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Kenya Budget Highlights 2022/23  
Accelerating growth in uncertain times

**APRIL 2022**



# From the CEO's desk

Over the past year, Kenya has dealt with the socioeconomic aftershocks of the COVID-19 pandemic, with new COVID-19 variants driving ever-changing restrictions on movement, disruptions to global supply chains and adverse impacts on financial markets, tourism, and other sectors.

After a contraction of the global economy, we are transitioning into a post-pandemic world where governments have instituted measures for economic recovery to tackle the repercussions of the pandemic and stimulate economic growth to pre-pandemic levels and beyond. These measures have been coupled with COVID-19 vaccination interventions and an easing of movement restrictions to accelerate our return to normalcy.

Uncertainty, however, remains. Our post-pandemic recovery measures are not immune to influence from geopolitical factors, key of which has been the ongoing Ukraine-Russia crisis. The resultant sanctions placed on Russia, a key producer of oil and natural gas, have tightened global energy supplies and supply chains, the effects of which are being felt in the global economy, and Kenya is no exception. Oil and gas prices have a strong influence on the cost of living, and unanticipated windfalls within commodity-producing countries will further increase inflationary pressure in many markets.

Closer home, this year's budget has been released earlier than is traditional, in consideration of the government's preparations for the upcoming General Elections in August 2022. Kenya is no stranger to uncertainty during election

seasons, and ultimately has experienced a trend of economic contraction after elections, from 6.7% in 2007 to 1.5% in 2008, and similarly from 5.9% in 2017 to 4.8% in 2018<sup>1</sup>. Uncertainty manifests itself through reduced economic activity, with foreign and local investments declining, and inbound international financial flows stalling as investors adopt a "wait and see" approach pending the outcomes of the electoral process.

Taking these circumstances into consideration, this year's Budget has been prepared against the backdrop of increased uncertainty and geopolitical risks and has considered the expected global recovery after a slump in 2020. The focus of the 2022/23 Budget is 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 the implementation of the third Economic Stimulus Programme.

Global uncertainty notwithstanding, I believe there is an opportunity to foster resilience and accelerate sustainable economic growth through fiscal support and international cooperation. Kenyans are renowned for their remarkable resilience and it is this very spirit that will help the country accelerate towards economic recovery.

**Joe Eshun**  
Chief Executive Officer  
Deloitte East Africa





# Foreword

This year's budget is a tough juggle for the Government as it tries to balance stakeholders' expectation amid internal and external uncertainties. Undoubtedly, the government is confronted with significant public expenditure demands including those geared towards protecting livelihood, creation of an enabling environment for businesses and election related spending. Being an election year also means that it would be an inopportune moment to introduce measures that negatively impact taxpayers.

To finance the Budget, the Government expects to raise ordinary revenue of KES 2.14 Trillion. To this end, it has proposed several tax measures expected to generate an additional KES 50.4 Billion to the exchequer for the budget 2022/23. It is notable that some of the proposals may have unfavourable impact on the taxpayers should they be implemented. In particular, the increases in excise duty for certain products will mean higher prices for consumers. Excise duty is increasingly becoming a popular tool for the Treasury to levy additional taxes targeting a wider range of products and services. Another punitive measure is the requirement for taxpayers to deposit 50% of disputed taxes in a special account at the Central Bank of Kenya before appealing a decision ruled in favour of the Commissioner at the Tax Appeals Tribunal. This will not only jeopardise access to the Courts but could also encourage inflated assessments, if the experience in other jurisdictions with similar provisions is anything to go by.

On a positive note, VAT and Excise duty exemptions for certain sectors notably local motor vehicle and pharmaceutical manufacturers sector will be beneficial for these sectors. Microfinance institutions will also be spared the restriction on interest deduction.

For the umpteenth time, the Cabinet Secretary mentioned that the National Tax Policy will be put in place. The National Tax Policy is expected to enhance administrative efficiency of tax systems and provide certainty in tax legislation as it is expected to spell out clear tax policies.

## What's in a name?

William Shakespeare did not think that a name should matter very much. But the Kenya Revenue Authority believes that it does...and will now rebrand to Kenya Revenue Service in order to "transform its public image thus enhance tax compliance through improved public relations and to maintain a clear focus on taxpayers' needs." I am sure many taxpayers will be hoping for tangible transformation and positive impact on taxpayers' needs.

Finally, although the Finance Bill 2022 has not been published, this year's budget appears to have minimal tax changes which should ideally be the norm as it assures some level of stability of the tax policy.

## Fred Omondi

Tax Leader  
Deloitte East Africa





**NAIROBI**

**WEST**

**ECONOMIC OVERVIEW**

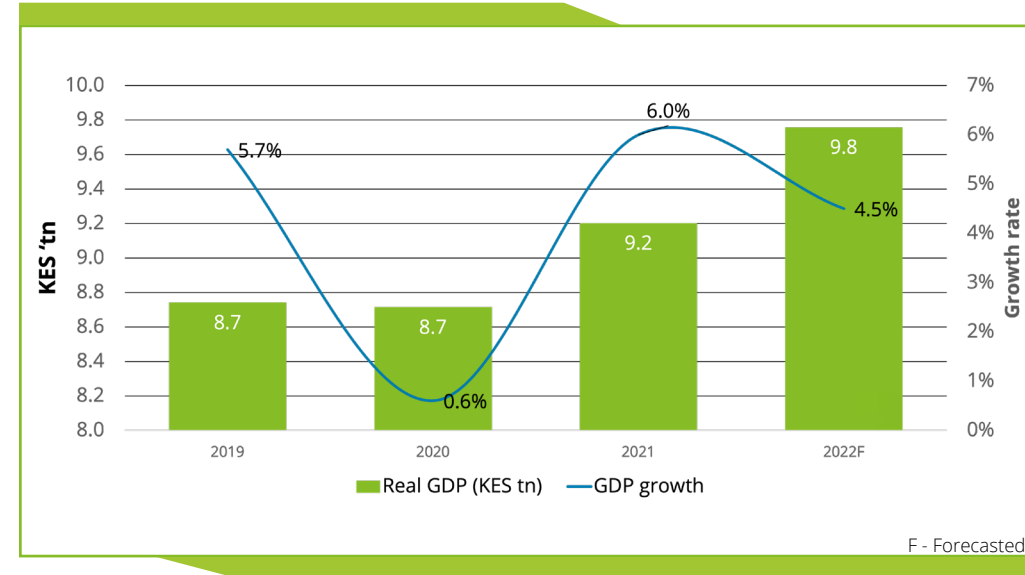




## Economic overview

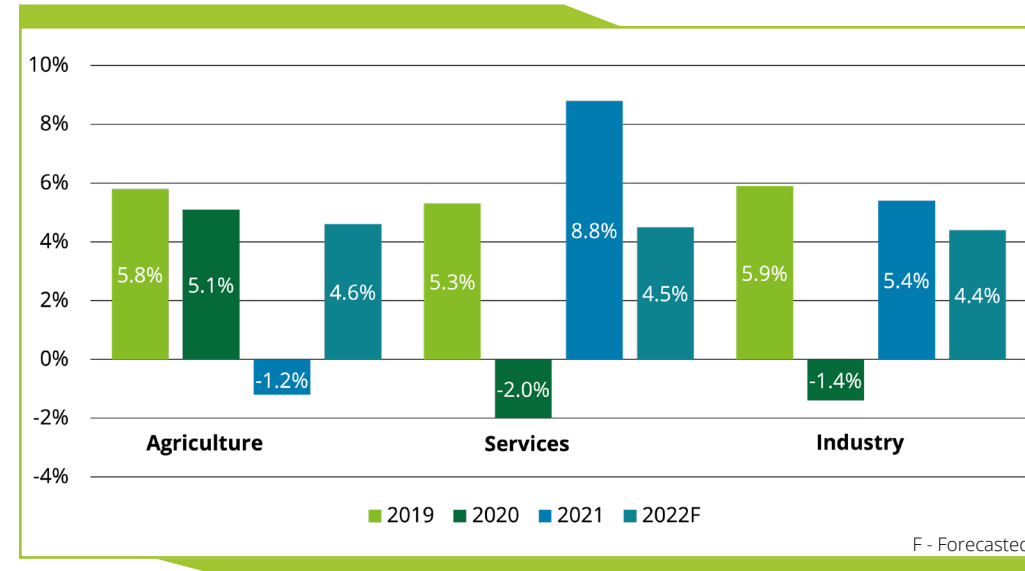
### Kenya's economy at a glance

#### GDP growth



Source: Central Bank of Kenya, IMF

#### Sectoral % growth



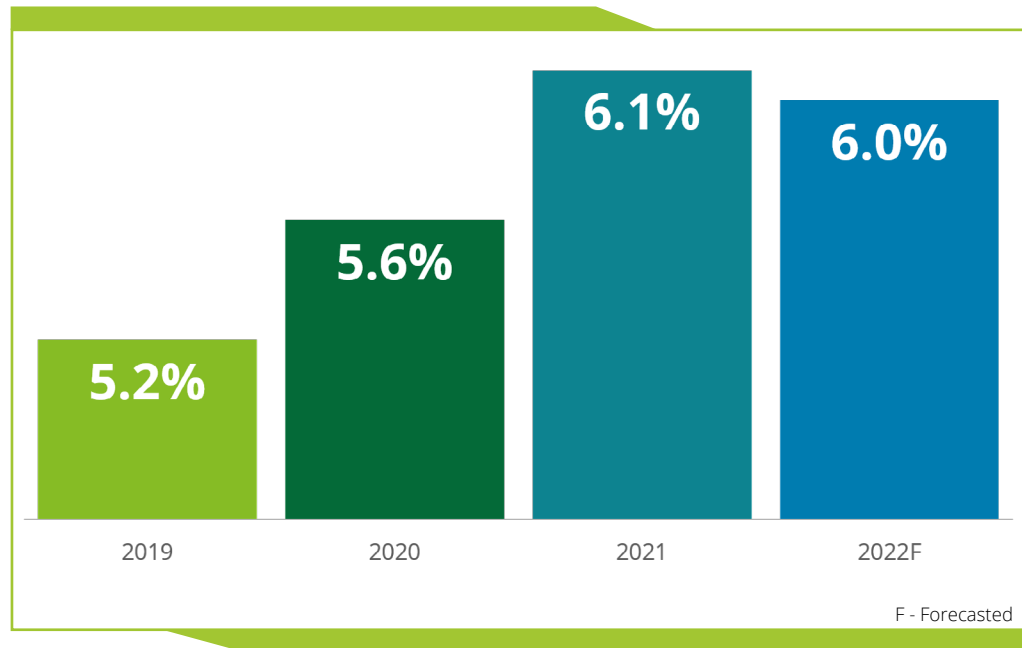
Source: Kenya National Bureau of Statistics, EIU

- Kenya's GDP rallied from 0.6% growth in 2020 to 6.0% in 2021, driven by strong private investment and consumption as well as recovery in the services sector, particularly the education and transport sub sectors.
- Despite the expected increase in government spending in 2022, GDP is projected to grow at a moderate rate of 4.5% owing to:
  - » Uncertainty linked to the general election in August; and
  - » Unfavourable weather conditions expected in most parts of the country throughout the year.
- Growth is expected to strengthen in the medium term (2023-2026) to a 5.4% year-on-year average, matching pre-COVID-19 pandemic levels. The growth will be driven by recovery in tourism to near-normal, deeper regional integration and rising intra-regional trade.

- The agricultural sector is estimated to have contracted by 1.2% in 2021, due to adverse weather conditions. Despite the expected poor weather outlook, uncertainty linked to the general election in August and global supply chain disruptions due to the Russia-Ukraine war, agriculture is expected to grow by 4.6% in 2022 driven by government subsidies on fertilisers and strengthening external demand.
- The services sector was the most adversely affected by the COVID-19 Pandemic, recording a 2.0% contraction in 2020. The sector bounced back with an 8.8% growth in 2021 driven by the easing of the COVID-19 restrictions and increased private consumption.
- The industry sector registered a strong growth of 5.6% in 2021, driven by the resumption of the construction of major infrastructure projects and implementation of investment policies such as facilitation of public-private partnerships.



