



ASIRI



KENYA NATIONAL BUDGET HIGHLIGHTS

2022-2023

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INTRODUCTION

The CS National Treasury, Hon. (Amb.) Ukur Yatani, EGH submitted the budget statement for the fiscal year 2022/2023 to the national assembly on 7th April 2022. This was a departure from the previous years where the budget would normally be submitted in June in line with the partner states in the East African Community owing to the upcoming general elections in August 2022. This will create ample time for enactment of the Finance Act 2022 by 30th June 2022.

The theme of this year's budget is "Accelerating Economic Recovery for Improved Livelihood" which focuses on accelerating implementation of the "Big Four Agenda" and the third Economic Stimulus Programme for sustainable growth.

THE ECONOMIC PERFORMANCE & OUTLOOK

The global economy grew by 5.9% after a contraction of 3.1% in 2020 subsequent to the outbreak of COVID-19 pandemic that hurt prime sectors and slowed down transactional activities across most economies in 2020. Positively, in 2022, the global economy is projected to pick up modestly by just over 4%. Importantly, there are risks to this growth outlook largely from possible re-emergence of COVID-19 variants, on-going conflict that has escalated in the Eastern Europe coupled with unfavorable weather conditions that could stifle the agricultural sector.

The Kenya's economy has proved resilient to unprecedented shocks having expanded by 7.6% in 2021 against a slight contraction of 0.3% seen in 2020. The performance in 2021 is underpinned by the reopening of the economy given the lifting of the various Covid-19 related measures which slowed down service-oriented sectors. Further, the government actioned key stimulus items to ensure the recovery of the private sector during the year. In 2022, the economy is set to stabilize at 6% cushioned by the recovery of agriculture and service sectors.

Inflation Metric

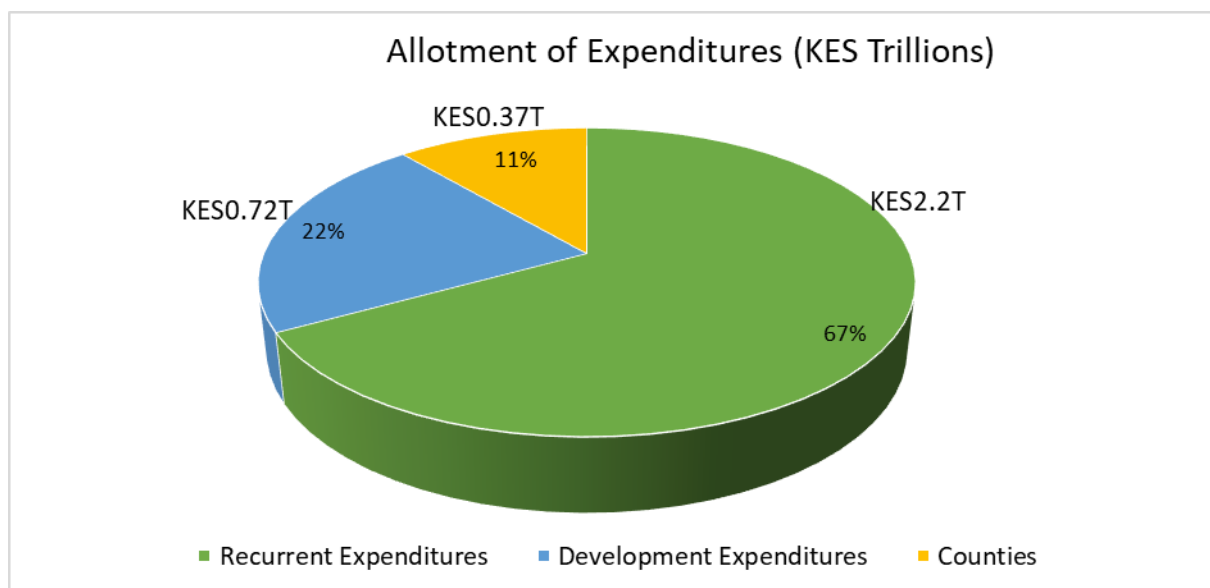
The economy has continued to face inflationary pressures owing to the surge in the price of essentials. More recently, inflation came in at 5.6% on the account of the rise in energy costs on the backdrop of increased fuel prices. Notably, inflation expectations are well-anchored between 2.5% to 7.5% - within the neighborhood of Central Bank of Kenya (CBK) target band.

The Exchange Rate

Providing a glimpse on the Kenyan Shilling, the local unit has depreciated by 1.47% against the US Dollar since the start of 2022 to date. The metric has remained under pressure owing to the persistent gains by the US Dollar against other veto currencies combined with spike in global oil prices traced from reduced supply from OPEC (the Organization of the Petroleum Exporting Countries). Further, the unit has slightly devalued on the back of reduced dollar influx from prime export earning sectors such as agriculture and tourism. On the other hand, diaspora remittances have continued to defy currency pressures having registered a 20% surge from US\$3.1B in 2020 to track at US\$ 3.7B in 2021. This can be traced from the proliferation of tech and tech-enabled platforms, relatively affordable remittance fees coupled with improved financial inclusion across the nation. Recently, in February 2022, the country cliched just over US\$338M in form of inward remittances translating to US\$4.1B on an annual basis.

