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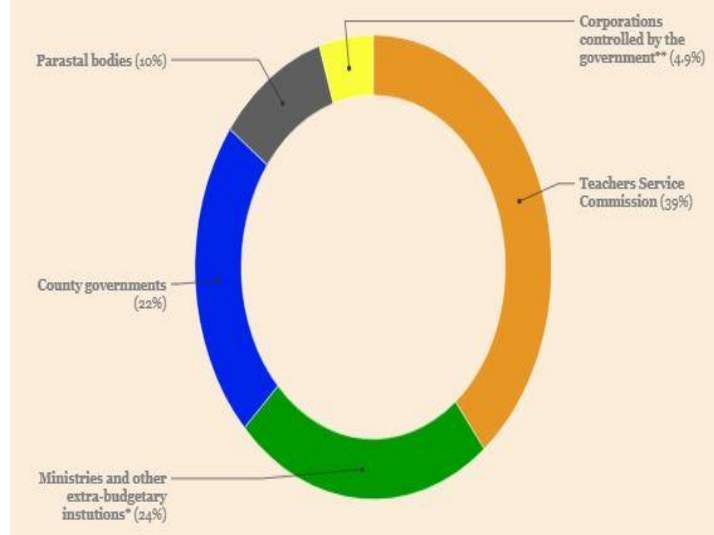
Edition 56

State blows Sh18bn on travel in 9 months despite austerity order

The government blew Sh18.18 billion on local and foreign travel in the first nine months of the current financial year, as ministries and parastatals struggled to comply with austerity measures. This marked an increase of Sh4.11 billion from the Sh14 billion that national government ministries, departments and agencies (MDAs) used in a similar period last year, according to the latest Controller of Budget (CoB) report. The National Assembly, the Ministry of Foreign Affairs, Senate, the Judiciary and State House were the biggest travel spenders, with overseas trips by officials - which often involve lavish allowances — continuing unabated. The CoB quarterly report shows that spending on domestic travel for the nine months reached \$h12.33 billion while officials splurged Sh5.85 billion on foreign travel, accompanied by delegations of aides. State House bursts budget by Sh900m in nine months. This has emerged in spite of directives requiring ministries and agencies to cut unnecessary expenditures, such as trips abroad by officials and hospitality spending, to rein in a gaping fiscal deficit. The Treasury earlier said all non-core expenditures will be reviewed to ensure the government can make savings and fund its programmes without relying too much on debt. The National Assembly blew Sh4.8 billion on travel, with \$h3.5 billion for local trips and Sh1.3 billion on foreign travel, topping the list.

Wage employment in the public Sector 2023(%)

*Includes employees of judiciary and parliament



Some individuals and groups have challenged the tax measures in court. The State Department for Foreign Affairs splashed Sh1.91 billion, which includes \$h193.74 million on local travel and \$h1.712 billion on foreign tours. The Senate spent ShL7 billion- \$h1.07 billion local travel and \$h592.29 million on foreign tours. The Judiciary consumed Sh1.2 billion with \$h166.06 million in domestic travel and Sh1.03 billion in foreign travel while State House incurred \$h898.02 million, including \$h750.36 million on domestic travel and \$h147.66 million on foreign travel. Controller of Budget Margaret Nyakang'o notes that the figure could be higher considering that 35 MDAs, among them The Controller of Budget Act requires that all public entities submit accurate and timely information as requested by the CoB to ensure proper oversight and accountability in public expenditure.

First nine months government top spending on travel

(Sh bn)

	Domestic	Foreign	Total
National Assembly	3.496	1.302	4.798
Foreign Affairs	0.193	1.712	1.905
Senate	1.068	0.592	1.660
Judiciary	1.029	0.166	1.195
State House	0.750	0.147	0.897
Internal Security	0.651	0.004	0.655
Auditor General	0.552	0.062	0.614
Parliamentary Joint Service	0.262	0.332	0.594
National Police Service	0.503	0.002	0.505

National Assembly topped in total travel spending with Sh4.798 billion

The CoB report shows that the other MDAs that splashed big on travel costs are the State Department for Internal Security and National Administration \$h655.08 million broken down as \$h650.83 million local travel and \$h4.25 million foreign travel and the Office of the Auditor-General \$h613.99 million of which Sh551.91 million is local travel and \$h62.08 million foreign travel. The Parliamentary Joint Services (PJS) incurred \$h594.84 million, which includes \$h262.14 million local and \$h332.70 million foreign tours. The National Police Service (NPS) spent Sh505.41 million, with Sh503.51 million on domestic travel and Sh1.90 million on foreign travel. State Department for Immigration and Citizen Services \$h455.33 million, which includes \$h391.54 million local travel and \$h63.79 million foreign travel and Office of the Deputy President \$h368.52 million that includes \$h247.48 domestic and Sh121.04 foreign travel. The Office of the Prime Cabinet Secretary (OPCS) spent Sh91.86 million on trips with Sh61.11 in domestic travel.

Parastatals conduct fresh headcount to rein in 'ghost workers'

The government has ordered a fresh headcount of workers in parastatals in another attempt to weed out "ghost workers" from the national payroll amid

pressure to deal with the wage bill crisis. In a letter to all State corporations dated May 28, State Corporations Advisory Committee secretary Simon Indimuli ordered the institution heads to 'urgently' submit an inventory of their staff by the close of business. The government suspects that former staff were continuing to receive salaries after leaving the civil service and State corporations. In 2014, fictitious names were discovered on the government's payroll after authorities started biometrically registering all civil servants. Please note that the government urgently requires a stocktake of all public servants in Kenya reads the letter seen by the Business Daily, which was also sent to the Chief of Staff and Head of the Public Service, the Cabinet secretary, and Public Service PS. The corporation heads are required to break down their employees' census based on their pay grades and per department, directorate, or division, as well as to submit a complete inventory of their staff. This comes against the backdrop of an inflated public wage bill that is putting a strain on the budget and denying the state cash for projects.

Leading parastatals in budget cuts

(Sh m)

	2023/24	2024/25	Change
Kenya Academy of Sports	278	0	-278
Kenya Investment Authority	316	91	-225
Kenya Export Promotion and Branding	438	217	-220
Women Enterprise Fund	297	81	-216
Youth Enterprise Development Fund	325	125	-200
National Council for Law Reporting	435	240	-195
Export Processing Zones Authority	164	0	-164
Kenya Tourism Board	277	114	-163
Kenya National Qualification Authority	300	145	-155
Kenya Water Institute	183	44	-139

The policies and doublespeak stoking crisis It also emerges at a time when tens of parastatals have been proposed for merging to cut the duplicity of roles and reduce recurrent expenditure. Data by the Treasury reveals that expenditure on wages and salaries by the government in the first quarter of 2023 surpassed the planned spending by Sh16.55 billion, highlighting the stress that the remuneration of civil servants has on public finances. Earlier this month, the President's Council of Economic Advisers and the Treasury identified 35 State corporations to be merged as part of the International Monetary Fund's (IMF)-recommended restructuring measures in line with the existing credit deal with the multilateral lender. The IMF, in their Article IV consultation—which is meant to help safeguard Kenya fiscal sustainability—pushed for fiscal consolidation measures, including taming public expenditure growth while maximising tax revenues.

[CBK seeks Sh60bn from reopened bond auctions](#)

The Central Bank of Kenya (CBK) is seeking to raise \$60 billion from four reopened bonds this month, even as the apex bank continues its quest to drive down interest rates on the securities. The four reopened papers are being sold in pairs with the first auction, including two and three-year bonds with remaining terms to maturity of 1.2 and 2.6 years, respectively. The second pair of reopened bonds covers five and 10-year papers, both offered first to investors last year and have tenors of 4.1 and 8.78 years, respectively. CBK raises Sh7bn from tap sale of 10 year bond The two-year paper, for instance, closed its most recent sale at a weighted average rate of 16.9723 percent, 18.3854 percent for the three-year paper, 16.844 percent for the five-year bond, and 14.151 percent for the long-dated 10-year bond. At the same time, the CBK will be seeking to nudge investors to longer-term securities by selling more of these bonds and scaling down its reliance on short-dated papers that dominated auctions

when interest rates were rising rapidly. The apex bank has seen some success in achieving the pair of targets based on the performance of its recent 10-year bond. Between March and May, for instance, the CBK mobilised \$34.7 billion from a new 10-year paper, which has had subsequent sales, including re-openings and tap sales, that have helped drive down the weighted average rate of accepted bids to 16.2273 percent from 17.7593 percent at the first auction.

Insurers warn of job losses on VAT plans



That the proposal to Introduce Value-added tax (VAT) Of insurance services such as brokerage will increase premiums, trigger job losses, and hurt uptake further in Kenya were it to go through.

'The Association of Kenya Insurers (AKI) has told Parliament to reject the planned introduction of 16 percent VAT that appears in the Finance Bill, saying the tax will be passed to consumers and increase premiums. The introduction of VAT on other insurance services will see an increase in the cost of accessing insurance services due to the increased VAT passed on to the final consumer: through an increase in premiums charged," said AKI in its submission to Parliament. The increase in cost will negatively affect the ability of low-income earners and small and medium enterprises (SMEs) to access essential insurance services such as medical and life insurance. AKI further told Parliament that

imposing VAT on commissions that agents and brokers earn is akin to imposing VAT on a portion of premiums since the rates are made up of the cost of claims and management expenses, including commissions, and a small element of profit. Commission paid to agents and brokers is based on a percentage of the premium as provided for by the Insurance Act Cap 487. Therefore, imposing VAT on other insurance services such as commissions will increase the insurance companies' management expenses which will consequently increase insurance premiums as businesses seek to recover the increasing management costs. AKI said that, for instance, when a customer takes a motor insurance policy and pays Sh200,000 as a premium, the figure includes up to 10 percent commission for agents and brokers, which is the maximum commission payable in the case of a vehicle insurance policy. This means the broker gets Sh20,000. However, introducing VAT on the commission as proposed in the Finance Bill will see the Sh3,200 tax on the Sh20,000 passed to the final consumer, raising the premium to Sh203,200, according to AKI. Kenya's insurance penetration rate is generally low compared to the global average penetration rate. Introduction of VAT on insurance services such as commission is likely to reduce the insurance penetration rate further due to increased premiums,

State plans second Sh130bn Eurobond buyback in 2024

Kenya is seeking to spend another Sh130.7 billion (\$1 billion) this year to pay off its multi-billion-shilling Eurobond maturing in 2027 as it staggers upcoming payments in efforts to ease currency and default risks. The country has disclosed the buyback plan to the World Bank but did not reveal whether it would use taxes or tap fresh loans to pay off the Eurobonds whose next tranche of Sh7.6 billion (\$900 million) matures in 2027. Kenya was on the radar of global investors because of elevated fears that it could fail to repay the debut Eurobond due

this month in the wake of strained public finances. But in February, the country sold a new \$1.5 billion (Sh196 billion) Eurobond, which came at a steep cost, to fund the buyback of a large portion of the \$2 billion (Sh261.4 billion) bond.

The second buyback is expected to ease Kenya's debt burden while alleviating a repeat of last year's concerns that it can repay the looming debts, given its rising public loan repayments. To this end, the government of Kenya is considering another Eurobond buyback in 2024, bringing the total 2024 buyback to approximately Sh326.7 billion (\$2.5 billion), smoothing the amortization profile as was done for the recent issuance which was smoothed over three years," the World Bank stated in a report accompanying its \$156.8 billion (\$1.2 billion) loan to Kenya. Sustainability instruments like debt swaps and sustainability-linked bonds (SLBs) The confidence following the February payment of its first Eurobond lifted the Kenya shilling against the dollar to the current Sh130.50 from a peak of Sh160.75 on January 29. By undertaking the buyback, the government cut through investor jitters that had seen some anticipating a potential default by Kenya in a situation that led to the sharp deterioration of the exchange rate in the run-up to the February action. The government addressed the immediate liquidity crunch by buying back \$1.5 billion of the June 2024 Eurobond through the issuance of a new Eurobond on February 12, 2024, calming markets; yields for outstanding Eurobonds eased and the exchange rate appreciated again. Kenya's stock of outstanding Eurobonds is estimated at \$927.9 billion (\$7.1 billion) inclusive of the most recent issue with maturities expected between June this year and February of 2048. The total outstanding Eurobonds amount to nearly 10 percent of Kenya's public debt stock which stood at Sh10.3 trillion as of the end of March. Why Treasury is jittery on Eurobond payment Eurobonds attract higher interest costs in contrast to loans from bilateral and multilateral partners such as the World Bank given their commercial nature. Savings

generated from the buybacks would, therefore, be crucial for a government that spent an estimated one-third of its ordinary revenue in the year to June 2023 on interest costs or Sh33 for every Sh100 in taxes collected.

Foreigners extend run as net buyers of shares on NSE

Credit Bank secures anchor investor listing plan backing Credit Bank's anchor shareholder, the Sansora Group of companies, has backed the lender's plan to list shares on the Nairobi Securities Exchange (NSE) by way of introduction in a move to grant it visibility and allow price discovery of the investment on the stock market. This signifies a retreat from an earlier plan announced in August last year that the lender intended to raise Sh1 billion from the stock market through an initial public offering (IPO). Listing prospects Sansora's backing is a major boost to the bank's listing prospects ahead of the annual general meeting (AGM) scheduled for June 24 with the listing proposal topping the agenda.

Budget of State – owned firms Set for merger cut by 40 pc

The budgets of parastatals earmarked for mergers and dissolutions in July have been slashed by more than 40 percent on average, surpassing President William Ruto's goal of 30 percent. The Treasury projects to save more than Sh2.3 billion from proposed mergers of about 35 State corporations in the first phase of restructuring through cuts on the budget for administration and maintenance of offices as well as the remuneration of staff. The President said parastatals had agreed to cut recurrent budgets by nearly a third. State House renovations allocated Sh900m. The brutal budget cuts followed a series of top-level meetings, which started on March 26 when Dr Ruto summoned board chairs and parastatal chief executives to the State House. Analysis of recurrent budget

allocations for the next financial year, however, indicates the proposed outlays for some parastatals, excluding appropriations-in-aid [revenue they generate while delivering public service], have been cut by as much as three-quarters. The expenditure cuts are in line with the Treasury's guidelines through a March 27 circular, which made it clear that entities identified for mergers and winding up will receive minimal budgetary allocation for the year starting in July. The financial risks associated with struggling parastatals amounted to Sh1.24 trillion by the end of the last financial year, in June 2023.

The firm is set to be merged with the Regional Centre on Groundwater Resources, Education, Training and Research whose recurrent budget has been reduced by 9.42 percent to Sh62.5 million. It is followed by the Kenya Investment Authority's (KenInvest) budget, which has been slashed 71.23 percent to Sh90.88 million from Sh315.91 million. KenInvest is proposed for consolidation with Kenya Export Promotion and Branding Agency (Keproba), Kenya Tourism Board (KTB), Tourism Research Institute (TRI) and Kenya Yearbook Editorial Board. Keproba's budget is down 50.31 percent to Sh217.43 million, KTB's by 58.77 percent to Sh114.06 million, TRI's by 67.57 percent to Sh18.46 million, while Year Book's spend has been reduced 37.94 percent to Sh70.75 million.