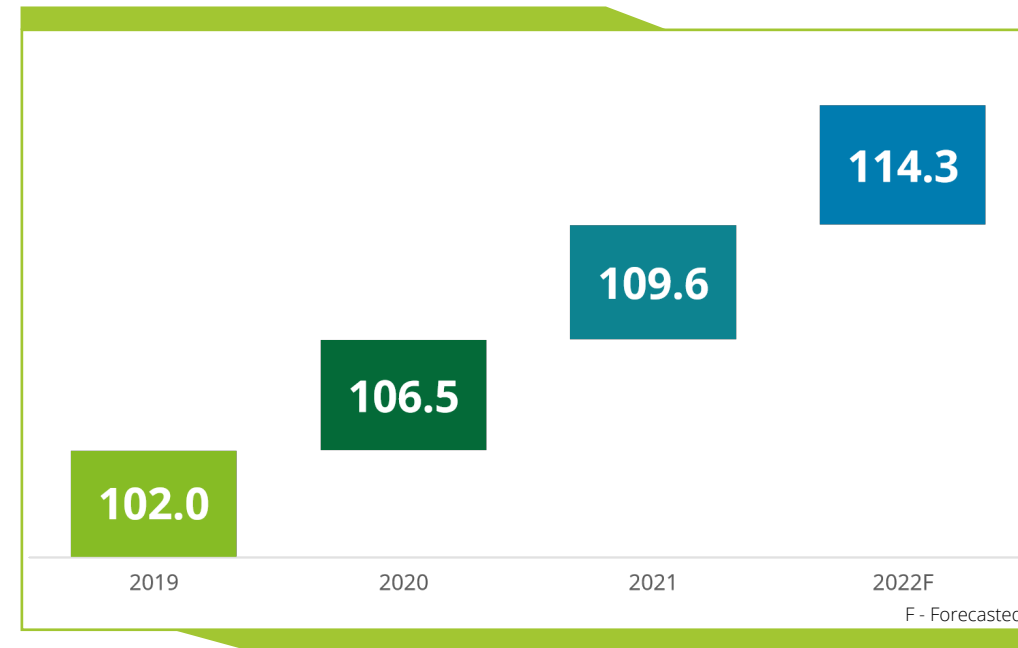
**Inflation rate**



Source: Kenya National Bureau of Statistics, EIU

- The country recorded a 6.1% increase in inflation in 2021 owing to the increase in the cost of food and fuel primarily driven by:
  - » Reversal of the COVID-19 relief measures in January 2021 previously implemented by the Government;
  - » Depreciation of the KES against the USD to 109.6 driven by a wider current account deficit, a downward drift in foreign exchange reserves since mid-2021 and a stronger USD; and
  - » Poor weather conditions that resulted in a 1.2% contraction in the agriculture sector.
- Despite increased fuel subsidies from the Government, inflation is projected at 6.0% in 2022 driven by the increase in commodity prices and rising global oil prices as well as the forecasted depreciation of the KES against major currencies.

**Exchange rate KES/USD**



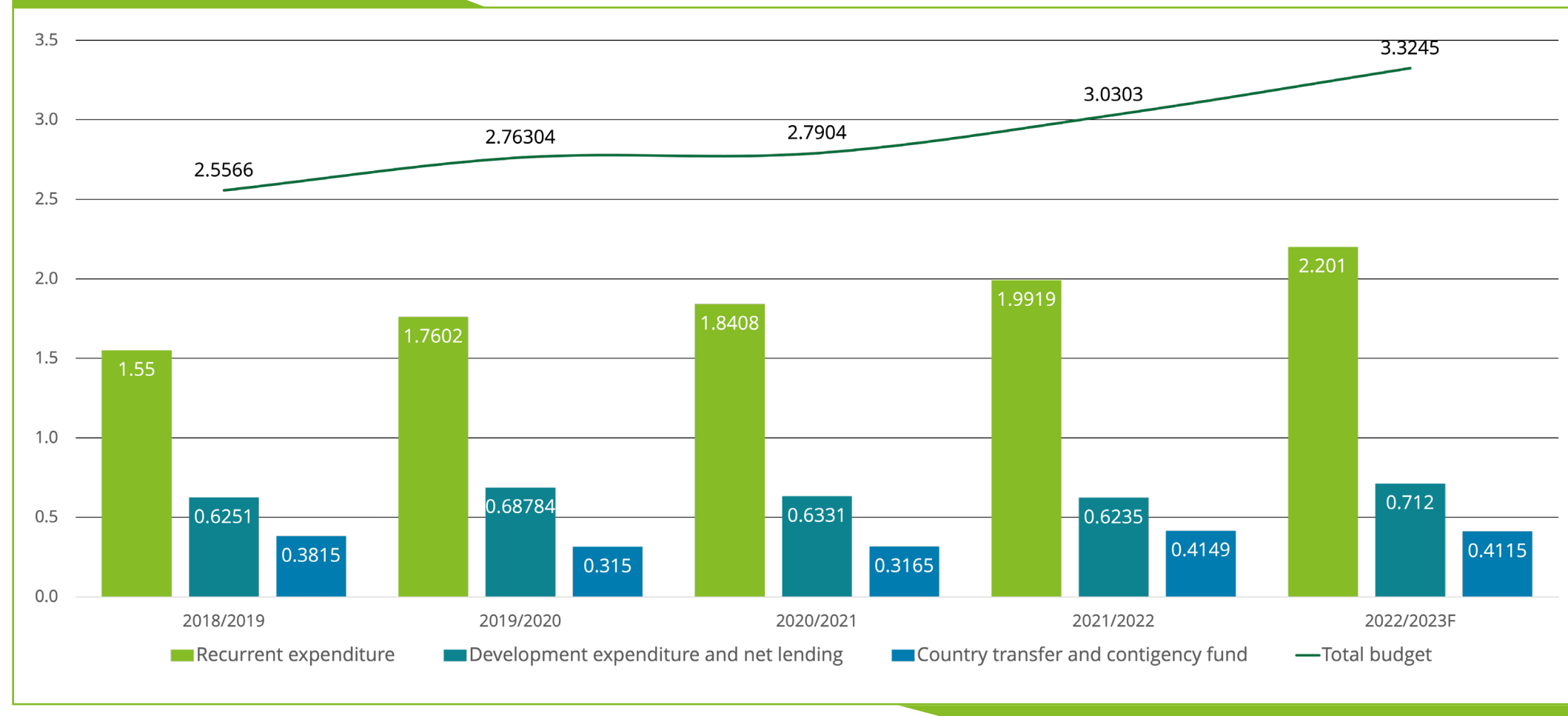
Source: Central Bank of Kenya, EIU

Despite increased fuel subsidies from the Government, inflation is projected at 6.0% in 2022 driven by the increase in commodity prices and rising global oil prices as well as the forecasted depreciation of the KES against major currencies.





Budget overview



Source: Budget Policy Statement 2022



Government expenditure as a % of GDP is projected to decline from 25.0% in 2021/2023 to 23.9% in 2022/2023 owing to efforts by the Government to rationalise recurrent expenditure through implementation of cost-cutting measures including parastatal reforms and alignment of resources to programmes particularly focused on the Big Four Agenda and the Economic Recovery Strategy.



Development expenditure as a % of total expenditure in 2022/2023 is expected to increase to 36% primarily driven by enactment of the law requiring that development expenditure constitutes a minimum of 30% of total expenditure and restriction of the use of borrowings for development expenditure.



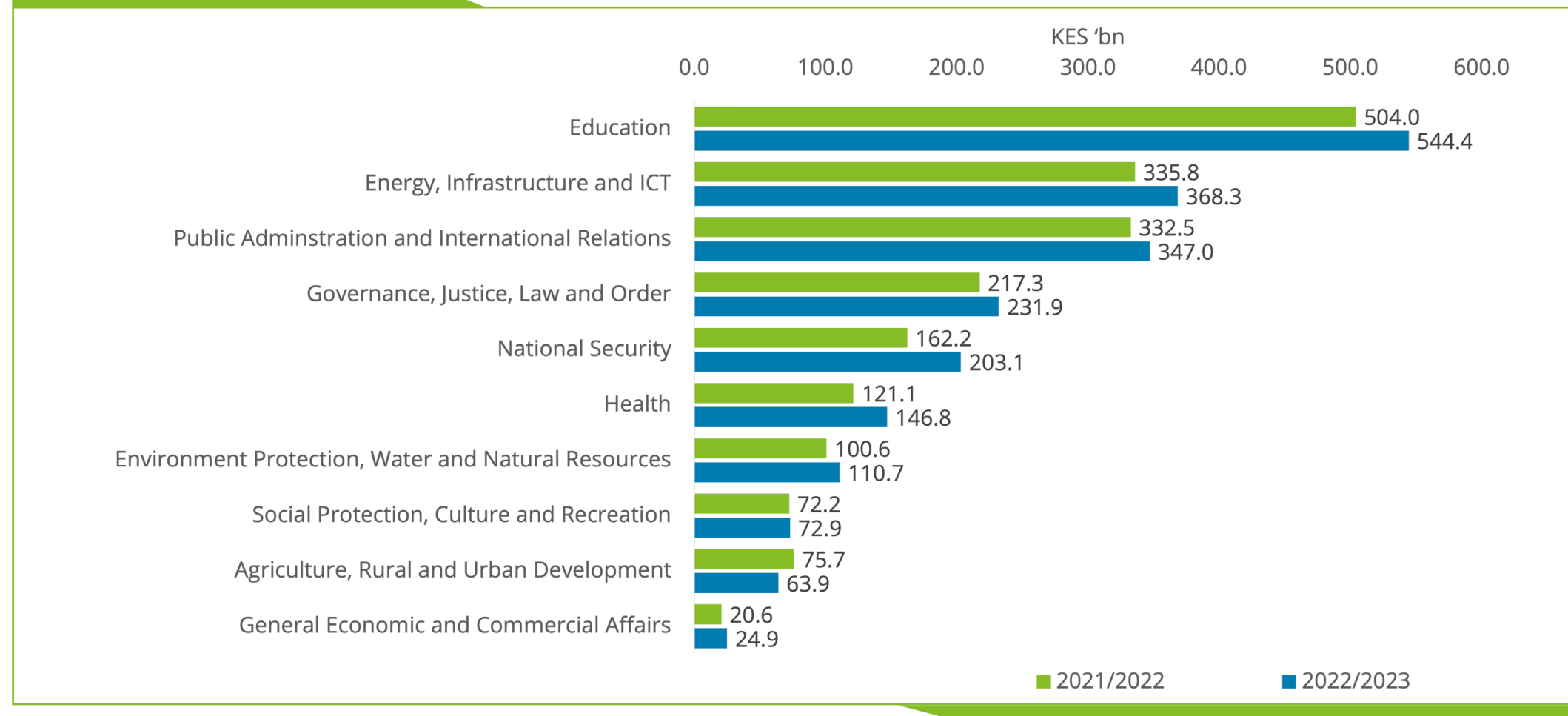
The county equitable share of revenue has been retained at KES 370.0bn in 2022/2023 to support devolution and ensure quality services are offered by devolved units in line with the fiscal consolidation plan.



Fiscal deficit, inclusive of grants, is projected to decline to KES 862.5bn (6.2% of GDP) from KES 1024.3bn (8.1% of GDP) in FY2021/2022. This is driven by the rationalisation of government expenditure by developing policies geared towards economic recovery.

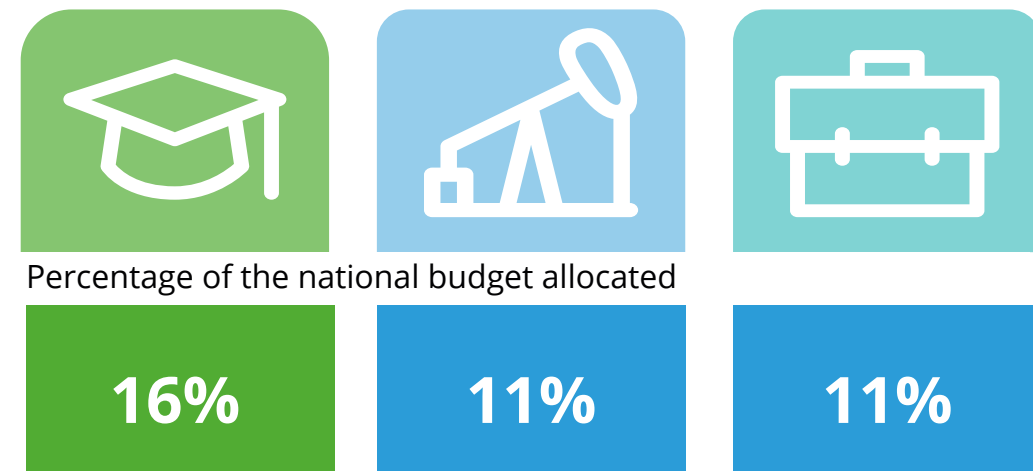


Summary of expenditure by programs



Source: Budget Policy Statement 2022

Top 3 winners in the 2022/23 budgetary allocation



Education

The education sector has been allocated 16% of the budget to facilitate the implementation of the Competence Based Curriculum (“CBC”), aimed at ensuring that the education system promotes innovation and life-long learning.

