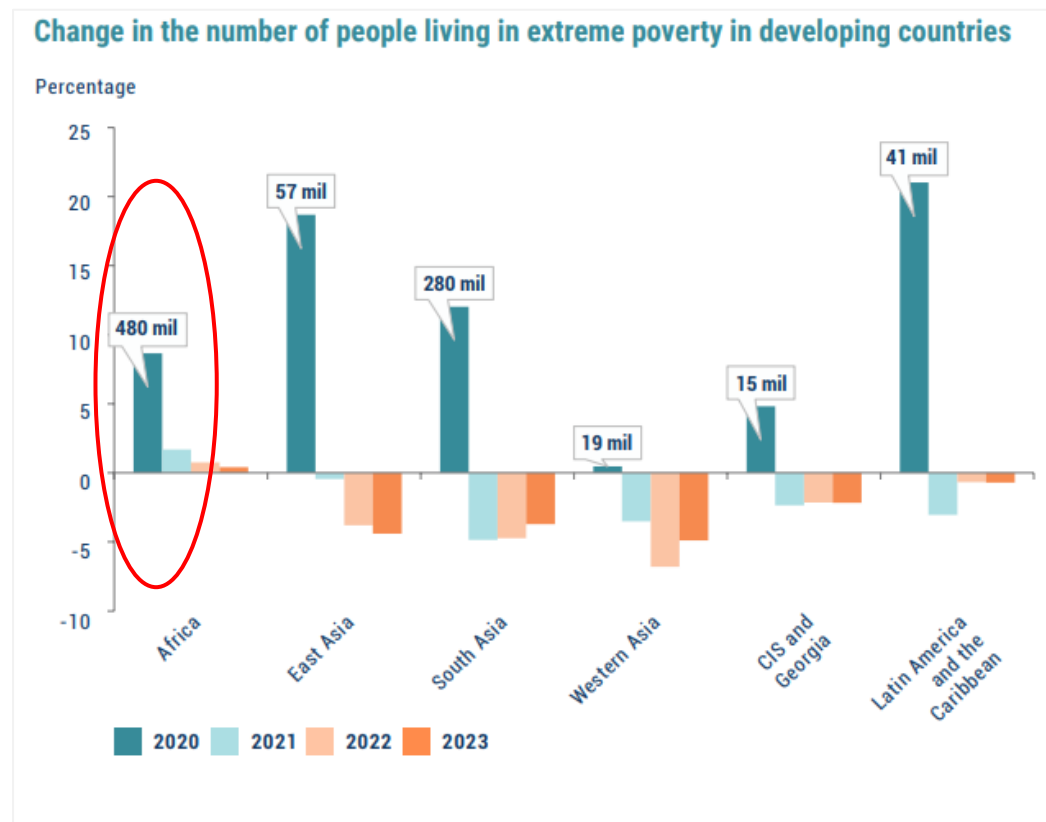
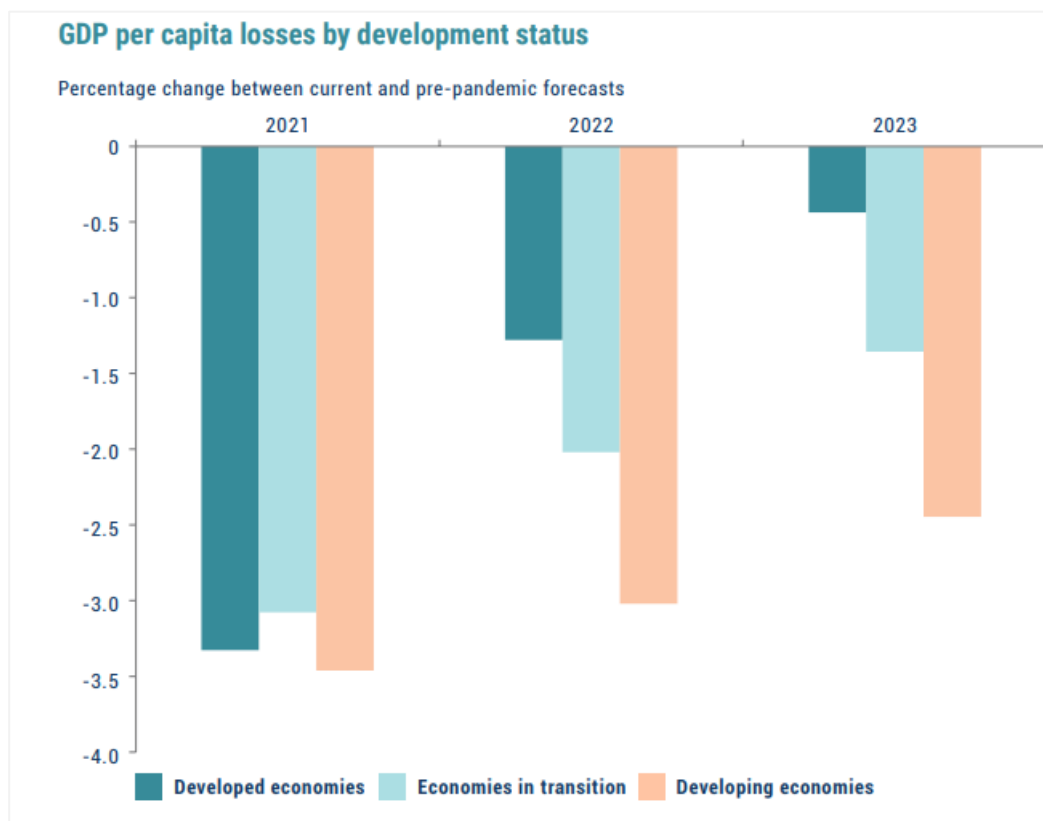
Source: Bloomberg, Fitch Solutions, World Bank

\*The sample consists of 34 AEs and 109 EMDEs

# Macro Outlook

## 5. Marginalisation of the Global South

The pandemic has led to a global loss in GDP/capita; however, developing countries are expected to feel the impact of the pandemic longer than developed economies increasing the marginalisation of the Global South. Extreme poverty increased due to the pandemic; and while the number of people in extreme poverty has started to decline in 2021, Africa will remain the only region in the world that will continue to see an increase in the number of people living in extreme poverty in the short term.



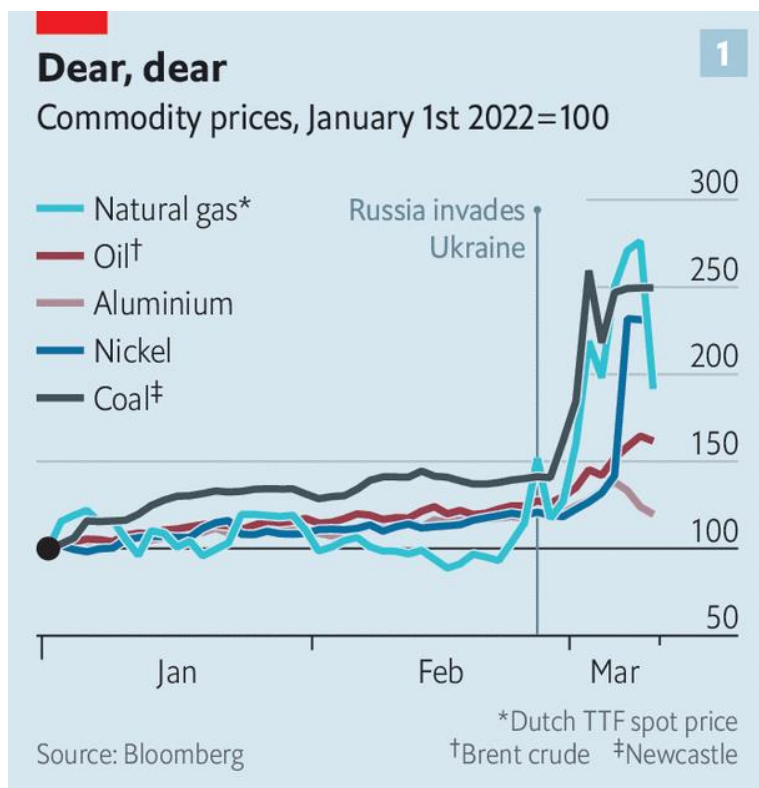
Source: UN DESA

# Implications of the Ukraine- Russia conflict

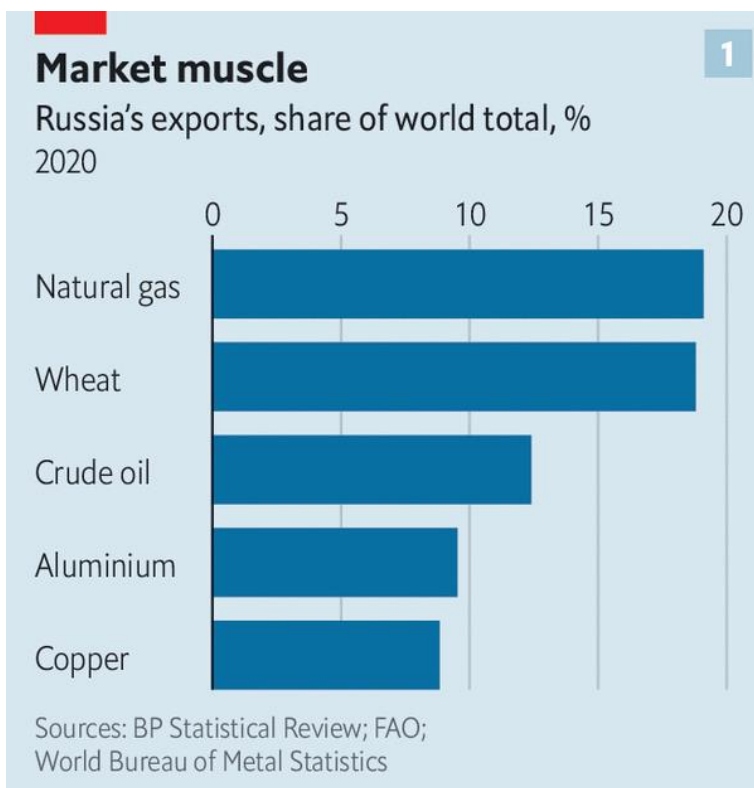


# Russia's invasion of Ukraine triggered a surge in commodity prices

Given Russia's role as an important producer of a range of commodities, the fear about supply disruptions due to the invasion of the Ukraine and subsequent sanctions on Russia led to a surge in commodity prices. While these commodity price increase may lead to unexpected windfalls for commodity producing countries, they will further increase inflationary pressure in many markets.

