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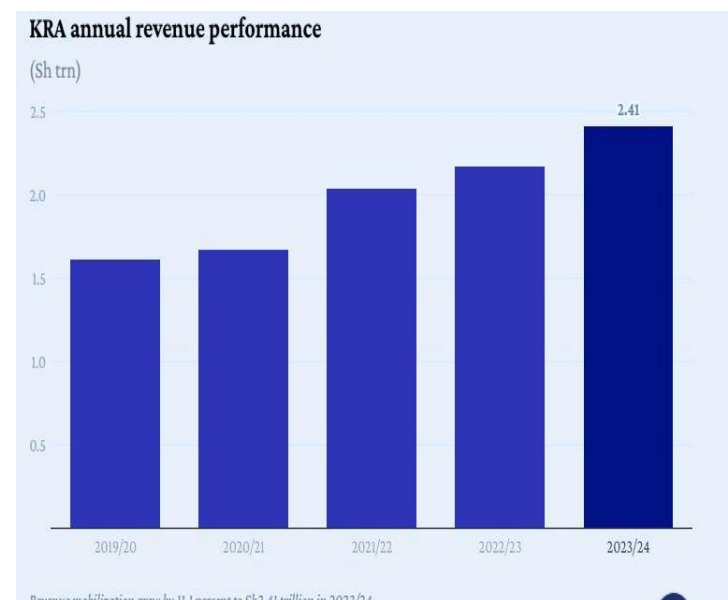
Edition 58

Treasury Stares at \$510 hole as tax laws collapse.

The decision by the Court of Appeal to void the Finance Act 2023 has left the government with a \$510 billion hole in its budget for the current fiscal year while also exposing the true level of the Kenya Kwanza administration tax increments that sparked widespread protests. The National Treasury filed a notice of appeal at the Supreme Court against Appellate court decision, saying it stands to lose \$164 billion in revenue if the provisions of the Finance Act 2023 are removed from the country's tax laws. This will be in addition to the \$346 billion in new tax revenue that the government has lost after the Finance Bill 2024 was deleted due to pressure from protesters, forcing the Treasury to publish expenditure cuts and raise borrowing targets in a Supplementary Budget that is under debate in Parliament. Treasury taps \$22bn emergency loan from CBK

The Finance Act 2023 had increased a number of taxes, most notably doubling the VAT on fuel from eight percent to 16 percent and raided the payslips of top earners with two new tax bands of 32.5 percent and 35 percent applied on income above \$500,000 per month. The reversal of the fuel VAT is likely to have the biggest impact on consumer pockets due to the transport factor in the cost of goods, and also on energy bills. It will also ease the pain caused by the recent increase in road maintenance levy from \$18 to \$25 per litre of petrol and diesel. The Finance Act 2023 also introduced a 1.5 percent Housing Levy, but this will stay in place as the irregular process that initially introduced it was remedied by the enactment of the Affordable Housing Act earlier this year. All the other clauses in the 2023 Finance Act have been voided by the court ruling that the Constitution was

regularly ignored in passing the law, particularly in the introduction of items that were not subjected to public participation. The Finance Act 2023 helped the government raise its tax collection by 9.5 percent or \$193 billion to \$2.223 trillion in the just ended 2023-24 fiscal year, as per filings made by the Kenya Revenue Authority (KRA) last month.



The KRA's total revenue collection—which incorporates taxes, ministerial appropriations-in-aid (AiA) and other levies—stood at \$2.407 trillion, falling short of the target of \$2.52 trillion. The revenue was, however, 11.1 percent higher compared to the \$2.166 trillion collected in 2022-2023.

KRA Fined KCB, Spire Bank \$2 bn for remitting tax late.

Kenya Commercial Bank (KCB) and Spire Bank paid Kenya Revenue Authority (KRA) \$2.1 billion and \$152.2 million, respectively, in fines for delayed remittance of taxes. The penalties were enforced in the year ended June 2023, according to KRA's latest annual report. Spire Bank has since ceased operations after Equity Bank Kenya acquired some of its assets and liabilities in January last year in a

deal that ended heavy losses for the small bank's former majority shareholder, Mwalimu National Co-operative Savings and Credit Society Limited. The authority received a total of Sh2,134,239,152.54 from KCB and Sh152,247,266 from Spire Bank being payment for penalties incurred due to delayed transfers of revenue taxes to the KRA collection accounts at Central Bank of Kenya (CBK)," the taxman said in its latest annual report. These penalties were accrued before the enactment of the Tax Laws Amendment Act of April 2020, which classified penalties there from as part of tax debt enforceable under tax laws. Treasury stares at Sh510bn hole as tax laws collapse. The KRA added that it sought and received approval from the National Treasury to use the penalties amounting to \$h2.2 billion for priority projects in its ICT strategy and capital items approved by its board. KRA has had several disputes with banks over their role as tax collection agents, specifically for failing to hand over the taxes collected from businesses and individuals. According to the KRA Act, agents appointed by the taxman should transfer the tax revenue to the designated CBK accounts within two days following the collection date. Failure to transfer these funds attracts a penalty equivalent to two percent of the revenue collections that were not transferred. The penalty is also compounded every other day on the revenue that is not transferred.

Firms get a six – month deadline to register Kenya domain web addresses

Firms handling critical services such as telecommunications and security have six months to register their web addresses on Kenyan internet domains, the Communications Authority of Kenya (CA) has said, in a move aimed at safeguarding their cyber safety. CA said the decision was made during a meeting of the National Computer and Cybercrimes Coordination Committee (NC4) on March 14, 2024. NC4 is a multi-agency entity that

coordinates national cyber security matters and facilitates international cooperation in dealing with computer and cybercrime matters in Kenya. Director-General said in an August 1, 2024 notice. The designated critical entities include mobile communication and internet connectivity firms, judicial institutions, the country's electoral body, and national security agencies. Local Web addresses increase six percent Others are national health institutions, food quality, safety and research entities, aviation systems and railway and road transport support services such as licensing and ticketing bodies, as well as power generation and transmission structures among others. As pot check shows that among notable organisations that have not complied with the order include Airtel Kenya, national carrier Kenya Airways and the Kenya Seed Company, all of whose web addresses are suffixed with the dot com domain, as well as the Kenya Agricultural & Livestock Research Organisation (KALRO) which uses dot org. Proponents of the local domain argue that it makes it easy for businesses and other entities to access the target market and loop in designated clients, adding that it also encourages interactions with the specified market.

The Kenya Network Information Centre (KeNIC) is the body mandated with the registration and issuance of the domain in the country. During the first three months of this year, the number of registered dot. ke domains grew 2.3 percent to stand at 108,338 up from 105,936 in December, according to CA data. During the period, the .co.ke sub-domain recorded the highest market share of users at 84.8 percent.

Real estate, trade top banks first quarter loan defaults

Businesses in real estate, trade and agriculture sectors hit banks with \$h30.9 billion loan defaults in three months ended March, topping the list of defaulters amid a rise in interest rates. Latest Central Bank of Kenya (CBK) reviews of the first quarter of the year shows the three sectors posted the highest jumps in non-performing loans, forcing banks to cut their exposure by reducing lending.

Real estate added the stock of gross non-performing loans (NPLs) by Sh15.4 billion to Sh117.1 billion at the end of March this year from Sh101.7 billion at the end of December last year. Trade followed real estate, with NPLs surging by Sh8.3 billion in the same period that the agricultural sector hit banks with an additional \$h7.2 billion in defaults. During the same period, building and construction, personal and household and energy and water followed with NPLs increasing by Sh2.1 billion, Sh1.8 billion and Sh 0.7 billion respectively.