Energy, Infrastructure and ICT

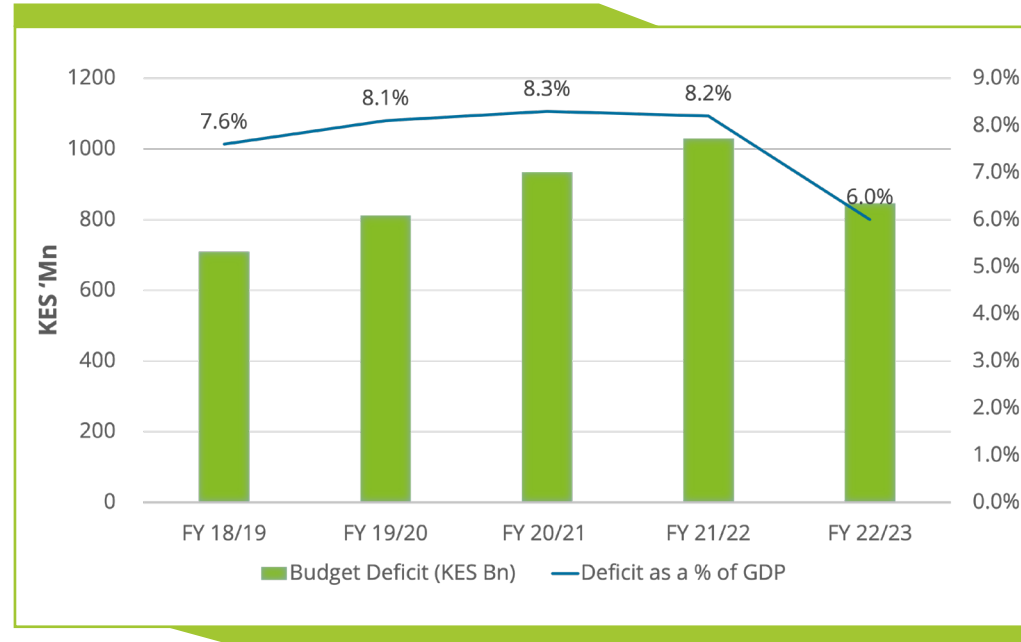
The Energy, Infrastructure and ICT sector has been allocated KES 368.3bn. This is to facilitate the construction of major infrastructure projects in the country, including roads, transmission and distribution lines, social and affordable houses as well as to operationalise the Konza Data Centre.

Public administration and International Relations

Public administration and International Relations has been allocated KES 347.0bn to strengthen administration of public services at all levels of government to enhance effective and efficient implementation of programs.



Fiscal deficit trends



Source: FY22/23 Budget Policy Statement

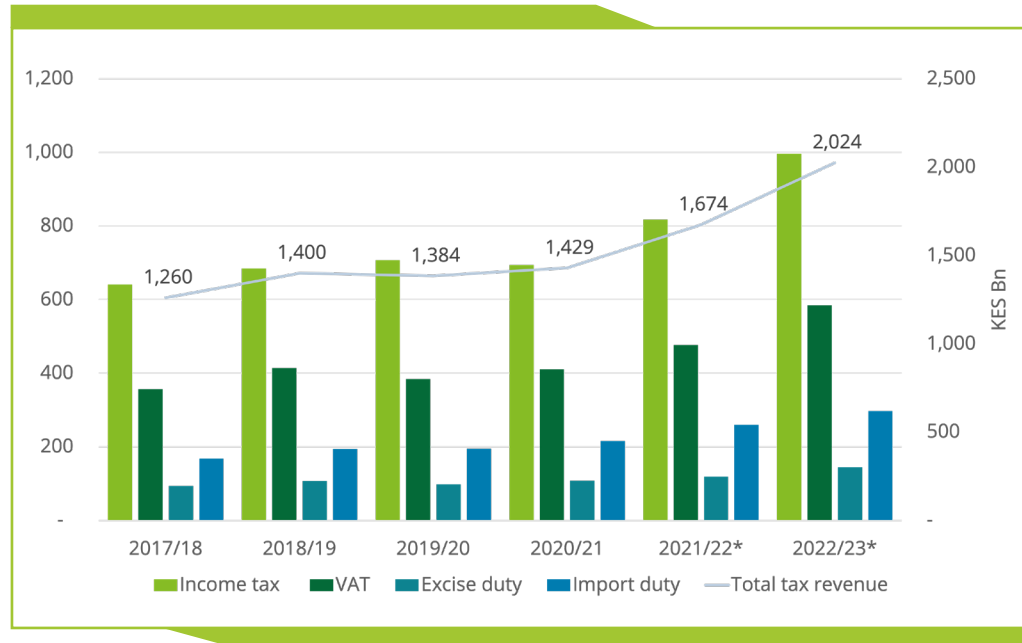
- The FY 22/23 Budget will be implemented during an election year and at a time when the economy continues to recover from the adverse effects of the COVID-19 pandemic.
- Further, FY 22/23 is the final year of the Third Medium-Term Plan (“MTP III”) in relation to Vision 2030. The Government aims to rely on the achievements of MTP III as it transits to MTP IV by prioritizing implementation of MTP III programs, the Economic Recovery Strategy and the “Big Four” Agenda.
- As has been the norm 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. Whereas, we note the effort by the Government to reduce the Budget deficit to GDP ratio from 1,029 Billion in FY21/22 to 862.5 Billion in FY 22/23, this will be dependent on containing expenditure growth and realizing the increased revenue collection targets.
- FY 22/23 revenue collections including Appropriation-in-Aid (A.i.A) are projected to increase to KES 2.4 Trillion (17.4% of GDP) up from KES 2.06 Trillion (16.3% of GDP) in FY 21/22. Revenue performance will be underpinned by the on-going reforms in tax policy and revenue administration.
- Recurrent expenditure continues to take the largest share of the budget at 67%, with development expenditure and county allocation taking a minority share of 22% and 11%, respectively. The Public Finance Management Act Section 15 (2) (a) requires that development expenditure should be allocated a minimum of 30% of the national budget.

In our view, while recurrent expenditure helps in increasing the level of aggregate demand in the economy there is need for Kenya to tame its appetite for spending on recurrent expenditure both at the national and county government levels in order to realize real growth. Increased pressure on public expenditure arising from, among others, a blotted public service and higher debt servicing obligations may disadvantage the Government in achieving this objective.





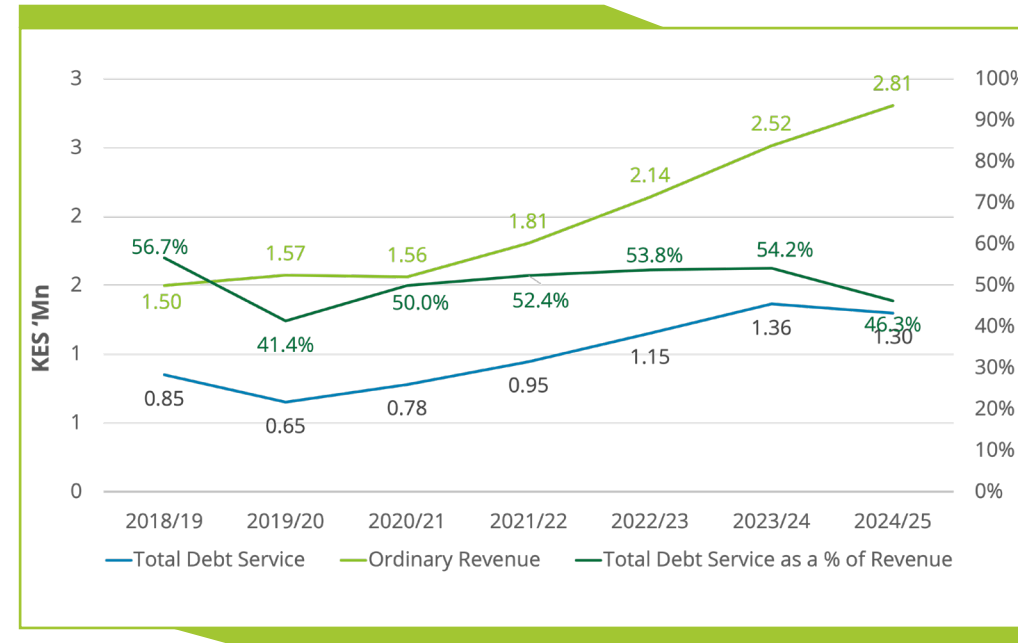
### Ordinary tax revenue Trend in tax revenues



Source: FY22/23 Budget Policy Statement

- 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 2.4 Trillion in FY 22/23. The FY 22/23 budgeted revenue of KES 2.4 Trillion represents anticipated growth in revenue collections of 17% compared to FY 21/22 projected revenue collections of KES 2.1 Trillion. In absolute terms, the FY 22/23 budget increased revenue projections by KES 356 Billion, despite that the proposed additional tax measures will only translate to additional tax revenue of KES 54 Billion. By extension, the FY 22/23 budget is ambitious and will likely result in increased pressure on the Kenya Revenue Authority to attain its revenue collection targets and bridge the anticipated tax revenue deficit.
- Income tax continues 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. However, from a tax revenue growth perspective, VAT is projected to achieve the highest growth in revenues at 23%, followed by Excise duty at 21%, with import duty trailing at 14%.
- The projected increase in tax revenues can be attributed to the expected economic recovery post COVID-19 which is expected to spur economic growth as well as the Kenya Revenue Authority's intensified compliance and enforcement efforts.
- Other ongoing measures include fast-tracking dispute resolution, Voluntary Tax Disclosure Programme (VTDP), continued automation of processes in tax administration, etc.
- Unfortunately, the projected growth in tax revenues is likely to be negatively impacted by economic vulnerabilities (discussed in the ensuing section) that may have a direct negative impact on the economy.

### Debt servicing obligations Proportion of Revenue Earmarked for Debt Servicing



Source: 2021 Annual Public Debt Report

- The heavy reliance on debt facilities to finance the Government of Kenya's expenditure priorities has resulted in increased pressures on the exchequer in meeting Kenya's debt servicing obligations.
- Specifically, debt servicing obligations as a proportion of total ordinary revenues is anticipated to increase from 50% in FY 20/21 to a record high of 54.2% in FY 23/24 with the expectation that this will trend downwards in FY 24/25. This is partially due to international sovereign bonds that will mature in the 2024 calendar year.
- As a whole, it is imperative that the Government of Kenya balances its debt appetite as debt servicing obligations have gradually led to a reduction in the fiscal space to finance recurrent and developmental expenditure.
- While it is expected that expansion of the tax base and promotion of increased tax compliance, would lead to increased tax revenues and ease the pressure on the fiscus, this has to be balanced with managing growth in expenditure.



**Economic vulnerabilities**

- Based on the International Monetary Fund’s (IMF) January 2022 World Economic Outlook Update, the global economy is expected to decelerate to a growth of 4.4% in 2022, down from a growth of 5.5% in 2021. Conversely, the Economist Intelligence Unit projects a reduction in the global GDP growth to 3.5% with respect to the calendar year 2022. This deceleration is due to a number of global uncertainties which ultimately impact the Kenyan economy. We briefly discuss some of the uncertainties below.

 **Geopolitical instability (Russia-Ukraine conflict)**

- According to McKinsey’s March 2022 Economic conditions outlook, geopolitical instability is one of top risks to global and domestic economies. The Russia-Ukraine conflict, and the resultant sanctions imposed on the Russian economy, has caused a surge in the global prices particularly in relation to fossil fuels, fertilizer and wheat. An increase in fossil fuel prices is bound to impact Kenyans through a corresponding increase in cost of living, occasioned by surges in transport and production costs.

 **Possibility of new COVID-19 variants**

- The COVID-19 pandemic adversely affected growth globally, regionally, and ultimately in Kenya through adverse impacts on international trade flows, restrictions on international travel, work patterns, public health, education, consumer spending patterns and the production of goods and services. We are now entering into a post-pandemic era in which restrictions on movement have been lifted in many jurisdictions with measures instituted to encourage a return to normalcy. However, the risk of the possibility of emergence of new covid-19 variants cannot be ignored.

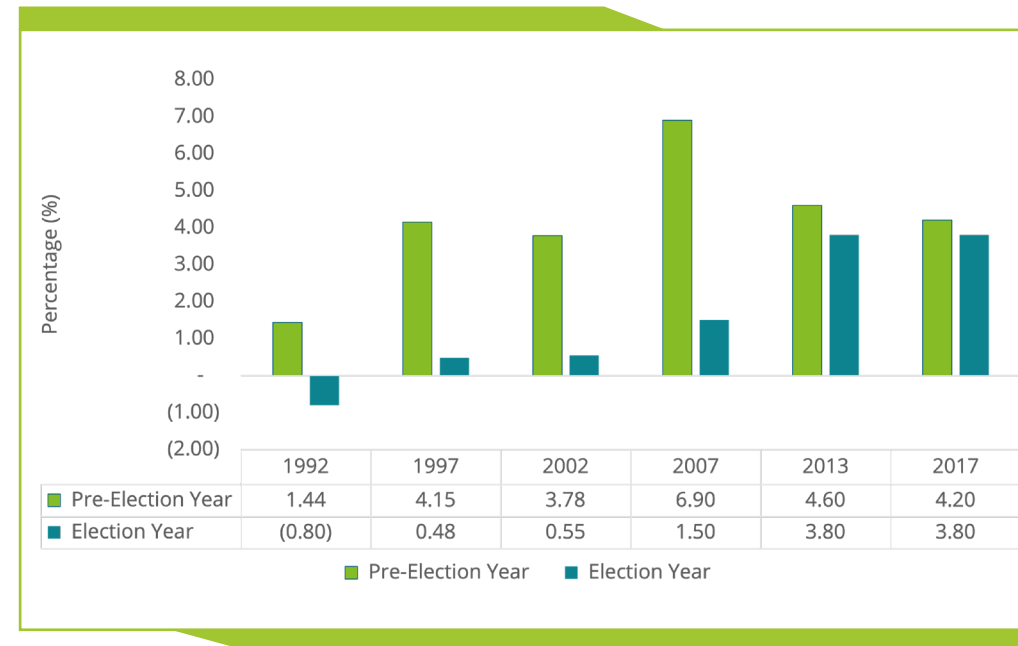
 **Inflation**

- The post COVID-19 pandemic recovery has been affected by global supply chain shocks that threaten to further reduce growth and escalate inflation. Specifically, the war in Ukraine and economic sanctions against the Russian economy have put global energy supplies at risk through supply chain disruptions. As such, inflation is expected to persist for a longer period than anticipated.
- While it is commendable that the inflation has remained within the target range (5.5±2.5 percent), it is notable that the annual average inflation shows an increasing trend, reaching a high of 6.23% in February 2022. This increase is expected to persist in the short term to medium term.