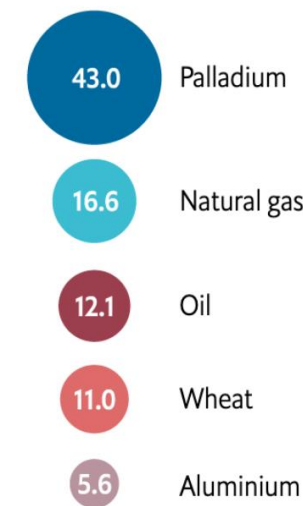


The Economist



The Economist

**Russian share of global production, 2020, %**

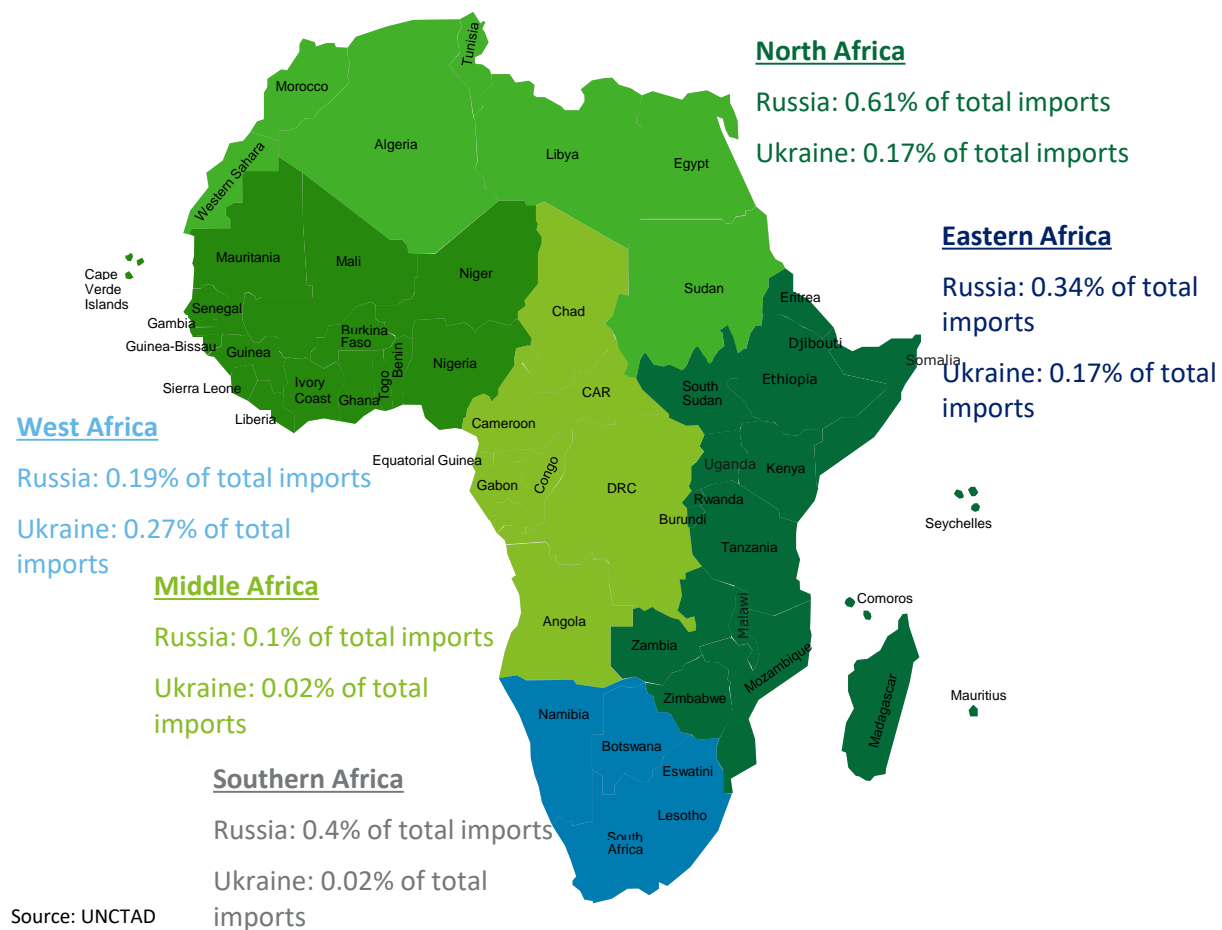


South Africa accounted for about 33% of global palladium production in 2020

# Africa's export dependency on Russia and Ukraine is limited

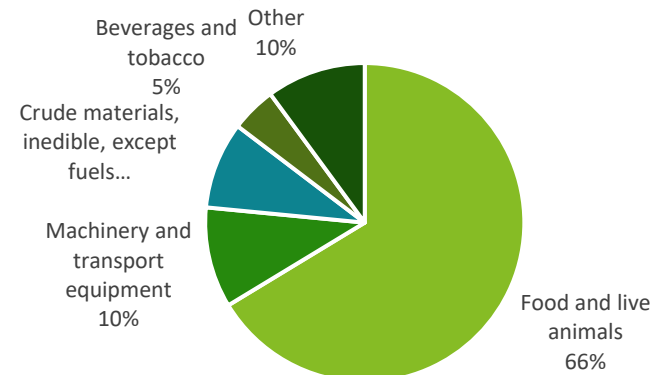
Overall, Russia and Ukraine are relatively insignificant trade partners of Africa. In 2020, both countries combined accounted for less than 0.5% of all African exports. North Africa has the strongest and Middle Africa the weakest export exposure to Russia and Ukraine. In 2020, agricultural products and crude materials were Africa's key exports to Russia and Ukraine.