The recurrent expenditure for the Women Enterprise Fund (WEF) has been cut the most among affirmative funds ahead of the proposed merger with the Youth Enterprise Development Fund (YEDF) and Uwezo Fund. WEF management faces a 72.71 percent cut in the recurrent budget to Sh81.1 million, YEDF's has been shaved 61.54 percent to Sh125.02 million, while Uwezo's is down 8.46 percent to Sh140.70 million. Kenya National Qualification Authority will suffer a 51.59 percent cut to Sh145.22 million if the estimates are approved by lawmakers. The entity is earmarked for a merger with Commission for Universities

Education whose expenditure has been increased 10.38 percent to Sh259.44 million.

Kenya Re investors to get Sh6.7 billion bonus shares

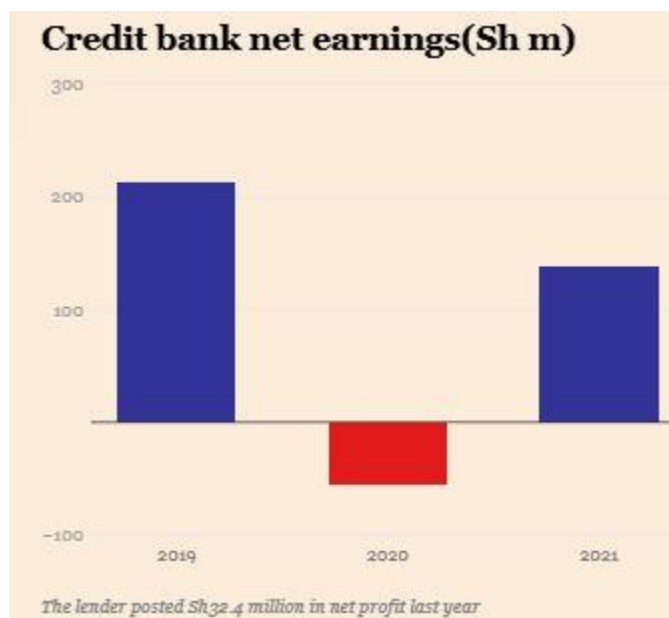
Kenya Reinsurance Company (Kenya Re) shareholders are set for a Sh6.69 billion windfall in a bonus share issue that will see them gain one share for each held, in addition to a record \$h839.9 million dividend earnings. A bonus issue is where a company offers free additional shares to existing shareholders. This is funded by the firm's earnings or share reserves. Companies issue bonus shares to make their stock more attractive for retail investors, provide an alternative to a cash dividend and reflect a position of financial health. Kenya Re plans to inject into the business \$h6.99 billion from its cash reserves by issuing to existing owners an additional \$h2.79 billion bonus shares, currently valued at 6.68 billion going opening price of Sh2.39 at the Nairobi Securities Exchange (NSE). Centum eyes debt-free status by March 2024. The shares so distributed shall rank pari-passu (equally) for all purposes with the existing shares in the capital of the company, and further that, the new ordinary shares shall not qualify for the proposed dividend for the year ended December 31, 2023, and the directors be and are hereby authorised to give effect to this resolution..The bonus shares, to be awarded to shareholders in Kenya Re books as of June 25, will be in addition to \$ho.30 per share dividends totalling \$h839.9 million for the financial year ended December 2023—a raise from Sh0.20 amounting to \$hS60 million that was paid on the previous year's performance. This is the second year of increased distribution, given that the 2021 payout was Sh0.10 per share. The Sh839.9 million dividends will be paid on or about August 9, to shareholders registered in Kenya Re's books as of June 25, coming on the back of net profit for the year ended December 30, 2022 of KSh16.4 billion. The planned record dividend and bonus share, first made public on has set the share

rallying as investors angle for the benefit. Shareholders are expected to endorse the dividend and bonus shares decision during the annual general meeting (AGM) slated for June 25. Kenya Re share had closed Wednesday last week at Sh2.08 but started rallying on the news of the dividend and bonus issue to hit Sh2.44, being a 17:3 percent gain, as at the end of trading at the NSE. Kenya Re said in an AGM notice it plans to increase its share capital to Sh16.4 billion made up of 64 billion ordinary shares of Sh2.50 each from the current Sh8 billion that is, composed of 3 billion ordinary shares of Sh2.50 apiece. Centum RE posts Sh174m profit on valuation gain. The reinsurer said it plans to capitalize Sh.699 billion, being part of the amount standing to the credit of the company's revenue reserves and apply the same in making full payment of the new 2.79 billion ordinary shares of Sh2.50 each.

Credit Bank Secures Anchor investors listing plan backing

Credit Bank's anchor shareholder, the Sansora Group of companies, has backed the lender's plan to list shares on the Nairobi Securities Exchange (NSE) by way of introduction in a move to grant it visibility and allow price discovery of the investment on the stock market. This signifies a retreat from an earlier plan announced in August last year that the lender intended to raise Sh1 billion from the stock market through an initial public offering (IPO). Listing by introduction occurs when a company takes its existing shares and lists them on an exchange without the aim of raising capital immediately, but to be able to do so at a later date when the company is in need of capital.

Credit Bank eyes Sh1bn from its listing plan. Our company is broadly supportive of the plans to list at the NSE, even as we await shareholder and regulatory guidance.



The lender is also in talks with a foreign private equity (PE) firm to sell an additional 25 percent stake. As at December 31, 2022, the bank's authorised share capital was 75,000,000 ordinary shares of Sh100 each of which 29,159,714 shares were issued and fully paid. Nyachae bank in \$h2bn cash call for expansionThe Sansora group of companies have served as the anchor shareholder of Credit Bank since 1986 and we look forward to playing this role for many years to come.Credit banks began operations in 1986 as a non-bank financial institution before securing a commercial banking licence in 1995. Between 1995 and 2010, the lender served a niche market, mainly large businesses, before the strategy review in 2010 which positioned it as a retail-facing bank.

[KRA shakes US firm with Sh10bn claim](#)

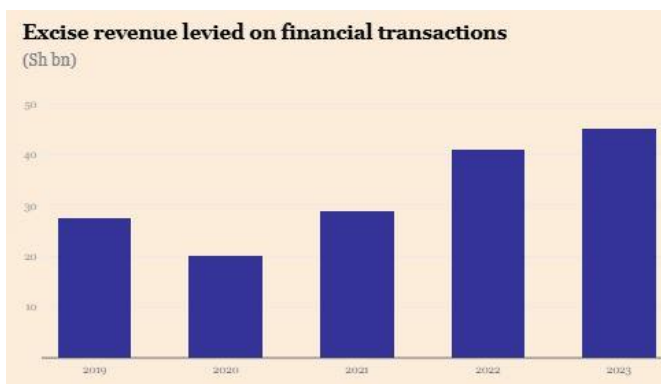
The Kenya Revenue Authority (KRA) has demanded \$79 million (Sh10.3 billion) in tax claims from US geothermal power company, Ormat Technologies for the five years between 2017 and 2022. The company has disclosed that its subsidiary in Kenya, OrPower 4, received the tax claim in April and excludes any potential interest and penalties, exposing it to a huge tax liability if proven. On April 23, 2024, the company's branch in Kenya received a

Letter of Preliminary Investigation Findings from the Kenya Revenue Authority (KRA) relating to tax years 2017-2022 the firm in its latest regulatory filings. The company, however, states that the tax demand has no merit. Based on a preliminary review of the letter, the company and its advisors believe that these preliminary findings have no merit and that the company has strong arguments against these preliminary findings raised in the KRA letter. (OrPower 4 is the third-largest power producer in Kenya only behind State-owned KenGen and Lake Turkana Wind Power (TWP) and generates geothermal electricity. (OrPower 4 owns four geothermal power plants at Olkaria in Naivasha with a total capacity of 150 megawatts (MW), making it the country's second-largest geothermal power producer. This comes at a time when KRA has accelerated its tax demands on both local and foreign businesses as part of fresh tax revenue mobilisation measures. Kenya Power pays Sh1 billion to US energy firm Ormat Kenya's revenue as a percentage of GDP has been declining over the years from 18.1 Percent in the fiscal year 2013/14 to 14.3 percent in 2022/23 despite rising expenditure pressure, resulting in increased borrowing to bridge the revenue gap. President Ruto has put pressure on KRA to raise Sh2.495 trillion in tax revenue in the current financial year that ends on June 30.

[Why Kenyan bankers are up in arms over 2024 tax plan](#)

Kenyans will be driven out of the formal financial services system if Parliament approves a proposal to impose value-added tax (VAT) on transactions, a banker's lobby has warned. The Kenya Bankers Association (KBA) told the National Assembly's Finance and National Planning committee that the proposed increase of excise duty on financial services, from 15 percent to 20 percent, would push Kenyans to informal banking.The Treasury is proposing through the Finance Bill 2024 to introduce VAT at the standard rate of 16 percent on

some financial services. The Bill also seeks an increase of excise duty from 15 percent to 20 percent on money transfer services charged by banks, money transfer agencies, and financial service providers. position of 16 percent VAT will impact heavily on the issuance of credit and debit cards, telegraphic money transfer services, foreign exchange transactions, including the supply of foreign drafts and international money orders, cheque handling, processing, clearing, and settlement, including special clearance or cancellation of cheques, issuance of securities for money, including bills of exchange, promissory notes, money, and postal orders, the assignment of a debt for consideration and the provision of the above financial services on behalf of another on a commission basis. The imposition of VAT on financial services could act as a barrier to financial inclusion, by making basic financial services more expensive and less accessible to most of Kenya's population. The KBA said introducing VAT and excise duty increase would undermine efforts to bring more people into the formal financial system, which is essential to economic growth and poverty reduction.



Treasury to take over more than 40 Parastatals in changes.

More than 40 state-owned commercial entities including Kenya Power and KenGen will be transferred to the Treasury if an International Monetary Fund (IMF)-backed bill, is adopted, giving the Finance minister outsized powers in tapping

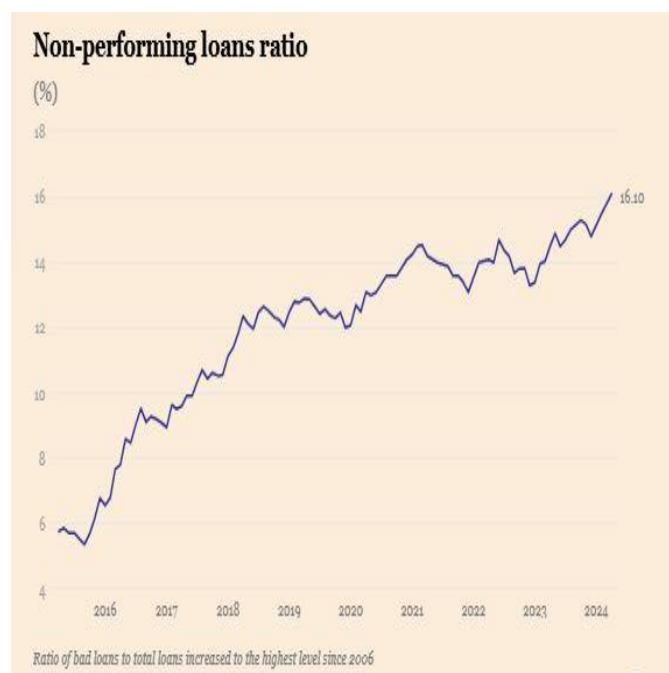
independent directors and reviewing the performance of the firms. Treasury Cabinet Secretary (CS) Njuguna Ndung'u has published the Government Owned Enterprises Bill 2024, which seeks to cut the reliance of State enterprises on taxpayers through improved governance structures. Currently, CSs hire directors in the State-owned enterprises that fall under their ministries. Another shift is that directors will elect the chair from among themselves, a departure from the trend where the President appoints chairpersons of the firms. The Cabinet Secretary for the National Treasury shall exercise ownership functions over the Government Owned Enterprises by... approving the establishment of Government Owned Enterprises; holding shares of Government Owned Enterprises in trust on behalf of the national government," the Bill reads.

The CS represents the government in most of the SOEs and State-linked firms receiving dividends on behalf of the State, the line ministry plays a bigger role in their management. With the proposed law, the Treasury will be the "one-stop reference" for all the GOESs in far-reaching changes Kenya promised the Washington-based IMF. Kenya has 248 State corporations, out of which 46 are commercial enterprises while 201 are non-commercial.

Loan defaults hit 18 years high on soaring interest rates

Kenyans had defaulted on more than \$630 billion loans in April 2024, the highest level in 18 years, as borrowers reacted to a high-interest rate regime that has stifled the ability of millions to make timely repayments. Data released by the Central Bank of Kenya (CBK) showed that the gross non-performing loans as a ratio of total advanced loans soared to 16.1 percent by April, up from 15.5 percent in February. This is the highest non-performing loans

ratio since May 2006 and is set to force banks to make huge provisions for bad debts and usher in another season of painful auctions. The increasing bad loans are spread out in sectors, including households, real estate and trade as the sharper borrowing costs prove disruptive across the entire spectrum of the economy. Increases in NPLs were noted in agriculture, real estate, tourism, restaurants and hotels, trade and building and construction sectors," the CBK said after the Monetary Policy Committee (MPC) meeting that retained its benchmark rate at 13 percent, signalling brakes on further increases on the cost of loans. Commercial banks have continued passing on higher credit costs to customers since the start of 2024 after signalling by the CBK that raised the benchmark interest rate in December and February respectively. For instance, KCB raised its base lending rate to 15.6 percent in May from 14.7 percent in January while Equity Bank raised borrowing costs in February, setting interest rates up by up to 26.74 percent for its riskiest customers.



Credit lending interest rates have risen in tandem with the tightened monetary policy conditions as

reflected in the elevated Central Bank Rate. Subsequent to the rise in NPLs, banks continue to make adequate provisions for expected credit losses and tightened credit standards to avert a build-up in non-performing loans going forward, the KBA said in a note. Growth in private sector credit has slowed down significantly amid the higher defaults with the fresh CBK data placing the expansion at 6.6 percent in April, compared to 7.9 percent in March, marking consecutive months of single-digit credit growth to the sector in 2024.

The rise in non-performing loans is expected given the current business environment and with basically every bank adjusting their interest rates to 20 percent and above. Sometimes the government might paint a rosy picture but the NPL ratio gives the true pulse of the economy.

Cane farmers oppose introduction of VAT transportation

Sugarcane farmers have opposed the proposed 16 percent value-added tax (VAT) on transportation of sugarcane, on grounds that it will slow down the recovery of the sector whose fortunes have dwindled over the years. Through the Kenya National Federation of Sugarcane Farmers (KNSF), farmers have pointed out that the proposals contained in the Finance Bill 2024 could see cane farmers incurring an additional cost of Sh2 billion annually. Considering that the 16 cane millers produce a total of 1.2 million metric tonnes of the sweetener annually, cane growers noted that imposing a 16 percent VAT will translate to Sh164 million on a monthly basis. New levy to increase food imports cost starting July the sugarcane farmers feel this is discriminatory since have been singled out and the same does not apply to other crops. The Bill that is currently undergoing public participation proposes to introduce the new levy on the transportation of sugarcane to the factories for milling. Kindly note that the current cost of production is substantially high and the industry is

bleeding due to a myriad of challenges. With the introduction of VAT, production of the critical raw material will be crippled. He cautioned that allowing importation of duty-free sugar and adding more taxes on transport on agricultural crop is working against local farmers.

How VAT on Spare Parts will hit Kenyans Aviation Industry.