Car importers, win as KRA Switches to new tax system



Importers of used cars are set for a fairer and lower tax burden at the Mombasa port as the Kenya Revenue Authority (KRA) moves to adopt a new taxation system that relies on the value of the units at the point of shipment. This will mark a departure from the existing system where the taxman takes the current retail selling price (CRSP) from formal dealers such as CFAO Mobility Kenya and Inchcape Kenya and depreciates it to arrive at the value of an imported car. The CRSP is the price template used by the KRA to compare the actual invoice value of the car and uses the higher of the two. The customs value is then calculated by applying the depreciation to the CRSP value. The excise duty, import duty, value-added tax (VAT), and import declaration fee (IDF) are all calculated from the customs value. CRSP has been discredited for inflating the value of used motor vehicles and the

taxes levied through a mix of KRA's arbitrary actions and inaccurate information supplied by the new vehicle dealers, with Mombasa's High Court suspending its review in October 2019 until KRA conducts public participation to guide a new price list. Forester at Sh6.39 million while the same vehicle had a showroom sticker price of \$h4.38 million. Kenyan car buyers hit by 35pc import duty in EAC deal Used vehicles imported from overseas markets like Japan, the UK, and South Africa are charged an import duty at the rate of 35 percent, excise duty ranging from 25 percent to 35 percent, depending on the size of the engine and value-added tax of 16 percent. The taxes are paid cumulatively and in that order starting with the CRSP that provides for a maximum depreciation rate of 65 percent based on the eight-year import limit. This means that a higher base price results in a larger tax burden. In the petition that was filed by the Car Importers Association, KRA was found to have arbitrarily used higher price lists that left some importers with unexpected additional tax burden running into millions of shillings. The KRA now says it intends to ditch the CRSP and replace it with a taxation system based on the value of the vehicle imports at the point of shipment, shifting to actual prices paid by importers as the starting point for computing taxes. The move comes after the taxman relied on the old CRSP for years, stopping it from further jacking up taxes on what would have been an annual frequency. The taxman says it will conduct public participation on the proposed change, noting that this will include physical engagements with associations of used vehicle dealers in Mombasa and Nairobi in September and October. Besides lowering the tax burden and entrenching fairness, the proposed system is expected to inject dynamism in the used vehicle market since importers will incur different tax bills depending on the prices they negotiate with their overseas suppliers.

Deposit rate hits 25-year high as banks woo savers

Commercial banks have raised interest on deposits for the straight to an average rate last seen 25 years ago in bid to entice savers in the wake of attractive returns from other asset classes

including government paper. Central Bank of Kenya (CBK) data shows banks closed May with an average deposit rate of 11.13 percent from the previous month's 10.77 percent, increasing returns on deposits for savers. The rise in interest on deposits has been accompanied with a jump in the cost of loans, allowing banks to maintain or raise their lending margins. Banks have increased the indicative interest rate to 16.6 percent the highest in eight years, only beaten by 17.91 percent in February 2016. The rise in deposit rate has forced banks to keep increasing rates on loans to maintain their margins above five percent amidst a pile up in the stock of non-performing loans.

Treasury defers Sh 55 bn payments on burst budgets.

The National Treasury has deferred payments totaling Sh 54.5 billion to the current financial year on the back of additional funding for the operation and administration of offices as well as remuneration of staff which were not in originally approved budgets. Disclosures from the Treasury show more than 30 State departments and agencies had their recurrent budgets reviewed upwards by \$57.26 billion in the course of the last fiscal year that ended June, pointing to inherent poor projections in expenditure plans. The additional funding pushed recurrent expenditures to Sh1.36 trillion in June compared with Sh1.30 trillion estimates at the beginning of the year. The cash requests, granted through two supplementary budgets, largely hit payment of retired public servants and disbursements of equitable shares to the 47 counties. Payment of pension and gratuity to retirees — a priority disbursement under Public Finance Management law — fell short of the targeted budget by Sh 40.14 billion to \$148.95 billion, while counties received Sh30.83 billion less than \$385.42 billion for the year ended June 2024. Treasury stares at \$510bn hole as tax laws collapse. As a result, the Treasury has won approval from lawmakers to carry over payments of \$30.8 billion

to the current fiscal year ending June 2025 despite heightened budget cuts after the plan for new and higher taxes collapsed.

Treasury has further been allowed to increase the pension bill by Sh23.7 billion, the bulk of which will cater for payments that were due last year amidst President Ruto's directive that all public workers exit immediately after they reach retirement age. This came despite an earlier commitment by the Treasury to reject cash requests beyond what was originally approved, except for critical sectors such as security and education. In order to maintain the primary balance consistent with the fiscal consolidation path, expenditures have to be maintained at the levels approved in printed estimates the Treasury officials said in the Budget Review and Outlook Paper for the fiscal year ended

June. In this respect, additional spending pressures will be accommodated within the approved ceilings, that is reallocation possibilities, except those of the security and education sectors. Article 223 of the Constitution, activated through Section 36(9) of the Public Finance Management (PMF) (National Government) Regulations, enables State offices to spend as much as 10 percent above the cash approved by the National Assembly. The Constitution requires the Treasury to table in the House a mini-budget two months after the withdrawal of unbudgeted money from the Consolidated Fund without the approval of the Members of Parliament.

Commuters pay extra on illegal online taxi fares

Pay by ride-hailing firms such as Uber and Bolt.

A growing number of passengers in Nairobi have reported cases where digital taxi drivers have

printed price lists with higher fares than those indicated on the apps whenever a rider requests a ride. Additionally, the operators have illegally set minimum fares at Sh300, which in most cases lead to confrontations with passengers at the time of payment.

For instance, a spot check showed that some riders are now compelled to pay an extra fare of between Sh100 and \$h200 for trips priced at between Sh500 and Sh1,000 on the official taxi-hailing apps. For trips priced at between \$h300 and \$h 500 on the official app, riders are now paying an extra amount of between Sh100 and Sh150. We will not be able to operate under the rates of Uber, Bolt, and Faras. Uber warned its drivers against the illegal charges and urged aggrieved passengers to report all cases of illegal fares for disciplinary action.

Banks tap Sh4trn in CBK support on cash crunch

Commercial banks have raised their reliance on the central bank of Kenya (CBK) for liquidity support this year as the sector pays the price for reduced government payments and high interest rates that have made it expensive to mobilise deposits from customers. Lenders have cumulatively tapped Sh4 trillion from the CBK through the reverse repurchase agreements (repo) since the beginning of this year, and another \$h81 billion through the CBK's daily lending facility, which is known as a discount window. The amount tapped by banks in the review period has been revealed by market sources. The liquidity injection in the form of reverse has already surpassed the total for the whole of 2023 (\$h2.93 trillion), with skewed distribution of liquidity also a factor behind the increased reliance on CBK. Repos, the discount window and term auction deposits (TADs) form the CBK's revolving credit facilities, used to either inject or mop up liquidity from the money markets. big banks sought rescue loans from CBK Reverse are a form of securitised borrowing by banks from the regulator, using their holdings of Treasury bills and bonds as collateral.