 **2022 General Elections**

- Kenya is entering into an election season culminating in the August 2022 General Elections. Election periods in Kenya are typically characterized by intense political campaigns often leading to high political temperatures that cause uncertainty. These uncertainties may result to a slump in economic activity and investments as investors conserve financial reserves awaiting the outcome of the elections and resumption of ‘business as usual’. Consequently, election years tend to witness reduced growth in GDP as compared to non-election years. This is depicted in the graph below.

**Kenya’s GDP growth in election years**



Source: Central Bank of Kenya and World Bank

- Kenya’s GDP growth has dipped in the last six election years, suggesting Kenya’s economic performance is negatively impacted upon whenever it holds a general election. Being an election year, 2022 is not expected to depict a significantly different outcome. However, it is worth noting that the negative impact of elections has continued to diminish if the previous two elections is anything to go by.



**Economic vulnerabilities (cont...)**



**Climate change concerns and persistent drought**

- Climate change is a major concern to the extent that it induces uncertainty in weather patterns, influencing regional crop growing conditions and pest incidence. Adverse weather conditions are expected to potentially reduce the annual crop yields and as such exposing the economy to negative shocks which will certainly impact on economic growth and by extension tax revenues.



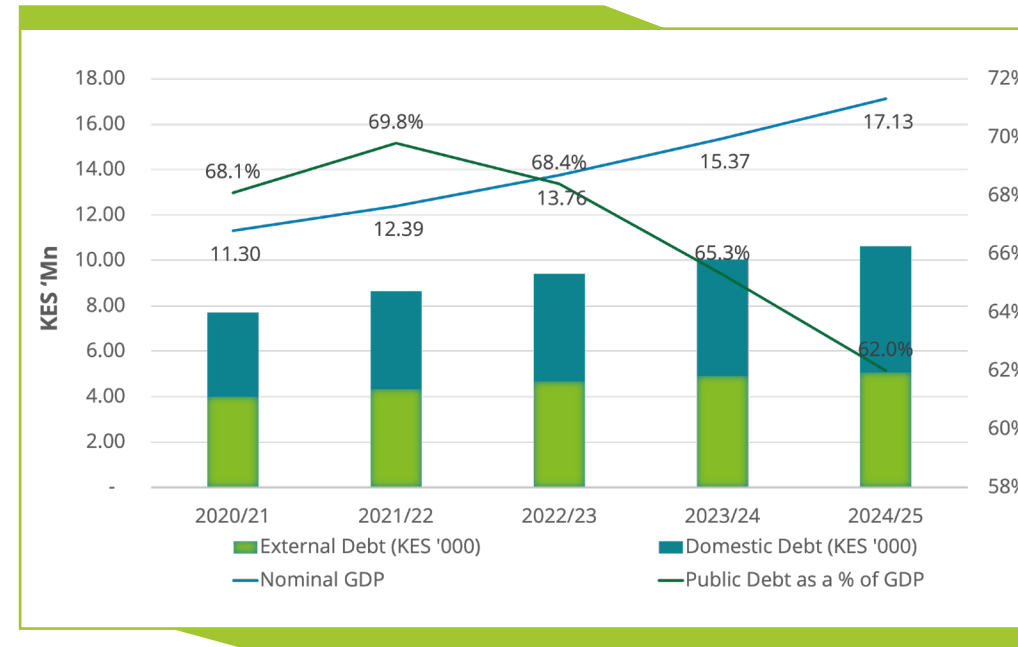
**Increased expenditure pressures**

- The Kenyan government is experiencing financial stress stemming from record-high debt levels and overall growth in public expenditure. The National Treasury and Planning's Annual Public Debt Report for FY 20/21 estimated that approximately 53.8% of the Kenyan government's ordinary revenues would be allocated to servicing public debt in FY 22/23. According to the Parliamentary Budget Offices' FY22/23 report, total expenditure is projected to increase by 9.2 percent from the last year. A significant proportion of this increase is driven by interest payments on public debt which accounts for 30% of ordinary revenue in FY22/23.

**Debt analysis**

- Kenya's public and publicly guaranteed ("PPG") debt position increased from KES 7.7 Trillion as at 30 June 2021 to KES 8.2 Trillion as at 31 December 2021. This represents an increase of 6.6% in the first and second quarters of FY 21/22.
- The increase in the PPG debt position is largely attributable to the increased appetite for debt financing options with respect to capital intensive infrastructure projects. In addition, the implementation of economic recovery measures carrying the dual purpose of alleviating adverse economic impacts of the COVID-19 pandemic and catalyzing an economic rebound increased financial pressure on the revenue kitty.

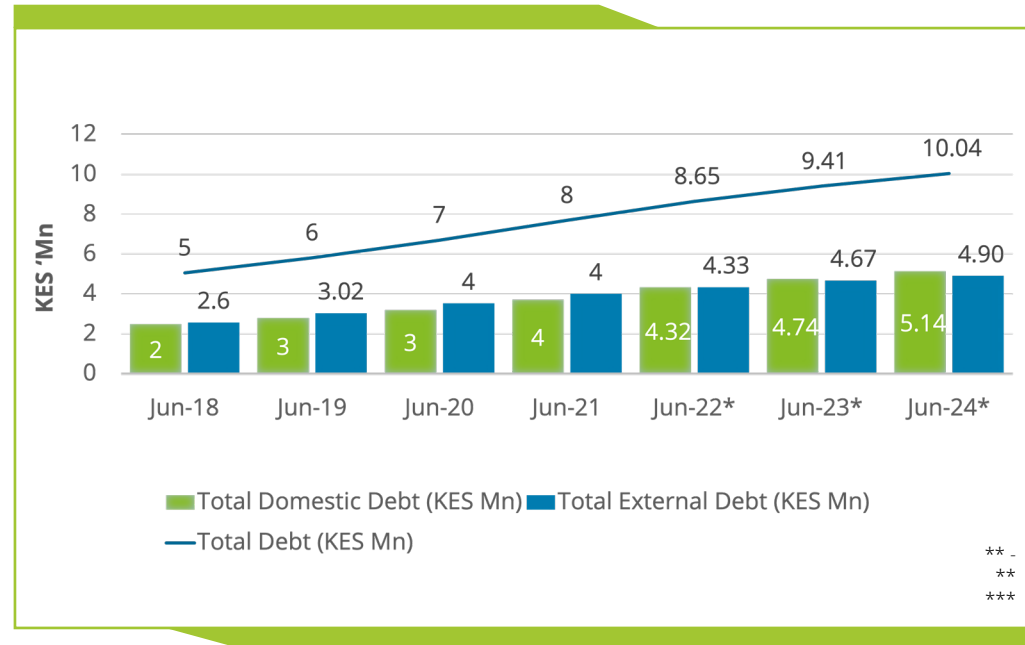
**Overall public debt position**



Source: 2021 Annual Public Debt Report

- The Government of Kenya anticipates that the debt-to-GDP ratio will record a marginal increase of 1.7% from 68.1% in FY 20/21 to 69.8% as at 30 June 2022. While the debt-to-GDP ratio is within sustainable levels, considering guidance from the World Bank and the International Monetary Fund, it surpasses the proposed debt anchor of 55% of GDP.
- Based on projections contained in the 2021 Annual Public Debt Report, however, it is estimated that the debt-to-GDP ratio will gradually decline from FY 22/23 going forward.
- In our view, while it may be argued that the current debt-to-GDP ratio is relatively high, this does not directly equate to debt distress to the extent that PPG debt is supported by sufficient economic output. This is evidenced by the trend noted in advanced and upper middle-income economies which record debt-to-equity ratios in excess of 100%, for instance, Japan (256.9%), Singapore (139.0%) and the United States of America (137.2%).

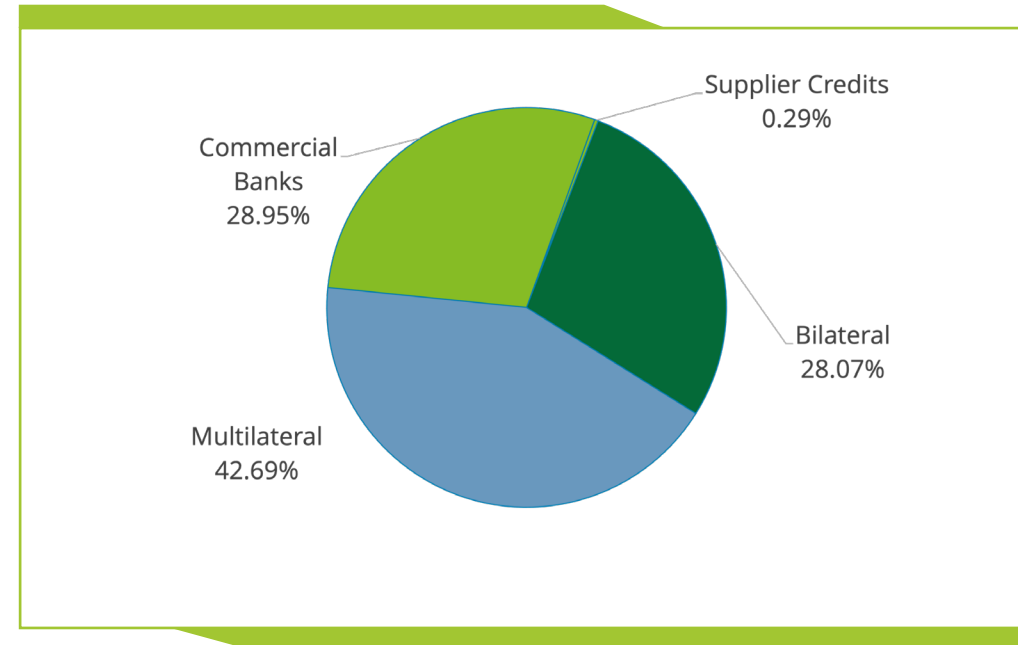
**Debt Matrix: Domestic and External**  
Gross Debt: Domestic And External



Source: 2021 Annual Public Debt Report

- As at 31 December 2021, the total PPG debt comprised of 51% external debt (KES 4.1 Tn) and 49% domestic debt (KES 4.0 Tn). This represents a marginal shift in Kenya’s overall debt portfolio which comprised of 52% external debt and 48% domestic debt as at 30 June 2021.
- Pursuant to projections contained in the 2021 Annual Public Debt Report, it is estimated that Kenya’s debt matrix will attain an equal split between external and domestic financing options by 30 June 2022, following which domestic debt is expected to surpass external debt in FY 22/23 and FY 23/24.
- The shift in Kenya’s debt matrix is in line with the Government’s policy objective to favour domestic debt financing options as opposed to external debt financing options. This objective is purposed at cushioning the budget against uncertain flow of external debt financing and enhancing the development of the domestic market. It is cautioned, however, that this strategy may exert pressure on the domestic financial market and increase borrowing costs.

**External Debt Per Source**



Source: CBK Quarterly Economic Review October 2021 - December 2021

Currently, Kenya’s external debt portfolio largely consists of concessional bilateral and multilateral financing options at 71%. However, expensive commercial debt facilities retain a notable impact at 29% of Kenya’s external debt position, particularly as the commercial debt facilities approach maturity that may have a direct negative impact on the economy.





# TAX MEASURES





## Income Tax

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

- » The Finance Act 2021 replaced the thin capitalisation interest limitation rule with an Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)-based interest limitation rule with effect from 1 January 2022.
- » In the repealed thin capitalisation interest limitation rule, foreign controlled entities, except banks and financial institutions licensed under the Banking Act, were not allowed to claim a deduction in respect of interest that corresponds to excess debt. Presently, only SMEs registered under the Micro and Small Enterprises Act, 2012 and banks or financial institutions licensed under the Banking Act are exempted from the EBITDA-based interest limitation rule.
- » The CS in his statement has now indicated that the Income Tax Act will be amended to also exclude microfinance institutions (MFIs) licensed under the Microfinance Act from the EBITDA-based interest limitation rule.
- » In the EBITDA-based interest limitation rule, only interest up to 30% of the EBITDA is allowed as a deduction. Any amount above 30% of EBITDA is not deductible.