Export dependency on Russia and Ukraine, 2020

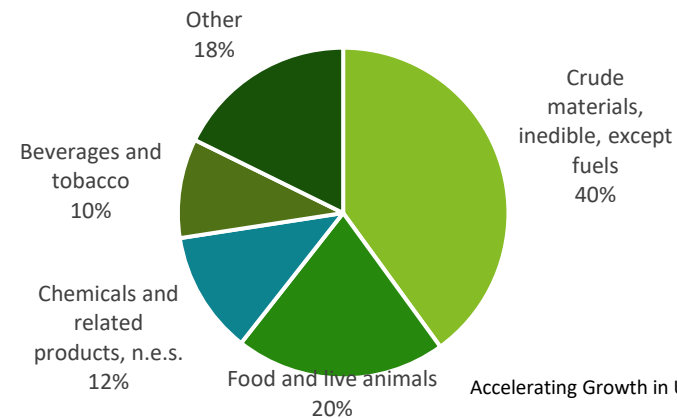


Source: UNCTAD

Africa's export basket to Russia, 2020



Africa's export basket to Ukraine, 2020



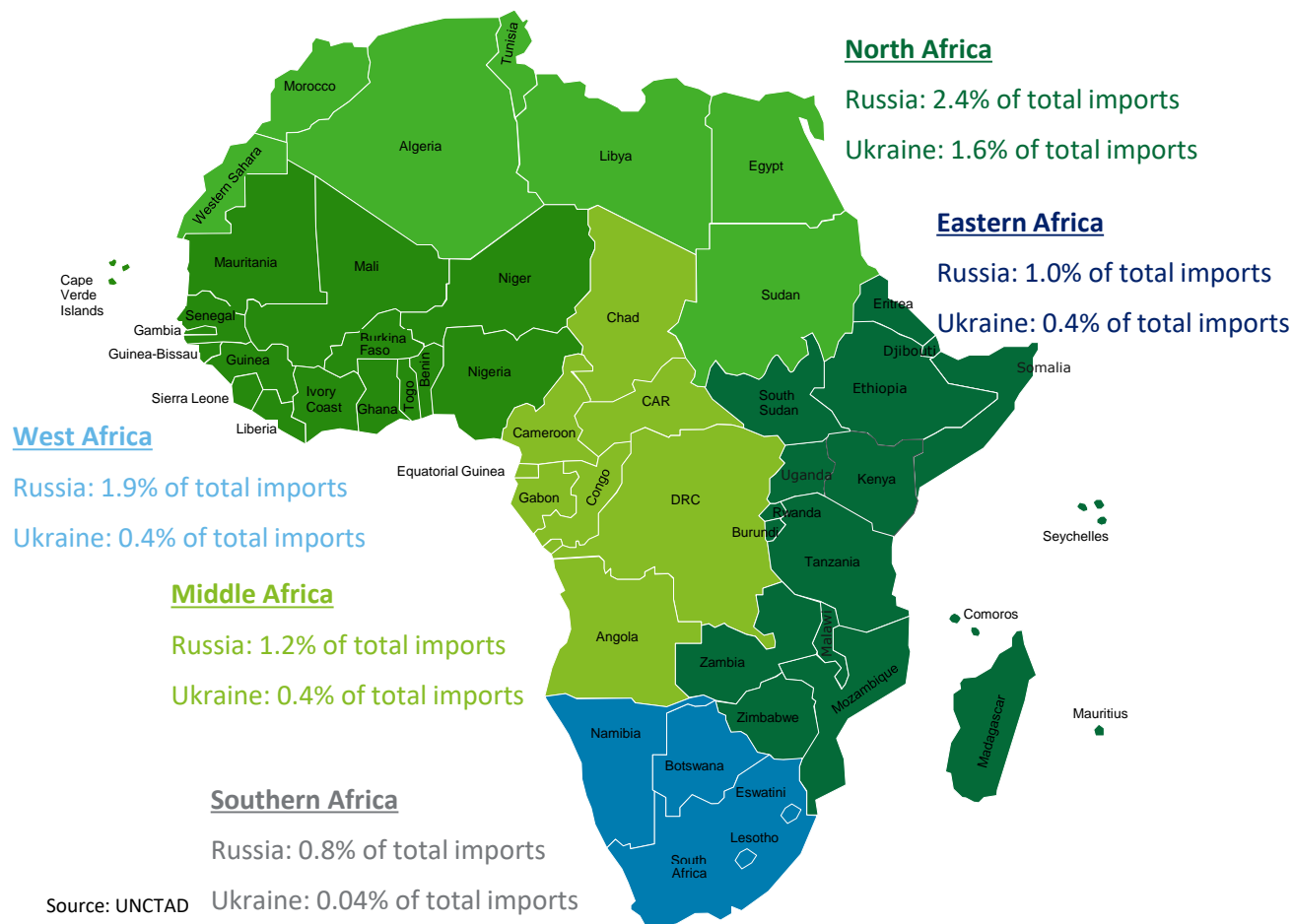
Accelerating Growth in Uncertain Times



# Africa's import dependency on Russia and Ukraine is limited

In 2020, Ukraine and Russia combined accounted for 2.5% of all African imports. North Africa has the strongest and Southern Africa the weakest exposure to Russian and Ukrainian imports.

Import dependency on Russia and Ukraine, 2020



Top 10 most import dependent on Russia, 2020

|    |                   | Imports from Russia (% of total) |
|----|-------------------|----------------------------------|
| 1  | Burkina Fasso     | 4.4%                             |
| 2  | Congo Brazzaville | 4.0%                             |
| 3  | Senegal           | 4.0%                             |
| 4  | Egypt             | 3.8%                             |
| 5  | Mauritania        | 3.5%                             |
| 6  | Morocco           | 3.0%                             |
| 7  | Cameroon          | 2.9%                             |
| 8  | Sudan             | 2.6%                             |
| 9  | Togo              | 2.6%                             |
| 10 | Tunisia           | 2.3%                             |

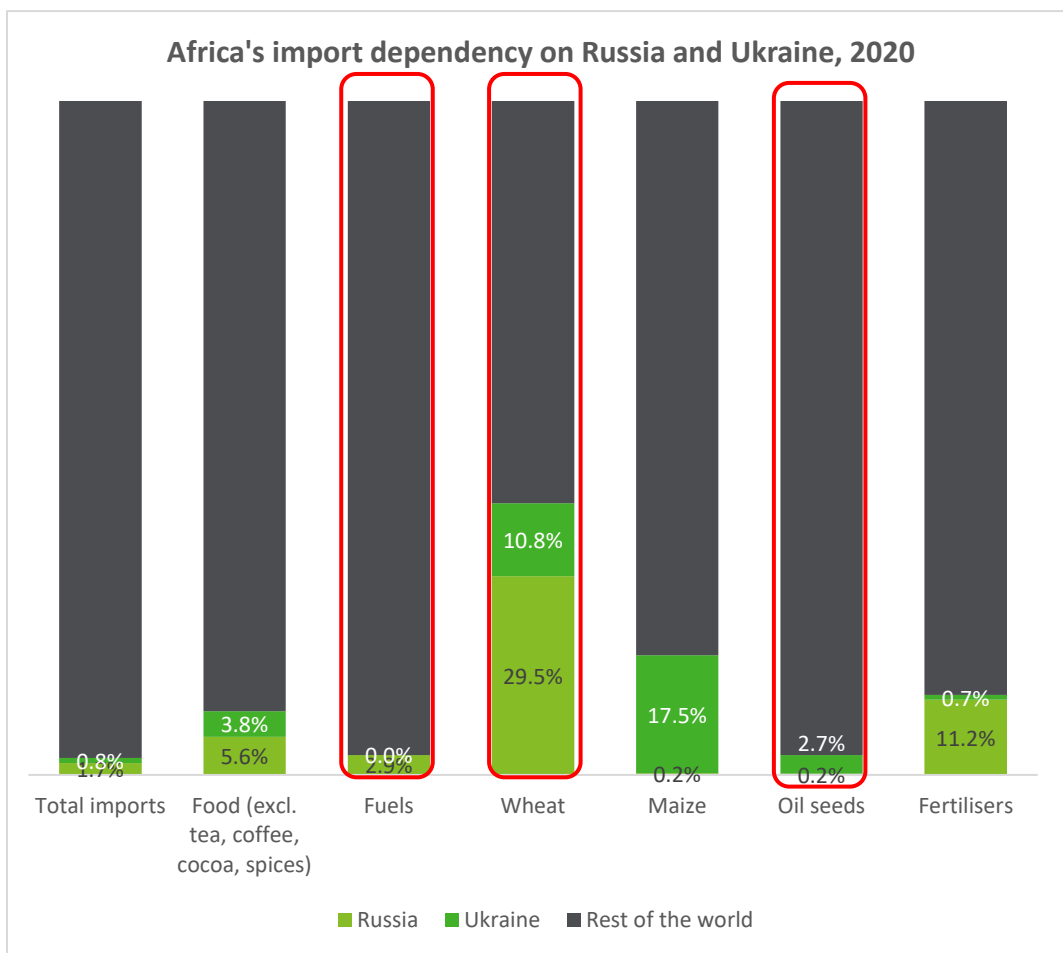
Top 10 most import dependent on Ukraine, 2020

|    |            | Imports from Ukraine (% of total) |
|----|------------|-----------------------------------|
| 1  | Libya      | 2.7%                              |
| 2  | Chad       | 2.4%                              |
| 3  | Egypt      | 2.4%                              |
| 4  | Sudan      | 2.0%                              |
| 5  | Tunisia    | 1.7%                              |
| 6  | Mauritania | 1.3%                              |
| 7  | Eritrea    | 1.2%                              |
| 8  | Gambia     | 1.1%                              |
| 9  | Senegal    | 1.1%                              |
| 10 | Ethiopia   | 1.0%                              |

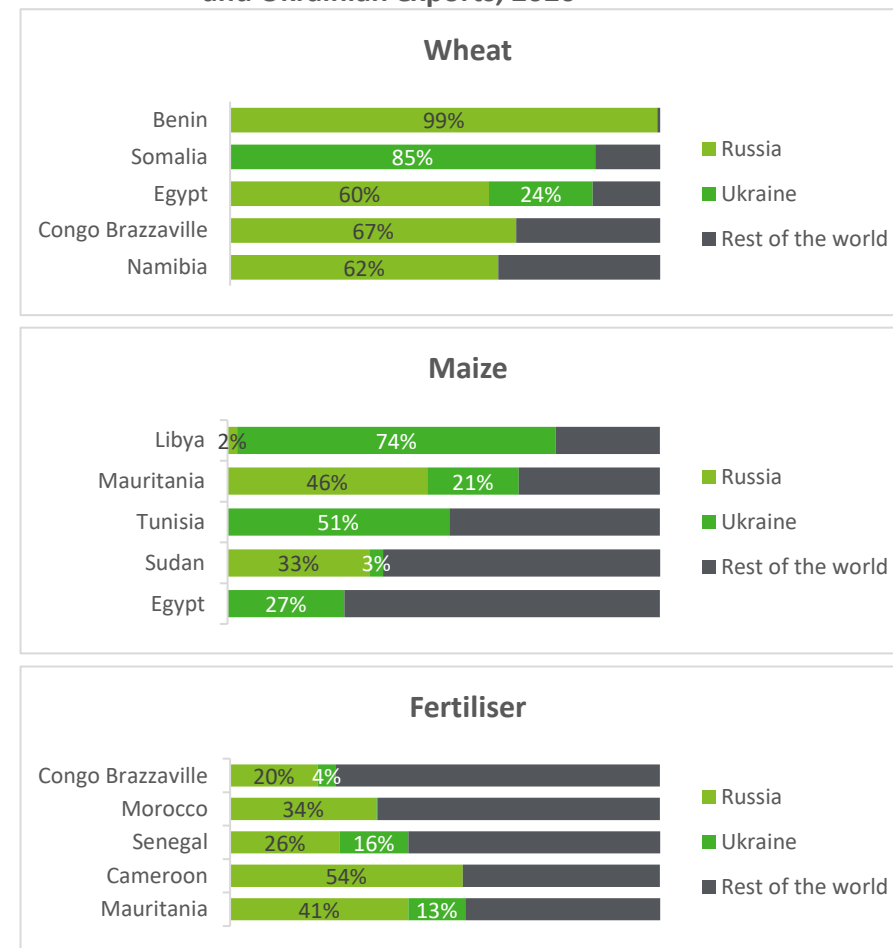
Accelerating Growth in Uncertain Times

## Ukraine conflict could push food prices up in parts of the continent

While Russia and Ukraine are relatively insignificant suppliers of goods to Africa, they are important suppliers of wheat (~40%), maize (~18%) and fertilisers (~12%). Supply shortfalls from Russia and Ukraine could have serious food security implications for a number of countries on the continent. In the past, food insecurity and food price increases have been key sources of civil unrest in a number of countries on the continent.