The higher spend by the government in debt service has had the consequence of restricting the cash available to make payments on pending bills, starving businesses of capital that would eventually find its way into bank accounts. In the 2023-24 fiscal year, counties also received Sh30.8 billion less than the Sh385.4 billion due to them in equitable share of revenue from the national government, affecting their ability to settle their own dues to creditors. The reliance of banks on the repo market is also indicative of skewed distribution of deposits in the banking sector, where a few large banks hold the bulk of the sector's liquidity. Latest CBK data shows that the sector remains well funded overall with a liquidity ratio of about 50 percent compared to the statutory minimum of 20 percent, but some smaller lenders have had to turn to the regulator for support in meeting their daily cash requirements due to the uneven distribution of these funds. Sign-ups on CBK bond platform cross 80,000 Since the reopening of the horizontal repo market in August 2023, banks have lent a total of \$h101.4 billion to each other through the facility, with Sh67.8 billion out of this total having been transacted between January and July 2024.

FSD now targets small firms in East Africa with Sh39bn debt fund

Development - focused agency financial sector deepening (FSD) Africa wants to set up a debt fund in Kenya and raise \$300 million (\$h38.9 billion) worth of debt and equity for investing in micro, small and medium-sized enterprises (MSMEs) in East Africa. FSD says the SME debt fund will be a local currency permanent capital vehicle domiciled in Kenya and regulated by the Capital Markets Authority (CMA). The fund is targeting initial fundraising of \$100 million (Sh12.97 billion) with an average ticket size of between \$0.5 million (h65 million) and \$5 million (Sh650million). It will use the money to finance MSMEs through a combination of direct investment (25percent) and indirect strategy (75 percent). Debt financing most popular among

Kenyan MSME start-ups, says new report Setting up an SME debt fund in Kenya expands the funding opportunity for MSMEs through the public market by tapping into the pool of domestic capital to finance economic growth sectors. The fund will provide avenues for domestic institutional investors to diversify while fostering a robust and inclusive financial ecosystem for MSMEs and powering their job creation potential.

Banks cut lending as high rates increase defaults

Kenyan banks have continued to cut their lending to the private sector amidst the high interest rates that saw defaults on loans reach an 18-year high, reflecting the increased Borrow in costs. Latest data released by the Central Bank of Kenya (CBK) shows that outstanding loans owed to commercial banks dropped by 1.5 percent, or about \$h61 billion, in the two months to June, coming on the back of a series of drops over the last six months that have seen gross loans fall by a cumulative of close to \$h200 billion. This came amidst a rise in interest rates on retail loans, which went as high as 26 percent in February, causing defaults to hit an 18-year of over \$h640 billion, or at about 16.1 percent of gross loans in April this year, triggered by CBK's high policy lending rate.

The value of outstanding loans has been on a downward trajectory since January, falling from a high of \$h4.2 trillion at the beginning of the year. Deposit rate hits 25-year high as banks woo savers. New loans extended by banks to the private sector have also recorded the slowest growth in five years, posting a measly 4 percent increase in June, compared to 4.5 percent in May, levels last seen in February 2018. This has been the trend over the last year, coming as the CBK effected a series of policy

lending rate hikes, hitting 13 percent in December last year, the highest level in over 12 years. The high Central Bank Rate (CBR), which is the base for monetary policy operations including managing inflation, had put banking sector credit out of reach for many Kenyans, who increasingly lost appetite for new loans. The CRB was cut to 12.75 percent with CBK saying inflation had fallen and the exchange rate stabilised. Last year, Kenyans closed more than 1.5 million loan accounts, the first drop in over five years, an indication that people increasingly shunned credit in the face of the high interest rates. The apex bank lowered the base rate for the first time in four years, on account of the easing inflation, stable shilling, and a positive macroeconomic outlook, handing borrowers a reprieve in loan-servicing costs. Already, the amount of non-performing loans (NPLs) has dropped, perhaps in anticipation of the lower rates that were expected amidst improving fiscal and monetary conditions over the last few months.

Credit Bank to sell Edermann land over \$h817m in defaulted debt

Credit Bank is free to sell Edermann Property's land in Mavoko Municipality after the developer defaulted on a loan of more than \$h817 million. Part of the land hosts a sewage plant run by Mavoko Water & Sewerage Company (MWSC) which has lost a case that sought to stop Credit Bank from disposing of the property. In an application at Nairobi's Court of Appeal, MWSC argued that it needed to be in control of the parcel of land hosting the sewage plant and had already entered into a sale agreement with Edermann. The court however said that the entire land had been offered as security to Credit Bank which has a right to seize it after the borrower defaulted. State saves 1.3m borrowers from loan defaulters listing. The applicant has not disputed the outstanding amount which keeps accruing interest and the default by the 1st respondent. To that extent, we would agree with

the 2nd respondent's submissions that the applicant is but a surrogate of the 1st respondent (Edermann). The ruling was issued on July 26, 2024. Edermann owed Prime Bank Sh817.8 million as of August 16, 2023 and the amount continues to accrue interest and penalties. Edermann is one of the largest developers of low-cost houses, with most of its projects located in Machakos County. The developer has taken multiple bank loans to fund its projects. MWSC told court that the sewage plant risks being handed over to a private individual should the land be auctioned as a whole. The agency operates and manages the plant for and on behalf of approximately 30,000 residents of Mavoko on a plot measuring 0.177 hectares (0.43 acres).

State Saves 1.3 M borrowers from Loan defaulters listing.

Lenders have removed more than half of personal loan accounts from negative listing in the past five years to December 2023 on the back of key State interventions, including partial debt cancellation and outlawing listing of small ticket loans. Latest data from Credit info, one of the three licensed credit reference bureaus (CRB) in Kenya shows new individual negative listings—a tag given to loans reported to CRBs for being in default—fell by 1.27 million accounts to a new low of 933,551 at the end of last year from 2.2 million in 2019, translating to a 57.7 percent reduction. The negative listings declined by 203,098 last year alone compared to 1.13 million booked in 2022. The findings are contained in Kenya's credit market landscape report released by Financial Sector Deepening (FSD) Kenya, Credit info and Credit Information Sharing Association of Kenya (CIS Kenya)—the umbrella body for CRBs and credit providers. The report also showed negative listings of companies fell from 7,289 in 2019 to 2,665 at the end of last year, marking a 63.4 percent reduction.

Treasury eyes Sh 78bn in New IMF Budget support.

The Government eyeing a drawdown about \$600 Million (Sh 77.9 billion) from the international Monetary fund when the institution's executive board approves the seventh review of Kenya's medium-term funding programme. Central Bank of Kenya (CBK) Governor said that the IMF drawdown is part of the revised external borrowing target of \$360 billion in the current year, with the government confident that it will meet revenue and fiscal deficit performance targets to unlock the funding. In June, an IMF staff team concluded the seventh review under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF), and the second review under the Resilience and Sustainability Facility (RSF) programme. The review, according to an IMF release, saw the total remaining funding under the EFF/ECF programmes adjusted to \$976 million (Sh126.7 billion) and also unlocked \$120 million (Sh15.6 billion) under the RSF. The programme runs until April 2025. Kenya's fiscal tightrope post-IMF program landscape Dr Thugge has however put the total remaining amount under the IMF programme at \$1.4 billion (Sh181.7 billion).

Scrutiny of the public debt register urgent

The 15 percent ordinary revenue growth (projection) in the fiscal framework for this year is quite reasonable, and should be able to meet revenue targets and the consolidation path towards achieving the debt sustainability target and debt anchor of 55 percent debt to GDP ratio by 2029. He added that the Treasury met the targets on the amount of new debt and debt guarantees that it contracted in the period. The revised budget for the 2024/2025 financial year shows a fiscal deficit of

Sh773 billion, to be financed through domestic borrowing of \$h413 billion and external loans worth \$h360 billion. The deficit as a percentage of GDP is thus projected at 4.3 percent of GDP, falling to 3.3 percent in 2025/2026.