Total Expenditures

The total expenditure in the FY 2022/23 budget has been set at KES3.3T and corresponds to 24% of the annual GDP which is estimated to be just over KES 13.8T. Of the total expenditure, recurrent expenditures will account for 67% while development expenditure has been allotted 22% and the counties will receive 11%

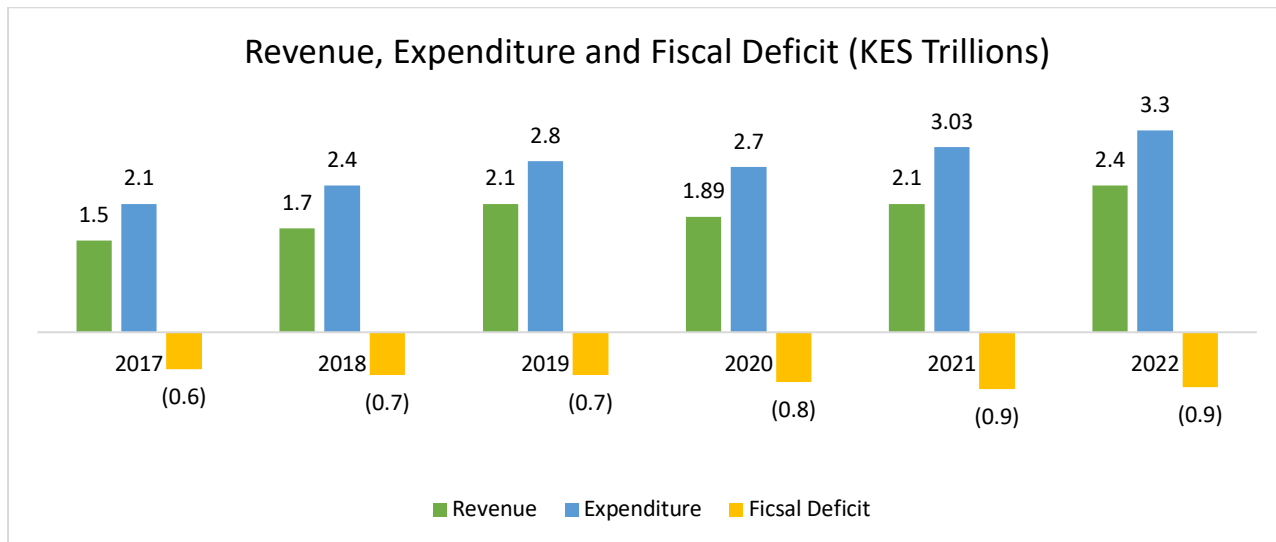


Revenue, Expenditure and Fiscal Deficit:

Over the recent years, the national budget has seen a combined 6 Year Compound Annual Growth Rate of 10% to KES3.3T in FY 2022/2023 from KES2.1T in FY2017/2018. Similarly, revenue has seen an average growth of 9% from KES1.5T in 2017 to KES2.4T projected in 2022.

It is key to note that the government has projected ordinary revenues from KES1.78T to KES2.14T in FY 2022/2023. This is premised on the ongoing recovery of service-oriented sectors coupled with continued growth of private sector credit that would in turn bolster business activities in the country.

Furthermore, the fiscal deficit has continued to widen on the backdrop of increased government spending against relatively low levels of national revenues. However, in 2022, the fiscal deficit is set to deflate by 3% from KES930B in 2021 to KES862B in 2022. This is attributed to the marked rise in projected revenues which is currently set at KES2.4T.