Players in the aviation sector want Parliament to reject the proposal to introduce a 16 percent value-added tax (VAT) on airplane spare parts on grounds that expensive parts would hurt air safety. The International Air Transport Association (IATA) warned that imposing VAT on airplane spare parts will increase the cost of domestic and international travel. The country manager for IATA told the National Assembly's Committee on Finance and National Planning that the introduction of the tax through the Finance Bill, 2024 will have a ripple effect on the operations of airlines. The first schedule of the VAT Act, 2023 provides that all aircraft and aircraft parts are VAT exempt. The Finance Bill, 2024 seeks to limit the VAT-exempt status only to aircraft parts, thus subjecting the purchase of aircraft subject to 16 percent VAT. The Finance Bill 2024 proposes to delete the VAT exemption provided for: airplanes and other aircraft of unladen weight exceeding 15,000 kilogrammes; spacecraft (including satellites) and suborbital and spacecraft launch vehicles; and hiring, leasing, and chartering of aircraft excluding certain categories of helicopters.

New taxes to make banking services unaffordable to most Kenyan

Value-added tax (VAT) and higher excise on financial services, arguing there is a risk of rolling back gains in financial inclusion and eradicating

money laundering. The Kenya Bankers Association (KBA), in its submissions to the National Assembly's Finance and National Planning Committee on the Finance Bill 2024, says the country also risks losing competitiveness as a result of taxing cross-border money transfers. In the Bill, which is on public review, the Treasury has proposed to introduce VAT on financial services such as telegraphic money transfers, issuance of credit and debit cards, foreign exchange transactions, cheque processing and issuance of securities for money, including bills of exchange and promissory notes. It is also proposing to increase the excise duty on money transfer fees by banks, money transfer agencies and other financial service providers to 20 percent from 15 percent. Banks say the proposed changes will put formal money transfers beyond the reach of the low-income earner and the small and medium enterprises, thus pushing them to unregulated channels that carry the risk of fraud. As such, this might result in individuals turning to informal or unregulated channels to send and receive money. These channels often lack transparency and security, increasing the risk of fraud, money laundering, and loss of revenue for the Kenya Revenue Authority (KRA)," said the KBA in its submissions to the committee. Additionally, the introduction of VAT on these financial services goes against the international best practices around the globe where financial services are exempt from VAT. It also goes against the basic principle of VAT as VAT is applicable on supply of goods and services, which does not include supply of money.

The Finance Bill has also proposed a VAT on insurance and reinsurance services, a clause that the banks want removed, saying this will further constrict insurance penetration and make local underwriters lose competitiveness. Kenya's insurance penetration remains low at less than two percent. The sector's growth dropped by 7 percent last year, a development that the KBA attributes to the complexities tied to the introduction of VAT on compensation for loss of the taxable supplies and

the requirement for insurers to onboard an electronic tax invoice management system. The KBA has faulted the proposed motor vehicle circulation tax that will be levied at 2.5 percent of the value of the asset, terming it discriminatory due to a cap of Sh100,000 that favours those with vehicles valued at more than Shé million. The KBA added that the tax will discourage the uptake of motor vehicle loans on account of higher operating costs that will make it difficult to service such loans. On the proposal to introduce a withholding tax on green and infrastructure bonds, the bankers said the economy risks losing out on investments and potential inflows into these products. Why Kenyan bankers are up in arms over 2024 tax plan. These bonds are now exempted from tax, making them attractive, but the Bill proposing a five percent withholding tax on the interest earned on the bonds for local investors, and 15 percent for non-resident investors. The Bill proposes that a taxpayer challenging a tax demand will have seven days to produce the information the taxman is asking for or the objection shall be disallowed.

How proposed taxes will affect the telco industry

Telkom Kenya has urged Parliament to block the increase of excise duty on internet data charges, mobile financial services, and imported SIM cards arguing it will negatively impact the digitisation of the economy. The telco told the National Assembly's Finance and National Planning committee that the proposals in the Finance Bill, 2024 will have knockoff effects on the telecommunication sector and the economy. The Treasury is proposing to amend the Excise Duty Act to increase excise duty on voice and internet data charges from 15 percent to 20 percent. The Bill also seeks to increase excise duty on fees charged for mobile financial services from 15 to 20 percent. It further seeks to amend the Miscellaneous Fees and Levies Act to introduce an eco-levy at the rate of Sh150 per kilogramme on all articles of plastic

packaging materials. The increase from 15 percent to 20 percent just one year after the reduction goes against the government agenda of inclusion and digitisation through the provision of affordable mobile connectivity and data services. KRA to monitor telcos' daily sales in tax evasion fight. This tax negatively affects cash flows and revenues of mobile operators, therefore, discouraging rollout and denying consumers price discounts and high quality that come with greater investment into the sector. Mr Allan Wainaina, the chief finance officer who represented Mr Kibati told MPs that the increment of the prevailing excise tax comes with greater investment into the sector.

Cars, fridges, TVs top list of collateral for Sh5.1trn loans



More Kenyans are mortgaging household items including television, fridges, tables and sofa sets to secure loans as borrowers turn to expensive short-term credit to meet daily needs after real wages dropped for the fourth consecutive year. The Business Registration Service (BRS) under the Attorney-General's office reveals that 100,985 pieces of household items were used for loans in the year to June 2023, which is more than any other type of movable property. The BRS, formerly known as the Registrar of Companies, is the custodian of the Movable Property Security Rights (MPSR) registry, through which creditors such as banks list

their rights over goods used by borrowers as loan securities. Household items are increasingly being used as security to secure low-value loans because they are readily available, and for creditors, these items can easily be auctioned to recover defaulted loans. Motor vehicles were the second most used movable assets that borrowers used to secure loans, with creditors registering 60,200 vehicles during the period. Furniture and equipment were also heavily used for borrowing, with 51,483 and 36,236 pieces respectively used to secure loans during the period as livestock (34,638) closed the top five most collateralised movable assets. The increased use of these goods comes when separate surveys indicate that more households are tapping loans to meet their daily needs such as food, health and rent costs. This is happening when pay increases have for the fourth year in a row lagged inflation, narrowing households' disposable income. During the period between July 2022 and June 2023, the most preferred type of movable collateral used to secure credit included household items, motor vehicles and furniture. Other top movable assets that were charged against loans include stock trade (8,002), acquired property (3,131), securities (2,573), inventory (1,890), crops (1,495) and bank accounts (1,333). According to the BRS, movable assets—in addition to immovable property such as land and buildings—were used to secure Sh5.1 trillion worth of loans during the period. The cumulative amount of credit facilitated by MPSR from July 2022 to June 2023 amounted to approximately Sh. trillion. Collateral-backed loans increase 30%. This comes when individuals and firms are navigating a turbulent economic environment underpinned by high taxation and inflation which has the business environment worse. Although the economy grew at 5.6 percent in 2023 from 4.9 percent in 2022.

[Taxpayers pay Sh17bn Kenya Airways loans in 9 months](#)

The \$641.49 million (Sh83.4 billion) KQ loan was a 12-year facility originally provided by US lenders Citi Bank and JP Morgan in 2017 before US export financier Private Export Funding Corporation (Pefco) took it over with the US Exim Bank and the Kenyan government joining as guarantors. The carrier took up the loan to finance the purchase of seven aircraft and an engine but did not fully service the debt due to cash flow challenges linked to the Covid-19 pandemic disruptions. The Treasury's guarantee covered \$525 million (Sh68.3 million), which is now being serviced fully until maturity by the taxpayer after the government converted the guarantee to external commercial public debt. Supplementary Budget II estimates indicate that in 2023-24, the payment of Kenya Airways PLC guaranteed debt was converted to mainstream external public debt stock, and a subsequent entry of a new external commercial loan owed to Exim Bank LUSA/PEFCO was captured," said the National Assembly's Privatisation and Public Debt 'Committee in a report on Supplementary Budget II and 2024-25 Budget Estimates. Treasury settles Sh2.7 bn extra Kenya Airways debt interest and principal payments for this new loan amounted to Sh14.3 billion and Sh20.9 billion in 2023-24 and 2024-25, respectively, with further Sh21.3 billion and Sh10.7 billion in 2025-26 and 2026-27, respectively. The Treasury disclosed earlier that there was also an interest payment of Sh3.1 billion on the loan. Even before the conversion of the guarantee into public debt, the government had, since last year, been servicing the debt on behalf of the airline after it defaulted on its obligations to the US Exim Bank.

Car imports signals rebound after plunge

A fall in motor vehicle imports witnessed over the past two years has eased out, signalling recovery on the back of stabilising exchange rate and improved availability of dollars, analysis of official data shows. Traders and households spent \$267 million to ship in motor vehicles in the first four months of the year, largely unchanged from \$268 million in a similar period a year ago. The 0.37 percent drop is an improvement from the 14.65 percent fall last year from \$314 million, according to provisional data from the Central Bank of Kenya and the Kenya Revenue Authority. Dealers last year complained of the wracking impact of a weakening shilling on businesses amid difficulties in accessing adequate dollars for small traders. They also cited the high cost of bank loans in an environment of high inflation that had eroded the purchasing power of households. The double-digit drop in expenditure on vehicle imports in the past two years running, however, appears to be improving going by the data. However, the dealers are cautiously optimistic about an upturn this year, citing a stabilising foreign exchange market. The exchange rate is beginning to turn. It has been difficult to import vehicles and vehicle parts because we needed to buy dollars to get these materials from abroad. Aside from the bad [exchange] rate, it was also hard to get dollars. Managing director at Isuzu East Africa, said in an interview with the Business Daily in March. The shilling had gained about 15.6 percent between the beginning of the year and April, trading at about 133 units to the dollar compared to 158 at the start of the year, according to CBK statistics. The increased expenditure on vehicle imports will likely be cheered by the Treasury.

Banks take on digital lenders with mobile loans in market share rate

A majority of Kenyan Banks have now turned to smartphone application and mobile banking systems for lending to their customers as the rise of digital lenders eats into the market that was traditionally preserved for them. The latest banking sector innovation survey by the Central Bank of Kenya (CBK) reveals that 74 percent of commercial banks in the country have now digitized their lending services, up from only 44 percent in 2022. Credit, deposit, and capital-raising services have overtaken payments, clearing, and settlement as the most digitized function in banks, an indication of the increased importance Kenyan lenders have attached to it as digital lenders eat into their market.

Budget team urges Treasury to cancel Sh90.7bn KBC debt

The National Assembly budget and appropriation committee has directed the National Treasury to cancel a Sh90.7 billion debt allegedly owed to it by the Kenya Broadcasting Corporation (KBC) following questions about the validity of the loan. The debt relates to the exchequer's takeover of a loan contracted from the Overseas Economic Cooperation Fund (OECF) of Japan in 1989 which funded the State corporation's modernisation programme. By September 30, 2024, the Cabinet Secretary for the National Treasury, in collaboration with the State Department for Broadcasting and Telecommunication should ensure that the necessary book reconciliations regarding the Japanese loan are concluded and consequently expunged from the liabilities of Kenya Broadcasting Corporation," the committee said in a report on its consideration of the 2024/25 budget.

More than half of Kenyan banks face Sh 10 bn core Capital Test

More than half of commercial banks will be expected to seek new funding or merge with their rivals amid plans to raise the minimum capital requirement 10-fold to Sh10 billion. National Treasury Cabinet Secretary Njuguna Ndung'u said the changes would be effected through a progressive increase from the current threshold of Sh1 billion. This is intended to strengthen the resilience and increase banks' capacity to finance large-scale projects while creating sufficient capital buffers to absorb and withstand shocks posed by the continuous emerging risks associated with the adoption of technology and innovations as institutions expand," he said when he presented his 2024/25 Budget statement to the National Assembly. Core capital refers to the minimum amount of funds to be maintained by each bank which allows them to protect customers against unexpected losses. According to data from the Central Bank of Kenya (CBK) for the year ended December 2022, only 15 out of the then 39 licensed commercial banks had core capital surpassing Sh10 billion. This means that more than half of banks in the industry did not meet the threshold in a list that covers tier II and tier III banks.

Pending bills nightmare as State allocates zero budget

Businesses holding out for payments from the government for working capital are set to see pending bills running into hundreds of billions of shillings in the latest Supplementary Budget despite earlier promises to do so. Private sector players had pegged their hopes on the Supplementary Budget II for the partial settlement of their dues following comments by Treasury principal secretary

Chris Kiptoo earlier this year that the government would begin to pay claims once they were verified by a special committee. President William Ruto

created in June 2023, The Pending Bills Verification Committee tabled its first report last month, showing that it has so far certified pending bills worth Sh110 billion. [By September last year, the national and county governments owed suppliers and contractors Sh631.56 billion. State corporations were the biggest debtors at Sh509.37 billion, with the balance owed by county governments and ministries, departments and agencies (MDAs).

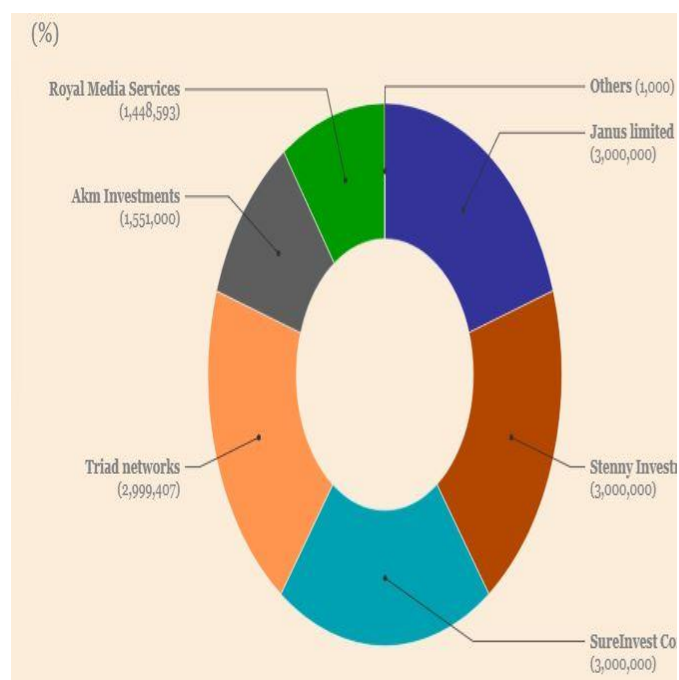
The failure to make provisions for these dues in the second mini-budget of the fiscal year now risks hurting businesses struggling to service obligations to their creditors on

cash flow constraints. These obligations include servicing bank loans, where the stock of bad loans had climbed to an 18-year high of 16.1 percent of the banking sector's loan book by the end of April from 15.5 percent in February, translating to more than Sh630 billion in defaults. Last week, the Central Bank of Kenya (CBK) said that the increases in non-performing loans (NPLs) were noted in the agriculture, real estate, tourism, restaurant and hotels, trade and building and construction sectors. Cash-strained businesses have also resorted to laying off staff or freezing hiring, negatively affecting economic growth and the ability of the government to collect enough taxes to meet the set budgetary expenditure.

Sh400m secret transfer in Directline war with IRA

On a chilly afternoon on May 15, media mogul Samuel Kamau Macharia wrote to Diamond Trust Bank (DTB) to wire Sh400 million from Directline Assurance Company Ltd to a housing firm he owns, unaware that it would awaken a five-year-old fight with the insurance regulator. The millions were

wired to an account belonging to Toy and Suna Holdings, a company fully owned by Mr Macharia, to finance the development of stalls and low-cost housing at Toy Market, in Nairobi. 'A whistleblower alert led the Insurance Regulatory Authority (IRA) to successfully freeze the \$400 million, triggering a chain reaction that saw an angry Mr Macharia shut down Directline and fire all employees before the regulator revoked the action. The back-and-forth battle between the regulator and the media tycoon has stirred the five-year ownership battle Directline Assurance, with both parties keeping conflicting shareholder records.