### Top 5 African countries most dependent on Russian and Ukrainian exports, 2020



# The ARC-economy

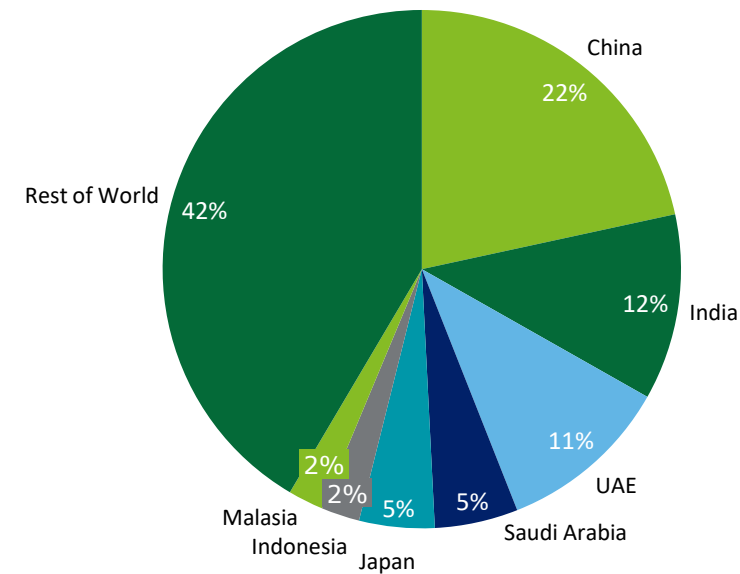


# East Africa – ARC economy

-  Population: 2.2 billion
-  GDP: US\$ 16.4 trillion
-  Weighted GDP growth
  - 2019: 4.7%
  - 2020: -5.8%
  - 2021: 8.2%



## East Africa Community's trade with world



- 58% of imports coming into the EAC are from the Asia-Pacific region, with China leading this charge with exports amounting to US\$7.1bn
- The UAE alone accounts for 16% of the EAC's exports

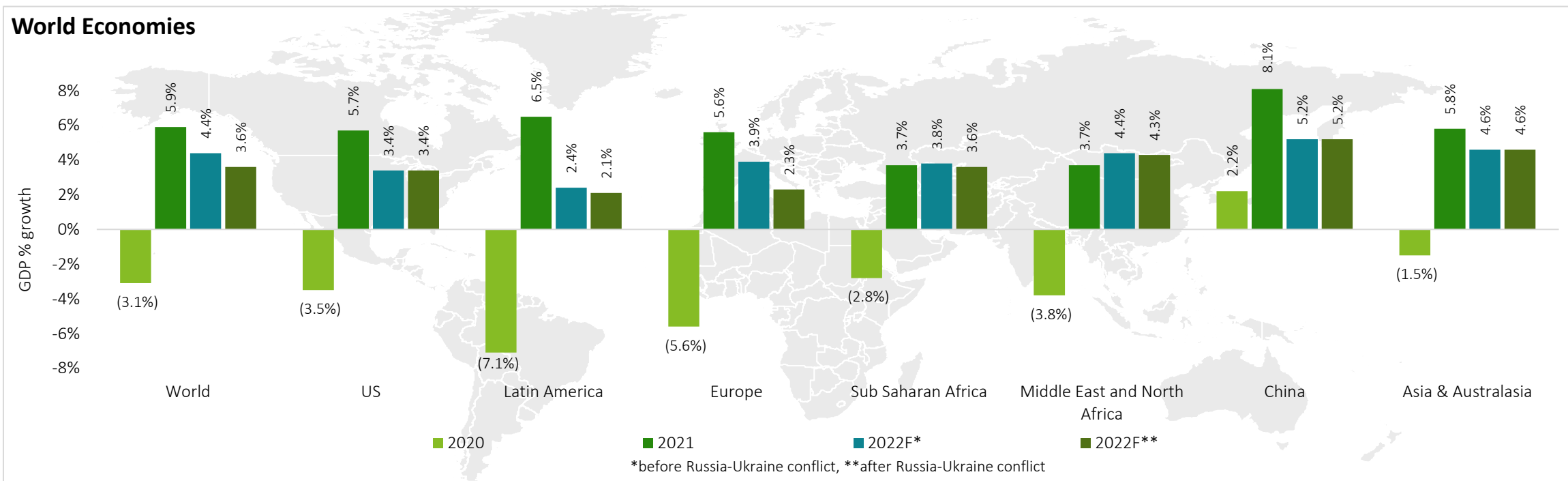
# Economic Overview

Gladys Makumi, Financial Advisory Leader, Deloitte East Africa



# Global Outlook

The global economic growth forecast for 2022 has been revised down from 4.4% to 3.6% owing to the political uncertainty surrounding the Russia-Ukraine conflict, which is also expected to result in rising commodity prices thus driving global inflation beyond 6% this year



**01** The global economy is estimated to have grown by 5.9% in 2021 driven by the base effect of the contraction experienced in 2020, and the development of COVID-19 vaccines, which led to the lifting of containment measures thereby encouraging the resumption of economic activities.

**02** The ongoing conflict between Russia and Ukraine will affect the global economy via three main channels: financial sanctions, commodity prices and supply-chain disruptions, with the main impact coming from a sharp rise in commodity prices. The rise in commodity prices is expected to fuel global inflation, which is expected to surpass 6% in 2022.

**03** In view of the Russia-Ukraine conflict, global growth is expected to slow to 3.6% in 2022. Growth in Europe, is now expected to decline to 2.3% in 2022 from 5.7% in 2021. Growth forecasts for the US and China have not been revised owing to strong real GDP growth in recent months. The economic impact of the conflict will be felt mostly in Ukraine and Russia, which will both experience sharp recessions this year.

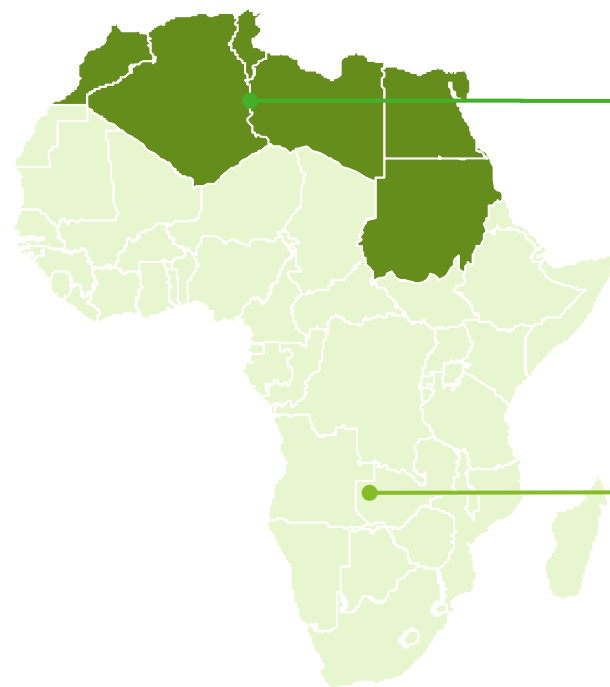
Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF) World Economic Outlook January 2022





## Africa Outlook

Africa's GDP is estimated to have grown by 3.4% in 2021 underpinned by a rebound in commodity prices and a rollback of pandemic-induced restrictions. Growth is expected to reach 4% in 2022 despite both global and political uncertainty



Northern African economies, being commodity exporters, are expected to benefit from strong global demand and increased prices of hydrocarbons, metals and minerals and other commodities in 2022.

Sub-Saharan African economies collectively registered a 3.7% growth in 2021, owing to an increase in commodity prices and an easing of social restrictions. 2022 growth is forecasted to reach 3.6%. However, the recovery remains insufficient to reverse the pandemic-induced increase in poverty.

**01** Travel and tourism face another difficult year in 2022 as economies with large tourism sectors—for example, Botswana, Mauritius, Namibia, Kenya, South Africa and Seychelles—will continue to be negatively affected by the restrictions on international travel. However, tourism is expected to pick up after an increase in global vaccination rates.