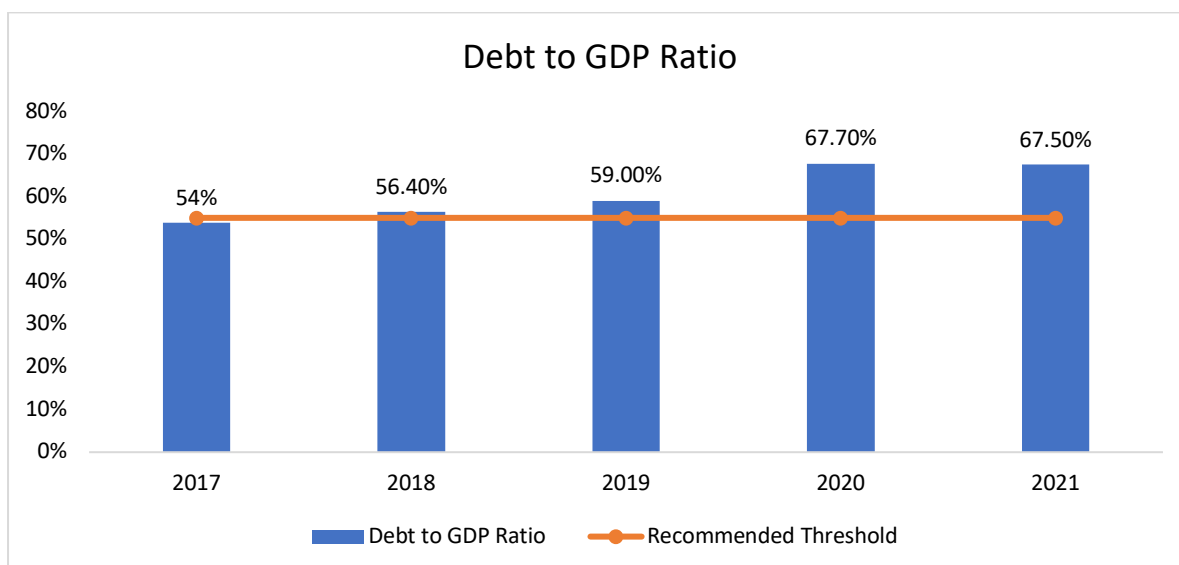


Worth of note, the current account deficit is projected at 5.9% of GDP in 2022 attributed to a rebound in horticulture and tea exports together with increased influx of remittances. Also, the foreign exchange market has remained stable with the official foreign exchange reserves increasing from US\$6.5B to US\$9.5B in 2021.

Debt to GDP Ratio

The gap between the expenditures and revenues has resulted into increased government borrowing in the recent years. As such, the debt to GDP ratio has continued to surge and currently lies at 67%. To fund the budget deficit, the government is looking to source KES281B (this corresponds to 2% of GDP) from external financiers and KES 581B (an equivalent of 4.2% of GDP) from the local market. Consequently, the ratio of foreign debt to domestic debt will lie within the neighborhoods of 2.1:1.

Accordingly, the government proposes to replace the debt ceiling with a debt anchor and set it at 55% of debt to GDP in present value terms. This sits well in line with internationally accepted conventional practice and ensures that debt levels remain within sustainable levels.



POLICY, LEGAL AND INSTITUTIONAL REFORMS

Type of Reform	Policy updates and key initiatives
Procurement reforms	<p>These reforms are meant to improve efficiency, transparency and enhancing good governance to promote saving in the procurement process. Specifically, the government has proposed the following:</p> <ul style="list-style-type: none"> • Multiple awards of tenders where several bidders can be awarded the same contract • Empowering SMEs owned by women, youth and Persons with disabilities
State corporation reforms	<p>The government has evaluated various state-owned enterprises so as to enhance efficiency, reduce costs and increase revenue</p> <ul style="list-style-type: none"> • Kenya Airways to be allocated a budget for restructuring costs • 15% tariff reductions by the Kenya Power and Lighting Company.
Financial sector reforms	<p>The Central Bank of Kenya (CBK) has been promoting financial stability through regulation, supervision and licensing of financial institutions under its mandate.</p> <ul style="list-style-type: none"> • CBK has launched a National Payment strategy for 2022-2025 • The Nairobi International Financial Centre (NIFC) has put in place required operational framework and regulations to attract increased financing and investment
Insurance reforms	<p>The government is targeting reducing risks suffered through accidents and reducing deaths that have been rising in the recent past. Motorists and three wheelers are required to take comprehensive insurance cover</p>
Disaster management	<p>The government is looking to strengthen disaster management strategies in the country by fast tracking disaster risk management bill</p>
Kenya National Entrepreneurs Savings Trust	<p>Kenya National Entrepreneurs Savings Trust targeting 15M marginalized informal workers. This is aimed at providing a safe and secure platform for the unique informal workers.</p>
Financial Assets	<p>The National Treasury proposes to amend the Financial Assets Act to provide for waiver of penalties, fines and audit fees in justifiable circumstances. This move will go a long way to encourage reporting and identification of unclaimed assets.</p>
Credit Guarantee Scheme	<p>The government is looking to continue with the provision of alternative source of credit to small holder business. Thus far, the government has advanced over KES2B to small holder businesses.</p>
Capital Markets Developments	<p>The government aims at deepening these capital markets and enhancing secondary trading of government bonds.</p> <ul style="list-style-type: none"> • Government is reviewing the legal and regulatory framework to deal with the emerging issues in the capital markets space • Installation of a new central Depository System at the CBK
Operationalization of the Judiciary Fund	<p>In tandem with article 173 of the constitution, government is to fully operationalize the Judiciary Fund by 1st July 2022 to cater for the administrative expenses</p>
Climate change and environmental conservation	<p>The government is demonstrating efforts geared towards addressing climate change,</p> <ul style="list-style-type: none"> • Government has finalized the Long-Term Low Emission Strategy to guide a low carbon-climate resilient path • Government has allocated 6.1B towards Financing Locally Led Climate Action Program (FLLoCA)

FOCUS OF THE 2022/23 BUDGET

Some of the concerns that the budget was prepared to cure were.

- a) High cost of living
- b) High level of unemployment among the youths
- c) Income inequality
- d) Public debt burden

Most of the concerns raised by Kenyans were associated with the negative effects of COVID-19 pandemic. This year's Budget has been prepared against a background of a moderate global growth of 4.4 percent from a recovery of 5.9 percent in 2021.