Why Kenya trimmed appetite for IMF debt

Kenya has cut back on its planned borrowing from the international Monetary Fund (IMF) by 7.2 percent to \$465.4 billion (\$3.6 billion) after partial repayment of the debut Eurobond that unnerved global investors. This comes weeks after the country's budget support from the World Bank was reduced in size by 20 percent to Sh155.2 billion (\$1.2 billion). The IMF has attributed this reduction in the size of the credit facility earmarked for Kenya to the February partial refinancing of the \$258.7 billion (\$2 billion) Eurobond due for maturity on June 24.

Kenya returned to the international markets in February, raising Sh193.9 billion (\$1.5 billion) through a fresh Eurobond issuance whose maturity falls due in 2031. Proceeds from this Eurobond were used to partially buy back the Eurobond maturing in June. A buyback is a form of the process by which the repurchase of issued securities from holders or investors before the set maturity debt is done by the issuer. The downward revision of the size of the IMF programme comes seven months after funds under the same programme had been increased in size by Sh121.3 billion (\$938 million) to provide Kenya with access to cheap financing to retire the maturing.

Stock of multilateral debt

(\$ m)

	Mar-24	Mar-23
ADB	3800.87	3591.12
BADEA	53.38	47.7
EEC/EIB	192.68	182.11
IBRD	1089.11	581.75
IDA/IFAD	11696.69	10828.01
IMF	3257.39	1673.4
Others	48.52	53.86
Total	20138.64	16957.95

Debt from IMF almost doubled as of March 2024 compared to a similar period last year.

CBK tighten interbank rates to lower credit costs

lending rate as part of new reforms aimed at lowering the cost of credit in the economy. The reforms involve controlling an interest corridor by setting the upper and lower limits of interbank rates and the CBK emergency loan rates in alignment with the prevailing Central Bank Rate (CBR). Under the reforms, the interbank lending rates are expected to stick around 1 percent of the prevailing CBR, from 2.5 percent previously while the discount window rate—the rate at which banks can tap funds from the CBK as a last resort after exhausting all other avenues, including borrowing from each other—has been lowered to three percent above the CBR from four percent previously. In August last year,

the CBK approved a new policy framework establishing the two limits with the view of reducing inefficiencies in the interbank market including segmentation of banks by size. The apex bank now sees further chances of improving the interbank operations and the transmission of its interest rate decisions. "To enhance the effectiveness of the 'monetary policy implementation framework, the MPC considered and approved a recommendation to review the width of the interest rate corridor around the CBR from the current 250 basis points to 150 basis points," CBK noted. The additional reforms stemmed from the need to counter segmentation where smaller banks have faced steeper interest rates in the overnight lending market than their larger peers. For instance, before the adoption of the modernized monetary policy framework, smaller commercial banks often borrowed at costs higher than the discount window rate which describes the rate paid for borrowing from the CBK as the lender of last resort. Under the new framework, interbank lending rates are expected to stick below the discount window rate. This implies that commercial banks unable to access funding from the interbank 'market should turn to CBK's discount window for facilitation. The discount window provides secured loans to commercial banks on an overnight basis at a penal rate above the benchmark lending rate. Interbank loan rates rise to 7.9pc over tight liquidity. The punitive rate restricts banks from seeking funds in the market only resorting to CBK funds as a last solution. While the reforms signal lower interbank rates, CBK says the move is not equivalent to the loosening of interest rates/monetary policy. This is just a refinement of the current framework just to be able to make it more effective and for the transmission of monetary policy to be more direct," CBK Governor Kamau Thugge told a media briefing on Thursday. 'The average interbank rate currently tracks the narrower corridor having stood at 13.21 percent as of Wednesday. The reforms on enforcing control over interbank rates are part of deal between the CBK and the International Monetary

Fund after it emerged that banks for a long time ignored the CBR when adjusting lending rates to customers.

Vehicle tax angers insurers, banks

The government targets to collect Sh\$8 billion from the motor vehicle circulation tax to be charged at 2.5 percent of the asset value payable at the time of issuance of insurance cover. The minimum amount payable has been set at Sh5,000 and capped at Sh100,000. An insurer who fails to collect and remit the tax will be liable to a penalty equivalent to 50 percent of the uncollected tax, plus the actual amount of tax. Underwriters are expected to remit the deductions to the Kenya Revenue Authority (KRA) within five working days of writing the cover. In their submission to MPS Insurers through the association of Kenya insurer (AKI) said the collection and remittance of the tax will present a compliance headache since vehicle owners renew covers at different times of the year. They also warned that motorists might opt for cheaper third-party instead of comprehensive insurance cover as a result of the levy to save on costs. In its submission, The American Chamber of Commerce, Kenya (AmCham) called for a compromise on the levy, urging the government to cut it to one percent from 2.5 percent, and expand the categories of vehicles exempt from paying to include commercial and agricultural vehicles. Increasing costs Coca-Cola Kenya also backed this proposal by the chamber to cut the levy to one percent. The Kenya Bankers Association argued against the tax, saying that increasing the fleet cost for businesses will result in lower uptake of motor vehicle loans. The bankers also said the tax is discriminatory since the cap of Sh100,000 effectively favours those with vehicles valued above Sh4 million.

CBK Raises Sh 61 billion from bond Sales surprises Monthly target.

The Central Bank of Kenya (CBK) has raised Sh61 billion from four bonds sold, surpassing its target for this month's auctions. The amount surpasses the \$60 billion target from the four reopened papers that were targeted, not only raising fresh funding for the fiscal budget to June 30 but also enticing investors towards buying long-dated government securities. The CBK's most recent auction of two of the four papers offered to investors this month—the reopened five- and 10-year papers—has mobilised \$30.1 billion.

This is after a huge investor interest at Sh 41.5 billion but where the bulk of bids were concentrated on the shorter – dated five year paper at Sh 22.5 billion. CBK plans new bonds platform for hustlers. The CBK has, however, struggled to contain interest rates on the two papers with the weighted average rate on accepted bids closing at 18.1645 and 16.3924 percent for the reopened five and 10 year papers, respectively against coupon rates of 16.8440 and 14.151 percent. The bias for the re-opened five year paper over the 10 year one mirrors continued investors' jitters over duration risks which has seen the CBK struggle to drive the acceptance of longer -dated bonds. The CBK, however, contended with aggressive investor bids as the weighted average rate of accepted bids in the auction was pushed up to 17.1225 and 17.5862 percent respectively against the papers coupon rates at 16.9723 and 18.3854 percent.

Treasury allocates Sh 901 Million to SGR ticket and Security Systems

The Standard Gauge Railway (SGR) will get Sh901 million from the exchequer in the new financial year starting July 1, to fund the completion of its passenger ticketing system and an integrated security system. The operations and maintenance of the standard gauge railway has been allocated Sh901 million from the Railway Development Fund for an integrated security management system and completion of the passenger ticketing system," the Budget Committee of the National Assembly disclosed in a report. It did not give details of the ticketing and security system projects. The management of Kenya Railways Corporation—the agency under which SGR falls—had not responded to questions over the matter by the time of going to press. This (allocation) implies that the standard gauge railway is supported by the taxpayer, which is an indication that the project is struggling to break even six years after the operationalisation of the passenger and freight services," the budget committee added. Kenya tapped a \$3.75 billion (Sh489.71 billion at current exchange rates) from the Chinese lender to fund the construction of the railway from Mombasa to Nairobi and later to Naivasha. Besides paying the loan, taxpayers have also been footing the operational costs of the Madaraka Express as the train struggles to breakeven. Operating costs of the SGR are not readily available, although past documents tabled in Parliament showed it cost about Sh18 billion to operate the passenger and cargo trains, with fuel taking a huge chunk of the money. The SGR made a total of Sh79.72 billion between 2017 and the end of last year, with revenues from the freight trains accounting for 84 percent of this or Sh67.09 billion. However, the train has been unable to self-fund operations and is also yet to start paying the loan that the Treasury procured from the Exim Bank of China.

State revises borrowing target upwards hours before Budget speech

The government increased its borrowing target for the fiscal year starting July to Sh597 billion just hours before the Treasury Cabinet Secretary Njuguna Ndung'u reads his Budget speech. This was an increase of Sh82.3 billion from a deficit of Sh514.7 billion that Prof Ndung'u had earlier tabled in the National Assembly, an indicator that the tax collection target would equally be reduced downwards. If the tax collection target is not reduced, the spending target of \$h2.95 trillion will be pushed up. In a Cabinet despatch released, the government said the reduction was in line with the Kenya Kwanza's aim of reducing the country's debt vulnerabilities by increasing tax collection while trimming spending, or what is known as fiscal consolidation. In line with the administration's fiscal consolidation strategy, which seeks to reduce government borrowing, and in pursuit of the aspiration to achieve a balanced budget by 2027, the proposed budget consolidates these efforts by reducing the budget deficit by nearly 50 percent," read the despatch. This is realised through reduction of the deficit from Sh1 trillion in the financial year 2021/22, Sh925 billion in the financial year 2023/24 to \$hS97 billion in the financial year 2024/25," added the communiqué.

A budget deficit of Sh514.7 billion was quite ambitious, given that the government borrowing in recent times had tended to trend above \$h700 billion. Kenyans will also have to wait for Prof Ndung'u's speech to know what the government expects to borrow from the domestic and external creditors. With a budget deficit of Sh514.7 billion, the Treasury expected to borrow \$h256.8 billion externally and \$h257.9 billion from the domestic market. While appearing before the National Assembly's Finance Committee, the Principal Secretary for National Treasury Chris Kiptoo defended the additional taxes and an expanded tax

base arguing Kenya's debt situation is set to turn for the worst in the medium term.

Treasury fears trouble with IMF, debt risks Besides increased tax collection, President William Ruto's government is also targeting increased collection of fees and fines by ministries, departments and agencies in the upcoming budget. To collect the additional taxes, the Treasury has come up with various contentious amendments through the Finance Bill 2024. A majority of Kenyans who made their submissions before the Finance Committee are opposed to some of the amendments. These proposals, including a [2.5 percent car tax](#), [16 percent value added tax \(VAT\) on banking services](#) and [a new eco levy](#), have kicked up a storm from the business community, consumers, NGOs and churches. [There is also the proposal to introduce VAT on bread and 25 percent excise duty on both crude and refined vegetable oils.](#)

KRA, counties clash over VAT on revenue demand

County governments have clashed with the Kenya Revenue Authority (KRA) over demands by the taxman that the devolved units pay 16 percent value-added tax (VAT) on their own-source-revenue (OSR) collections. The chairperson of the Council of Governors Anne Waiguru says KRA's persistent demands that counties pay VAT on revenue were unconstitutional and amounted to an affront to the distinct roles that are to be played by the national and county governments. The council has received reports regarding the persistent demands by the Kenya Revenue Authority (KRA), demanding from county governments for Value Added Tax (VAT) on various counties' revenue sources and attendant interest and penalties. Greatest exception to these unwarranted demands which are unfounded and undermine the principles of Article 6(2) of the Constitution," she said in a statement. Article 6(2) of the Constitution distinguishes between the two levels of government—national and county

governments—noting that they are “distinct and interdependent.” They are also expected to conduct their mutual relations based on consultation and cooperation. Data by the Controller of Budget Office shows that county governments generated a total of Sh41.4 billion from their OSR, in the first nine months of the 2023/24 financial year, which was 51.3 percent of the annual target of Sh.80.78 billion. Article 6 (2) of the constitution distinguishes between the two levels on government national and national and county governments—noting that they are “distinct and interdependent.”

They are also expected to conduct their mutual relations based on consultation and cooperation. Data by the Controller of Budget Office shows that county governments generated a total of Sh41.4 billion from their OSR, in the first nine months of the 2023/24 financial year, which was 51.3 percent of the annual target of Sh.80.78 billion. Waiguru, who is also the governor of Kirinyaga County, noted the supreme law also outlines the taxes which are to be imposed by the two levels of government. Counties yet to receive Sh179bn equitable share cash. The national government, whose tax agency is the KRA, collects the levies known as ordinary revenues, which include income tax, VAT, customs duties, and other duties on import and export goods and excise.

On their part, counties may impose property rates, entertainment taxes, and any other tax that may be authorised by an Act of Parliament. Ms Waiguru said the KRA has been demanding VAT on some of their OSR, as well as the charges, a move that she described as unconstitutional. KRA tax demands rise amid field visits by new enforcers | am also struggling to see what VATable services have been rendered by the county government VAT is charged at a general rate of 16 percent which applies to taxable goods and services other than zero-rated supplies. Specific supplies listed in the Second Schedule to the VAT Act, 2023 are zero-rated.

These included food items such as maize flour, cooking oil, and bread.

[More pain ahead as President Ruto's big tax plan takes shape.](#)

More tax pain for Kenyans as government plans to collect more revenue for the financial year ending June 2025. According to the 2024 budget summary, the administration of President William Ruto has set the total ordinary revenue collections at 2.91 trillion up compared to \$2.57 trillion in the 2023/24 initial budget estimates. In a move to expand the tax base through the Finance Bill 2024, the government has received numerous criticisms and opposition as it targets key commodities that resonate with low, middle and upper-income classes.

For instance, levies increment between 15 to 20 percent on financial transactions such as M-Pesa, a widely used payment platform used across Kenya will affect everybody. Moreover, a 2.5 percent tax based on the car value with the minimum amount set at \$5,000 will impact all those owning private and commercial vehicles. The Kenya Revenue Authority collected Sh1.54 trillion in taxes in the nine months to March 2024 against a target of Sh2.5 trillion. This was an improvement as it was a 10 percent growth in tax revenues compared to a similar period last year that recorded Sh1.39 trillion. The growth in tax revenue has been attributed to the implementation of the Finance Act 2023 and the actualization of tax administration strategies,” notes the report by the Controller of Budget.

The Bottom-Up Economic Transformation Agenda will receive Sh257.3 billion coupled by significant allocations in key areas such as social services and infrastructure in the coming financial year. While the total spending plan as per the estimates stands at Sh3.91 trillion, serious concerns emerge regarding the enormous allocations anticipated to finance debt service and recurrent spending. Debt service allocations are estimated at Sh1.8 trillion, accounting for 47 percent of the total budget while

development spending will only receive Sh687 billion.

Treasury fears trouble with IMF, debt risks

The Treasury has stepped up its lobbying of Parliament to adopt punitive tax measures contained in the Finance Bill, saying they will help narrow Kenya's budget deficit and cut the appetite for borrowing. The Principal Secretary for Treasury, Chris Kiptoo, said the higher taxes and new ones proposed in the Bill are necessary to control mounting public debt levels and support economic growth. We need to raise our own revenues to avoid relying on borrowing. We don't have room to take more debt because it will worsen our situation," Dr Kiptoo told the Finance and Planning Committee Tuesday night before it retreated to write its report. We need to up our revenue and reduce expenditure so that we live within our means. We must do aggressive revenue mobilisation in terms of tax collection." Kenya plans to cut its budget deficit for the fiscal year starting July while also trying to preserve growth-supporting expenditure, like on infrastructure projects. This is in line with plans to shift to a balanced budget within three years. The country has in the past decade been running wide fiscal deficits to fund a range of ambitious infrastructure projects, but the stance nearly backfired when markets started to question the government's ability to repay the debts.