**02** The Russia-Ukraine conflict presents an opportunity for Africa's oil exporters who stand to gain from a further increase in international oil prices, while the continent's non-oil commodity exporters will receive an uplift from the rising prices of food and industrial raw materials.

**03** Although economic growth in China (the region's most important trade partner) is expected to slow down to 4.8% in 2022 owing to a disruption in the housing sector and the resurgence of COVID-19 cases, it should still be sufficient to support demand for Africa's exports.

## East Africa Outlook

East African Economies are on track to return to pre-pandemic levels of growth as vaccinations continue to be rolled out and restrictions on trade and travel are eased. Efforts to streamline previously cumbersome trade bottlenecks, are also set to bolster inter-country trade



|                             | GDP Growth |       |       | Inflation |        |       |
|-----------------------------|------------|-------|-------|-----------|--------|-------|
|                             | 2020       | 2021e | 2022F | 2020      | 2021e  | 2022F |
| Kenya                       | 0.6%       | 6.0%  | 4.5%  | 5.1%      | 6.1%   | 6.0%  |
| Uganda                      | (1.1)%     | 4.7%  | 5.8%  | 2.8%      | 2.2%   | 4.2%  |
| Tanzania                    | 6.3%       | 5.0%  | 5.2%  | 3.0%      | 3.7%   | 5.0%  |
| Ethiopia                    | 6.1%       | 2.0%  | 3.3%  | 20.9%     | 26.7%  | 24.8% |
| Rwanda                      | (3.4%)     | 9.6%  | 7.7%  | 9.9%      | (0.4%) | 2.9%  |
| Congo (Democratic Republic) | 1.7%       | 5.7%  | 5.9%  | 14.6%     | 9.3%   | 7.0%  |

### GDP Growth

- East African economies made substantial rebounds in 2021, largely attributable to easing of both country-specific and inter-country COVID-19 restrictions. The East Africa regional economy is projected to grow by 4.9% in 2022 from an estimated growth of 4.1% in 2021. Slow rollout of vaccination programs, the vulnerability of rain fed agriculture to climate change effects and high debt levels limiting fiscal space pose downside risks to the forecast.
- The regional economy continues to be sustained by spending on large infrastructure projects, output in agriculture, increase in trade from regional economic development and direct foreign inflows especially in technology.

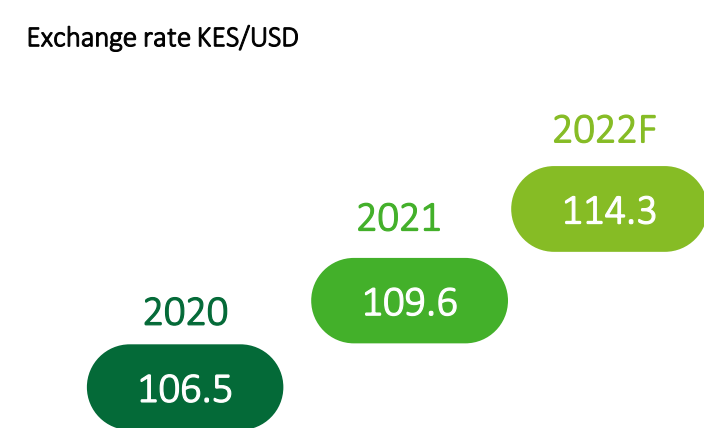
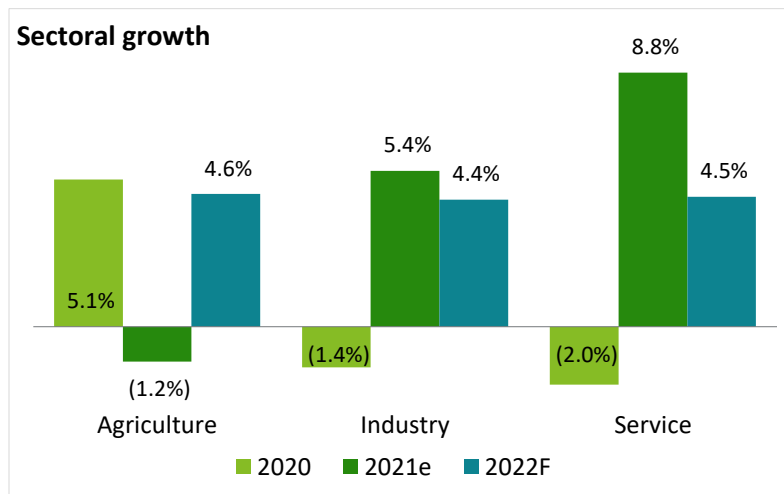
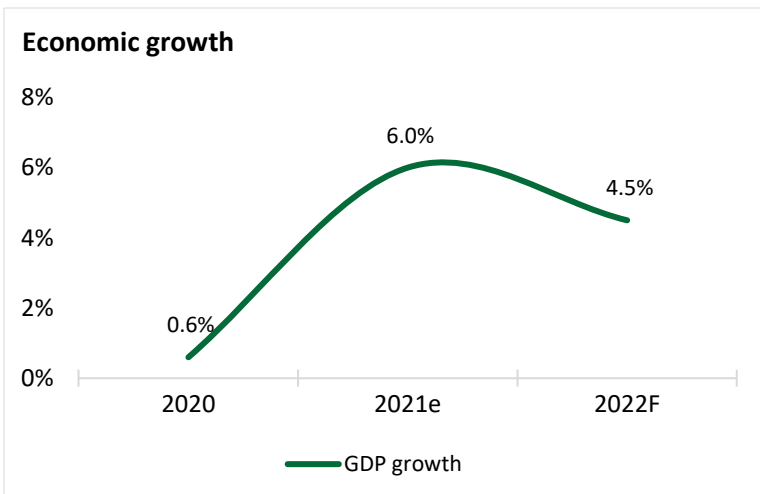
### Inflation

- The EA countries, through their central banks have continued to manage inflation to remain within targeted bands for most of the economies excluding Ethiopia.
- The countries, being net importers, continue to remain susceptible to global price movements thereby putting an upward pressure on regional prices in the short-term resulting in increased inflation.

Source: EIU, Fitch Solutions

# Kenya Outlook

Kenya's economy is expected to continue in its recovery with a forecasted 4.5% growth in 2022, albeit a slow down from 6.0% in 2021. The continued growth will be driven by strong private investment, a dynamic services sector and a rebound in the agriculture sector



GDP growth in 2021 was largely driven by double digit growth in the education and transport service sub-sectors following the lifting of COVID-19 containment measures, and a 5.4% growth in the industry sector. Inflation rose to 6.1% in 2021 from 5.6% in 2020, owing to the increased cost of oil and food, as well as the withdrawal of the COVID-19 tax relief measures.



GDP growth is expected to slow down to 4.5% in 2022, owing to the political uncertainty linked to the general elections to be held in August. Other constraining factors in 2022 will be tighter fiscal policy and a rise in domestic interest rates in response to global trends and inflationary pressures. However, government subsidies on fertilisers and strengthening external demand are expected to support a rebound in agriculture.



The shilling weakened to an average of KES 109.6/USD in 2021 from an average of KES 106.5/USD in 2020, driven by a wider current account deficit and a downward drift in foreign exchange reserves since mid-2021. The shilling is expected to weaken further to KES 114.3/USD in 2022, exacerbated by the uncertainty linked to the general elections to be held in August 2022.

Source: EIU, Fitch Solutions, IMF



## Kenya Outlook

Russia is a major global producer of oil, energy and agricultural commodities. Sanctions against Russia following its invasion of Ukraine have led to increased global oil and commodity prices, which is bound to have negative effects on the Kenyan economy

### Context



**2014**

Ukrainian President rejects an agreement with the European Union in order to establish closer relations with Moscow. Mass protests throughout Ukraine followed this decision and he was ousted as president. Shortly after, in an act of retaliation, Russia invaded Ukraine and annexed Crimea. This also led to 2 pro-Russian regions Donetsk and Luhansk to separate from Ukraine.

**2015**

A peace accord – the Minsk II agreement – is brokered to help end the conflict. The agreement obliges Ukraine to offer autonomy to the separatist regions while regaining full control of its border with Russia in the rebel-held territories.

**2021**

In October, Russia starts massing its military along the Ukrainian border in October raising fears regarding another Russian invasion. In December, Russia presents NATO and the US with a set of written demands and security assurances that Ukraine would never join NATO and that NATO withdraws its troops from across countries in eastern Europe. The US declines on these demands resulting in Russia's invasion of Ukraine in a bid to stop Ukraine from joining NATO.