#### Our point of view

*The full impact of the EBITDA-based interest limitation rule may not have been felt in Kenya, considering that the rule has only been in force since 1 January 2022.*

*We believe that the EBITDA-based interest limitation rule will likely discourage borrowing and punish early-stage capital intensive businesses that have significant finance costs to fund their investments. In the long run, this could adversely affect investment and growth of the Kenyan economy, as investors may consider borrowing from countries where lending rates are lower or diverting their investments to other countries with more favourable tax regimes.*

*Although the government appears to have appreciated the intermediation role of banks and MFIs in the economy by excluding them from the EBITDA-based interest limitation rule, one would have hoped that the same exclusion should also have been extended to digital lenders, which have recently become popular in Kenya especially among micro, small, and medium enterprises (MSMEs) as well as ordinary Kenyans. Similarly, given the reliance of many businesses on debt financing, limiting the deductibility of interest on debt financing will likely limit the sources of finance available to businesses, and eventually adversely affect the economy.*

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

- » The Income Tax Act will be amended to allow entities to claim deductions in respect of cash donations to any charitable organization.
- » Currently only donations to charitable organisations that are registered under either the Societies Act or the Non-Governmental Organisations Coordination Act are allowable.

#### Our point of view

*Donations play an important role in supporting vulnerable members of the society. During the advent of the Covid-19 pandemic, various businesses participated in charitable activities to relieve affected members of the public from the harsh effects of the pandemic.*

*The proposal to have donations as an allowable expense will encourage entities to continue engaging in charitable acts in their local communities. Further, this will reduce the administrative efforts that hitherto necessitated entities to seek registration with the Societies Act or the Non-Governmental Organisations Coordination Act as entities.*

*We hope that the requirement for charitable organizations receiving the donations (donees) to have income tax exemption certificates will also be relaxed. This would allow donations to be channelled to more charitable organizations and therefore benefit more members of the society.*

### Country-by-Country reporting requirement for multinational enterprises

- » The Finance Act, 2021 introduced the Country-by-Country reporting (CbCR) requirement for Kenyan headquartered multinational enterprise groups (MNEG). CbC reporting requires MNEGs to file a report to the Commissioner General providing a breakdown of the amount of revenue, profits, taxes, and other indicators of economic activities for each tax jurisdiction in which the MNEG operates.
- » To increase transparency among multinational enterprises (MNEs), it is proposed that the Income Tax Act be amended so that MNEs with operations in Kenya can comply with the CbCR reporting requirement for their activities within Kenya and in other jurisdictions.

#### Our point of view

*The CbCR provisions covered in the Finance Act 2021 only covered Kenyan headquartered MNEs. The proposal by the CS seeks to expand the requirement to all MNEs operating in Kenya.*

*This is a key development in enhancing transparency regarding tax affairs of MNEs operating in Kenya. This proposed change will increase transfer pricing compliance and reporting requirements for MNEs.*



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

- » The Income Tax Act is set to be amended to bring to tax gains accruing to non-residents from transactions involving financial derivatives in Kenya.
- » Derivatives are financial contracts between two or more parties that derive their value from an underlying asset or group of assets. There are many types of derivatives that can be used for risk management, speculation and leveraging a position. Examples of derivatives are futures, forwards, swaps, and options.

**Our point of view**  
 This proposal to amend the Income Tax Act is aimed at widening the tax base to capture income from emerging transactions in the financial engineering space.  
 We believe the proposal to include gains accruing from financial derivatives to non-residents as chargeable income is also aimed at ensuring equity and fairness as such gains are currently taxable on residents.

**Value Added Tax (VAT)**

**Exemption of plant and machinery used in manufacturing of pharmaceutical products**

- » The CS proposes to exempt the acquisition of plant and machinery for use by manufacturers of pharmaceutical products from VAT

**Our point of view**  
 We view this proposal as an effort to further combat the COVID-19 pandemic and address the access to affordable and quality healthcare. This proposal will assist in reducing the cost of production which in turn will make the pharmaceutical products more affordable and further encourage additional investments by the players in the health sector. An example of this is the recent memorandum of understanding signed between Kenya and Moderna to establish the first mRNA manufacturing facility in Africa. The anticipated investment is USD 500 Million. The facility aims to ensure sustainable access to transformative mRNA innovation on the African continent.

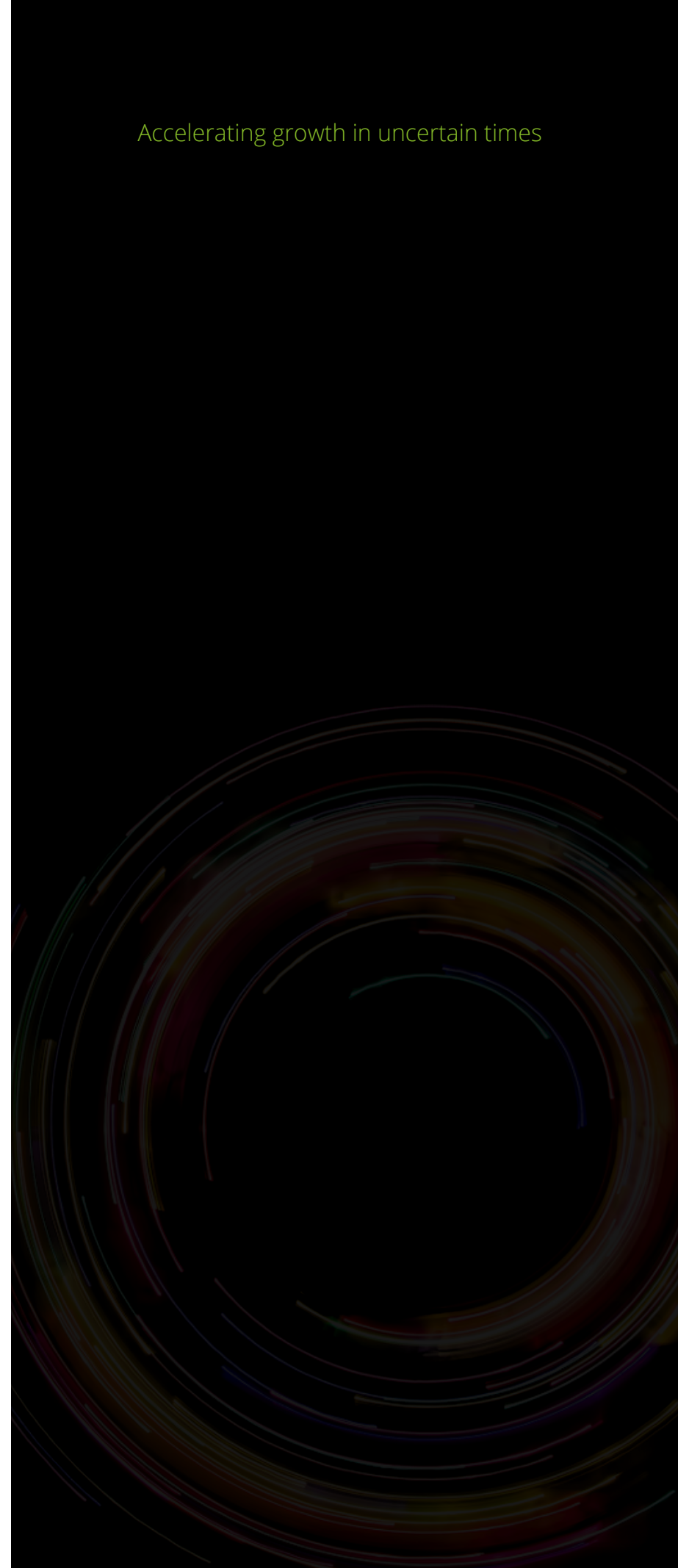
**Exemption of medical supplies from VAT**

- » The supply of medical oxygen to registered hospitals, urine bags, adult diapers, artificial breasts, and colostomy or ileostomy bags for medical use are to be exempt from VAT.

**Our point of view**  
 This is in line with addressing the cost of healthcare as envisioned in the Big-4 agenda. Our view is that this move will reduce the cost of medical supplies thus reducing the final cost charged to Kenyans for medical services.

**Exemptions of locally manufactured passenger motor vehicles**

- » VAT exemption is to be introduced on the following:
  - The purchase or importation of inputs and raw materials by manufacturers for use in the manufacture of passenger motor vehicles; and
  - The purchase of locally manufactured passenger motor vehicles.



**Our point of view**

*In the recent past, the Government has progressively initiated various tax incentive schemes to promote the local assembly and manufacture of motor vehicles. These measures are aimed at reducing the importation of used motor vehicles and to boost the local manufacturing sector. For example, in 2017 a reduced corporation tax rate of 15% was introduced for newly incorporated companies venturing into local motor vehicle assembly. Subsequently, the excise duty on locally assembled motor vehicles was removed. In addition, the Government through various budgets has made an exclusive preference to purchase locally assembled motor vehicles by allocating KES 600 Million for the purchase in FY 2020 and FY 2021.*

*The exemption of inputs used in local manufacturing of passenger vehicles from VAT will reduce the cost of local assembly as envisioned by the continuous efforts made by the Government to promote this sector. Importantly, exemption of inputs safeguards the players in the sector against potential disallowance of input tax that would be occasioned by exemption of the final product.*

*In our view, the exemption from VAT of locally manufactured passenger vehicles will further make the vehicles cheaper and more competitive compared to the imported vehicles.*

**Customs**

- » The Cabinet Secretary indicated in his speech that Kenya will submit its proposals with respect to Customs to the East African Community (EAC) for consideration during the EAC pre-budget consultations.
- » The adopted Customs changes will be communicated through the EAC Gazette before 1st July 2022

**Excise Duty****Exclusion of certain products from inflationary adjustment by the Commissioner General**

- » The CS has proposed to empower the Commissioner General of the KRA to exclude some products from inflation adjustment based on consideration of prevailing economic and social environment facing the products.

**Our point of view**

*The Commissioner General has in the past adjusted specific excise duty rates for inflation on all products including essential products such as petroleum products and bottled water in accordance with the Excise Duty Act. Annual increase of excise duty on some essential excisable products has had negative economic implications on the local mwananchi due to the increase in the cost of these products. Last year, the High Court granted a stay on implementation of inflationary adjustment on petroleum products following applications filed by various stakeholders.*

*The proposal to allow the Commissioner General the discretion to exclude certain products from inflationary adjustment is welcome, as the Commissioner General will be expected to protect certain industries from negative economic impacts arising from increased costs of the excisable products.*

**Excise duty on fees charged to advertise alcoholic beverages, betting, and gaming activities**

- » The CS has proposed to introduce excise duty at 15% on fees charged by all television stations, print media, billboards, and radio stations for advertisement of alcoholic beverages, betting and gaming

**Our point of view**

*The Government has in the past introduced tax measures (including excise duty) aimed at discouraging consumption of alcohol, betting, and gaming activities to protect the society from the negative economic, health and social effects associated with these activities.*

*The proposal to introduce excise duty on advertisement of the foregoing activities is aimed at increasing the cost of these activities to further protect the population from the associated negative social and health effects. It is also aimed at generating additional revenue from these activities.*

**Amendment of excise duty regime on liquid nicotine**

The CS has proposed to amend the excise duty regime on liquid nicotine from shillings per unit to KES. 70 per millilitre. Since the Excise Duty Act only covers electronic cigarettes, the CS will be expected to provide further details on other liquid nicotine products that will be subjected to excise duty in the Finance Bill 2022



### Our point of view

*The Excise Duty Act provides for excise duty on electronic cigarettes at KES 3,787 per unit. This measure is aimed at bringing into the ambit of excise duty, other liquid nicotine products that have been introduced into the Kenyan market.*

*Consumption of liquid nicotine has been very popular in Kenya particularly amongst the youth. Liquid nicotine is widely associated negative health effects. This measure is therefore geared towards discouraging consumption of these products to protect the population from the associated health effects.*

Consumption of liquid nicotine has been very popular in Kenya particularly amongst the youth. Liquid nicotine is widely associated negative health effects. This measure is therefore geared towards discouraging consumption of these products to protect the population from the associated health effects.



### Exemption of excise duty

» The CS has proposed to exempt the following products from excise duty:

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

### Our point of view

#### **Exemption of imported eggs for hatching**

*In 2021, the Government introduced excise duty on imported eggs at the rate of 25% in a bid to cushion local farmers from competition arising from cheap imports. The proposal to exempt imported eggs for hatching is aimed at promoting the hatching business that was adversely affected by the introduction of the excise duty, particularly considering that Kenya lacks sufficient capacity to meet local demand for eggs.*

#### **Exemption of neutral spirit by registered pharmaceutical manufacturers**

*The Excise Duty Act provides for refund of excise duty on spirits used for manufacture of unexcisable goods. The CS has proposed to exempt neutral spirits used by pharmaceutical manufacturers to address cash flow challenges faced by these manufacturers because of the lengthy process of claiming refund of excise duty paid on the neutral spirits.*

#### **Exemption of locally manufactured passenger vehicles**

*The Excise Duty Act currently excludes locally assembled motor vehicles from excise duty. In our view, this exemption covers all locally assembled motor vehicles including locally assembled passenger motor vehicles. However, in his speech, the CS seems to differentiate between locally assembled motor vehicles and locally manufactured passenger motor vehicles. According to the budget statement, this proposal is aimed at ensuring equal treatment for manufacturers of locally manufactured passenger motor vehicles and locally assembled motor vehicles.*

### Increase of excise duty on certain products

The CS has proposed to increase excise duty on certain products with specific rates by 10%.