The Treasury seeks to raise an additional \$323 billion in taxes in the financial year that starts in July, with the measures drawing sharp criticism from political opponents, the church, workers and industry groups. Dr Kiptoo told the committee that rejection of the tax measures would increase Kenya's budget deficit and place the country on a collision course with the International

Monetary Fund (IMF). The Treasury has a deal with the IMF, which has recently provided billions of shillings in financial aid to Kenya, to reduce the country's debt vulnerability through increased

taxation and spending cuts. The law requires that the best sustainable debt would be if we are at 55 percent. When 'we were coming to Parliament to seek the change of the law, we were at 67 percent. Treasury hits bread with VAT Apart from cutting spending and reducing the budget deficit, President William Ruto's government, which took office in 2022, has also been introducing new taxes, angering some individuals and groups who have challenged the tax measures in court. In the fiscal year starting July, the government plans to spend \$3.92 trillion, with a big chunk of the budget being recurrent spending for items like paying salaries and fuelling cars. Development spending will take another Sh687.9 billion while counties have been allocated Sh446.1 billion. To finance this budget, the Treasury has given the Kenya Revenue Authority (KRA) a tax collection target of \$2.91 trillion, an increase from \$2.45 trillion for the current financial year ending this month. This leaves the Treasury with a budget hole of \$514.7 billion that will be plugged through borrowing from foreign and domestic creditors. The fiscal deficit has been significantly narrowed from the current \$908.6 billion contained in the second mini-budget. The Treasury defended the additional taxes and an expanded tax base, arguing Kenya's debt situation could worsen in the medium term. Our capacity to carry more debt is not sustainable so we have to raise revenue and cut expenditure. Any further accumulation of debt would mean we will have no fiscal space. To collect the additional taxes, the Treasury has come up with various contentious amendments through the Finance Bill 2024. Vehicle owners to pay annual tax of up to Sh100,000. These proposals, including a 2.5 percent car tax, 16 percent value-added tax (VAT) on banking services and a new eco levy, have kicked up a storm from the business community, consumers, NGOs and churches. There is also the proposal to introduce VAT on bread and 25 percent excise duty on both crude and refined vegetable oils. A majority of Kenyans and interest groups who appeared before the Finance and Planning Committee asked it to reject the new taxes.

Inside President Ruto's second Sh 3.9 trillion budget Highlights

Treasury Cabinet Secretary Njuguna Ndung'u is tabling his second Budget in Parliament, in a tradition marked in East African Community member states. According to the EAC Treaty, Finance ministers of the partner states read their budgets simultaneously in the afternoon of the second Thursday of June. In the \$3.92 billion Budget for the fiscal year 2024/2025, which begins on July 1 to June 30 next year, President William Ruto's government says it is seeking to reduce budget deficit to achieve a balanced budget by 2027. Borrowing target raised. The government increased its borrowing target for the fiscal year starting July to Sh597 billion just hours before the Treasury Cabinet Secretary Njuguna Ndung'u reads his Budget speech. This was an increase of Sh82.3 billion from a deficit of \$514.7 billion that Prof Ndung'u had earlier tabled in the National Assembly, an indicator that the tax collection target would equally be reduced downwards. In case the tax collection target is not reduced, the spending target of \$2.95 trillion would be pushed up. A budget deficit of Sh514.7 billion was quite ambitious, given that the government borrowing in recent times had tended to trend above \$700 billion.

Finance Bill 2024 enters crucial stage

Marked the end of public participation the tax proposals Finance Bill 2024 ("the Bill"). Like last year, the stakeholders came forward in large numbers to make oral submissions on various clauses of the Bill with a clarion call to have some of the clauses amended or dropped, prior to the passing of the Bill. This year, in addition to the usual

oral submissions by stakeholders who would ordinarily have made written submissions, the departmental committee on Finance and National Planning ("the Committee") set aside one day for public hearings. This was reserved for any member of the public to share their views and proposals with the Committee. As the National Assembly debates the Bill prior to assent, it is prudent for the lawmakers to consider the wider impact of the proposals on the economy at large. In this article, I highlight some considerations the lawmakers should take into account. While some of the proposals may yield revenue in the short run, they are likely to cause more harm than good in the medium to long term. Among these measures are; the proposed introduction of motor vehicle tax, introduction of eco levy, and introduction of VAT on selected financial services. The motor vehicle tax, for instance, is likely to have a negative impact on several fronts. The insurance sector will certainly bear the greatest burden due to its central role in the implementation of the tax and the expected reaction of policyholders, who may downgrade to third-party insurance or even opt out if they are unable to afford the additional charge on top of the insurance premium. This may negatively impact the performance of the insurance business and consequently tax collections. Additionally, its short-term benefits are likely to outweigh the long-term multiplier effects. Taking into account the significant taxes already paid by motor vehicle users in the form of taxes on vehicle purchases as well as high fuel taxes and levies, the National Assembly should consider dropping this proposal prior to passing the Bill. How Finance Bill will impact the digital, creative sector The Bill presents the National Assembly with the opportunity to relook at some of the tax provisions that were enacted last year, which have had negative consequences for businesses and make the requisite changes this year. Some of the key changes that need to be revised include the restriction on deductibility of invoices that are not e-TIMs compliant, abolition of waiver of penalties and interest and the end date of the tax amnesty. If

the provision that requires taxpayers to only take a deduction of expenses that are supported by e-TIMS-compliant invoices is not deferred, it is likely to lead to forfeiture of genuine expenses incurred by many taxpayers — not because they are not compliant but because the implementation window for e-TIMS has been extremely short for the Kenya Revenue Authority (KRA) and for businesses at large. Indeed, as of the time of writing this, there are still many technical challenges experienced by compliant taxpayers due to constant breakdowns in the system, which indicates that there is a need to provide sufficient time for a robust system to be developed, tested and stabilised before taxpayers are punished for challenges that are not of their own making. This year's Bill seeks to raise additional revenue of \$302 billion, the largest amount of additional revenue in the history of Kenya's Finance Bills. This represents a 43 percent increase, compared to Finance Bill 2023 which sought to raise an additional Sh211 billion. Notably, the revenue target for Finance Bills since 2019 was in the range of Sh35 billion to Sh50 billion. Because of the significant increase, the Finance Bill, 2024, similar to the Finance Act 2023, has explored unfamiliar territories in a bid to achieve the proposed target. It is, not a surprise that last year's Bill and the current one, have attracted a lot of debate, especially from the common mwananchi. Inside President Ruto's second Sh3.9 trillion budget. The only difference between death and taxes is that death doesn't get worse every time the Congress meets". These are the words of Will Rogers, a renowned American social commentator. Inevitably, most taxpayers will identify with this quote in a couple of days once the Bill is assented into law, not later than June 30. In the face of a heavy debt burden which is currently averaging 70 percent of the Gross Domestic Product, it is worth appreciating that the government is faced with a tough situation of striking a balance between meeting the demands of the citizenry and raising additional revenue to finance its expenditure. That said, the government ought to consider the concerns raised on the burden

of taxation and ensure the policies do not curtail economic growth. For the legislature, it must ensure that the opportunity granted to the public under the Constitution for public participation is not taken for granted and that the voice of the public does count. We can only hope that the Committee and the National Assembly will seriously consider the input provided by various stakeholders and indeed adopt those that would address the key concerns and result in a better outcome for taxpayers and the economy at large.

[M-Pesa relief as big car owners hit in Sh347bn new taxes](#)

The Treasury has removed the cap of Sh100,000 on the proposed motor vehicle tax as it races to raise an additional \$346.7 billion from new tax measures in the coming fiscal year, even as it spared mobile money users higher excise on fees charged on transactions. In his budget speech, Treasury Cabinet Secretary Njuguna Ndung'u was silent on the upper limit of the tax, but maintained that the minimum amount chargeable will remain Sh5,000. A cap of Sh100,000 was seen as favourable to owners of expensive cars valued above Sh4 million, which is the price at which the 2.5 percent levy crosses the Sh100,000 mark. The revenue push, which the Treasury hopes will result in a halving of the fiscal deficit and cut reliance on debt, is backed by higher taxes and an aggressive crackdown on tax cheats amid protests from workers, the church and industry groups over high levies. The 2024 budget has a target of Sh2.917 trillion in tax revenue for the year starting July 1, 2024, up from \$2.452 trillion in the current year—as per the latest available Treasury documents—which together with \$426 billion in ministerial appropriations-in-aid (AIA) will form the bulk of financing for the Sh3.992 trillion budget. The Treasury Cabinet Secretary, however, offered relief for mobile money users after reversing a proposal in the Finance Bill to increase excise duty on fees for M-Pesa transfers to 20 percent from 15 percent. The reversal followed

submissions by Safaricom and other telcos that the increase would hurt financial inclusion and open the door to black market money transfer options, hurting efforts to expand the tax net. But he retained the proposal to raise the excise to 20 percent on fees charged on bankcash transfers, airtime and data purchases. Other tax measures are the proposed increase of tax on bread, edible oils, renewable energy solutions, alcohol, and cigarettes. An eco-levy, targeting goods deemed to be harmful to the environment and ranging from \$98 to \$275 per item, will also be imposed on goods such as mobile phones, TV and batteries. I propose to introduce an annual motor vehicle tax at the rate of 2.5 percent of the value of the vehicle subject to a minimum amount of \$5,000 per annum," said Prof Ndung'u without setting a cap as was the case in the Finance Bill that is under consideration by MPs. "I propose to retain the excise duty rate of 15 percent on fees charged on money transfer services by cellular phone service providers to benefit the retail electronic payments ecosystem. Businesses and individuals facing tax claims from the KRA will also be subjected to tougher rules when appealing the tax demands. The Bill has cut the period for providing information requested by the KRA during the objection hearing to seven days from 30 days. It also increases the period the taxman can use to determine the objection from 60 to 90 days. The tax changes are expected to raise collections from excise taxes by \$11 billion to \$401.1 billion, income taxes by \$232.1 billion to \$1.33 trillion and VAT by \$150 billion to \$804.7 billion in the 2024/2025 fiscal year. In his budget speech, the Treasury Cabinet Secretary said that achieving higher revenue through these tax measures will help the government cut its fiscal deficit to \$597 billion, equivalent to 3.3 percent of GDP, from \$925 billion (5.6 percent) in the current year. The total revenue projection—which includes taxes, AIA and grants—has been set at \$3.343 trillion, against an expenditure target of \$3.992 trillion, with the resultant deficit being financed by \$597 million in

borrowing and \$51.8 billion through grants from external partners.

Inside President Ruto's first \$3.6 trillion budget To finance the net deficit, the Treasury will borrow a net of \$333.8 billion from external lenders, and a net of \$263.2 billion from the domestic market. For the domestic borrowing target, this marks a sharp drop from the \$89 billion the government is taking up in the current year. Other than higher revenue projections, the Budget shows a slowdown in growth of expenditure compared to previous years. In the 2023/2024 fiscal year, the country's expenditure stands at \$3.84 trillion, meaning that the budget for the coming year is expanding by \$152 billion. In comparison, the budget expanded by \$620 billion between 2022 and 2023. Kenya's efforts at belt-tightening come against increased pressure on the exchequer to tame the growth and cost of public debt, which doubled to \$10.4 trillion by the end of March from \$5.42 trillion five years earlier. By cutting its appetite for domestic borrowing, which has been blamed for crowding out the private sector from the market, the Treasury is hoping to tame high domestic borrowing rates and boost economic growth by pushing banks to lend to the private sector.

[State makes U-turn, removes \\$100,000 car tax cap](#)

Owners of high-end vehicles will pay upwards of \$400,000 for the annual motor car tax after the Treasury made a U-turn and removed the cap of \$100,000 on the proposed tax. Professor Njuguna Ndung'u while presenting the budget for the 2024/25 financial year did not mention the earlier proposal of an upper limit for the tax, setting up car owners whose units cost more than \$4 million to pay higher tax. The Treasury had earlier proposed the new tax at a rate of 2.5 percent subject to a minimum of \$5,000 and a maximum of \$100,000, in what stood to save owners of pricier vehicles from paying more. Majority Of Kenyans who rely on

public transport are now set for tougher days ahead upon implementation of the new tax given that operators of buses and matatus will transfer the new tax burden to passengers. This means owners of high-end units like the Landcruiser models that cost upwards of Sh15 million for the new ones will pay \$h420,000 for the tax with owners of publicservice vehicles equally hit by removal of the cap. To expand the tax base and make our country self-reliant, I propose to introduce an annual motor vehicle tax at the rate of 2.5 percent of the value of the vehicle subject to a minimum amount of \$h5,000 per annum,” Prof Ndung’u said on Thursday. A 33-seater bus that is currently going for Sh6.6 million will attract Sh165,000 while owners of the 51-seater units that cost Sh8.5 million will pay Sh212,500. Owners of second-hand cars will only pay lower for the tax if the valuation of their units fall. The tax to be known as motor vehicle tax will be paid on each vehicle at the time of issuing insurance cover. The only vehicles to be exempted from the tax are ambulances, those owned by the National Intelligence Service, the military and police, national and county governments.

State Plan to relax rules on affordable houses sale blocked

MPs have blocked a plan by the Treasury to allow owners of state-subsidised affordable homes to sell their units to anyone, at any time and without controls on the price they charge. The National Assembly Finance and Planning Committee notes in its report on the Finance Bill, 2024 that removing restrictions on the sale of affordable houses by their owners would open the scheme to abuse. The majority of Kenyans who gave their views during public hearings on the proposed law were also opposed to the Treasury proposal, the committee says. The Treasury had proposed to eliminate a requirement that owners of the houses get approval from the Affordable Housing Board before selling their units. The Bill seeks to amend the Affordable Housing Act to eliminate the requirement for

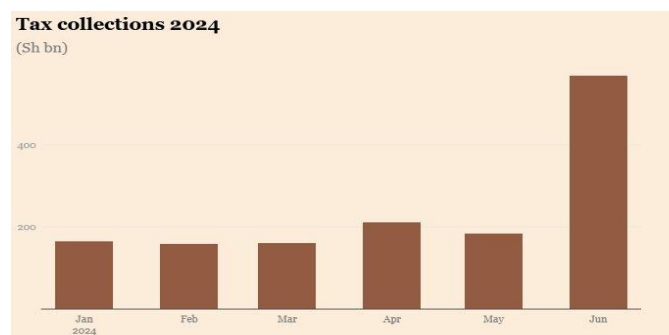
owners of affordable housing units to obtain prior written consent from the Affordable Housing Board before selling their units,” the committee notes in its report. The Committee noted that the current provision in the Affordable Housing Act limits the right to property as enshrined in the Constitution and would be subject to abuse and therefore recommended deletion of the clause. Should MPs adopt the committee’s proposal, they will have put the brakes on the Treasury’s plan that could have seen even people not qualified to own the houses buy in the Finance Bill, the Treasury proposed to amend section 54 of the Affordable Housing Act, of 2024, which sets restrictions for owners of affordable housing units. Affordable housing hit by slow take-off. The Affordable Housing Act is amended by deleting section 54. The Bill also amends section 54 of the Affordable Housing Act, to clean up the provision following the advisory given by the Attorney-General,” the Bill stated. Section 54 of the Affordable Housing Act, 2024, states “Except with the prior written consent of the Board, a purchaser of an affordable housing unit under this Act shall not by contract, agreement or otherwise, sell or agree to sell his or her unit or any interest there in to any other person.