Safaricom Ethiopia Subscribers hit 4.6M in June

The number of Safaricom Ethiopia's active subscribers grew to 4.6 million in the quarter ended June, representing additions of about a quarter million clients. The company, a subsidiary of Nairobi Securities Exchange-listed Safaricom Plc, had 4.35 million 90-day active customers at the end of March. The performance of the Ethiopian business has been disclosed by Safaricom's parent firm Vodacom Group Limited in its latest quarterly results. Given the early-stage nature of our business in Ethiopia, Safaricom publishes a quarterly update for this market. For the first quarter (ended June 2024), our 90-day customer base in Ethiopia reached 4.6 million ... with total sites built up to 2,900.

The active subscribers had grown from 2.7 million in the same quarter last year. Vodacom said that Safaricom is set to post double digit growth in earnings before interest and taxes (EBIT) in the financial year ending March 2025, helped by improved performance in Kenya and peak losses in the start-up Ethiopian business. Ethiopia tops Kenya's foreign assets on Safaricom entry. As reminders Safaricom has also provided full year (FY) 2025 EBIT guidance for its overall business, Kenya and Ethiopia. The midpoint of guidance for the overall business implies 12 percent EBIT growth reflecting another year of good growth in Kenya, and a peak of losses in Ethiopia. This guidance, provides a more constructive outlook for our associate (Safaricom) income in FY2025 compared with FY2024. Safaricom reported a net profit of Sh62.9 billion in the year ended March 2024, a slight rise from Sh62.2 billion the year before. The performance captured the loss of Sh42 billion in the Ethiopian subsidiary in which Safaricom holds a 51.67 percent stake.

Private Sacco credit growth slows to five year low

Lending to the private sector by commercial banks grew by four percent in the year to June 2024 compared to 13.9 percent at the beginning of the year, the slowest pace in five years, hurt by the and households due to higher interest rates. This is the slowest pace that private sector credit has expanded in percentage terms since February 2019 (3.4 percent), when lending to the private sector was still under the constraints of the rate cap. The annual growth to June 2024 translates to an actual increase of about \$h146.1 billion in new loans to hit \$h3.798 trillion in June 2024 from Sh3.652 trillion in June 2023. Growth in private sector credit is one of the key indicators of economic growth, given that bank loans are the primary source of new capital for businesses seeking expansion and therefore creation of employment. The Central Bank of Kenya (CBK) considers credit growth of 12 to 15 percent to be sufficient to support the healthy growth of the economy. Firms reduce dollar loans as shilling strengthens. The Governor noted that with an adjustment for the exchange rate valuation of loans, credit growth would be at 6.6 percent, from 8.3 percent at the end of 2023. By the end of June, foreign currency-denominated loans accounted for about 26 percent of total loans in the banking sector. On local currency loans, by the end of December 2023 that credit grew by 15 percent, but owing to the tightening of monetary policy, that has decelerated to 10.2 percent. The credit denominated in foreign currency has had a sharp decline (from 10.9percent to minus 13.3 percent) reflecting the appreciation of the exchange rate. In 2023, when the shilling weakened by 21 percent to the dollar, there was no significant inflationary effect on credit growth, suggesting that banks had started to ease back on actual lending over that period.

Private sector credit growth(%)

*As at March 2024



Why credit-only microfinanciers are seeking CBK digital licenses

Non- deposit taking microfinance banks are being forced to apply to digital credits licenses to continue issuing loans in the absence of standalone regulations for their lending business as provided for in law. The Central Bank of Kenya (CBK) has now moved to enforce the requirement amid an outcry from the credit-only microfinance institutions (also known as non-deposit-taking microfinance institutions), which are already licensed under the Microfinance Act of 2006. The regulator's enforcement is on the back of the October 2022 court case in which the High Court held that non-deposit-taking microfinance institutions be treated as digital credit providers (DCPs) and therefore subjected to the CBK (Digital Credit Providers) Regulations that started in the same year. The Microfinance Act of 2006 covers both deposit-taking and non-deposit-taking microfinance banks. The CEO of the Association of Microfinance Institutions Kenya (Amfi), an umbrella body for microfinanciers, confirmed the development. How CbK Can streamline licensing process for digital credit providers. MS Karanja appealed for the speeding up of the process of coming up with separate regulations for non-deposit-taking

microfinance institutions as provided for in law. Are using technology and commercial banks use technology too. Are they called digital credit providers? Our credit-only microfinance institutions who are under the Microfinance Act are the ones now being subjected to apply for DCP licenses.

The development means that the credit-only microfinance institutions will be subjected to regulations such as not listing defaulters of loans of Sh1,000 and below and not charging interest that exceeds the principal owed at the time a loan falls into default. Digital lenders book early wins from CBK licensing. Only the 14 deposit-taking microfinance banks under CBK regulations were spared from the DCP regulations, which have a clause indicating that they are not applicable to institutions licensed under the Banking Act, Microfinance Act, 2006 and Sacco Societies Act, 2008. Amfi had argued in court that their services are not offered solely on digital platforms like DCPs hence they should not be lumped together with DCPs. However, this was thrown out, with the court observing that credit-only microfinanciers were yet to be regulated as contemplated under Microfinance Act 2006. The lobby took issue with the fact that no regulations had been finalised under section 3 of the Microfinance Act but the judge held that it is within the sole mandate of Parliament to decide when to legislate, what to legislate and how much to legislate and to decide the timing, content and extent of legislation.

Treasury bill interest rates in sharpest drop in four months

The interest rates on Treasury bills fell by the sharpest margin in four months signaling lower risk perception on government debt after the Treasury defined this year's borrowing targets. Auction saw the rate on the 91-day T-bill decline by 0.18 percentage points to 15.81 percent (from 15.99 percent), while the 182-day paper's rate fell to 16.71 percent from 16.85 percent. This marked the first rate fall on the two papers since the April 15, 2024 auction, when the 91-day rate declined by a percentage point to 15.73 percent and the 182-day by 0.4 percentage points to 16.46 percent. The 364-day rate, however, remained little changed in sale

at 16.91 percent. Youth-led protests. The intervening period since the April contraction has seen a stable rise in the rates on the papers, coinciding with a period of fiscal uncertainty due to youth-led protests that led to the withdrawal of the Finance Bill 2024. Treasury defers Sh55bn payments on burst budgets Investors thus opted to put their cash in the 91-day tenor as they awaited firm numbers from the government, while also demanding higher rates to cover against Risk. Central Bank of Kenya (CBK) Governor Kamau Thugge disclosed that the government would be looking to borrow \$413 billion from the domestic market in the current fiscal year, and Sh360 billion from external lenders. Budget deficit. The President also assented to the Supplementary Appropriations Bill 2024, which formally cut expenditure for the national government at Sh145 billion, lowering the budget to Sh3.847 trillion.

Treasury bill rates

Under the supplementary budget, therefore, should be able to reduce domestic borrowing by almost \$200 billion, which should reduce pressure on Treasury bill rates. The step that the CBK has taken by reducing the base rate (to 12.75 percent from 13 percent) should also cut pressure on interest rates going forward. The June budget had set the fiscal deficit—net of grants—at \$1597 billion, out of which the domestic debt market was due to contribute \$263.2 billion worth of net financing, and external lenders \$333.8 billion. CBK seeks Sh50bn amid bond rates standoff.