In this year's budget, the government will strive to

- ☐ Enhance the role of the private sector in the economy, including financing infrastructure projects through the Public Private Partnership;
- ☐ Support micro, small and medium enterprises by facilitating access to finance;
- ☐ Invest in ICT and digital infrastructure to support the use of digital platforms to facilitate e-commerce and efficient delivery of public services;
- ☐ Promote and strengthen local and foreign resource mobilization efforts to sustain funding of the identified development projects and programmes;
- ☐ Improve social-protection through targeted policy interventions and programmes;
- ☐ Promote local production processes and domestic supply value chains; and
- ☐ Strengthen monitoring and evaluation systems for quality outcomes of the projects.

Fiscal Framework

One objective of the economic recovery programme is to reduce debt vulnerabilities by pursuing a revenue-driven fiscal consolidation. The Government has developed a draft National Tax Policy to guide tax administration and is also developing a Medium-Term Revenue Strategy to boost tax revenues, improve the tax system and link taxation to our development needs over the medium term.

The Government will continue to rationalize tax expenditures and retain those whose intention is to promote investments and ensure sustainability and value for money. The government shall continue to review the existing tax expenditure in order to boost the tax revenues.

Given the projected revenues and grants against the projected expenditures, the fiscal deficit is projected to decline to KES 862.5 B equivalent to 6.2 percent of GDP in the financial year 2022/23 from KES 1,024.3 B equivalent to 8.1 percent of GDP in the FY 2021/22. The fiscal deficit will be financed through net external financing of KES 280.7 B equivalent to 2.0 percent of GDP and net domestic financing of KES 581.7 B equivalent to 4.2 percent of GDP.

The medium-term fiscal consolidation policy targets to progressively reduce the level of fiscal deficit from KES 862.5 B equivalent to 6.2 percent of GDP in FY 2022/23 to KES 634.1 B equivalent to 3.2 percent of GDP in FY 2025/26.

The government has initiated implementation of a set of measures to lower cost and risk in the public debt portfolio. These measures include:

- ☐ cancellation of some non-disbursing external loans;
- ☐ re-arrangement of syndicated external loans;
- ☐ increasing the issuance of Treasury Bonds to lengthen the maturity structure;
- ☐ improve debt sustainability indicators; and
- ☐ The preferred debt financing are highly concessional loans offered at below market interest rates with long repayment periods. Recourse to commercial borrowing has been maintained at minimum levels.

The government proposes to replace the debt ceiling with a debt anchor and set it at 55 percent of debt to GDP in present value terms. This is in line with internationally accepted conventional practise. Further, the Cabinet Secretary National Treasury is required to report to Parliament whenever the debt levels breach beyond the threshold with time-bound remedial actions. This approach ensures that debt remains within sustainable levels and entrenches accountability and transparency in public debt management.

To ensure Public Private Partnership (“PPP”) projects with the highest socio-economic returns are selected and implemented the Government has put in place, a joint Public Investment Management and Public Private Partnership planning framework and strengthening the coordination between Public Debt Management Office and the Public Private Partnership Directorate for effective control of fiscal exposure, as envisioned in the new PPP Act, 2021.

The Government will fully operationalize the Public Private Partnership Project Facilitation Fund to support activities of PPP Directorate and those of the contracting authorities in the preparation phase of a project during the tendering processes and project appraisal.

In view of the limited fiscal space, the Government will embark on rationalizing the existing portfolio of projects being implemented by the National Government and issue Regulations for managing public investments. The Government has developed the Public Investment Management Information System, which is expected to be a repository of all projects implemented by the National and County Governments.

Spending Priorities

The proposed total programmed spending for the FY 2022/23 amounts to KES. 3.3 trillion.

➤ Economic Stimulus Programme

The Government is implementing the third Economic Stimulus Programme of KES. 30.1 B to accelerate the pace of economic growth and sustain the gains realized so far. A total of KES 20.6 B has been proposed in this budget to support implementation of various activities that include:

- KES 2.1 B is for youth empowerment and employment creation under the Kazi Mtaani Programme
- KES 8.2 B for improving education outcomes
- KES 1.3 B for improving health outcomes
- KES 5.8 B for improving environment, water and sanitation facilities
- KES 1.5 B for fertilizer subsidy
- KES 1.6 B for enhancing liquidity to businesses

➤ Universal Health Coverage

KES 146.8 B has been allocated to the health sector of which KES 62.3 B will fund activities and programmes for the attainment of Universal Health Coverage. Specific allocations for various activities and programmes include:

- KES 7.0 B for purchase of COVID-19 vaccines and related expenditures
- KES 4.1 B for Free Maternity Health Care
- KES 5.2 B for the Managed Equipment Services
- KES 1.8 B to provide medical cover for the elderly and severely disabled persons in our society
- KES 16.2 B to lower cases of HIV/AIDS, Malaria and tuberculosis in the country
- KES 5.2 B to enhance vaccines and immunizations programme
- KES 18.1 B has been proposed for the Kenyatta National Hospital
- KES 11.7 B for the Moi Teaching and Referral Hospital
- KES 7.7 B for the Kenya Medical Training Centres