KRA under pressure to collect Sh567bn in taxes this month

The Kenya Revenue Authority (KRA) is on the verge of missing its target of raising Sh2.5 trillion in taxes in the current fiscal year, following collection shortfalls through the first 11 months. Official data shows that KRA had collected less than Sh1.93 trillion by the end of May out of the revised target of Sh2.49 trillion for the financial year 2023/24, leaving a balance of Sh567 billion to be collected this month alone. This is a figure more than thrice the average monthly collections KRA has had between July 2023 and May 2024 and means it would have to collect a daily average of Sh18.9 billion each of the 30 days this month, to achieve the target. The Treasury has admitted to facing the

dilemma of either borrowing or taxing Kenyans more, for government to implement projects. We have to remember we have a three-dimension problem here: Demands for increased expenditures that means more debt or increase in taxes, limits and constraints imposed on public debt accumulation, debt carrying capacity has a limit, and there are limitations of mobilising higher tax revenues," Treasury Cabinet Secretary (Cs) Njuguna Ndung'u said while delivering the 2024/25 budget. Treasury under pressure to clear Sh162bn county funds Treasury had originally planned to collect \$h2.57 trillion in taxes during the current, following a raft of measures that introduced new taxes and levies, including 1.5 percent Housing Levy and the doubling of Value Added Tax (VAT) on petroleum products to 16 percent. despite the taxation measures, KRA has struggled to collect revenues through the rear and appears unlikely to achieve the revised target of Sh2.49 trillion. or each of the five months since January 2024, the highest KRA has collected in taxes in single month was \$h210 billion in April, when most companies were releasing reports their performance last year.

In January, the taxman collected \$h165.6 billion, then collected Sh157.6 billion in february, and Sh161 billion in March. Last month, KRA collected taxes totalling Sh183 million the nine months to the end of March 2024, the Controller of Budget (CoB) observed that KRA lagged behind in collections, compared to a similar period last year.



During the review period, the Tax Revenue category recorded a performance of 62 percent of the target of Sh2.5 trillion, compared to 66 percent performance (Sh1.39 trillion) recorded in a similar period in FY 2022/23," the CoB noted in the report on national government's implementation of the budget during the first three quarters of 2023/24. The report noted that while, in real terms, tax collections between July 2023 and March 2024 grew by 10 percent, compared to a similar period the previous year due to the implementation of the measures contained in the Finance Act, 2023, the performance against the annual target lagged. KRA targets extra Sh282bn from large taxpayers' pool Since July 2008, KRA has only hit tax collection targets set by the Treasury once (in 2021/22 when the authority during the Githii Mburu tenure as Commissioner-General collected Sh2.03 trillion taxes, marking the first time for Kenya to record taxes above Sh2 trillion in a single year. The authority registered an above-target stellar revenue performance after exceeding fiscal year target as stated in the Budget Policy Statement. KRA surpassed the original target of Sh1.88 trillion and two other upward revenue target revisions of Sh1.91prilligns which was later

Treasury eyes higher VAT to net Sh2.75 trillion tax haul

The National Treasury is betting on higher value-added-tax(VAT) collections from July 1, on a wider coverage of goods and services, to deliver the haul of \$h2.75 trillion in taxes to fund the 2024/25 budget. According to exchequer estimates of revenue, grants, and loans for the period, collections from value-added tax (VAT) are expected to rise by Sh157.4 billion to Sh812.2billion from the present estimate of \$h 654.7 billion. VAT collections are expected to amount to just under one-third of total taxes for the year to June 2025 or 29.4 percent. In contrast, excise taxes are expected to rise by \$h139.8 billion to \$h434.1 billion from \$h294.2 billion while taxes on financial and capital

transactions are tabulated at \$h27.9billion. Custom and import duties are, meanwhile, expected to deliver Sh187.4 billion in taxes while other levies on international trade are set to yield Sh58.1 billion. VAT proposals have subsequently formed the core part of government revenue-raising measures for the new financial year and into the medium term. In the Budget statement, Treasury Cabinet Secretary Njuguna Ndung'u outlined plans to overhaul the list of goods and services, qualifying for VAT exemption and zero-rating.

Revenue estimates		
(Sh bn)		
	2024/25	Revised
General taxes on goods and services	840.21	67
Value Added Taxes	812.23	65
PAYE	622.12	58
Corporation tax	608.08	54
Excises	434.11	29
Customs and Other import duties	187.41	14
Other taxes on international trade	58.16	4
Taxes on financial/capital transactions	27.98	1
Taxes on use of goods	3.39	3
Motor vehicle taxes	2.87	3
Other taxes on goods and services	2.50	2
Other	0.51	0
Total	2755.97	225

This is targeted at curbing the erosion of the VAT base from the over \$h248 billion in VAT tax expenditure recorded as of 2022. | propose the rationalisation of the VAT tax expenditures as provided in the VAT Act in the form of exemptions and zero-rating based on criteria including all finished goods currently exempt be subjected to VAT and zero-rated finished goods and services be exempt from VAT while zero-rating is restricted to goods and taxable services meant for export. pain ahead as President Ruto's big tax plan takes shape The rationalisation exercise is expected to expand the VAT tax base and create fairness in taxation. Among items to fall off the zero-rated list into the taxable category is the supply of ordinary bread in a move expected to result in higher prices for the

commodity by at least Sh10 for a 400-gram loaf as per proposals contained in the 2024 Finance Bill. Financial and insurance services including the issuance of credit and debit cards, telegraphic money transfer services, foreign exchange transactions, and actuarial services are also expected to fall under the ambit of VAT.

Treasury cuts foreign commercial loans target 41pc

The National Treasury has cut its target for external commercial loans in the next financial year by 41 percent, or Sh18. billion, signalling lower foreign debt service costs. Estimates on revenue, grants, and loans for the 2024-25 financial year project borrowing from foreign financial corporations and other international financial institutions at \$h168.7 billion, down from \$h286.8 billion in the current fiscal year. The lower target for commercial loans aligns with the government's stance of pursuing concessional and semi-concessional funding, which is relatively cheaper than borrowing from commercial sources. The position is backed by the availability of adequate financing from concessional sources such as the World Bank and the International Monetary Fund (IMF). The World Bank recently approved the disbursement of \$h154.3 billion (\$1.2 billion) to

Kenya, while the IMF has an ongoing multi-year programme that lapses in April 2025. In his Budget statement last week, Treasury Cabinet Secretary Njuguna Ndung'u underlined the planned slowdown in commercial borrowing over the medium term, even as the Exchequer seeks innovative solutions around upcoming debt maturities. Our medium-term debt management strategy aims at lowering the costs and risks in the debt portfolio. In this regard, the government will slow down the uptake of new external commercial debt and undertake liability management operations through debt swaps and other innovative solutions. Share of commercial external

debt rises on new borrowing. The government will also diversify sources of financing through the issuance of Panda, Samurai, and Sukuk bonds. The government will maximise the use of concessional financing from bilateral and multilateral institutions to improve debt sustainability and boost our credit rating position. The Treasury, meanwhile, projects borrowing from foreign governments and international organisations at Sh8.3 billion and Sh103.8 billion, respectively, an estimate slightly higher than \$h7.6 billion and Sh95.3 billion in the fiscal year to June 30. Part of the sizeable external commercial borrowing in the current year is attributable to liability management operations, which saw the Exchequer take a new Sh192.9 billion (\$1.5 billion) Eurobond to buy back part of Kenya's \$h257.3 billion (\$2 billion) debut sovereign bond maturing on June 24. A buyback is a form of the process by which the repurchase of issued securities from holders or investors before the set maturity of the debt. Kenya plans another Sh128.6 billion (\$1 billion) buyback of its sovereign bonds, which will likely be targeted at the Eurobond of a similar target size, which matures in February 2028. The government is, however, yet to disclose the means to be used in the second 2024 buyback. Overall, the National Treasury is set to trim total borrowing in its next budget, with the fiscal deficit expected to decline to 3.3 percent of the gross domestic product in the 2024-25 financial year from 5.7 percent in the current 2023-24 financial year. In absolute terms, the fiscal deficit is set at \$h597 billion from \$h925 billion previously and will be funded from a combination of \$h333.8 billion in net external borrowing and \$h263.2 in net domestic borrowing. Loan defaults hit 18-year high on soaring interest rates. The deficit, which has been deemed overambitious by various analysts, is partly pegged on the government meeting or exceeding its revenue target set at Sh2.91 trillion for ordinary revenues or taxes and \$h426 billion in ministerial appropriation-in-aid.

Shilling rallies to 15 Month high on lower dollar demand

The shilling has climbed to a 15-month high against the dollar, backed by inflows from agriculture exports amid reduced demand for dollars among importers. The Central Bank of Kenya (CBK) quoted the exchange rate at an average of Sh128.66 on Friday, a level last seen on March 8, 2023. Since January, the CBK has used the actual traded rates in the interbank market to determine the official rate, improving the alignment of the official rate with the market. A spot-check on several commercial banks at the end of the week showed that they were selling dollars to retail clients at between \$h130.65 and Sh131.60, and buying the same at between Sh125 and Sh126.60. Equity Group quoted the dollar at an average of Sh125.50 buying and 131.50 selling on its website on Friday afternoon, while 1&M Group quoted it at Sh126.60/131.60. NCBA Group's dollar quote was Sh125.00 buying and Sh131.00 selling, while Stanbic Bank Kenya was buying dollars at an average of Sh125.65 and selling at Sh130.65. We have seen some inflows during the week from tea exports. The market's sentiment around the shilling has also been positive due to expected loan inflows from the World Bank, and the early settlement of the Eurobond that was to fall due this month." said a commercial bank forex dealer. Shilling rally wipes Sh99bn from local dollar holdings. The World Bank last month approved a \$h1368 billion loan to Kenya under the Fiscal Sustainability and Inclusive Green Growth Development Programme Operation (DPO). The proceeds of this loan will bolster the CBK's official forex reserves —when it buys the dollars from the National Treasury—and thus hand the monetary regulator enhanced muscle to defend the shilling from volatility. The CBK has also pointed to the tightening of monetary policy this year as a contributor to the shilling's gains against the dollar. In his briefing after the June 5 monetary policy committee meeting, CBK governor said that this

has helped to improve investment inflows into the country,

Bread, financial transactions spared from VAT in U-turn

Bread and financial transactions, including credit and debit card issuance as well as foreign exchange dealings, have been spared from value-added tax in a U-turn from initial proposals contained in the Finance Bill 2024. Excise duty on mobile-money services by cellular phone providers has also been retained at 15 percent even as duty on telephone and data services, fees charged for money transfer services by banks rises to 20 from 15 percent. The reversal has come in the backdrop of public participation on proposed revenue raising measures for the new fiscal year which has been amid uproar on higher taxes. The Finance and National Planning Committee has deemed the products as essential retaining the product's VAT status as zero-rated and exempt respectively. The committee observes that bread is a basic commodity used in many households and imposing VAT on it would increase its cost beyond the affordability of many Kenyans. Players in the financial sector had opposed the VAT hit on services with the Kenya Bankers Association (KBA) noting the move would increase the cost of banking to customers and hamper financial inclusion efforts, affecting low-income individuals and small businesses. The proposed VAT on bread had meanwhile drawn wider criticism from the public even as the exchequer defended the move noting the incentive had failed to benefit the target low-income households group. Other goods and services spared from VAT include inputs and raw materials supplied to manufacturers of agricultural and pest control products, agricultural pest control products, transportation of sugarcane from farms to milling factories and the supply of locally assembled and manufactured mobile phones. The move to spare VAT on the products and services goes against the grain of the Medium Term Revenue Strategy by the National Treasury

which seeks to trim revenues lost to incentives and subsidies, also known as tax expenditures. Treasury hits bread with VAT According to the exchequer, all finished goods currently exempt would be subjected to VAT while zero-rated finished goods and services would be exempt from VAT. Only goods and taxable services meant for export would be zero-rated. The Finance and National Planning Committee has however switched up on the Treasury by moving its own guiding principles on VAT zero-rating and exemptions. With regard to the provision of VAT, the committee was guided by the following policies; to zero rate only the most critical consumption items in most households, to exempt agricultural inputs for the manufacture of medical needs, to protect the financial sector by limiting VAT on services, subject to tax goods and services where value is added in the production process and to exempt certain inputs so as to promote local industries Kenya has two rates of VAT; the standard rate set at 16 percent and a zero rate applicable a specified list of supplies such as ordinary bread. A third category of VAT exists in the form of exempt supplies which are not subject to VAT but whose suppliers can also not claim for input taxes. Zero-rated supplies such as bread are not subject to VAT while their manufacturers can claim refunds on input taxes paid.

MPs clip KRA, Treasury powers to waive taxes

Members of Parliament on the committee have rejected a proposal to hand powers to abandon taxes to the KRA commissioner-general in a move which has stopped the creation of an all-powerful tax czar. The Finance Bill, 2024 had proposed to allow the KRA commissioner-general with the approval of Treasury to abandon unpaid taxes due to difficulties in recovering them or the costly nature of pursuing tax cheats. But the National Assembly committee has rejected the proposal and instead seeks to have the KRA publish the waivers in the Kenya Gazette for stakeholders' input and

eventual waiver by Parliament. The committee reckons that the tighter scrutiny of the waivers or abandonments is aimed at eliminating abuse of the process through collusion. The committee proposed additional checks and balances on the power of the Commissioner thus recommended that the provision be amended to require the Commissioner to publish in the Kenya Gazette on tax abandonment and submit it in the National Assembly for approval," said the Finance Committee in the review of the Finance Bill. Data protection Walverspy on tax concerns the ruling has made it clear the importance of taxpayers following procedures as set forth in the Tax Procedures Act (TPA) and other laws," EY said in a notice. Last year, the Finance Act, 2023 amended the Tax Procedures Act by deleting provisions allowing relief from pursuing unpaid tax because of doubt or difficulty in recovery of tax on the part of the commissioner-general. The commissioner-general's discretion to waive penalties and interest for taxpayers, including making recommendations to the Treasury for waivers, was also scrapped, leaving a legal gap that posed the waivers. Previously, the commissioner-general, with the approval of the Treasury Cabinet Secretary, had powers to waive unpaid taxes in the wake of conditions that derailed recovery. The Finance Bill, 2024 sought to eliminate the legal vacuum and return the clause that gave the KRA and the Treasury the powers to grant tax waivers. Analysts at KMPG noted the legal gap had put pressure on the KRA boss to recover due taxes without regard to the costs or difficulties in collecting the duties. The amendment places pressure on the commissioner to take all necessary measures to recover tax owed. Taxpayers should brace themselves for aggressive tax collection measures by the revenue authority to recover unpaid taxes without abandonment or waiver as an option even in cases where it may be administratively challenging or costly to recover the tax.

[Storm over Shs 200 bn Treasury budget cuts amid blackmail claims](#)

Treasury Cabinet Secretary Njuguna Ndung'u raised a storm in Parliament over his warning of \$200 billion budget cuts should MPs scrap a handful of proposed tax increases in the Finance Bill, with legislators accusing him of blackmail. The threat of budget cuts came ahead of debate on the Finance Bill and on a day protest marches against proposed taxes spread across Kenya. The government plans to raise Sh302 billion in additional taxes to reduce the budget deficit. But MPs, most of them from the Opposition Azimio coalition, accused the Treasury of usurping the role of Parliament in pushing the lawmakers to approve the controversial Bill. Prof Ndung'u in a letter to the Clerk of the National Assembly laid bare the dilemma that has confronted his office, warning of deep cuts targeting, among others, hiring of teachers and constituency development funds should MPs reject the Bill. The Treasury was expected to respond to an earlier letter from the Clerk seeking views on how to align the budget with changes made to the Finance Bill by the National Assembly Finance and Planning Committee, which had scrapped some controversial taxes on items like bread and cars while proposing higher levies on fuel.