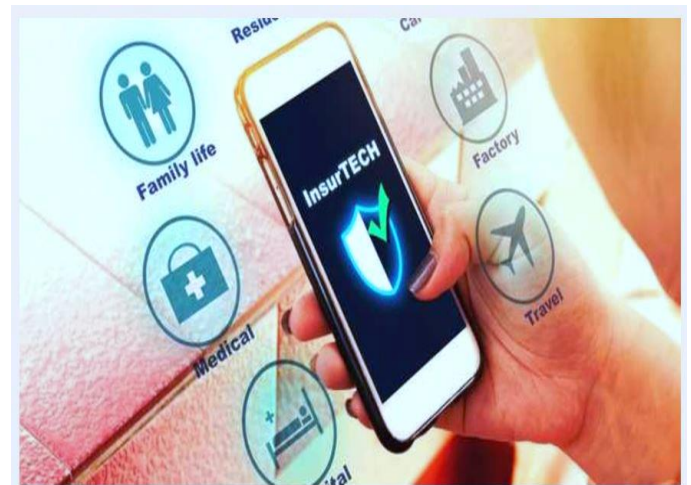
Car buyers turn to Cheaper Models on elevated costs

Kenyans have resorted to buying cheaper motor vehicles on elevated cost of imports and running expenses including fueling at the pump, official data shows. Fresh data shows that the number of vehicles imported in the half year ended June rose 16.87 percent to 35,409 but their value dropped slightly, indicating that individuals and second-hand dealers turned to shipping in more cheaper models. The number of vehicle imports increased from 30,297 units a year earlier. The jump came in the period when the value of the vehicle imports amounted to \$418 million (about Sh54.34 billion at current exchange rates) compared with \$424 million (Sh55.12 billion) in the same period a year ago, according to provisional data by Central Bank of Kenya (CBK) and the Kenya Revenue Authority (KRA). The drop in the value of motor vehicle imports bucked a trend in orders for machinery and transportation equipment, which grew 28.1 percent to \$1.92 billion (Sh249.6 billion) in the six-month period. The Kenya Auto Bazaar Association, which represents second-hand car dealers, said there has been a trend where buyers are changing preferences based on pricing. Car importers win as KRA switches to new tax system Buyers who had planned to buy a Toyota Prado, for instance, are ending up buying Toyota Harrier or a Nissan X-Trail to cut costs of acquisition as well as operation and maintenance. The lobby's secretary-general, most banks have also tightened lending conditions for dealers and buyers of motor vehicles amidst growing default rates, hurting acquisition of high-value vehicles which also consume more fuel. This has come a time consumption of motor petrol for the half-year period through June fell 2.9 percent to 986.2 million compared with a year earlier, data from Energy and Petroleum Regulatory Authority shows. This was despite petrol prices falling to an average of Sh189.84 per litre in June from \$212.36 average in January. Most of the banks have become very careful about who to finance. So you find that you apply for a loan, but it will not be approved because of low turnover of your business.

Offshore investors shun T-bonds after downgrades

Foreign investors have shunned government bonds on anxieties arising from recent sovereign ratings downgrades, trimming the interest rates on Treasury bonds amid the sale of two re-opened infrastructure bonds (IFBs) this month. Analysts said offshore investors foreigners have cut down their stake in the February infrastructure bond, which had registered heavy offshore interest—pre-empting subdued interest in the August tax-free bond whose auction closes on today. There is uncertainty as to whether foreign investors will be keen to purchase the IFBs in issue given recent developments in Kenya including ongoing government protests and the Moody's downgrade of both the country's sovereign rating and top three banks' long-term deposits and issuer ratings. Notably, foreign investors are factoring in these developments in their investment decisions as evidenced by the selloffs witnessed in July 2024 of the February IFB analysts at Sterling Capital observed in a fixed income note. Offshore investors have expressed massive interest in the last infrastructure bond auction in February, supporting fresh foreign exchange inflows into the economy and anchoring a turnaround for the then-battered Kenya Shilling. offshore interest was partly stimulated by the government's move to buy back part of its Eurobond notes maturing in June, which ended investor jitters on a potential sovereign default. Despite the observed appetite for the infrastructure bond, holdings of the students by the non-residents remained modest at just Sh834 million at the end of March, according to data from the National Treasury's third quarter economic and budget review. The minimal holdings point to the likelihood of subsequent selloffs by offshore investors as evidenced by the IFB's high turnover in secondary trading at the Nairobi Securities Exchange. The bond has, however, sold at a premium driven by the appetites of other investors who had missed the opportunity to buy the paper at its primary auction in February.

Britam Signs up six fintech to its accelerator program.



Insurer and financial services provider Britam has signed up six fintech start-ups to a three-month pre-incubation programme under its innovation hub dubbed BetaLab. The six startups will focus on building solutions to business gaps in finance and insurance. Their innovative solutions have the potential to transform the financial services industry and improve the lives of Kenyans the director of partnerships and digital at Britam. The incubator programme is expected to equip the start ups with tools and support to scale the businesses. This will include networking opportunities with potential investors, partners, and customers. The top three performers from the 12-week programme will qualify for incubation within the Beta Lab programme. The six start-ups picked for the incubation programme include Zereba, an application offering a deposit-free rental marketplace and streamlines real estate transactions; Amsha- a savings platform tailored for young adults and Adapo, an equity crowdfunding platform targeted at small and medium enterprises and startups. Other beneficiaries are Chama zetu, a digital platform transforming the management of chamas Pesa flex which offers cost-effective bank-to-bank transactions and Medicod AI a platform

leveraging artificial intelligence to optimise medical coding and billing processes.

Win For KRA as tribunal upholds Sh 1bn Chinese firms tax Claim

China Communications Construction Company (CCCC) has failed to quash a Sh1 billion tax demand by the Kenya Revenue Authority (KRA) after the Tax Appeals Tribunal dismissed its request. In a blow to the Chinese state-owned firm, the tribunal agreed with the KRA that CCCC was involved in an elaborate tax avoidance scheme as the transactions it was using to claim value-added tax (VAT) input did not support a reasonable commercial transaction. How Chinese firm registered subsidiaries to evade Sh1bn in taxes. The Chinese firm stated that it purchases a lot of materials in its line of business, which allows it to claim input VAT from the transactions. The KRA on its part dismissed the claims saying there were supplies or services as stated but the transactions were created for the sole purpose of transferring money to China and other overseas destinations. Further, the KRA said CCCC failed to furnish the commissioner of intelligence with delivery notes that bore comprehensive details regarding the delivery of the goods, and the suppliers themselves were frivolous and not anchored in law. The tribunal finds that the respondent's testimony showed that the totality of the Appellant's transactions did not support a reasonable commercial transaction. It was instead an elaborate scheme to avoid payment of tax in Kenya

NSE Upbeat as five firms added to key stock market indices.

The Nairobi securities Exchange (NSE) is eyeing a boost in foreign investor participation following the inclusion of five more Kenyan listed companies in Morgan Stanley Capital International's (MSCI) frontier market indices. MSCI said that Co-operative Bank of Kenya will be added to its frontier markets index, joining Safaricom, Equity Group, East African Breweries Plc (EABL) and KCB Group. It has also added BAT Kenya, KenGen, Kenya Re and DTB Group to its frontier markets small cap index. The inclusion of these additional companies

widens the pool of stocks that are visible to foreign investors at the NSE, potentially boosting foreign inflows at a time when the market has generally seen net outflows from offshore investors. The latest changes will take effect after the close of business on August 30, 2024, the MSCI said in its review notice dated August 12. The MSCI carries out quarterly reviews on its indices every February, May, August and November, allowing it to introduce or remove constituent companies and adjust their weighting within an index. The reviews are meant to give investors an up-to-date picture of the state of an exchange, allowing them to make informed investment decisions.