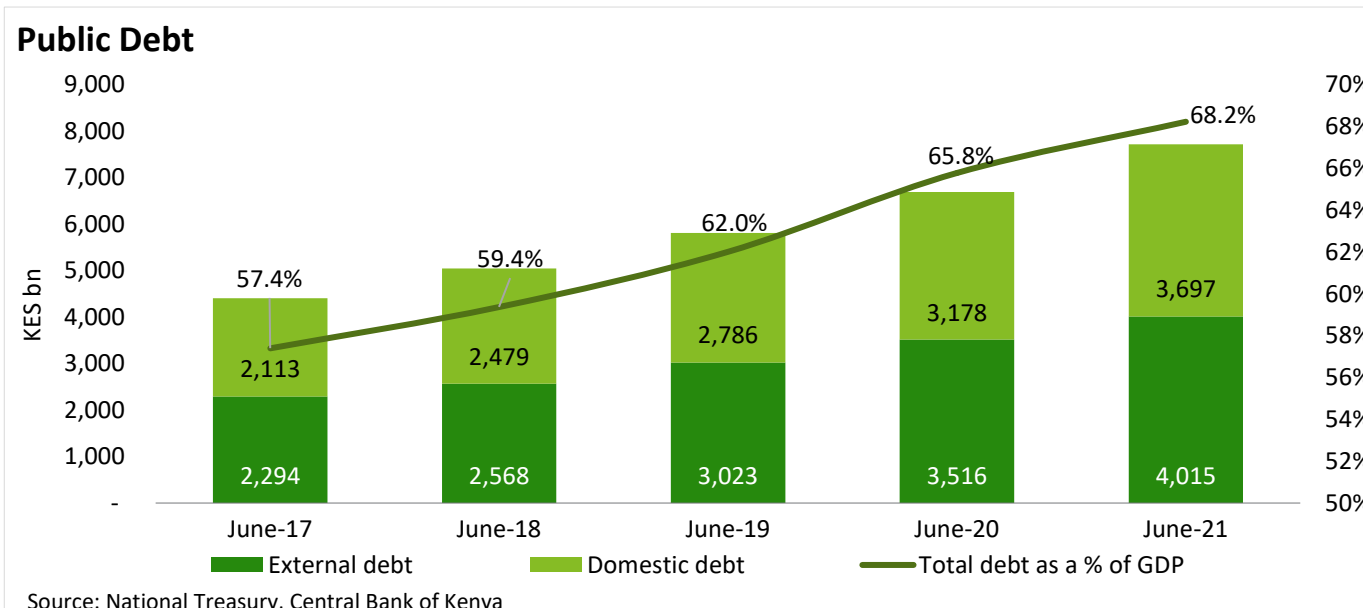


### Effects on the Kenya economy

- 01** Sanctions against Russia have resulted in a global shortage of oil supply thus driving up fuel costs. Higher fuel costs directly affect the transport sector, generation of electricity and other manufacturing processes.
- 02** Kenya relies on imported wheat from Ukraine and Russia. The ongoing conflict will restrict wheat exports to Kenya thereby leading to a rise in wheat flour and bread prices. A tonne of wheat has increased by 30% from KES 25.3k in December 2021 to KES 33k in March 2022. Wheat is the third most consumed food commodity in the country hence any price increase will directly be felt by the citizens.
- 03** Russia is the fourth-biggest buyer of Kenyan tea, having taken up produce worth KES 6.2bn in the 11 months to November 2021. Tea is a key foreign exchange earner for the country hence this could worsen the current account deficit and reduce foreign exchange earnings.
- 04** The conflict could hurt the flow of foreign investors to the Nairobi Securities Exchange (NSE) as investors rush to invest in more stable markets.

## Kenya Outlook

The IMF Debt Sustainability Analysis in December 2021, classified Kenya's public debt as sustainable but having a high risk of debt distress. The ongoing economic recovery in 2022 is helping offset deteriorated solvency caused by continued budget deficits from previous years coupled with the pandemic-induced economic contraction



| % of total debt | June-17 | June-18 | June-19 | June-20 | June-21 |
|-----------------|---------|---------|---------|---------|---------|
| External debt   | 52.1%   | 50.9%   | 52.0%   | 52.5%   | 52.1%   |
| Domestic debt   | 47.9%   | 49.1%   | 48.0%   | 47.5%   | 47.9%   |

Source: IMF, Central Bank of Kenya, EIU, National Treasury

**KES 7.7 trn**  
Total Debt as  
at June 2021

**KES 9.0 trn**  
Debt Ceiling

- The increase in public debt can mainly be attributed to loan disbursements for budget support following the adverse effects of COVID-19 pandemic on revenue collection, financing of ongoing and new development programs and depreciation of the Kenya shilling in 2021.
- Until 2019, China was the leading creditor to Kenya before being overtaken by the World Bank in 2020. Other major creditors include International Sovereign Bond (ISB) holders and a syndicate of Commercial Banks. These four leading creditors accounted for 76.8% of total external debt as of June 2021.
- For the FY 2022/23 budget, the Government targets a net financing mix of 32% external debt and 68% domestic debt to fund the 2022/23 fiscal deficits as the optimal debt strategy that aims at minimising exchange rate risks associated with external debt.
- The Government also plans to transition to a medium-term debt ceiling of 55% of GDP in present value terms and is pursuing a strategy for its achievement before the general elections in August.



## Tracking on the Big 4 Agenda

Vision 2030, Kenya's long-term development blueprint, is being implemented through successive 5-year medium term plans. The implementation of the Third Medium Term Plan (MTP III) 2018-2022 is designed on achieving the "Big Four" Agenda in order to support higher economic growth, faster job creation, and reduce the cost of living for Kenyans



### Food Security

- Targets for the MTP III included:
  - enhancing Food and Nutrition Security through construction of large-scale multi-purpose and smaller dams for irrigation projects,
  - construction of food storage facilities; and
  - implement programmes to support smallholder farmers to sustainably produce and market various commodities.
- As of November 2021, the following had been achieved:
  - the implementation of the **Agricultural Inputs Subsidy Programme for farm inputs**, which has improved the production of main crops such as maize, rice, coffee, tea and wheat through the provision of the subsidised fertiliser and seeds, enabling farmers to earn more incomes and make Kenya more food secure;
  - the restructuring of the Kenya Tea Development Agency (KTDA) has streamlined and improved operations in the sector, setting the price of tea on an upward trajectory, while the revival of the Kenya Meat Commission (KMC) has supported local value addition for beef by providing a ready market for livestock; and
  - the Government through **the National Expanded Irrigation Programme has increased food production through construction, expansion and rehabilitation of irrigation schemes** across counties e.g. the expansion of Galana Kulalu farm acreage from 52,000 to 100,000, the Lower Nzoia Irrigation Project; and the rehabilitation of Bura Irrigation Scheme.



### Affordable housing

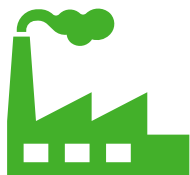
- The target for the MTP III was to provide at least **500k affordable new houses to Kenyans by 2022.**
- As of November 2021, the construction of **1,370 affordable housing units, 462 social housing units, 540 National Police and Prisons Services housing units and 670 civil servants' houses** benefiting over 800 civil servants had been achieved.
- In order to improve access to land for housing, the Government also issued over **4.5 million titles under the National Land Titling Programme.** Going forward, the construction of 25,965 affordable housing units in Starehe (3,360), Shauri Moyo (4,470), Kibera Zone B (4,435) and Mukuru, Meteorological site (13,700) is set for commencement.





## Tracking on the Big 4 Agenda

Since the onset of the Big Four Agenda, the Government has made deliberate efforts to implement various policies in order to promote dynamic, inclusive and sustainable development



### Manufacturing

- The targets for the manufacturing sector under the MTP III include:
  - Supporting value addition; and
  - raising the manufacturing sector's share to 15% of GDP by 2022.
- As of November 2021, the following had been achieved:
  - the modernisation of RIVATEX East Africa Limited led to increased textile and apparel production, and the creation of job opportunities through linkages with cotton farmers.
  - provision of tax incentives in order to spur growth in the leather sector to meet the growing domestic and external demand; and
  - the manufacturing sector comprised 7.4% of GDP in Q3 of 2021, down from 8.1% in Q3 of 2018.



### Universal Health Coverage (UHC)

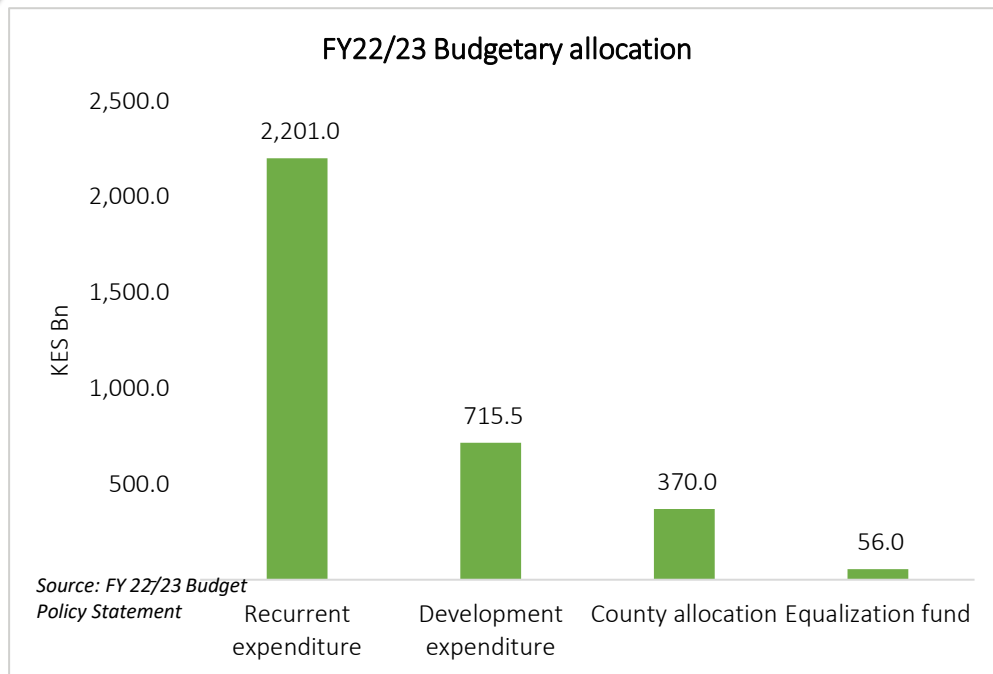
- The main MTP III target was achieving universal health coverage by implementing programmes that increase health insurance coverage, increase access to quality healthcare services and offer financial protection to people when accessing healthcare.
- As of November 2021, the following had been achieved:
  - through the 'Linda Mama' programme and other health interventions relating to reproductive health, there has been improved skilled birth attendance from 67% in FY 2018/19 to 78.3% in FY 2020/21;
  - following the successful rollout of the UHC programme pilot phase, utilisation of health services across the country increased, with over 1.6 million additional hospital visits made during the 12-month period of the pilot phase;
  - the Government provided health insurance cover for the elderly and severely disabled in society under the Health Insurance Subsidy Programme and launched the biometric registration for the UHC scheme to capture the biometric data; and
  - there has also been an increased ICU bed capacity from 108 to 651 and improved oxygen generation capacity in public health facilities from 3m litres/day in March 2020 to 32m litres/day as of October 2021 in order to address the challenges caused by COVID-19 pandemic.