- KES 2.9 B for the Kenya Medical Research Institute
- KES 1.1 B for the construction of Kenya National Hospital Burns and Paediatrics Centre
- KES 1.2 B for procurement of family planning & reproductive health commodities
- KES 300 M for procurement of cyber knife radiotherapy equipment
- KES 1.3 B for construction of cancer centre at Kisii level V hospital
- KES 619 M for procurement of equipment at the National Blood Transfusion Services

➤ **Affordable Housing**

- KES 4.6 B to Kenya Mortgage Refinance Company for enhancement of the company's capital as well as for on-lending to primary mortgage lenders
- KES 8.7 B for construction of Affordable Housing Units
- KES 1.2 B for construction of Social Housing Units
- KES 200.0 M has been recommended for the Nairobi Metropolitan Services Improvement Project
- KES 118.7 M for construction of foot bridges
- KES 5.9 B for the Kenya Informal Settlement Improvement Project-Phase II
- KES 700 M for construction of markets
- KES 1.0 B for maintenance of Government Pool Houses
- KES 1.1 B for the construction of Housing Units for the National Police and Kenya Prison
- KES 700.0 M for the Kenya Urban Programme

➤ **Supporting Manufacturing for Job Creation**

To further promote local industries, the Government has proposed an allocation of KES 10.1 B under various implementing Ministries, Departments and Agencies. Out of this;

- KES 1.0 B will go to the Credit Guarantee Scheme to enhance access to affordable credit by Micro, Small and Medium Enterprises in the manufacturing sector
- KES 626 M for provision of finances to Micro, Small and Medium Enterprises through the Kenya Industrial Estate
- KES 2.6 B for Dongo Kundu Special Economic Zone
- KES 295 M for the development of the Special Economic Zone Textile Park in Naivasha, Kinanie Leather Industrial Park and Athi River Textile Hub
- KES 50 M for the Freeport and Industrial Park Special Economic Zone in Mombasa.
- KES 410.4 M for the modernization of RIVATEX
- KES 3.0 B for supporting access to finance and enterprise recovery
- KES 212.1 M for modernization of cooperative cotton ginneries
- KES 250.4 M for the Cotton industry revitalization

To equip the youth with essential training and internship opportunities

- KES 1.3 B for the Kenya Industry and Entrepreneurship Project
- KES 2.2 B for the Kenya Youth Employment and Opportunities Project
- KES 500 M for Industrial Research Laboratories
- KES 200 M for Constituency Industrial Development Centers

➤ **Enhancing Food And Nutrition Security**

The CS National treasury has proposed an allocation of KES 46.7 B in this budget in the following manner:

- KES 4.2 B will go to the National Agricultural and Rural Inclusivity Project
- KES 1.7 B for the Kenya Cereal Enhancement Programme
- KES 1.9 B has been proposed for the Emergency Locusts Response
- KES 1.5 B for the National Value Chain Support Programme
- KES 1.1 B for the Agricultural Sector Development Support Programme II
- KES 1.5 B for the Small-Scale Irrigation and Value Addition Project
- KES 690 M for Food Security and Crop Diversification Project
- KES 2.7 B for Fertilizer Subsidy to cushion farmers during the short rains from October to December 2022. This is in addition to the KES 3 B allocated in the FY 2021/22

To improve livestock production:

- KES 500 M for Free Disease Holding Ground in Lamu
- KES 1.7 B for the Kenya Livestock Commercialization Programme
- KES 121 M for Livestock Production under “Big Four” initiative

To promote sustainable utilization of the blue economy resources,

- KES 1.9 B for the Aquaculture Business Development Project
- KES 2.8 B for Kenya Marine Fisheries & Socio-Economic Development Project
- KES 1.3 B for Exploitation of Living Resources under the Blue Economy
- KES 1.0 B for construction of Fish Processing Plant in Lamu
- KES 270.0 M for Coastal Fisheries Infrastructure Development
- KES 210 M for rehabilitation of Fish Landing Sites in Lake Victoria
- KES 204.0 M for Aquaculture Technology Development and Innovation Transfers
- KES 126.3 M for the development of the Blue Economy initiatives

To increase agricultural productivity and enhance resilience to climate change risks in targeted smallholder farming and pastoral communities in Kenya

- KES 147 M for the Climate Smart Agricultural Productivity Project
- KES 850 M to enhance drought resilience and sustainable livelihood
- KES 178.0 M towards Ending Drought Emergencies in Kenya
- KES 421 M for the Livestock and Crop Insurance Scheme to reduce the vulnerabilities of Kenyan farmers to diseases and natural disasters.

To ensure legitimacy of land ownership:

- KES 1.1 B for Processing and Registration of Title deeds;
- KES 769 M for Digitization of Land Registries
- KES 130 M for Construction of Land Registries

Other proposed allocations include:

- KES 90.0 M for Revitalization of Cotton Industry
- KES 300 M for mitigation of Fall Army Worms
- KES 200 M for establishment of Liquid Nitrogen Plant
- KES 200 M towards the Embryo Transfer Project
- KES 250 M for construction and refurbishment of the Leather Science Institute.