VAT collections exceed target by Sh6 billion

Cooking gas, solar product prices to rise on felled Finance Act 2023 They further amended Section 16 of the Income Tax Act providing that effective January 1, 2024, only invoices generated through the electronic Tax Invoice Management System (eTIMS) would be used in determining deductible expenses in computing corporate income tax. Following an outcry from businesses, the latter deadline was extended to March, meaning all businesses to onboard eTIMs from April 1, with the KRA required to monitor transactions and have visibility of claims of value-added tax refunds by companies. The collections were also partly boosted by higher VAT rates on some commodities, including fuel where the deductions doubled to 16 percent from the previous eight percent. This was part of the wider IMF-backed aimed at restricting zero-rating for VAT purposes to export of goods and services while limiting exemptions to goods supplied in raw form. The KRA views the rollout of the eTIMs, whose implementation is now in question ~after the Courts ruled the Finance Act unconstitutional, as a measure that will finally make VAT a top revenue generator. Deductions from individual and corporate earnings remain the biggest tax revenue stream for the KRA. As it is now if there's one tax head that every single person is

paying is VAT. Even to a small child on products which are not exempt [VAT is applicable]. Everybody is incurring VAT Commissioner for Domestic Taxes Department Rispah Simiyu said in an earlier sensitization forum on eTIMS. Total VAT collections, including receipts from imports, amounted to \$h645.49 billion, a 17.27 percent growth over Sh550.44 billion a year earlier. Income tax—taxes on payroll and profit by corporations and enterprises—remained by far the biggest generator of taxes, crossing the Sh1 trillion mark for the first time to Sh1.04 trillion in the year ended June 2024 from Sh941.58 billion the year before. Kenya external public debt dropped by 5957 billion in the six months to June 2024, as the shilling appreciated against major foreign currencies. The external debt dropped from Sh6.089 trillion as of the end of December 2023 to \$h5.15 trillion on June 30, 2024, latest reports from the National Treasury show.

Strong shillings cuts external debt stock by sh 939 bn

Comparing the stock of external debt as of June 2024 and December 2023, it is noted that the external debt stock had reduced by approximately \$h939 billion (15.4 percent) majorly due to strengthening of the Kenya shilling exchange rate against major currencies during the period said the Treasury in submissions to the National Assembly's Public Debt and Privatisation Committee last month. In the six months to the end of June, the shilling gained between 15 percent and 22 percent value against different foreign currencies through which the government has borrowed. Overall, Kenya's public debt totalled Sh10.56 trillion, composed of Sh5.15 trillion external debt and \$h5.41 trillion domestic debts. Firms reduce dollar loans as shilling strengthens. This represents a decline in \$h579 billion from Sh11.14 trillion or 69.1 percent of GDP in nominal terms as of end of December 2023 said the Treasury. While the domestic debt stock increased by \$h360 billion during the six months to June, the Treasury said

external debts dropped by \$h939 billion, mainly on account of the stronger shilling.

The huge reduction in the external debt stock was witnessed as the local currency gained value against the US dollar, the euro, the Chinese yuan and Japanese yen, the major currencies against which Kenya has borrowed externally. Exchange rates against the US dollar came down from 153.15 units as of December to 129.5 units when June ended, the euro reduced from 168.22 units to 138.86 units, and the yen dropped by 22.25 percent to 80.75 units in the six month period. The exchange rate movements had a huge impact on the composition of Kenya's public debt, seeing the scales tilt in favour of domestic debt by the close of June, as the proportion of public debt to gross domestic product (GDP) dropped from 69.1 percent to 65.5 percent. In December, external debt stock accounted for 54.7 percent of Kenya's Sh11.139 trillion public debt as of then, which came down to 48.8 percent of the Sh10.56 trillion as of June 2024. Public and publicly guaranteed debt comprise Sh5.15 trillion (or 48.8 percent of total debt) in external debt and Sh5.41 trillion (or 51.2 percent of total debt) in domestic debt.

Borrowing between banks rises record Sh 577bn on low liquidity

Banks borrowed a record Sh 577 billion from each other last year as the high interest rate environment forced them to rely on the interbank market to meet funding requirements. Fresh data from the Kenya Bankers Association (KBA) shows that the borrowings, which are recorded as placements with other banking institutions under the assets column, jumped to 7.5 percent of the industry's total assets compared to four percent in 2022. The rise in the placements contrasted with a lower share of net loans and advances and investment in government securities as the banks confronted a challenging environment defined by rising credit defaults and fair value losses on Treasuries from elevated interest rates. Local banks accelerated placements with bank in institutions abroad with the deposits and balances hitting \$h515.8 billion from Sh164 billion in 2022 while balances from local banking institutions eased to Sh60.7 billion from \$h107.9

billion according to additional data from the Central Bank of Kenya (CBK). Bank loans shrink by \$200 billion as interest rates soar. KBA, the banking sector lobby, deems the increased borrowings among banks to be a reflection of asset diversification strategies by members in the face of macroeconomic headwinds. Asset diversification was notable, with shifts towards placements with other banks. The shift reflects portfolio adjustments driven by the operating environment and individual bank strategies in response to emerging challenges in the credit market and their varying risk appetites. KBA noted in its 2023 State of the Banking Industry Report. During the year, the CBK aggressively raised the benchmark lending rate to contain inflation and steady the exchange rate with the Central Bank Rate closing the year at 12.5 percent from 8.75 percent in January.

Why banks see renewed pressure on the shilling. Banks however increased their share of cash and balances with the CBK from which they earn a return set at the CBR rate. The banks also increased their share of other assets to 13.3 percent from 11.5 percent. Other assets held by commercial banks include investments in associates, subsidiary companies, joint ventures, properties, and retirement benefit assets. The banking industry's total assets increased by \$1.2 trillion in 2023 to hit \$7.1 trillion or an equivalent 47 percent of GDP. A wider asset base for the industry is important as it determines the revenue generation potential for lenders. Banks for instance generate interest income from loans and advances to customers, Treasuries purchased, and placements with other banking institutions.

August bond sale puts domestic borrowing back on preferred track



The Treasury is back on track on its domestic borrowing plan for the fiscal year after taking up \$88.7 billion in August's oversubscribed infrastructure bond (IFB) sale, which raised investor bids of \$126.32 billion. The State is looking to borrow a net of \$413 billion from the domestic market in the 2024/2025 fiscal year—as per disclosures made by the Central Bank of Kenya (CBK) equating to a prorated monthly target of \$34.4 billion. In July, the Treasury struggled to raise new debt locally as investors held back waiting for clarity on the government's fiscal position following the withdrawal of the Finance Bill 2024 under pressure from youth protestors. The bonds sold in July raised a total of \$10.3 billion against a target of \$50 billion. The poor performance of the July sale saw the government turn to the infrastructure bond for the August issuance, looking to ride on the general popularity of the project bonds to whet investor appetite. This issuance, which targeted \$50 billion comprised two reopened papers—a 17-year IFB that it first sold in March 2023 and a 6.5 year IFB first issued in November 2023. The 6.5-year option raised bids worth \$96.86 billion, out of which the government took up \$74.1 billion, while the 17-year option saw bids of \$29.46 billion, with an acceptance of \$14.53 billion. CBK governor said that the government is looking to borrow a total of \$773 billion, to be financed through domestic borrowing of \$413 billion and external loans worth \$360 billion. The June budget had set a borrowing target of \$597 billion, but this has been revised upwards to partly cover for the foregone revenue due to the cancellation of the Finance Bill.