# Budget Overview

Fred Omondi, Tax & Legal Leader, Deloitte East Africa



# Budget Overview

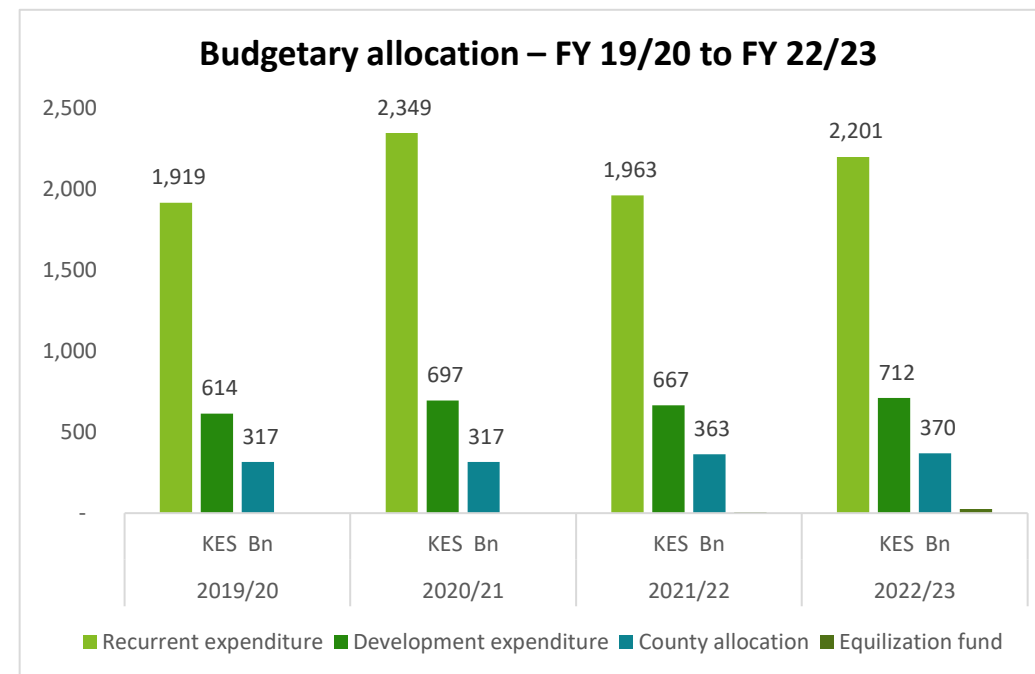


Recurrent expenditure continues to take the largest share of the budget at 67%.

Development expenditure and county allocation take a minority share of 22% and 11%, respectively, contrary to the provisions of the Public Finance Management Act Section 15 (2) (a) which requires that development expenditure should be allocated a minimum of 30% of the national budget.

There is need for Kenya to control recurrent expenditure in order to realize real growth. Key areas like the bloated public service and debt servicing may hinder growth if not addressed.

\* Medium Term 2022 Budget Policy Statement, November 2021



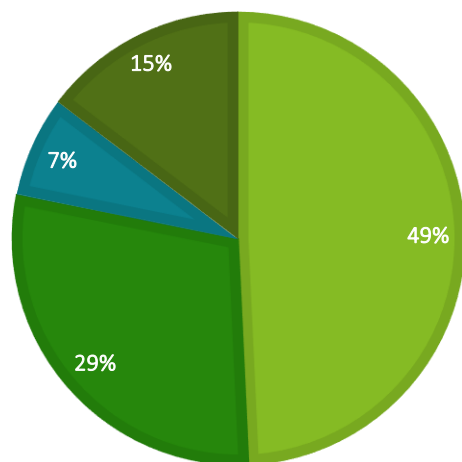
As has been the trend over the years, the Kenyan budget has increased from KES 3.0 Trillion in FY 21/22 to KES 3.3 Trillion for FY 22/23.

The government will be prioritizing implementation of MTP III programs, the Economic Recovery Strategy and the “Big Four” Agenda. However, there may be challenges as the FY 22/23 budget will be implemented during an electioneering year and at a time when the economy is recovering from the adverse effects of the COVID-19 pandemic but facing new headwinds.

# Revenue Trends

FY 2022/23 Projected Revenue Sources

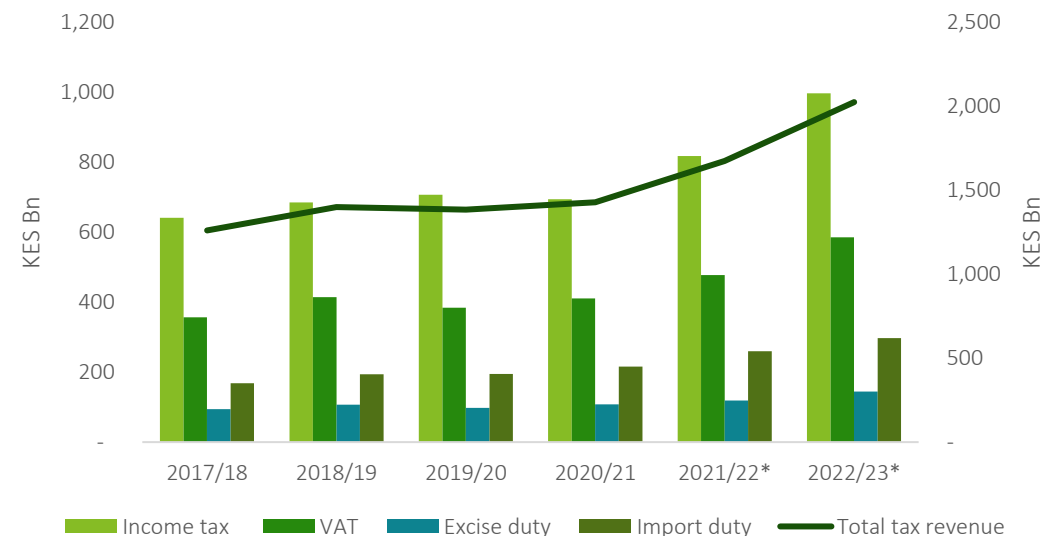
Income tax VAT Excise duty Import duty



In keeping with prior years, income tax is expected to be the main revenue generator with a projection of KES 997 Billion in FY 22/23, accounting for approximately 49% of the total projected tax revenue.

VAT is projected to achieve the highest growth in revenues at 23%, followed by import duty at 22%, with excise duty trailing at 14%.

Trend in tax revenues



1. There is an upward trend in the revenue collections over the last five years from **KES 1.3 Trillion** in the financial year 2017/18 to projected revenue collections of **KES 2.0 Trillion** in FY 2022/23. It represents an 18% growth over projected tax collections for FY21/22.
2. The projected increase in tax revenues can be attributed to the expected economic recovery post COVID-19, tax increases especially excise and import duty, KRA’s intensified compliance and enforcement efforts, fast-tracking dispute resolution, Voluntary Tax Disclosure Program (VTDP), continued automation of tax administration, among other initiatives.
3. This projected growth in tax revenues is likely to be negatively impacted by economic vulnerabilities.

# Direct Tax Measures

Fred Omondi, Tax & Legal Leader, Deloitte East Africa





## Corporate Tax

### Cash donations to any charitable organisation to be deductible

- All entities that donate cash to charitable organizations to deduct the donation from their taxable income.
- Currently only donation to charitable organisations that are registered under either the Societies Act or the Non-Governmental Organisations Coordination Act are allowable for tax deductions.

### Gains accruing to non-residents on transactions involving derivatives to be taxable

- Gains accruing to non-residents from transactions involving financial derivatives in Kenya to be taxable in Kenya.

### Exemption of microfinance institutions from the interest limitation rule

- Microfinance institutions licensed under the Microfinance Act to be exempted from the interest restrictions based on a ratio of earnings before interest, taxes, depreciation and amortization in determination of their taxable income (EBITDA).