[International market economists see shilling weakening to 145 levels](#)

Why REITs are not contributing enough to affordable housing Stamp duty is charged to the buyer at the rate of a percentage of the value of the asset. Kenya's REIT market is currently subdued partly due to large capital requirements of Sh100 million for trustees and minimum investment of Sh5 million. Proponents of the reinstatement of the exemption argue the benefit will make it cheaper for the property funds to buy more properties. REITs are broadly classified into two categories: Development or D-REITs where investors pool funds to buy or construct properties to sell for

capital gains, and investment or I-REITs where investors build or acquire property for generating rental income. [CEA Lion Asset Management's (ILAM's) Fahari was delisted from the NSE in February while trading in LAPTrust's Imara I-Reit remains restricted. Acorn Holdings' Student Accommodations (ASA's) I-Reit and D-Reit trades on NSE's Unquoted Securities Platform (USP). Central Bank of Kenya Governor Kamau Thugge, for example, announced earlier in the months that East Africa's most advanced economy would tap part of the World Bank's \$1.2 billion (Sh154.8 billion) to pay back the last batch of the debut Eurobond, estimated at \$500 million (Sh64.5 billion). The successful sale of foreign-currency-denominated bonds in mid-February has lessened the risk of default and supported the shilling against the USD recently analysts at Barcelona-based FocusEconomics wrote in a June 2024 outlook report based on feedback from panellists drawn from nine firms. The shilling has gained about 20 percent over the US dollar since hitting record levels of 160.75 levels and has oscillated between 133 and 128 levels on average since April. The currency is, however, forecasted to come under some fresh pressure in the coming months on the expected narrowing of the gap between interest rates in Kenya and the US.

[Lawmakers reject proposal for tax exemption on Reits](#)

Lawmakers shot down a new proposal from the Nairobi Securities Exchange (NSE) Plc and other stakeholders to reinstate stamp duty exemption on property purchased under Real Estate Investment Trusts (Reits). A Reit is a company that owns, operates or finances income-generating real estate. Reits pool capital investors who earn dividends from real estate investments. The investors do not individually buy, manage or finance any properties. The National Assembly Finance and Planning Committee said the proposals by the NSE-led group can only happen through an

amendment to the primary law, the Stamp Duty Act. Leading parastatals in budget cuts (Shm) 2023/24 2024/25 Change

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Explainer: What happens if parliament rejects Finance Bill 2024 in totality

The Treasury has presented its worst-case scenario should the Finance Budget be rejected in totality in the National Assembly, warning of key expenditure cuts in an enforced adjustment to government spending plans. According to the Exchequer, the rejection of the Bill would open a \$200 billion revenue hole resulting in cuts of the same magnitude, which would impact key expenditures, including school feeding, cash transfers to the poor, and the hiring of medical interns. The revenue measures contained are not

approved by the National Assembly, there will be a likely revenue shortfall of approximately \$200 billion,” said Prof Ndung’u. MPs can reject the Finance Bill in totality at either one of two stages—Second and Third Reading stages. However, MPs passed the Bill and the accompanying report of the Finance and National Planning Committee at the Second Reading on Thursday, moving the tax proposals to their next stage of approval. MPs can still reject the Bill at the next stage known as the Committee of the Whole House where the legislators can stop the Bill’s Third Reading after the consideration of the proposed changes on a clause-by-clause basis. According to the Kenya Law Reform Commission, the deferring of the Bill, which is usually for not less than six months is technically ‘killing the Bill. The government would be required to reintroduce the Finance Bill after six months with new provisions, which would be different from the submitted proposals. The government would be required to reintroduce the Finance Bill after six months with new provisions, which would be different from the submitted proposals. But even without a new Finance Bill, the government would still have means of raising revenues as represented by already existing tax laws and regulations. Our position has always been the same—that nothing suggests that we have to have a new Finance Bill every year. No gap would appear from the rejection of the Bill as the previous Finance Act of 2023 and other tax laws would continue being in place. In the case of rejection, the government would have to redraft the Bill, come up with new provisions, and begin the process of making it into law from the start,” Jackline Kagume, a lawyer and programme lead for the Law and Economy at the Institute of Economic Affairs told the Business Daily. However, the government would find itself unable to legislate a new Appropriation Act—the written law that guides spending in the absence of a Finance Act. This is following a High Court ruling last year which underlined that the revenue-raising measures must first be approved before the Appropriation Bill is introduced to the house.

[Sign – up CBK Bond Platform Cross 80,000](#)

Government debt securities hosted by the Central Bank of Kenya (CBK), marking a double growth since July 2023 when the platform debuted. Dubbed DhowCSD, the system which went live on July 31 is an upgrade of the Central Securities Depository (CDS) infrastructure to boost efficiency in investing in government securities. When we went live with DhowCSD, at that time, we had 40,000 accounts, as we sit here, the number of accounts is anywhere between 80,000 and 90,000. In less than a year, the accounts have increased by 100 percent. Dhow has created convenience, before, coming to the Central Bank had been intimidating for someone who doesn’t know where to start,” CBK Governor Kamau Thugge said in an interview with this publication last week. The platform has allowed investors to open and transact on the CSD accounts from the convenience of smartphones and the internet. DhowCSD has eliminated the previously lengthy process of physically visiting the CBK to open securities trading accounts and has allowed retail investors to conveniently buy and sell government securities from the comfort of their homes and offices by Kenyans abroad in government securities. CBK has, for instance, held investor tours in the US and the United Kingdom and plans on expanding its reach to the Kenyan diaspora. The platform has allowed investors to open and transact on the CSD accounts from the convenience of smartphones and the internet. DhowCSD has eliminated the previously lengthy process of physically visiting the CBK to open securities trading accounts and has allowed retail investors to conveniently buy and sell government securities from the comfort of their homes and offices. The CBK now targets to reach more Kenyans in the diaspora through the DhowCDS as it angles to grow remittances through investments convenience experienced by Kenyans (at home) can be experienced by Kenyans in San Francisco, China,

Japan, and elsewhere. The system can help us with remittances from the Kenyan diaspora. When the President went to the US the other day, we had a team from the bank who presented to Kenyans in the US what this DhowCsD is about. It was the most popular desk where we were stationed. The team did the East Coast of the US and we have another team leaving shortly for the West Coast. added

Banks to get up to 3 years to meet Sh 10 bn capital threshold

Commercial banks will be given up to three years to raise their minimum capital to Sh10 billion, kicking off a period of consolidation or share offers in Kenya's banking sector. The Central Bank of Kenya (CBK) is set to shortly start seeking stakeholder input on the proposed higher capital requirement, which is expected to protect lenders against risks and bolster them for regional expansion. The recapitalisation move will pose challenges to 24 or more than half 39 licensed commercial banks in Kenya, especially the small and mid-sized. "Obviously (the transition) can't be one year, so it will probably be up to three years. Many of the banks already have \$h10 billion in core capital, There will also be quite a number of banks wit the ability to generate additional capital either from their shareholders which will be enough to meet the Sh10 billion requirement within the three years," CBK Governor Kamau Thugge said in an interview last week. We have not adjusted the core capital requirements in many years, and during that time, we have had all kinds of new risks emerging such as cybersecurity and climate issues. There is also competition from foreign banks coming here and becoming very aggressive. As we plan to become a financial hub, we need strong banks that can mwithsemnd the new asks 7. We have not adjusted the core capital requirements in many years, and during that time, we have had all kinds of new risks

emerging such as cybersecurity and climate issues. There is also competition from foreign banks coming here and becoming very aggressive. As we plan to become a financial hub, we need strong banks that canwith stand the new risks. Kenya currently requires a minimum capital of Sh1 billion for those who wish to start abank. The higher capital requirement could see some lenders choosing to downgrade their banking licences. Banks that are already operating are required to maintain 10.5 percent core capital to total risk-weighted assets, and 14.5 percent total capital to risk-weighted assets.

SHIF transition team wants July 1 rollout plan suspended

A committee set up by the Ministry of Health to oversee a seamless transition to the new Social Health Insurance Fund (SHIF) has recommended that the planned rollout of the scheme from July 1 be suspended, citing challenges with the digital platform designed to support contributions and registration. The transition committee on the Social Health Authority (SHA)—the agency created to run the SHIF and replace the National Health Insurance Fund (NHIF) —said in its report that a pilot run on the ICT system showed it wasn't ready for the shift, with less than a week to go. The Health Ministry, said the team, should consider carrying on with the NHIF and recalling the already published regulations on the new scheme. SHA ICT system was piloted in Marsabit dry run revealed that the new system was not ready and challenges are being addressed and a second repeat dry run that encompasses proxy mean testing may be done thereafter," the committee said in the report following a meeting last Friday. The ICT experts have been requested to report for SHA alternatives on the ICT system especially on the registration and contribution domain. There is a need for an

alternative solution even including recalling the SHA regulations and use of NHIF systems and the latter has financial implications. The nature of the contract with the current NHIF system licences and contracts need to be renewed. The committee chaired by Dr Jason Kap-Kirwok was inaugurated on January 30, 2024, by Health Cabinet Secretary Susan Nakhumicha. Ms Nakhumicha in late March published regulations indicating that the SHIF would commence on July 1. All Kenyans aged above 18 will be required to make mandatory contributions to the SHIF, with billions of shillings marked for financing universal health coverage (UHC). Under the plan announced by the Health Ministry, Kenyan workers will start paying 2.75 percent of their gross monthly to the SHIF from July 1—a move that will see contributions for top earners rise by more than eight times in an economy where the take-home of many workers has shrunk due to spiralling inflation. The 2.75pc SHIF deduction starts March 1. For example, salaried workers earning up to Sh50,000 a month will face a Sh1,375 deduction under the SHIF, up from Sh1,200 contributed under the NHIF. For a worker earning Sh100,000 a month, the deduction will be Sh2,750, up from Sh1,700 currently paid under the NHIF—representing a 62 percent jump. Those on a Sh500,000 gross pay will see their deductions jump eight times to Sh13,750 unless a cap is introduced. For lowest income earners, there would, however, be some relief under SHIF. For example, for a worker with a Sh20,000 gross pay, deductions towards SHIF would stand at Sh550 compared to Sh750 under the NHIF. Kenyans, with no source of income, will also be compelled to pay at least Sh500 every month to the SHIF as the State targets a vast funding pool to finance UHC. The recommendations by the SHA transition committee, however, put a damper on these plans dealing a blow to the State, especially given the challenges with the NHIF that has even seen some private hospitals cut links with the scheme over unsettled claims. More than 400 members of the Rural Private Hospitals Association of Kenya (Rupha) in May stopped accepting NHIF

cards amid claims that the insurer owed them more than Sh6 billion—a staggering amount that has crippled their operations. Earlier this year, the Ministry of Health revealed that the ICT system, which would act as a centralised management system for healthcare providers, would cost at least Sh5 billion to set up, an amount that could go down the drain if the proposal to overhaul the NHIF system goes through, leaving Kenyans who are supposed to contribute part of their monthly income to the scheme in a dilemma. Last month, some Members of Parliament raised concerns about the lack of transparency surrounding the system being used by the SHA to enrol Kenyans into the new health scheme and called on the ministry to suspend the enrolment of Kenyans into the SHIF, which has already begun, until it clarifies how it procured the ICT system being used to enrol members.

[How big businesses dodged Sh 150 billion in taxes](#)

The Kenya Revenue Authority (KRA) failed to collect more than Sh150 billion in taxes as 3,674 taxpayers, mainly big companies, failed to report business transactions valued close to half a trillion shillings, exposing tricks firms employ to dodge taxes. In the year ending June 2023, some 1,486 businesses categorised as large and medium taxpayers dodged Sh147 billion in taxes after failing to report Sh490 billion in revenues to KRA, the auditor-general has revealed. In a report on KRA's revenue and accountability statements for the year to June 2023, Auditor-General Nancy Gathungu notes that the companies reported Sh2.5 trillion in revenues under Value Added Tax (VAT) obligations but when reporting income tax obligations reduced revenues to Sh2.05 trillion, to pay fewer corporation taxes. Review of taxpayers' declarations in i-Tax system from the Large and Medium Taxpayers Offices for the 2022/2023 financial year revealed that 1,486 taxpayers declared a gross turnover of Sh2,539,360,229,377 under the VAT obligation

while the same taxpayers declared gross turnover of Sh2,049,318,070,324 under the income tax obligation resulting to an under-declaration of Sh490,041,822,592 turnover under the income tax obligation. The under-declared turnover of \$h490,041,822,592 under the income tax obligation would have attracted a corporation tax of \$h147,012,647,716 which the Authority did not collect," Ms Gathungu notes. The under-declaration has exposed how businesses have avoided paying billions of shillings in taxes by lying about their revenues, even as the taxman struggles to collect enough.

During the year, KRA collected Sh944.4 billion in taxes from income profits and capital gains and missed the overall target by \$h107 billion. The audit also notes that the under-declaration exposes gaping loopholes within KRA and calls for action on its officials who were in charge of handling the companies. How individuals and companies avoid paying taxes"Although management indicated that action has been taken through the issuance of additional assessments, amendment of returns, and compliance audit of the clients, no explanation was provided why action was not taken as required by Sections 6.02(ii) and 6.03(v) and (vi) of the Domestic Tax Department Compliance Management Manual which requires management to establish the inconsistencies and underlying causes and further prepare a report recommending action by each of the taxpayers account managers," the audit notes. Ms Gathungu also reported that the KRA failed to collect Sh5.1 billion under capital gains taxes from the sale of 2,188 properties valued at Sh34.3 billion. During the year, out of the Sh944.4 billion taxes on income, profits, and capital gains, Sh5,606,957,074 was collected in respect of capital gains tax. However, analysis of stamp duty collection reports revealed that a total of 10,528 properties valued at Sh198,625,539,869 were transferred during the financial year. Based on a sample of 3,296 properties transferred, the authority did not collect capital gains tax revenue

amounting to Sh5,146,578,129 from 2,188 properties valued at \$h34,310,520,865," the audit notes. Treasury tightens noose on tax-avoiding multinationals Together with the Sh147 billion under-declared taxes by the large and medium companies, this means that the KRA failed to collect Sh152 billion in taxes during the year to June 2023. During the year, the authority collected h272 billion in domestic VAT, \$h263.8 billion in corporation taxes, \$h494.9 billion in pay-as-you-earn (Paye) taxes, Sh68 billion in domestic excise duties, and \$h129.9 import duty.

Deadly tax Protests Leave Kenya facing IMF Fallout.