➤ **Investing in Infrastructure**

- KES 212.5 B to support construction of roads and bridges as well as their rehabilitation and maintenance

- KES 18.5 B for development of the Standard Gauge Railway
- KES 1.1 B for Railways Metro Lines
- KES 439 M for rehabilitation of locomotives
- KES 264 M for development of ERP system for SGR
- KES 1.2 B to support the Nairobi Bus Rapid Transport Project to offer an efficient and time saving public transport

To support production of reliable and affordable energy:

- KES 91.5 B excluding the provisions set aside under the “Big Four” Initiatives
- KES 62.9 B will cater for transmission and distribution of power
- KES 18.5 B for development of geothermal energy
- KES 9.3 B for electrification of public facilities
- KES 2.0 B for development of nuclear energy as well as exploration and mining of coal.

➤ **Improving Security**

An allocation of KES 317.8 B to support operations of the National Police Service, Defence and the National Intelligence Service.

- KES 128.4 B for Defence
- KES 46.1 B for the National Intelligence Service
- KES 122.2 B for Police and Prisons Services
- KES 10.7 B for leasing of police motor vehicles
- KES 1 B for Police Modernization Programme
- KES 1 B for the National Communication and Surveillance System
- KES 335 M for the equipment of the National Forensic Laboratory
- KES 4.8 B for medical insurance for the National Police Service and Prisons;
- KES 2.3 B for the group personal insurance for National Police Service and Prisons as well as,
- KES 1 B for the National Integrated Identity Management System.

➤ **Enhancing Quality and Relevant Education**

KES 544.4 B to support programs in the education sector in the following manner:

- KES 12 B will cater for Free Primary Education
- KES 2.5 B for recruitment of teachers
- KES 64.4 B for Free Day Secondary Education including insurance under NHIF for secondary school students
- KES 5 B for examinations fee waiver for grade six, class eight and form four candidates
- KES 1.96 B for the School Feeding Programme
- KES 1.2 B for training of teachers on Competency Based Curriculum
- KES 310 M for the Digital Literacy Programme and ICT Integration in our Secondary Schools
- KES 294.7 B to Teachers Service Commission
- KES 91.2 B for University Education
- KES 15.8 B to the Higher Education Loans Board
- KES 6.8 B for Kenya Secondary Education Quality Improvement Project
- KES 5.2 B capitation for TVET students
- KES 527 M has been set aside for Technical, Vocational Education Training and Entrepreneurship
- KES 971 M for promotion of Youth Employment and Vocational Training
- KES 323 M for the National Research Fund

To support transition from primary education to junior secondary education under the Competency Based Curriculum (CBC),

- KES 4 B has been set aside for the construction of classrooms; to support school infrastructure development and ensure safe learning in our schools
- KES 2.8 B for Primary and Secondary schools' infrastructure
- KES 1.8 B for construction and equipping of Technical Training Institutes and Vocational Training Centres
- KES 1.1 B has been set aside to increase access and improve the quality of Technical and Vocational Education and Training programs under the East Africa Skills Transformation and Regional Integration Project.

➤ **Protecting the Vulnerable Groups**

KES 39.5 B for social protection and affirmative actions to support vulnerable groups through the Social Safety Nets Programmes (Inua Jamii).

- KES 17.5 B will cater for cash transfers to elderly persons
- KES 7.9 B for Orphans and Vulnerable Children
- KES 1.2 B for persons living with severe disabilities
- KES 5.1 B for the Kenya Hunger Safety Net Programme
- KES 500 M for National Drought Emergency Fund
- KES 2.6 B for the Kenya Development Response to Displacement Impact Project
- KES 2.8 B for the Kenya Social and Economic Inclusion Project
- KES 933.8 M will go to the Child Welfare Society of Kenya
- KES 400 M for the Presidential Bursary for the orphans
- KES 459 M for the National Development Fund for Persons living with Disabilities

➤ **Equity, Poverty Reduction, Women and Youth Empowerment**

- KES 13.1 B for the National Youth Service
- KES 2.2 B for the Kenya Youth Empowerment and Opportunities Project
- KES 175 M for the Youth Enterprise Development Fund
- KES 170 M for the Women Enterprise Fund
- KES 92 M for the Youth Employment and Enterprise Fund.

➤ **To promote regional equity, reduce poverty and enhance social development**

- KES 44.3 B for the National Government Constituency Development Fund
- KES 2.1 B for the National Government Affirmative Action Fund
- KES 7.1 B for the Equalization Fund to finance programmes in previously marginalized areas.

➤ **Digitalizing our Economy**

KES 15.6 B to fund initiatives in the Information, Communication and Technology sector which includes KES 620 M for Government Shared Services.