#### Our point of view

*The CS did not clarify which products will be affected by the proposed increase in excise duty. Petroleum products will be excluded from the excise duty increase. In his post budget speech, the CS indicated that the proposal will only affect luxurious excisable products.*

*In our view, this measure is primarily geared towards generating additional revenue for the Government. It is expected that the Commissioner General will adjust excise duty rates for inflation on the same products later this year. If the above increments are passed into law, this is likely to have adverse effects on the affected industries particularly considering recent annual inflationary adjustments on the same products.*

The CS indicated the increase will not affect petroleum products. In his post budget speech, the CS indicated that the proposal will only affect luxurious excisable products.



### Miscellaneous Fees and Levies

#### Exemption of IDF and RDL on inputs used for manufacture of pharmaceutical products

» The CS has proposed to exempt inputs and raw materials imported by manufacturers of pharmaceutical products from import declaration fee (IDF) and Railway Development Levy (RDL).

#### Our point of view

*This is a welcome proposal that if adopted will promote local manufacturing of pharmaceutical products and also encourage local investment in the industry.*

#### 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.

» The CS has proposed to reduce the export levy on raw hides and skins from 80% or USD 0.52 per Kg to 50% or USD 0.32 per Kg.

#### Our point of view

*Raw hides and skins are subject to export levy to discourage exportation of these products and promote local value addition. Based on the CS's proposal, it seems that there is insufficient local demand for raw hides and skins which has negatively affected the raw hides and skin business by local pastoralists.*

*This proposal is therefore geared towards reducing the cost of exporting raw hides and skins in a bid to increase the profitability of exportation of raw hides and skins.*



## Tax Administration

### Taxpayers to deposit 50% of the disputed tax prior to appealing a TAT decision

- » The Tax Appeals Tribunal Act, 2013 is to be amended to require 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 (CBK) as the taxpayer proceeds to appeal the decision in the High Court.
- » 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 CS explained that the 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.

#### Our point of view

*This proposal is bound to have far reaching repercussions as affected taxpayers may not have the cashflows to allow for such outlays. It is a departure from current practice, where taxpayers are only required to pay the amount not in dispute. If the proposal passes into law, it is likely to increase the cost of doing business as taxpayers may be forced to borrow money with a view to meet the required deposits with the CBK and incur the associated finance costs. The deposits may be substantial going by the astronomical assessments that the KRA has been confirming that end up in the Tax Appeals Tribunal.*

*Additionally, for a taxpayer who does not have 50% of the tax in dispute, this proposal could impede the taxpayers' constitutional right of access to justice and fair administration in line with Article 48 of the Constitution of Kenya, 2010.*

*In countries where this measure has been implemented in one form or another, it has been grossly abused by some revenue authorities. In addition, the process of getting back the deposits, in the event the taxpayer wins the case at the end, is a painful one.*

*In view of the above, we believe this proposal is likely to attract intense resistance and litigation from various stakeholders.*

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

- » The Tax Procedures Act, 2015 is to be amended to empower the Commissioner General for KRA 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 caveat or restriction of transfer on.

#### Our point of view

*Although this proposal will enhance revenue collection, by providing the KRA with more options to recover taxes, it could also infringe on the taxpayer's property rights. Further, it might slow down transactions involving such assets as it takes long to lift such caveats upon settlement or recoveries of taxes in question.*

### Objection decision to be issued within 60 days

- » The Tax Procedures Act, 2015 is to be amended to require the Commissioner to issue an objection decision within one cycle of 60 days from the date of receiving a valid notice of objection from 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. The Act does not specify the number of times that the Commissioner can request for such information on a particular case. This 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.

#### Our point of view

*This proposal will facilitate speedy dispute resolution thereby easing the time, cost and administrative burden shouldered by the taxpayers engaged in tax disputes. However, it is unclear on how this should proceed in the event of an invalidly lodged notice of objection noting that section 51 (3) of the Tax Procedures Act on all **relevant documents** is not clearly defined.*

*In addition, the proposal may see the KRA conclude cases and recover taxes that are due sooner.*

**Tax related regulations to be unaffected by the 10-year automatic expiry as stipulated in the 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.

**Our point of view**

*This proposal is a welcome move as it will provide certainty in the regulations governing tax administration, one of the key canons of taxation. Further, it protects revenue collection and mobilization by cushioning such regulations from automatic expiry.*

**Kenya Revenue Authority to be rebranded to Kenya Revenue Service**

- » The Kenya Revenue Authority Act and other statutes referring to the Kenya Revenue Authority name to be amended to change the name from 'Kenya Revenue Authority' 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.

**Our point of view**

*The proposal reflects the continuing trend by the KRA to improve relations with taxpayers in a bid to enhance voluntary compliance and improve taxpayers' willingness to seek services from the KRA.*

*However, the effects of this move will only be achieved if there is a corresponding change in attitude of the KRA officers and management, to align with the broader corporate name.*

**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.

**Our point of view**

*A national tax policy is long overdue, and it is expected to enhance coherence in tax laws and ensure tax laws and administration takes cognizance of input and views of key stakeholders. Hitherto, there have been occasions when tax laws and administrative actions have had adverse effect on certain sectors of the economy or stakeholders, which necessitated reversal or amendments, shortly after enactment. A case in point is the minimum tax regime which faced numerous court cases, impeding its operation.*

*We hope that the tax policy will be finalized and rolled out soon with a view to harmonize tax laws at the national and county levels.*

**Other Measures**

**Capital Markets**

- » There is a proposal to amend the Capital Markets 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. This will enable more investment advisors to offer investment advisory services.

**Retirement Benefits**

- » The Retirement Benefits Investment Guidelines are to be amended to include the unlisted Real Estates Investment Trusts incorporated in Kenya that are approved by the Capital Markets Authority. The move is aimed at widening the scope of investment where Pension Schemes can invest their funds.

**Insurance**

- » The Government proposes to amend the Insurance Regulations to require commercial motorcycles and three-wheeler motor vehicles engaging in the business of transportation of fare paying passengers to obtain insurance for their passengers. This will cater for the treatment costs in case of injury and compensation for death or damages occasioned by motorcycle related accidents. This is a welcome move. However, it may have been prudent to expand the scope to include private motorcyclists.



### **Public Procurement**

- » The government proposes to introduce an end-to-end e-Government Procurement system to enhance good governance and promote savings in the procurement process. The project is at a pilot phase with an anticipated commencement date being in July 2022. The project is planned to be rolled out fully to all Ministries, Departments and Agencies in January 2023.
- » 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. The bill is anticipated at hastening services delivery to citizenry and to support local firms in specialized areas like pharmaceuticals.

### **Unclaimed Financial Assets**

- » There is a proposal to amend the Unclaimed Financial Assets Act (UFA) to provide for waiver of penalties, fines, and audit fees in justifiable circumstances. The penalties and interest shall be capped to the value of the asset. In addition, there is a proposal to introduce a 12-month Voluntary Disclosure Program that will waive penalties on unclaimed financial assets declared and delivered within 12 months of the program. The proposals are aimed at encouraging reporting and recovery of identified assets by the UFA Authority.

### **Public Finance Management**

- » The Government proposes to amend the Public Finance Management Act to replace the debt ceiling with a debt anchor of 55% of debt to GDP in present value terms. The move is geared towards aligning Kenya's debt management to international best practice.



# SECTORAL HIGHLIGHTS



### The Big Four Agenda

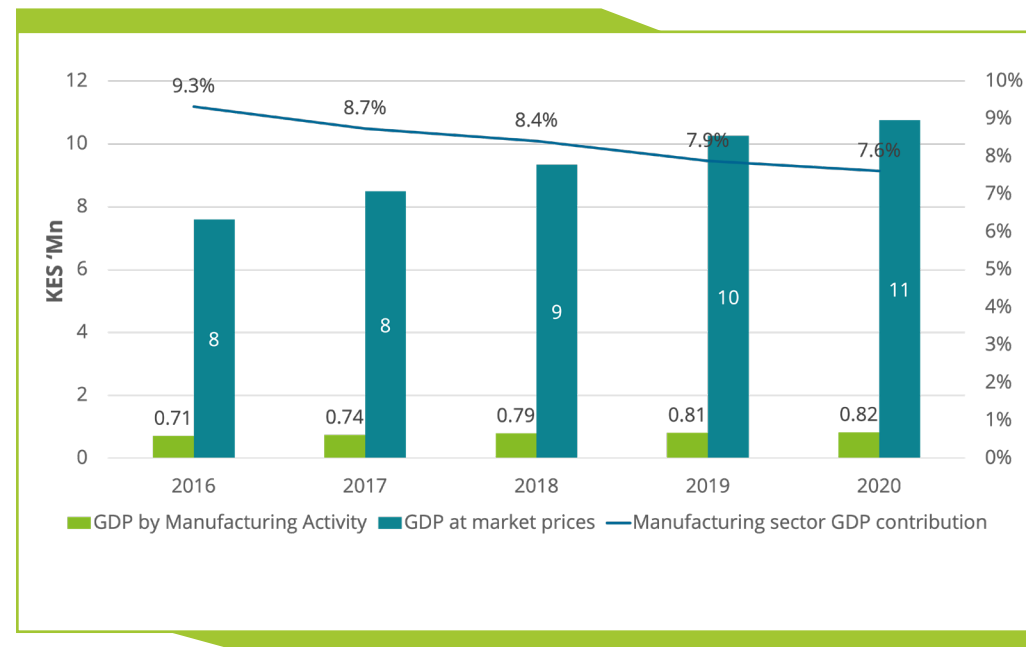
- The 'Big Four Agenda' is the current administration's legacy project which directly relate to Kenya's Vision 2030. Under the Big Four Agenda, the government aimed to ensure:
  - » 100% universal health coverage;
  - » 100% national food and nutrition security;
  - » 500,000 new houses for Kenyan families; and
  - » Manufacturing sector to contribute 15% to GDP.
- The Big Four Agenda policies and priority programmes were designed to be implemented from 2018 to 2022. Consequently, 2022 is the last year for implementation of these policies unless the next administration picks up the same. While the government has achieved some milestones with respect to implementation of this agenda, there remain gaps in meeting the set-out goals under the respective initiatives.



### Manufacturing

- Manufacturing as one of the key pillars of the Big Four Agenda, had the targeted outcome of increasing the share of manufacturing to GDP from 9.3% in 2016 to 15% by 2022.

### % Contribution of manufacturing to GDP



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

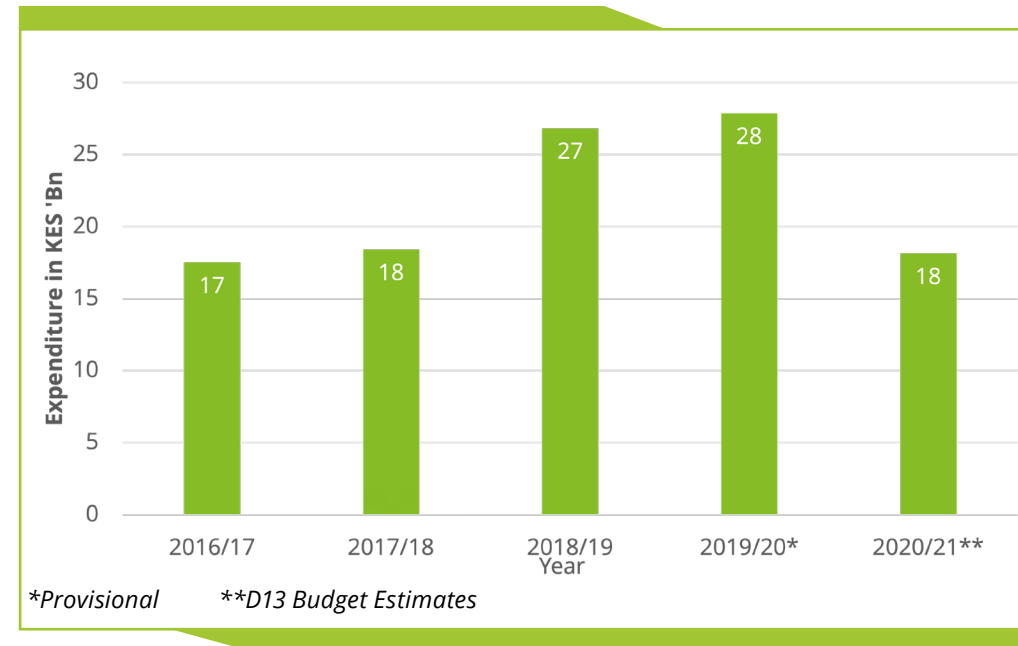
- However, the manufacturing sector's share of GDP has progressively declined from 9.3% in 2016 to 7.6% in 2020. This may be attributed to a substantial contraction in the manufacture of food products and competition from cheaper imported manufactured products within the country. Moreover, the COVID-19 pandemic and resultant restrictions led to a significant contraction of the manufacturing sector's output by 3.9% in the second quarter and 3.2% in the third quarter of 2020.