Pending bills rise by \$29bn as payment reforms drag

The national government's outstanding pending bills rose by \$29.4 billion in the three months to June 2024, despite the Kenya Kwanza administration's talk of eliminating the sticky arrears to suppliers, including contractors. According to the latest disclosures by the National Treasury, the stock of national government pending bills hit \$516.3 billion in June from \$486.9 billion in March. The rise comes amid the continuing probe into the substance of the arrears by the pending bills

verification committee, instituted in June 2023 to audit liabilities falling between 2005 and 2022. The verification committee tabled its first report in May this year confirming that the government owed contractors and suppliers Sh110 billion from an earlier estimate of Sh641 billion. The findings did not however fault other arrears with the committee noting at the time that its pending bills verification process was still ongoing. The lack of budgetary allocations towards the payment of pending bills by the government could derail State's objective to reduce the arrears which continue to pile up. Retail investors dominate State debt with \$294.4bn. The National Treasury has been banking on a shift to accrual basis accounting from the cash basis to significantly reduce the occurrence of pending bills. Accrual accounting records revenue and expenses when transactions occur but before money is received or dispensed. Cash basis on the other hand records revenue and expenses when cash related to those transactions is actually received or dispensed. As at June 2024, the outstanding pending bills as reported by the exchequer comprised \$379.8 billion as arrears owed by State Corporations and Sh136.5 billion for ministries, State departments and other government entities. The State corporations pending bills include payments to contractors/projects, suppliers, unremitted statutory and other deductions, pension arrears for local authorities pension trust and others. The highest percentage of the corporations pending bills belong to contractor/developer projects and suppliers. Ministries and State departments and other government entities pending bills constitute mainly of the historical. The exchequer says it is currently developing a comprehensive strategy to clear all the stock of verified pending bills of the national government over the medium term.

Fitch downgrades KCB, NCBA and I&M on State debt risk

Fitch Ratings has downgraded the credit rating of KCB Bank Kenya, NCBA Bank Kenya, I&M Bank Limited and their holding companies on the back of weakened financial position of the government. The multinational ratings agency said in a statement that it has downgraded the long-term issuer default ratings (IDRs) of the three banks and their bank holding companies (BHCs) to 'B-' from 'B' with a negative outlook given their high sovereign exposure, mainly in the form of government debt securities. The downgrades of the domestically-owned banks and BHCs are driven by the downgrades of their viability ratings to 'b-' from 'b', which reflect the issuers' high sovereign exposure relative to capital and the concentration of their activities in Kenya. The downgrades of KCB Bank and NCBA Bank are also driven by the downgrades of their government support ratings (GSRs) to 'b-' from 'b', which reflect the government's weaker ability to provide support, if required, as indicated by the recent sovereign downgrade. Fitch's 'B-' rating is the lower grade of the 'B' or highly speculative rating. Any B rating indicates that a material default risk is present but there is a limited margin of safety. The B- rating is however closer to CCC+, which is a rating that denotes that default is a real possibility. Moody's took a similar view, downgrading Kenya and three banks—KCB Bank Kenya.

Equity Bank Kenya and Co-operative Bank of Kenya. Fitch said KCB, NCBA and I&M have a "high exposure" to the domestic economy, including government contractors, small and medium sized enterprises and retail customers, which partly explains their high impaired loans ratios. However, Fitch explained that Stanbic, whose parent company is South Africa's Standard Bank, has seen its national ratings unaffected by the sovereign downgrade because of its intrinsic strength and potential shareholder support in case of any challenge. The affirmation of SBK's long-term IDR, which is now one notch above the sovereign long-term IDRs, reflects our view that the bank would retain its capacity to service its obligations in case of a sovereign default and that no restrictions would be imposed by Kenya's government to prevent SBK doing so. Fitch said the bank would not fail in the event of a sovereign default in both foreign-currency and local-currency, given its moderate

sovereign exposure and also its focus on less risky customers, including prime local corporates and subsidiaries of multinationals.

Strong shilling lifts multinationals' dividend income from NSE

Multinational companies holding significant stakes in Kenya's listed firms booked substantial foreign exchange gains on gross dividends earned in the 2023 financial year after the shilling strengthened against the dollar. The gains reversed some of the forex losses the companies had suffered a year earlier when repatriating their dues abroad. An analysis of 15 Nairobi Securities Exchange (NSE) firms that have foreign majority owners or parent firms shows that the dividends earned by these owners rose by 13.4 percent or ShS.9 billion to \$h49.88 billion in 2023, when compared to earnings a year earlier. When converted to dollars at the prevailing exchange rates at the various dates of payment, these dividends rose by 19 percent or \$59.5 million to \$379 million. Companies with large foreign ownership are some of the biggest dollar buyers during their dividend season for onward payment to their external shareholders. NSE sheds \$h33bn in a day as foreign investors sell off. The higher growth rate in the dollar equivalent indicates an exchange gain that reflects the shilling's strengthening this year by 21.2 percent versus the US currency. In 2023, the shilling had shed 21 percent against the greenback.

Industrialists win as KRA blocked from taxing packaging for bottled water, soft drinks

The Kenya Revenue Authority (KRA) has suffered another setback in its plans to tax plastic bottles used to package non-alcoholic drinks after the Tax Appeal Tribunal (TAT) ruled that duty paid on the tubes used to make the bottles should be refunded.

Ruling on a dispute between KRA and Kenafric Industries, the tribunal said the packaging bottles imported by the consumer goods company were raw materials and the Sh10,284,385.59 excise duty paid on them should be credited against the total tax payable on the final product.

It is therefore the Tribunal's finding that the Respondent (Commissioner of Domestic Taxes) erred in disallowing the Appellant's (Kenafric's) claim of excise duty in respect of imported preforms for making plastic bottles for packaging its bottled products under Section 14 of the Excise Duty Act," the TAT said on August 1. This is a big win for many non-beverage manufacturers who use plastic bottles to package their products, and who had also opposed the removal of Section 14 of the Excise Duty Act by Finance Bill 2024, saying it would increase their production costs.

Experts root for uniform plastic recyclers tax regime
In the shelved Finance Bill 2024, the government had proposed to delete Section 14 of the Excise Duty Act, which provides for claims for excise duty paid on raw materials used in the manufacture of excisable products. The KRA had argued that preforms are finished products, noting that apart from modification, a raw material must be part of the finished product, in this case the liquid content, and not just a packaging material, to qualify as a raw material. However, the tribunal, chaired by Justice Robert Mutuma, agreed with Kenafric submission that the drink could not be sold without the packaging.

"This position is supported by the provisions of Section 12 of the Excise Duty Act, which specifies bottled or similarly packaged waters and other non-alcoholic beverages, not including fruit or vegetable juice, as a class of excisable goods that cannot be sold in their state other than accompanied by a type of packaging, in the appellant's case being bottles," added the Tribunal.

The KRA argued that in order for packaging to be considered as a raw material in the manufacturing process, Kenafric, which produces Fresh chewing gum, had to demonstrate how it is used in the value chain, other than for storage

purposes before reaching the final product. The packaging material had to be a component of the final product.