## International Tax



**Country by Country  
Reporting Compliance for all  
multinationals operating in  
Kenya.**

- Kenya signed the Mutual Administrative Assistance in Tax Matters (MAC) with Global Forum on Transparency and Exchange of Information on Tax in July 2020.
- In the Budget Statement, the CS proposes to amend the Income Tax Act to require MNEs with operations in Kenya to report the activities within Kenya and other jurisdictions to the Commissioner General (CG) for KRA.
- This proposal seeks to expand the scope of the entities that are required to report to the CG. Currently, the reporting is only required where the ultimate parent company is a resident in Kenya for tax purposes. For purposes of implementing the Country by Country (CbC) Reporting, the Cabinet Secretary published draft regulations in 2021.
- The proposal will enable the KRA to have visibility of financial and related information thus promoting greater tax transparency among the MNEs. Besides, CbC, the Kenyan Government also implemented Common Reporting Standards (CRS) regime to enhance automatic exchange of financial account information.
- These changes are expected to increase compliance and reporting requirements for MNEs in Kenya. The proposal is expected to seal tax revenue loopholes by granting the KRA access to information of the MNEs operations.



## Tax Administration

### Taxpayers to deposit 50% of the disputed tax prior to filing an appeal after a TAT decision

- A taxpayer who is aggrieved by the decision of the Tax Appeals Tribunal, to deposit 50% of the disputed tax revenue in a special account at the Central Bank of Kenya as the taxpayer proceeds to appeal the decision.
- Should the matter be ruled in the taxpayer's favour, the deposit will be refunded within 30 days after final determination of the matter in court.
- The stated aim of this proposal is to protect the disputed tax revenues considering that some tax disputes take too long to be concluded, especially after judgement by the Tax Appeals Tribunal.

### KRA to be allowed to block the disposal of registrable assets that may be used as security for unpaid taxes

- Commissioner General for KRA empowered to direct the Registrar of ships, aircrafts, motor vehicles and any other properties that may be used as security for unpaid taxes to restrict disposal or transaction of these assets. Presently, the TPA only empowers the Commissioner General to direct the Land Registrar to restrict the disposal of land belonging to taxpayers with tax arrears.
- The intention is to secure unpaid tax revenue due from taxpayers who may have assets other than land, which the Commissioner can put a caveat or restriction to prevent transfer.



## Tax Administration

### Objection decision to be issued within 60 days

- Commissioner to issue an objection decision within one cycle of 60 days from the date of receiving a valid objection by a taxpayer.
- Currently, the Tax Procedures Act empowers the KRA to request for additional information from taxpayers to facilitate determination of an objection on assessed tax.
- This potentially prolongs the determination of tax disputes as additional information can be requested severally and any request for additional information provides the Commissioner with additional 60 days to make a decision.

### Draft National Tax Policy to be shared for input

- The Government has developed a draft National Tax Policy to guide tax administration. The policy will soon be shared with stakeholders and peer review institutions for input.
- Further, the Government is developing a Medium-Term Revenue Strategy to boost tax revenues, improve the tax system and link taxation to the country's development needs over the medium term.

# Indirect Tax Measures

Lillian Kubebea, Indirect Tax Partner, Deloitte East Africa



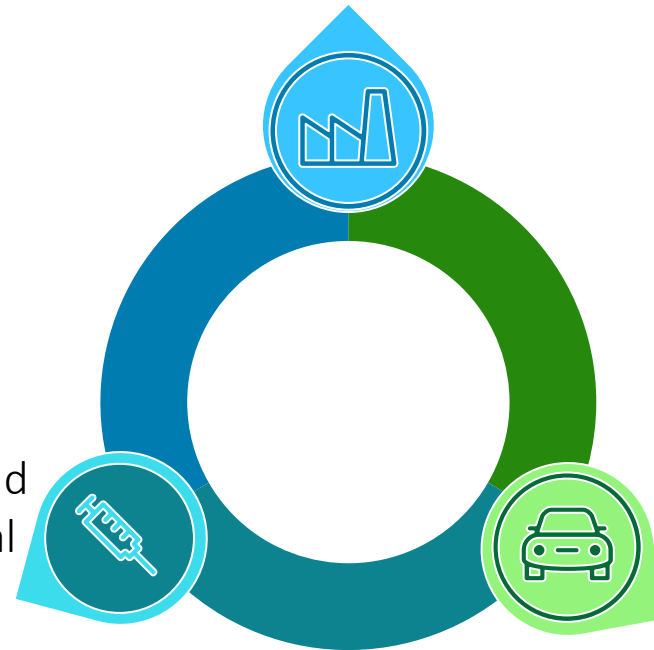
## Value Added Tax

### Exemption of Plant and Machinery used in manufacturing of pharmaceutical products

- Proposal to exempt the acquisition of plant and machinery for use by manufacturers of pharmaceutical products.

### Exemption of medical supplies from VAT

- VAT exemption on medical oxygen supplied to registered hospitals, urine bags, adult diapers, artificial breasts, and colostomy or ileostomy bags for medical use.



### Exemption for locally manufactured passenger motor vehicles

- Input and raw materials used in the manufacture of passenger motor vehicles to be exempt from VAT; and
- Proposal to also exempt from VAT the purchase of locally manufactured passenger vehicles.

## Excise Duty

- Empower CG to exclude products from inflation adjustment on consideration of economic circumstances facing the products.

- Various products with specific rates excluding petroleum products by 10%

**Inflationary adjustment**



**Excise duty increase**



**Exemption of excise duty**



**Introduction of excise duty**



**Change in excise duty on liquid nicotine**

- Eggs for hatching imported by licensed hatcheries upon recommendation by the responsible CS;
- Neutral spirit used by registered pharmaceutical manufacturers upon approval by the CG; and
- Locally manufactured passenger motor vehicles.

- Fees charged for advertisement of alcoholic beverages, betting and gaming activities at 15%

- Change in excise duty regime on liquid nicotine products from shillings per unit to KES 70 per millilitre.





## Miscellaneous Fees and Levies Act



### 1. IDF and RDL exemption

- Exemption of IDF and RDL on inputs and raw materials used for manufacture of pharmaceutical products.



### 2. Export levy

- Reduction of export levy on raw hides and skins from 80% or USD 0.52 per Kg to 50% or USD 0.32 per Kg

**Other Measures**





## Other measures



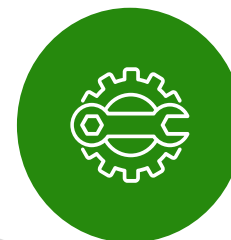
### Public Procurement and Asset Disposal (Amendment) Bill, 2021

- The Government proposes enactment of the Public Procurement and Asset Disposal (Amendment) Bill, 2021
- The bill is geared towards allowing submission of the multiple awards where several bidders can be awarded the same contract.



### Capital Markets Act (Cap 485A)

- There is a proposal to amend the Act to expand the scope of persons who can act as investment advisors.
- The move is aimed at allowing single director companies and partnerships to be licensed as investment advisors.



### Insurance Regulations

- The Government proposes to amend the regulations to require motorcycles and three-wheeler motor vehicles to obtain insurance for their passengers
- This will cater for compensation for damages occasioned by motorcycle related accidents.



### Unclaimed Financial Assets Act (UFAA)

- The Bill proposes to amend the UFAA to provide for waiver of penalties, fines, and audit fees
- In addition, the Bill proposes to introduce a 12 -month Voluntary Disclosure Program that will waive penalties
- The moved is aimed at encouraging reporting and recovery of identified assets.



## Other measures



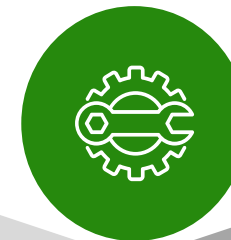
### Public Finance Management Act

- The Bill proposes to amend the Act to replace the debt ceiling with a debt anchor of 55% of debt to GDP
- The move is geared towards aligning Kenya's debt management to international best practice but also provide more headroom for borrowing.



### Kenya Revenue Authority to be rebranded to Kenya Revenue Service

- The change of the name is intended to rebrand the Authority and transform its public image thus enhance tax compliance through improved public relations and maintain a clear focus on taxpayers' needs.



### Statutory Instruments Act

- The Statutory Instruments Act is to be amended to exempt tax related Regulations under various tax laws from the automatic 10 years expiry period from the date of their publication as provided under the Statutory Instruments Act.
- Expiry of these instruments would negatively affect tax administration and revenue collection.

# Panel discussion

Julie Nyang'aya, Risk Advisory Leader, Deloitte East Africa





**Guest panellists**



**Jane Karuku**  
Group Managing Director & Chief  
Executive Officer  
East African Breweries Limited (EABL)



**Mucai Kunyiha**  
Chairman  
Kenya Association of  
Manufacturers (KAM)



**Polycarp Igathe**  
Chief Commercial Officer  
Equity Group Holdings Ltd



**Davis Ayako**  
Head of Strategy, Data &  
Analytics  
SBM Bank Kenya Ltd

**Moderator**



**Julie Nyang'aya**  
Risk Advisory Leader  
Deloitte East Africa

**Deloitte specialists**



**Fredrick Omondi**  
Tax Leader  
Deloitte East Africa



**Gladys Makumi**  
Financial Advisory Leader  
Deloitte East Africa





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