- KES 2.7 B for maintenance and rehabilitation of last mile connectivity network
- KES 1.2 B for maintenance and rehabilitation of the National Optic Fibre Backbone Phase II Expansion Cable
- KES 1.4 B for installation and commissioning of Eldoret-Nadapal Fibre Optic Cable

To fast track the development of the Konza Technopolis City

- KES 5.2 B for the Horizontal Infrastructure Phase I
- KES 3.8 B for Konza Data Centre and Smart City Facilities

Other proposed allocations include:

➤ **Stimulating Tourism Recovery, Sports, Culture, Recreation and Arts**

- KES 15.8 B for the Sports, Arts and Social Development Fund
- KES 3.2 B for the Tourism Fund
- KES 1.8 B for Tourism Promotion Fund
- KES 125 M for refurbishment of the regional stadia

➤ **Environmental Protection, Water and Natural Resources**

- KES 45.9 B for water and sewerage infrastructure development
- KES 16 B for water resources management
- KES 9.8 B for water storage and flood control
- KES 8.5 B for irrigation and land reclamation
- KES 2.1 B for water harvesting and storage for irrigation

To support environment and water conservation

- KES 10.2 B for forests and water towers conservation
- KES 3.1 B for environment management and protection
- KES 1.5 B for Meteorological Service
- KES 7 B for wildlife conservation and management

Improving Governance and Sustaining the Fight against Corruption

- KES 3.6 B for the Ethics and Anti-Corruption Commission
- KES 3.4 B for the Office of the Director of Public Prosecutions
- KES 8.4 B for the Criminal Investigations Services
- KES 6.4 B for the Office of the Auditor General

To enhance the oversight and legislative role of Parliament and access to justice

- KES 50.2 B to Parliament
- KES 18.9 B to the Judiciary

➤ **Funding of the 2022 General Elections**

- KES 21.7 B in the FY 2022/23 to the Independent Electoral and Boundaries Commission (IEBC) to facilitate the 2022 General Elections

➤ **Transfers to County Governments**

- County Governments will receive a proposed allocation of KES 370.0 B as equitable share in the financial year 2022/23. This represents 27.3 percent of the most recent audited and approved revenue raised nationally
- County Governments will receive recommended conditional allocations amounting to KES 37.1 B, bringing the total allocation to the County Governments in the FY 2022/23 to KES 407.0 B

TAX MEASURES

In a move to reduce debt vulnerabilities by pursuing a revenue-driven fiscal consolidation, the draft National Tax Policy will soon be shared with the stakeholders and peer review institutions for their input.

This is a welcome move, and we believe that the National Tax Policy will ensure certainty and predictability of the tax laws in Kenya and boost investor confidence.

Customs measures

As per the budget speech, customs measures will be presented for consideration by the East African Community Ministers responsible for finance and economic affairs in their pre-budget consultations planned for May 2022. Similar to the previous budget cycles, the customs measures shall become effective from 1st July, 2022 upon gazettelement.

The proposed customs measures are generally meant to:

- Promote the manufacturing sector in line with the Big Four agenda and enhance our exports by making inputs and raw materials used in the manufacture of goods more affordable, hence lowering the cost of production;
- Enhancing the competitiveness of locally manufactured goods through protection from unfair competition by imported goods; and
- Protection of critical sectors of the economy, like agriculture, from unfair competition occasioned by importation of products that can be produced locally.

Value Added Tax Measures

Transition from vatable to Exempt status

- Plant and machinery for use by manufacturers of pharmaceutical products;
- Medical oxygen supplied to registered hospital, urine bags, adult diapers, artificial breasts, and colostomy or ileostomy bags for medical use;
- Inputs and raw materials used in the manufacture of passenger vehicles; and
- Sale of locally manufactured passenger motor vehicles.

This is a welcome move as it affirms the government commitment to promote the manufacturing sector in line with the big four agenda. It is expected that the manufacturers should pass on this benefit to the end consumer and as a consequence ensure affordability of these products in the Kenyan market.

Income Tax Changes

➤ Tax Exemption for Cash donations

The CS National Treasury has proposed an amendment to the Income Tax Act (“ITA”) which will allow entities that make cash donations to charitable organizations to deduct such donations from their taxable income.

Currently, the ITA only allows cash deductions made to entities registered under the Non-Governmental Organizations Coordination’s Act or Societies Act and whose income is exempt from tax under paragraph 10 of the First Schedule of the ITA.

This is a welcome move as it will encourage more organisations to make cash donations without having to pay tax for the cash donations made.

➤ **Taxation of gains by non-residents**

In a bid to expand the tax base, the CS National Treasury has proposed to tax gains accruing from financial derivatives to non-residents. Under the current regime, these gains are not taxable and this is a welcome move as it will ensure equity in taxation as well as expansion of the tax base.

➤ **Interest restrictions for Microfinance Institutions**

Microfinance institutions have now been listed alongside Banks and other financial institutions as entities exempt from the application of the revised thin capitalization rules which restrict interest expense based on a ratio of earnings before interest, taxes, depreciation and amortization.

➤ **Country by Country Reporting**

The CS National Treasury has proposed to amend the country by country reporting provisions to require multinational enterprises which have operations in Kenya to report their activities within Kenya and in other jurisdictions. This is an alignment provision in line with the global provisions. The previous proposal restricted the disclosure information to only the transactions in Kenya.

Excise Duty Changes

➤ **Excise duty exemptions - Special exclusion of products from annual inflation adjustment**

The CS National Treasury has considered that the annual inflation adjustment applicable to all products subject to specific excise duty rates may not always apply to be appropriate for some products. The Commissioner General of KRA has been empowered to exclude, from inflation adjustment, such products after consideration of the prevailing economic circumstances facing them.