### Affordable housing

- The government intended to provide 500,000 affordable new houses across the 47 counties for Kenyan families by 2022.

### Government expenditure on affordable housing



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

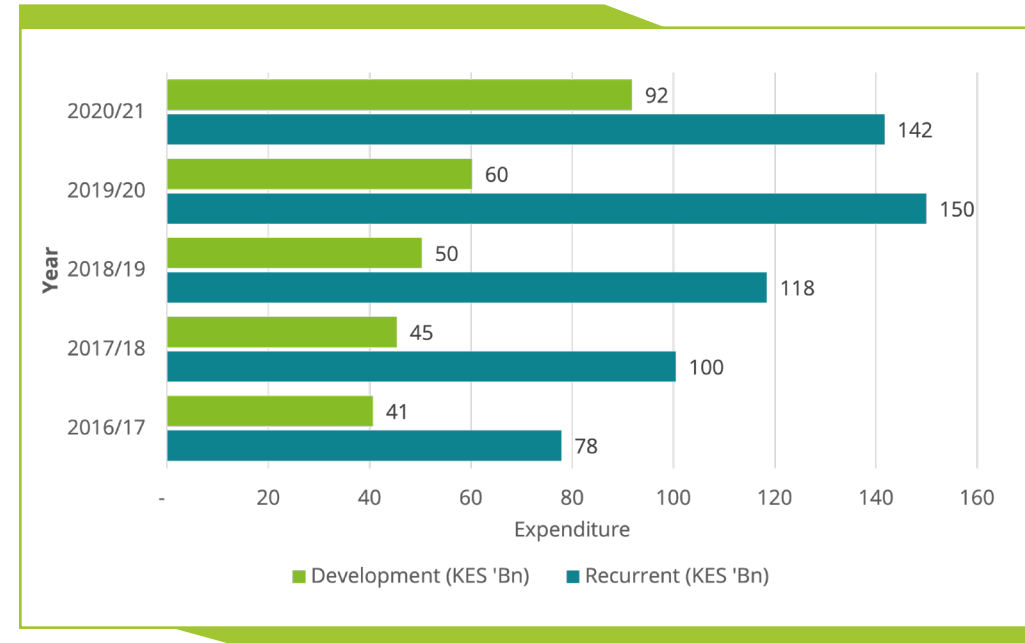
- The government completed construction of 2,235 affordable housing as at the end of September 2021. Further, the government has been able to support this agenda through construction of 1,370 affordable housing units, 462 social housing units, 540 National Police and Prisons Services housing units and 670 civil servants' houses. However, despite not meeting the targeted 500,000 houses, government expenditure on housing declined from KES 27 Billion in 2019/20 to 18 Billion in 2020/21.

The Big Four Agenda (cont...)

 Universal health coverage

- The provision of quality healthcare is important in order to sustainably drive the development agenda. Consequently, the government targeted 100% universal health coverage by 2022 through expanding the number of health facilities, provision of specialized medical equipment and expansion of *Linda Mama* program to bring on board mission and private hospitals.

Government expenditure on health



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

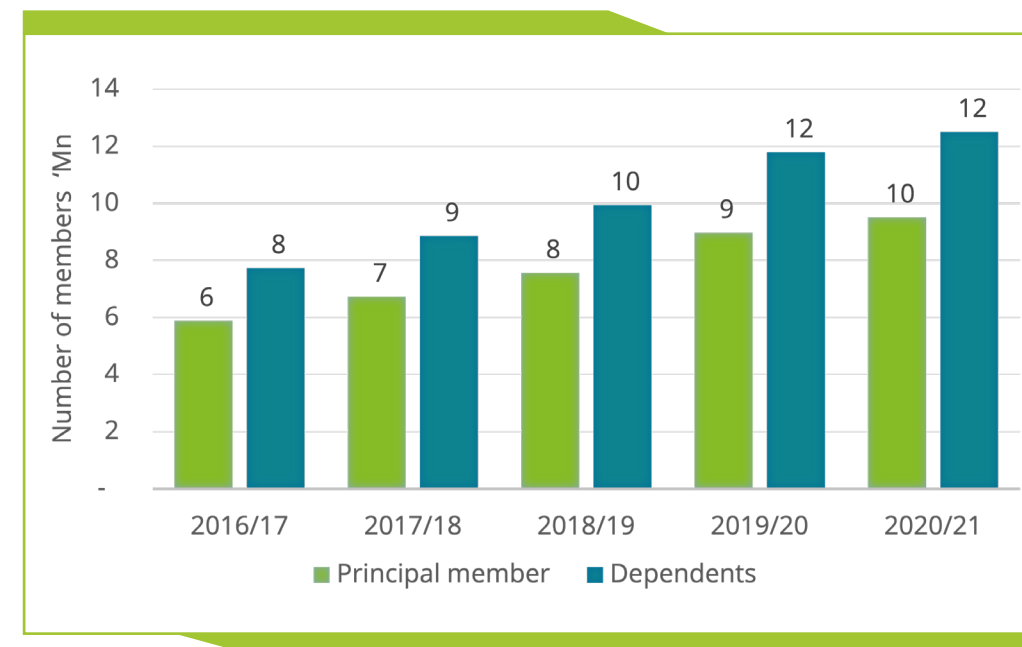
- Government expenditure on affordable healthcare at both national and county government levels has significantly increased over the years, from combined expenditure of KES 118 Billion in 2016/17 to KES 233 Billion in 2020/21. Moreover, membership of NHIF also increased in the period from 13 Million to 22 Million members. KNBS further estimates the government expenditure on COVID-19 support to counties at KES 7.7 Billion.

Health expenditure against total government expenditure



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

NHIF Membership



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021



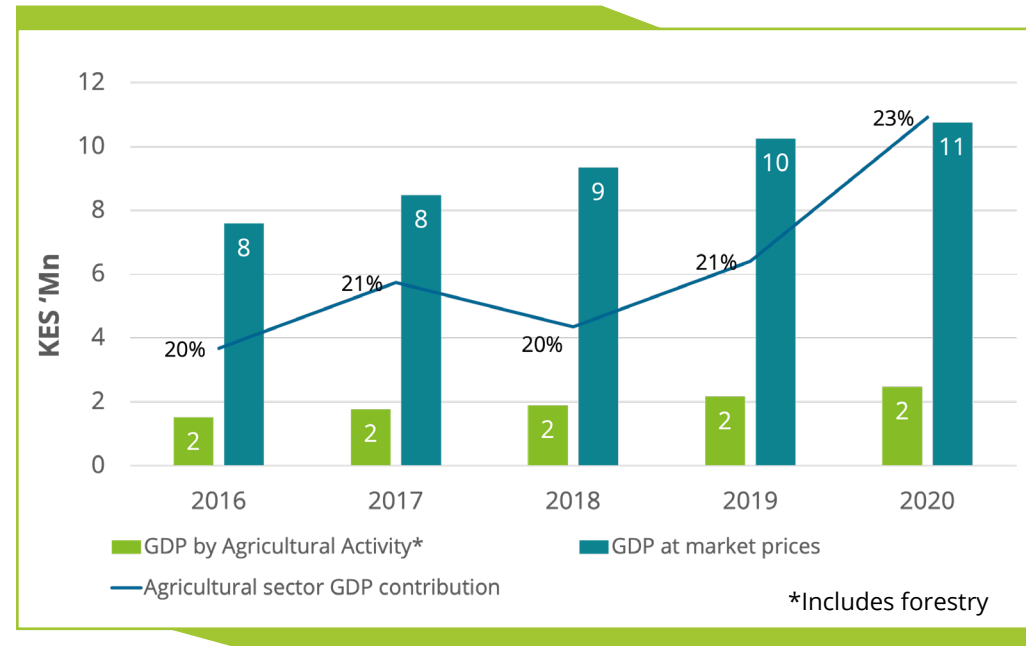
The Big Four Agenda (cont...)



Food security

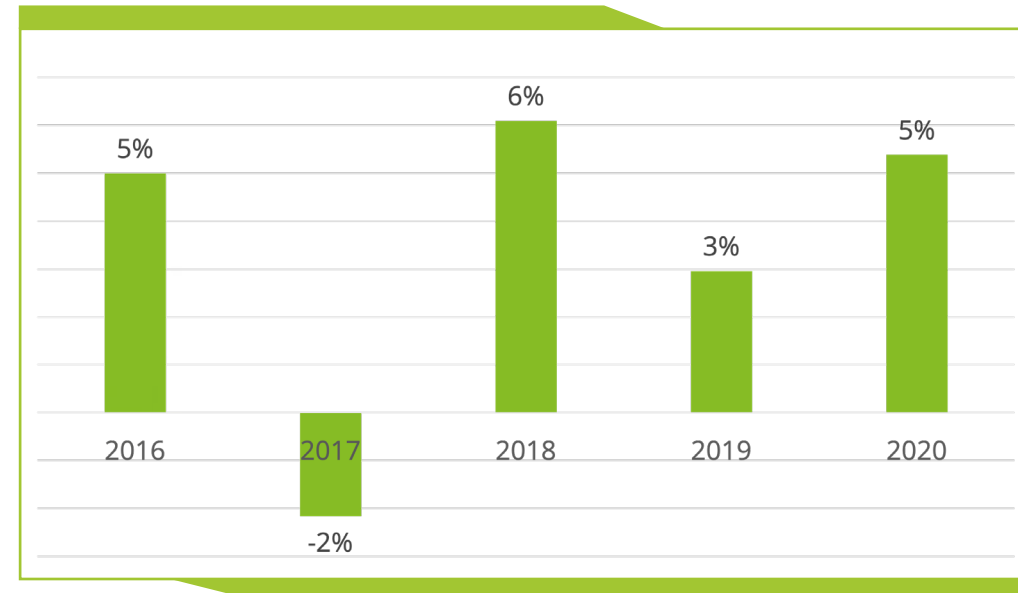
- The government aimed to achieve 100% food and nutrition security by 2022 through supporting large scale production of staple food, increasing access to agricultural inputs, expansion of irrigation schemes and implementing smallholder farmer support programs.

% Contribution of agriculture to GDP



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

Real Agricultural Growth Rate



Source: Kenya National Bureau of Statistics (KNBS) Economic Survey 2021

- The total agricultural production of crops and livestock generally increased between 2016 and 2018. However, production declined in 2019 from KES 351 Billion to KES 317 Billion and from KES 498 Billion to KES 466 Billion for crops and livestock, respectively. Encouragingly, production levels subsequently picked up in 2020. The real agricultural growth rate increased from 2.96% in 2019 to 5.39% in 2020 in line with the increase in agricultural production. Moreover, the agricultural sector's share of GDP has increased from 21% in 2019 to 23% in 2020.

## Agriculture and food security

- The government has allocated KES 46.7 billion to the sector, a decrease from KES 69.7 billion in the 2021-2022 period. The allocation is meant to cater for the various ongoing projects and programmes.

### Key allocations

- KES 4.2 billion to the National Agricultural and Rural Inclusivity Project;
- KES 1.7 billion to the Kenya Cereal Enhancement Programme;
- KES 1.9 billion to the Emergency Locusts Response;
- KES 1.5 billion to the National Value Chain Support Programme;
- KES 1.1 billion to the Agricultural Sector Development Support Programme II;
- KES 1.5 billion to the Small-Scale Irrigation and Value Addition Project;
- KES 690 million to the Food Security and Crop Diversification Project;
- KES 3.0 billion to subsidize farmers during the current planting season;
- KES 2.7 billion to cushion the farmers while sustaining food production;
- KES 2.7 billion to Fertilizer Subsidy to cushion farmers during the short rains.
- KES 1.7 billion to the Kenya Livestock Commercialization Programme;
- KES 121 million for livestock production under the “Big Four” initiative;
- KES 1.9 billion to the Aquaculture Business Development Project;
- KES 2.8 billion to the Kenya Marine Fisheries & Socio-Economic Development Project;
- KES 1.3 billion for exploitation of living resources under the Blue Economy;
- KES 1.0 billion to the construction of a fish processing plant in Lamu;
- KES 270 million to the Coastal Fisheries Infrastructure Development;
- KES 210 million for the rehabilitation of fish landing sites in Lake Victoria;
- KES 204 million to aquaculture technology development and innovation transfers;
- KES 147 million to the Climate Smart Agricultural Productivity Project;
- KES 850 million to enhance drought resilience and sustainable livelihood;
- KES 178 million towards ending drought emergencies in Kenya;
- KES 421 million for the Livestock and Crop Insurance Scheme to reduce the vulnerabilities of Kenyan farmers to diseases and natural disaster.