Parliament Tuesday approved the controversial Finance bill 2024, Dacking recommendations to withdraw some taxes, including on bread, airtime and cars, that were part of a package of reforms Kenya had agreed to implement in a deal with the International Monetary Fund (IMF). Voting on the amended the revenue-raising Bill was marred by deadly street protests against tax hikes in Nairobi and other Kenyan cities and towns that saw demonstrators storm Parliament and set a section of it on fire, forcing legislators to be evacuated. At least 10 protesters were shot dead by police, some of them around Parliament buildings. Kenya has also promised the IMF to link its Kenya Revenue Authority (KRA) system to mobile financial platforms to weed out tax evaders and boost revenue by billions of shillings. But MPs weakened the plan, which was to take effect in July, after they rejected a clause giving the KRA unfettered access to personal data that is critical for spying on suspected tax cheats. President Willa Ruto, Who has Come Under pressure from Waves of protests WOM youthful, mostly Gen Z demonstrators, has been caught between the competing demands of lenders such as the IMF, which is urging the government to cut deficits to obtain more funding, and a hard-pressed population. [The] measures include the adoption of a motor vehicle circulation

tax, removal of several exemptions on interest income, reduction of tax expenditures on VAT and import duties; increases in excise rates for money transfers and telecommunications data services,” said the IMF report released in January. The IMF had in the report admitted some of the measures contained in the programme, and some of which are in the Finance Bill, could trigger unrest. Unrest could re-emerge in connection with protests against higher cost of living, need to raise more taxes, and electoral process supported by the political opposition,” said the IMF. The IMF’s advice to the government, in case of unrest was: “Remain committed to reforms under the programme. Parliament will now forward the Finance Bill to the President for signing. He can send it back to Parliament if he has any objections. Kenyans, including industry groups, have widely criticised the legislation, saying it adds punitive new taxes and raises others on a wide range of goods and services that would escalate the cost of living. The protests, which began in Nairobi last week, spread to other major towns and cities such as Kisumu, Nakuru, Eldoret, Nyeri and Mombasa and were witnessed in more than half of the 47 counties Tuesday. Businesses in 35 counties choke on tear gas, demos President Ruto made a TV address on the protests last night, terming Tuesday’s march on Parliament an act of treason and vowing to deploy security to crush the protests. Demonstrations in Kenya have typically been mobilised by political leaders who have been amenable to negotiated settlements and power-sharing arrangements, but the young Kenyans taking part in the current protests have no official leader and have been growing increasingly bold in their demands. The protests have been guided by younger people who have used social media platforms like TikTok and Instagram to initiate a leaderless movement that has ‘anised the nation.

[Why Kra DPP have turned up the heat on alleged tax Cheats](#)

The Kenya Revenue Authority (KRA) has stepped up its pursuit of alleged tax cheats, with the backing of the office of the Director of Public Prosecutions (DPP), in a bid to bolster revenue collection. Last week, scores of traders were presented before a Nairobi court to face charges related to tax evasion. Others failed to turn up in court, forcing the prosecution to seek warrants of their arrest, which was granted by the court. Renson Ingonga, the DPP, promised to crack the whip in a bid to ensure traders pay taxes due to them. wish to put businesses not paying taxes on notice. We recently made the decision to prosecute business people who have been evading taxes. The taxman has been aggressive on alleged tax evaders in a bid to meet revenue targets. In the past, the KRA was accused of being unpredictable and over-burdening a few persons and firms in the formal sector with increased taxes. KRA said it was committed to ensuring that each person pays their fair share of taxes in order to enable a fair business environment and avoid undue fraudulent competition. We continue staying alert to ensure that any form of tax evasion is detected, disrupted and curbed with the perpetrators facing the criminal justice process for their crimes,” Ms Sheila Sanga, the acting deputy commissioner prosecution at KRA said, adding that investigation and enforcement department at KRA works closely with the DPP’s office in tax evasion cases. Ms Sanga added that the deployment of robust investigations and intelligence techniques and the multiagency team collaboration has led to successful interceptions of illicit goods across the country to curb illicit trade and other transnational crimes to ensure Kenya’s national interests are safeguarded.

President Ruto Moves to avert legal Crisis with financial Bill Night Memo

President William kuto last night moved to avoid a legal minefield alter presenting a memorandum to Parliament formally withdrawing the controversial Finance Bill, 2024 without which it would still have become law after 14 days. 1 decline to assent to the Finance Bill 2024, and refer the Bill for reconsideration by the National Assembly with the recommendation for the deletion of all the clauses thereof,” the President said in the memo, notifying Parliament about his reservations about the proposed revenue-raising law. Failure to refer the Bill, through which the government had hoped to raise an. additional \$h347 billion in tax revenues, back to the National Assembly would have automatically turned it into law on July 15.This could have rendered the withdrawal of the planned tax hikes without the accompanying notice null and void. within fourteen days after receipt of a Bill, the President shall either assent to the Bill or refer the Bill back to Parliament for reconsideration by Parliament noting reservations that the President has concerning in the Bill,” says Chapter 8 of the Constitution.

Select items removed from the Finance Bill 2024

Items on the Finance Bill 2024

VAT on bread,transportation of sugar,financial services and forex transactions	Dropped
Car tax	Withdrawn
Locally manufactured sanitary pads and diapers	Exempted from Eco Levy
KRA access to taxpayers data	Suspended

The Appropriations Act, which contains the government spending plans in a fiscal year, will be subjected to a similar process, with the President recommending expenditure cuts to create a leaner budget. It was also approved in the National

Assembly on Tuesday. Dr Ruto earlier announced he would not sign the Bill, which proposes some tax increases, a day after violent clashes between the police and protesters nationwide left at least 15 people dead and scores wounded. What the law says when the President declines to sign a Bill He said he would now start a dialogue with Kenyan youth, without going into details, and work on austerity measures - beginning with cuts to the budget of the presidency - to make up the difference in the country's finances. Deputy President Rigathi Gachagua also asked young people to call off the protests to avoid any further loss of life and destruction of property and blamed the intelligence services for allegedly not giving the President proper advice.

Proposals in the approved Finance Bill 2024

Finance Bill 2024 principles

Rail Development Levy(RDL)	1.5 to 2.5 percent
Import Declaration Fee	2.5 to 3.5 percent
Tax amnesty	Extended to March 31 2025
Introduction of Eco-levy	
Excise duty on betting	12.5 to 20 percent

It lined up cuts affecting critical spending including school feeding, the payment of pending bills, the hiring of medical interns and the confirmation of trainee teachers into permanent and pensionable terms and the hiring of teachers in JuniorSecondary.Treasury Cabinet secretary Njuguna Ndung’u had advised MPs to approve the measures contained in the 2024 Finance Bill, 2024 as proposed by the exchequer or risk the budget hole that would have included the loss of Sh5 billion to the Counties equitable share of revenue.Treasury fears trouble with IMF, debt risks President Ruto on

Thursday called for fresh expenditure cuts to cover occurring shortfalls in revenues, including allocations to his office and the Executive. "I direct immediate further austerity measures to reduce expenditure, starting with the Executive Office of the President and extending to the entire executive arm of government. I direct that operational expenditure in the Presidency be reduced to remove allocations for the confidential vote, reduce travel budget, hospitality and purchase of motor vehicles, renovations and other expenditures.

[MPs pass amendments to Finance Bill](#)

Members of Parliament have voted in favour of the Finance Bill 2024, moving the controversial legislation to its last stage of assent by President William Ruto. The Bill's adoption was decided by a majority of 195 votes in favour and 106 against with three abstentions after the legislation passed through the Committee of the House in record time earlier on Tuesday as thousands of protesters stage demonstrations against it in cities and towns across the country. Police fire teargas as Kenya anti-tax protesters demonstrate nationwide. The Finance Bill has been adopted with amendments, mostly those in favour of the Finance Committee and the Kenya Kwanza administration. For instance, MPs agreed with proposals to drop controversial taxes on ordinary bread, financial services and motor vehicles but have passed higher tax measures including increasing the rate of the railway development levy at 2.5 percent of customs value and a 3.5 percent for the import declaration fee.

[IMF says monitoring Kenya unrest, commits to helping economic revival.](#)

The international Monetary Fund (IMF) has said that the situation in Kenya following youth-led protests in rejection of the Finance Bill, 2024 and remains committed to helping the country overcome its economic woes. In its first official statement since the protests, largely blamed on stringent terms imposed on Kenya's financial

support, IMF said it is deeply concerned about the skirmishes that began last week culminating in a breach of the Parliament building in Nairobi on Tuesday. Several youth were killed during the Tuesday protests and scores of others were injured. The IMF is closely monitoring the situation in Kenya. Our main goal in supporting Kenya is to help it overcome the difficult economic challenges it faces and improve its economic prospects and the well-being of its people," the statement by IMF Director of Communications. Deadly tax protests leave Kenya facing IMF fallout Kenyan youth have taken to the streets since last week in a massive campaign to urge MPs not to pass a punitive Finance Bill that proposed additional taxes and levies on individuals and businesses, but the MPs remained adamant, passing the Bill on Tuesday amid protests occurring across 35 counties. In Nairobi, the protests which were marked with a day of running battles between the police and thousands of youth culminated in a first-in-history event of the breaching Parliament premises, just moments after legislators had passed the contentious Bill. Scores of youths sustained gunshot wounds as others were killed by police, with MPs forced to scamper for safety in a basement parking within the premises, as protesters gained access to facilities including the plenary. But while the IMF official statement noted that the institution would work together with Kenya to chart a course towards robust, sustainable, and inclusive growth" and stayed clear of discussing the issues, a senior official at IMF had on the same day told the Nation that the real problem was luxury in government.

Car logbook loans provider Mogo among 7 new CBK licensees

Car logbook loans provider Mogo Auto Limited is among seven new recipients of a digital credit

provider licence from the Central Bank of Kenya (CBK). CBK announced the licensing of an additional seven digital credit providers (DCPs), bringing their number to 58. Other recipients of the licences are Ismuk Credit Limited, Mint Credit Limited, Payablu Credit Limited, Progressive Credit Limited, Stride Credit Limited and ED Partners Africa Limited. This is to ensure adherence to the relevant laws and importantly that the interests of customers are safeguarded. The licensing and oversight of the digital credit providers was a result of public concerns about the actors' predatory practices, including exorbitant costs, unethical debt collection practices and the abuse of personal information.

Shelter Afrique claws back from losses to post Sh128 million profit

Shelter Afrique has rebounded from a Sh1.5 billion (\$11.7 million) loss to post a profit of Sh128 million (\$994,049) — the second positive net earnings in over seven years — following a rise in revenues and a drop in non-performing loans (NPLs). The pan-African housing financier last made a profit in 2021, when it posted Sh233 million (\$1.8 million) net earnings, after making losses for six consecutive years since 2015, amid falling revenue as its loan book thinned and non-performing loans soared. In the financial year ending December 2023, the financier, which recently rebranded into a development bank, recorded a surge in revenue as its NPLs dropped by about 2.5 percent amid increased recovery efforts. Based on the continental lender's financial results published this week, its 2023 total income rose 94 percent to Sh2.2 billion (\$16.9 million) from the Sh1.1 billion (\$8.7 million) they recorded in 2022. Its net earnings from interest on loans more than doubled to Sh2 billion (\$15.2 million), up from \$954.6 million (\$7.4 million) in 2022, largely driven by a surge in its recovery of loans, as its own interest expense registered a marginal rise. Last year, the lender recovered a total of Sh1.8 billion (\$13.7 million) in

bad loans, both from cash collections and asset takeovers, bringing down its NPLs to gross loans ratio to 51 percent, from 53.5 percent in 2022. However, it also wrote off Sh2.5 billion (\$19.1 million) in bad loans in 2023 alone, highlighting the magnitude of the lender's struggle with non-performing loans, which currently constitute over half of its loan book. The lender says the high rate of NPL ratio is because "the rate of closing new transactions is still slower compared to the repayments of the performing book, despite increasing efforts to expand its loan book. Its loan book last year decreased by 11 percent to Sh17.8 billion (\$138 million) from \$20 billion (\$155 million) in 2022.

Lawyers activists sue to block Ruto from signing finance Kenya Eurobond investors Bill Shaken by Gen Z Protests.

President William Ruto moved to avoid a legal minefield after presenting a memorandum to Parliament formally withdrawing the controversial Finance Bill, 2024 without which it would still have become law after 14 days. decline to assent to the Finance Bill 2024, and refer the Bill for reconsideration by the National Assembly with the recommendation for the deletion of all the clauses thereof," the President said in the memo, notifying Parliament about his reservations about the proposed revenue-raising law. Failure to refer the Bill, through which the government had hoped to raise an additional \$347 billion in tax revenues, back to the National Assembly would have automatically turned it into law on July 15. This could have rendered the withdrawal of the planned tax hikes without the accompanying notice null and void. within fourteen days after receipt of a Bill, the President shall either assent to the Bill or refer the Bill back to Parliament for reconsideration by Parliament noting reservations that the President has concerning in the Bill," says Chapter 8 of the Constitution. if the President does not assent to the Bill or refer it back within the period prescribed, or

assent to it, the Bill shall be taken to have been assented to on the expiry of that period"

The Appropriations Act, which contains the government spending plans in a fiscal year, will be subjected to a similar process, with the President recommending expenditure cuts to create a leaner budget. It was also approved in the National Assembly. Dr Ruto earlier announced he would not sign the Bill, which proposes some tax increases, a day after violent clashes between the police and protesters nationwide left at least 15 people dead and scores wounded. What the law says when the President declines to sign a Bill. He said he would now start a dialogue with Kenyan youth, without going into details, and work on austerity measures - beginning with cuts to the budget of the presidency - to make up the difference in the country's finances. Deputy President Rigathi Gachagua also asked young people to call off the protests to avoid any further loss of life and destruction of property and blamed the intelligence services for allegedly not giving the President proper advice. But some demonstrators said on social media that despite Dr Ruto's climbdown they would go ahead with a rally planned for Thursday.

Proposals in the approved Finance Bill 2024

Finance Bill 2024 principles

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Tax amnesty	Extended to March 31 2025
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States's non debt spending rises t Sh 1.1 trn at fastest pace in six years.

The cost of running government has grown at the fastest pace in six years, signaling a rising burden on taxpayers to keep public offices operating and reversing. President William Ruto's earlier gains in taming growth in day-to-day expenditures.

The Ruto administration spent slightly more than Sh1.1 trillion on salaries and wages, administration, operation, and maintenance of offices in 11 months through May 2024, according to the latest figures from the National Treasury. The 14.12 percent climb over \$h975.12 billion in a similar period a year earlier is the biggest growth since the financial year 2017-18 when Kenya conducted historic repeat presidential elections. The non-debt recurrent expenditures grew at a double-digit rate despite Dr Ruto's pledge upon taking power in September 2022 to institute a raft of expenditure savings to ease the burden of funding government operations and administration. The president's policy of keeping a tight lid on cost of administrative and maintenance, while driving expansion in tax compliance rates, appeared to be bearing fruit after recurrent expenditure dropped a marginal 4.44 percent to \$h975.12 billion. State House bursts budget by Sh900m in nine months. The Kenyan government had initially made good progress in tackling the poor public finances," Jason Tuvey, deputy chief emerging markets economist at UK-based Capital Economics, wrote in a note on Kenya this week. There have been signs of fiscal slippage recently, though, as spending has increased and revenues have underperformed. That spurred the government, in the 2024/25 Budget, to outline a raft of tax increases in a bid to get its fiscal consolidation plans back on track. The Treasury data shows taxes grew at a slower rate of 10.83 percent year-on-year to Sh1.93 trillion than that in non-debt recurrent expenditure in the 11 months ended May. State costs outpace taxes despite Ruto's pledge. International Budget Partnership's Country

Manager for Kenya Abraham Rugo has cited supplementary budgets to cater for expenses that were not initially budgeted as the main driver of non-debt expenditures. Governments are meant to exist and deliver services perpetuity which means that as the size of government grows, recurrent expenditures are likely to increase indefinitely," Dr Rugo said. However, this does not mean that there are no wastages or inefficiencies in the public sector that drive a wedge between productivity and compensation (wages) State House, which has been undergoing a major renovation this financial year, has been the largest beneficiary of mini-budgets. Treasury data shows expenditure at the State House had exceeded the original full-year budget by about half (49.20 percent) in the 11-month through May to Sh9.5 billion.

Others are the State Department for the Asals and Regional Development which had spent 29.87 percent over initial annual budget of Sh12.01 billion in the review period.



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