➤ **Exemption of hatching eggs**

The CS National Treasury has proposed to exempt from excise duty the importation of eggs for hatching by a licensed hatchery upon recommendation by the responsible CS.

This will go a long way in ensuring that the existing deficit in the local supply of hatching eggs is reduced and the local hatcheries can operate competitively.

➤ **Exemption of neutral spirit used by pharmaceutical manufacturers**

The importation of neutral spirit by manufacturers of non-excisable pharmaceutical products, is now exempt from excise duty upon approval by the Commissioner General of KRA.

Currently entities engaged in the manufacture of non-excisable pharmaceutical products are entitled to an excise duty refund of the excise duty paid on the raw materials or inputs. The refund process is cumbersome and takes time hence creating cash flow challenges for the pharmaceutical products, hence the move is welcome, and it will help address the cashflow challenge and eliminate redundant procedures of payment of a tax only to apply for a refund immediately.

➤ **Promotion of local motor vehicle assembly lines**

In a move to encourage investment in the assembly of local motor vehicles, upon enactment, locally manufactured passenger motor vehicles will be exempt from excise duty. This is aimed at encouraging investment in this sector and enhancing the competitiveness of locally manufactured passenger motor vehicles.

➤ **Introduction of excise duty on advertisement of alcohol, betting and gaming**

Advertisements of alcoholic beverages, betting, and gaming shall be subject to an excise duty of 15% on the fees charged by all television stations, print media, bill boards, and radio stations. This is aimed at creating additional revenue for the exchequer and at the same time help prevent the wide spread advertising for gambling, gaming and alcohol which may result in a variety of harmful repercussions especially to the youth.

In a move to prevent the negative effects of nicotine consumption, the CS National Treasury has proposed to change the excise duty on liquid nicotine. Liquid nicotine will now be subjected to an excise duty of KES. 70 per milliliter from the current shillings KES. 1,200 per kilogram.

➤ **Other Taxes and Levies**

In order to promote the manufacturing of pharmaceutical products, the inputs and raw materials imported by manufacturers of pharmaceutical products from payment of Import Declaration Fees (currently at 3.5%) and Railway Development Levy (Currently at 2%). This is a welcome move and it will encourage investment and expansion of the health sector in the country and improve the access to affordable health care services.

The CS National Treasury has also proposed to incentivize the pastoralist communities who largely depend on sale of hides and skins by proposing a reduction in the export levy in the raw hides and skins from 80 percent or USD. 0.5 per Kilogram to 50 percent or USD 0.32 per Kilogram

Enhancing Tax Administrative Procedures

➤ **Rebranding of the KRA**

Over the recent past, the Kenya Revenue Authority (“KRA”) has been on a journey of transformation to enhance customer-centric service delivery. The CS National Treasury has proposed an amendment of the KRA Act to change the name of the Authority 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.

➤ **50% Payment of disputed taxes**

The CS National Treasury has proposed to amend the Tax Appeals Tribunal Act, 2013 to require a deposit of 50 percent of the disputed tax revenue in a special account at the Central Bank of Kenya where a taxpayer appeals to the High Court of Kenya after the Tax Appeals Tribunal has ruled in favour of the KRA.

The deposit will be utilized as follows:

- Where the taxpayer receives judgment in his or her favour on final determination of the matter by the High Court, the 50 percent deposit shall be refunded to the taxpayer within 30days after the final determination of the matter by the Courts.

- In the event the ruling is in favour of the KRA the taxpayer shall utilize the deposit against the demand amount and pay the balance of tax.

The move will create cashflow challenges and make the High Court appeal process an expensive affair. Further, this amendment may be challenged in court on account of its constitutionality since *inter alia* it may be seen as impeding one's right of access to justice.

➤ **Expansion of security for assets**

The CS National Treasury has proposed an expansion of the powers of the Commissioner General, KRA to be empowered to require 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 upon receipt of direction from the Commissioner.

This is in addition to the existing provision where the Commissioner can put a caveat or restriction on transfer of land to secure tax unpaid to the KRA.

➤ **Objection decision to be determined within 60 days**

The CS National Treasury has also proposed to amend the Tax Procedures Act, 2015 ("TPA") to reduce the amount of time it takes the Commissioner General, KRA to issue a decision on a taxpayer's objection against a tax assessment. Currently, there is no time limit on the time frame within which the Commissioner General can request for documents from the taxpayer. This has been leading to extended objection review process beyond the 60-day limit which starts every time the commissioner requests for additional information.

In this proposal, the Commissioner will be required to issue an objection decision within one cycle of 60 days of receiving a valid objection.

This is a welcome move and it creates certainty in handling of objections and it will ensure that efficiency is achieved in the dispute resolution process as it prohibits the Commissioner General, KRA from making several requests for documents to prolong the time within which an objection decision should be issued.

Should you require more information on the Implementation of the Electronic Tax Invoice System, kindly do not hesitate to contact: [Patrick Kamau](#), Managing Partner, [Mawji Sennik & Co](#) or [Oscar Matheka](#), Tax Manager, [Mawji Sennik & Co](#).