### Deloitte commentary

- Key achievements from the allocations through the Big Four Agenda focusing on food and nutrition security include:
  - » An increase in rice production following the expansion of Mwea Irrigation Scheme, Lower Nzoia Irrigation Project and the Kuja Irrigation Development Project;
  - » Streamlined and improved operations in the tea sector owing to the restructuring of the Kenya Tea Development Agency (KTDA); and
  - » An increase in support to the local value addition for beef by providing a ready market for livestock following the revival of Kenya Meat Commission (KMC).
- To boost agricultural produce, it will be key for the Government to increase investment in key programmes and projects that will lead to higher yield, notably provision of subsidised fertilizers, quality and certified seeds and mechanisation, all aimed at ensuring that we produce enough food to feed ourselves as a nation. There may be a need to implement reforms that ensure sustainable farming practices.



 **Tourism & hospitality**

- International tourism receipts posted a 19.0% growth in 2021 driven by the vaccine rollout and easing of the COVID-19 restrictions.

**Key allocations**

- KES 3.2 billion to the Tourism Fund
- KES 1.8 billion to the Tourism Promotion Fund
- KES 125 million towards refurbishment of the regional stadia
- KES 15.8 billion towards the Sports, Arts and Social Development Fund

 **Manufacturing**

**Key Allocations:**

- KES 1 billion towards the Credit Guarantee Scheme to enhance access to affordable credit by Micro, Small and Medium Enterprises in the manufacturing sector;
- KES 626 million towards Micro, Small and Medium Enterprises through Kenya Industrial Estates;
- KES 2.6 billion to Dongo Kundu Special Economic Zone (SEZ);
- KES 295 million to the Special Economic Zone Textile Park in Naivasha, Kananie Leather Industrial park and Athi River Textile Hub;
- KES 50 million to Free port and Industrial Park Special Economic Zone in Mombasa;
- KES 410.4 million to modernization of Rivatex;
- KES 3 billion to supporting access to finance and enterprise recovery;
- KES 212.1 Million for modernization of cotton ginneries;
- KES 250.4 Million for revitalization of cotton Industry;
- KES 1.3 billion to the Kenya Industry and Entrepreneurship Project;
- Kes 2.2 billion to the Kenya Youth Employment and Opportunities Project;
- KES 500 million to industrial research laboratories; and
- KES 200 million towards Constituency Industrial Development centres.

**Deloitte commentary**

- The tourism sector has a positive outlook for 2022 following the easing of COVID-19 Pandemic restrictions including travel restrictions and night curfews.
- International arrivals grew by 53.3% in 2021, a rebound from the decline noted in 2020 reflecting a steadily growing trust for Kenya as a tourist destination owing to diverse marketing efforts by the Kenya Tourism Board and regained consumer confidence. The growth was also driven by innovative products offered by both international and domestic players in the sector.
- Re-emergence of new COVID-19 variants in China heightened by the prevailing political environment, may stunt growth prospects in 2022. Following the execution of Magical Kenya, the Government must continue to implement initiatives to support tourism and market Kenya as a tourist destination to sustain momentum in the recovery of the still fragile tourism sector.

 **Housing, urban development and public works**

- The Government aims to digitalize the economy, in recognition of the opportunities that digital technologies offer in various sectors.

**Key allocations**

- KES 4.6 billion to Kenya Mortgage Refinance Company for enhancement of the Company;
- KES 8.7 billion for construction of affordable housing units;
- KES 1.2 billion for construction of social housing units;
- KES 200 million towards the Nairobi Metropolitan Services Improvement Project; and
- KES 118.7 million for construction of foot bridges

## Financial services

- The Central Bank rate was retained at 7.0% in 2021 to support credit access by borrowers especially the Micro Small and Medium Enterprises (“MSMEs”) distressed by the COVID-19 pandemic.
- The Government established the MSMEs Credit Guarantee Scheme (“CGS”) to expand access to affordable credit to MSMEs and support their recovery from the adverse impact of the COVID-19 Pandemic. As of December-2021, the scheme had disbursed over KES 2.2bn to MSMEs in 45 counties across 11 sectors.
- The improved liquidity in the money market resulted in stable commercial bank lending rates, estimated at 12.1% in 2021.

### **Banking**

- The banking sector has demonstrated great resilience and recovery from the adverse effect of Covid 19 pandemic through capital adequacy and liquidity ratios. The capital adequacy ratio was 19.6 percent above the minimum requirement of 14.5 percent, while liquidity ratio was 56.2 percent above the 20.0 percent requirement;
- The CBK (Amendment) Bill 2021 was enacted into law empowering the Central Bank to license and oversee the previously unregulated digital credit providers;
- To mitigate the climate change related risks faced by commercial banks, the Central Bank of Kenya issued guidance on climate risk management in October 2021. It is a requirement to include climate related risk in their risk management framework;
- Access to formal financial services improved from 82.9 percent in 2019 to 83.7 percent in 2021 attributed to the progress made by Kenyans to expand financial access through various channels including mobile money financial platforms;
- The central bank has taken steps to improve the national payments strategy. These measures include: roll out of mobile money transactions, strengthening of Real Time Gross Settlement (RTGS) and establishing regional payments systems within the EAC and COMESA. In addition, CBK launched the National Payments Strategy, 2022 - 2025 to support financial inclusion and innovations while reinforcing the 24- hour economy.
- The Nairobi International Financial Centre (NIFC) has put in place the required operating framework and Regulations. The official opening of NIFC is slated for later in the year and is expected to attract increased financing and investment into Kenya.

### **Retirement benefits**

- The government is set to roll out a re-engineered pension management system over the financial year to offer end to end enterprise resource planning in the management and processing of pension benefits.

- To ease pressure on the pension wage bill, the Public Service Superannuation Scheme that was operationalized in January 2021 has attracted more than 352,000 members with a current Fund value of KES 27.0 billion.
- National treasury is developing a national pension policy that will guide the management and structure of retirement benefits for public servants.
- The government backed pension scheme Kenya National Entrepreneurs Savings Trust, for marginalized informal sector, has been registered. The government is working with M-Akiba bond platform to provide a method for the informal workers to participate in the pension scheme with ease.

### **Capital Markets**

- The Government is undertaking a review of the legal framework to address emerging issues in the capital markets space. These include aspects on collective investment schemes and investment-based crowdfunding. This will enable individuals who are not able to invest in personal capacity to raise capital and invest as a group.
- Additionally, the government is installing a new Central Securities Depository System at the Central Bank of Kenya to support planned reforms in secondary trading of government bonds.
- The government proposes to amend the Capital Markets Act (CMA) to include single director companies and partnerships to be licensed as investment advisors, this measure will enable more investment advisors to offer investment advisory services.





## Security

- The government has set aside KES 317.8 billion to support operations of the National Police Service, National Defence Forces, and the National Intelligence Service.

### Key allocations:

- KES 128.4 billion to the Kenya Defence Forces;
- KES 46.1 billion to the National Intelligence Service;
- KES 122.2 billion to cater for Police and Prisons Services;
- KES 10.7 billion towards leasing of police motor vehicles;
- KES 1.0 billion towards the Police Modernization Programme;
- KES 1.0 billion towards the National Communication and Surveillance System;
- KES 335 million for the equipment of the National Forensic Laboratory;
- KES 4.8 billion towards medical insurance for the National Police Service and Prisons;
- KES 2.3 billion towards the group personal insurance for the National Police Service and Prisons; and
- KES 1 billion towards the National Integrated Identity Management System.

### Deloitte commentary

- Kenya's financial services sector remained stable and resilient despite the adverse effects of the COVID-19 Pandemic supported by initiatives in digital products and services in response to rising customer demands.
- The COVID-19 Pandemic accelerated the uptake of digital financial services, catalysed by the measures implemented by the Government to enhance cashless payments by reducing the cost of mobile transactions and internet banking through scrapping of transaction costs for transfers between mobile money wallets and bank accounts. To further the digitisation drive, it will be imperative for the Government to fast-track the development of a policy on digital finance and amendment of Central Bank of Kenya Act (Cap. 491) that will empower the central bank to regulate digital lenders and protect consumer interests.
- The domestic capital markets remained resilient despite the COVID-19 Pandemic, driven by measures implemented by the Government to stimulate economic recovery as well as positive investor sentiments. To deepen the capital markets, the Government is expected to implement reforms in the regulatory framework such as collective investment schemes and investment-based crowd-funding. The installation of a new Central Securities Depository System at the Central Bank of Kenya is expected to support planned reforms in secondary trading of government bonds.
- The government should also work with stakeholders in the financial sector to operationalise the Government-backed pension scheme for informal sector workers, with over 15mn workers now registered on the platform.

 **Energy & Infrastructure**

- The sector has been allocated a total budget of KES 368.3bn in 2022/2023 to facilitate the construction of major infrastructure projects in the country.

**Key allocations:**

- KES 212.5 billion to expand, rehabilitate and maintain critical infrastructure in roads, rails, air, and seaports;
- KES 18.5 billion for development of the Standard Gauge Railway (“SGR”);
- KES 1.1 billion for Railways Metro Lines;
- KES 439 million for rehabilitation of locomotives;
- KES 264 million for development of an ERP system for the SGR; and
- KES 91.5 billion to support the production of reliable and affordable energy, out of which KES 62.9 billion will cater for transmission and distribution of power; KES 18.5 billion for development of geothermal energy; KES 9.3 billion for electrification of public facilities and KES 2 billion for development of nuclear energy and the exploration and mining of coal.

 **ICT**

- The Government aims to digitalize the economy, in recognition of the opportunities that digital technologies offer in various sectors.

**Key allocations**

- KES 15.6 billion to fund initiatives in the Information, Communication and Technology (“ICT”) sector;
- KES 620 million for government shared services;
- KES 9 billion to fast-track the development of the Konza Technopolis City;
- KES 2.7 billion for the Last Mile Connectivity Network;
- KES 1.2 billion for maintaining and rehabilitating the National Optic Fibre Backbone Phase II Expansion Cable;
- KES 1.4 billion for installation and commissioning of the Eldoret-Nadapal Fibre Optic Cable; and
- KES 310 million for the Digital Literacy Programme and ICT integration in Secondary Schools.

**Deloitte commentary**

- Developing Kenya’s infrastructure is one of the key factors expected to support economic growth in the medium term, as the country plans to establish itself as a gateway to East Africa.
- The Government took a step in the right direction, with the Public Private Partnership Act, 2021 coming into effect in December 2021, setting fit for purpose laws for the participation of the private sector in development projects. The re-prioritised Public Private Partnership (“PPP”) pipeline targets to unlock an estimated KES 350bn in new development capital for priority projects in 2022.
- The Government floated a 19-year KES 75bn infrastructure bond in February-22 for funding of infrastructure projects in the 2021/2022 budget estimates, with the CBK taking up KES 98.6bn at an average rate of 12.965%. This performance underlines the massive advantage drawn by infrastructure bonds from their high return and tax-free status.
- The Kenyan Government should also look to expand access to reliable and clean energy to all households by investing in power generation programmes in geothermal, wind and solar in line with its target of attaining full transition to renewable energy by 2030.





- The government has set aside KES 5.8 billion for implementation of certain activities towards improvement of environment, water, and sanitation facilities.

#### Key allocations

- KES 12 billion for free primary education;
- KES 2.5 billion for recruitment of teachers;
- KES 64.4 billion for free day secondary education, including NHIF insurance for secondary school students;
- KES 5 billion for exam fees waiver for grade 6, class 8 and form 4 candidates;
- KES 1.96 billion for the school feeding programme;
- KES 1.2 billion for training of teachers on the Competency Based Curriculum (CBC);
- KES 4 billion for the construction of classrooms;
- KES 2.8 billion for primary and secondary schools' infrastructure;
- KES 1.8 billion for construction and equipping of Technical Training Institutes and Vocational Training Centres;
- KES 1.1 billion to enhance access to Technical and Vocational Education and Training ("TVET") programmes.
- KES 294.7 billion to the Teachers Service Commission;
- KES 91.2 billion for university education;
- KES 15.8 billion for the Higher Education Loans Board;
- KES 6.8 billion for Kenya Secondary Education Quality Improvement Project;
- KES 5.2 billion capitation for TVET students;
- KES 527 million for TVET and entrepreneurship;
- KES 971 million for promotion of youth employment and vocational training; and
- KES 323 million for the National Research Fund.



The government is committed to expand clean and adequate water for domestic and agricultural use.

#### Key allocations

- KES 45.9 billion to water and sewerage infrastructure development to facilitate wide access to clean and adequate water for domestic and agricultural use;
- KES 16.0 billion to water resources management;
- KES 9.8 billion for water storage and flood control;
- KES 8.5 billion for irrigation and land reclamation and KES 2.1 billion for water harvesting and storage for irrigation;
- KES 10.2 billion for forests and water towers conservation;
- KES 3.1 billion for environment management and protection;
- KES 1.5 billion for the Meteorological Service Department; and
- KES 7.0 billion towards wildlife conservation and management.

#### Other allocations include:

- KES 5.9 billion for the Kenya Informal Settlement Improvement Project Phase II;
- KES 700 million for construction of markets;
- KES 1.0 billion for maintenance of government pool houses;
- KES 1.1 billion for the construction of housing units for the National Police and Kenya Prison
- KES 700 million for the Kenya Urban Programme; and
- KES 1.2 billion to support the Nairobi Bus Rapid Transport Project to offer an efficient and time Bus Rapid Transport Project.

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