In the Finance Bill 2024, the government had proposed to repeal Section 14 of the Excise Act to prevent beverage manufacturers from claiming refunds on inputs, which in the case of alcoholic beverages included sugar and concentrates in addition to bottles.

Beverage manufacturers, including soft drinks company Coca-Cola and alcohol producer East African Breweries Limited, argued that paying excise duty on inputs and the final product amounted to double taxation.

In the financial year ending June 2022, the government paid excise refunds of Sh1,142,278,736 compared to Sh1,029,885,870 in the previous year, National Treasury data shows. Kenafric said it had paid excise duty of Sh10 on each preform between September 2021 and June 2022, which it wanted to offset against the final excise duty it should pay on bottled water and beverages. The manufacturer was to pay excise duty of \$6.41 on each liter of bottled water and soft drinks, the finished products, against which Kenafric would offset the duty it had paid on the preform bottles.

CBK inks Sh14bn deal with German bank notes printer

Kenya has signed a Sh14.2billion (\$109,422,740) five-year deal with Germany's

Giesecke+Devrient Currency Technologies GmbH (G+D) to print new notes to replace old ones and also avoid possible stock-outs, the Central Bank of Kenya (CBK) has revealed. CBK Governor Kamau Thugge told the National Assembly's Finance and National Planning Committee that G+D replaces Britain's De La Rue. He said the German firm was picked through a classified procurement amid risks of a stock-out of bank notes which would have had

grave economic and security implications for the country. The Classified Procurement process was therefore necessary to avert a stock-out crisis. The procurement was conducted in accordance with the Public Procurement and Disposal Act, and with the approval of the National Security Council and the Cabinet. MPs summon Thugge over 'secret' currency printing contract. The cost of the banknotes was \$109,422,740 using the exchange rate at the date of the contract signing. The contract for 2019 series banknotes was worth \$112,856,000. The notes will bear the signature of Dr Thugge and Treasury Principal Secretary. They will have the year of print as 2024 and will bear new security threads with colour-changing effects that are specific to each denomination. CBK said the rest of the features remain the same as those of the series issued in 2019. De La Rue—in which the government owns a 40 percent stake—shut down its operations in Kenya in the financial year that ended March 2023 for lack of new orders and spent \$12.48 billion to lay off 300 workers, pay lawyers, and write off its assets. Dr Thugge said the CBK embarked on sourcing a new currency printer after De La Rue made a business decision to close down its printing firm in Nairobi's Ruaraka area. The plant was owned by DLR, with the government of Kenya through the National Treasury, acquiring a 40 percent stake in De La Rue Kenya EPZ Limited, a Joint Venture with DLR in 2017. This company printed the 2019 series of Kenyan banknotes until January 2023.

[Kenya extends freezes on New Cereals import tax amid Protest](#)

Kenya has extended a freeze on a two percent levy on imports of cereals including maize, rice, and wheat from East African Community (EAC) member states amid a fallout with traders. Agriculture Food Authority (AFA) Director-General said the freeze on the levy will be in place for a month to allow the regulator to address concerns raised by traders who were opposed to the tax. Have suspended the levy for traders within EAC member states for one month to address all the issues they raised first. In a notice issued by AFA in May, the government had also slapped a two percent levy on the customs value of imports of legumes and pulses including

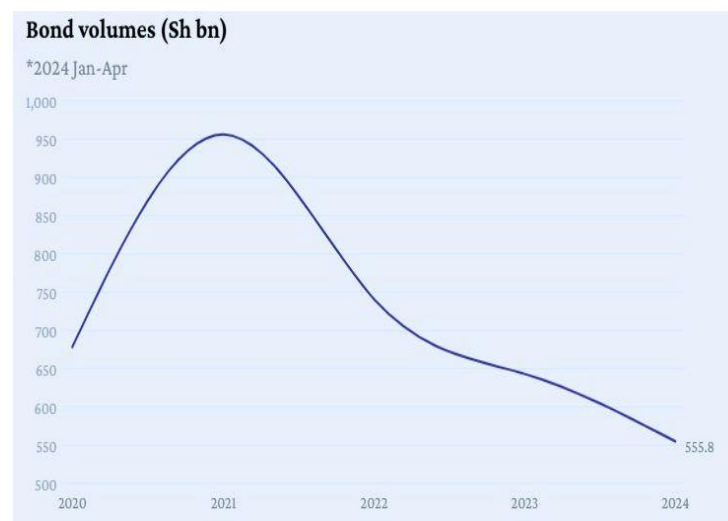
beans, lentils, soybeans, and peanuts. The State also imposed a one percent levy on the import of roots and tubers such as potatoes, cassava, sweet potatoes, and yams. The levies were initially scheduled to take effect on July 1, 2024 but this was later pushed to August 12, 2024. Traders that failed to pay the levy were to face an interest rate of 25 percent on the outstanding amount for the first month in which the trader defaulted. However, a standoff ensued at Kenya's border with Tanzania, as traders refused to pay the newly introduced two percent levy on the customs value of cereals and legumes, which would see them fork out an extra \$20,000 on a truck of maize and \$50,000 on a truck of rice, on top of other charges they have been paying to different government agencies. The boycott caused a blockade of more than 40 trucks carrying rice and maize from Arusha, until the government backed down and allowed the products in without paying the levy.

Banks, stock brokers hits as CBK stops commission on bonds trade.

The Central Bank of Kenya (CBK) will from next month stop paying a commission to stockbrokers, custodian banks and authorized securities dealers who help it sell Treasury bonds, cutting them off from revenue worth hundreds of millions of shillings annually. The CBK has been paying the placing agents—who act as intermediaries between the central bank and buyers of bonds and Treasury bills—a commission of 0.15 percent of the value of the securities they sell on its behalf, net of five percent withholding tax. Primary Treasury bills and bond auctions normally run into tens of billions of shillings, with institutional investors who are the majority buyers of these securities often using banks and stockbrokers to place their bids. In the 2024/2025 fiscal year, the government is borrowing a net of Sh413 billion from the domestic market, which combined with estimated debt redemptions

of rollovers of \$570 billion will see it go to the market for nearly Sh1 trillion worth of security sales.

Why analysts see bond turnover crossing Sh1 trillion this year Such sales go through intermediaries with the potential to generate more than Sh1.5 billion in commissions for banks and stockbrokers, although not all purchases go through third parties. Licensed placing agents will not be paid commission from September 2, 2024," the CBK said in the prospectus of the ongoing tap sale of a 17-year infrastructure bond, which is on sale until August 29 with a settlement date of September 2. The CBK does not disclose the volume of offers originating from such intermediaries. The regulator did not respond to requests for comments.



This Commission was Introduced as an incentive to the stockbrokers, authorized securities dealers and custodian banks to market bonds to their clients, especially local high-net-worth investors and offshore buyers who faced hurdles accessing CBK offices. Market players are linking the exclusion of agents from the commissions' gravy train to the recent launch of the DhowCsD bonds trading platform, an electronic system for buying and selling of bonds that has made it easier to place bids online and on a centralised platform. Before the platform was introduced, bond buyers or their agents needed to fill out manual bid forms and deposit them at CBK offices and branches, and payment was through cheques, bank transfers or over-the-counter at the CBK office. Institutional buyers therefore found it easier to use third parties

when buying bonds, while foreign investors had no alternative but to use a local agent to handle their deals.

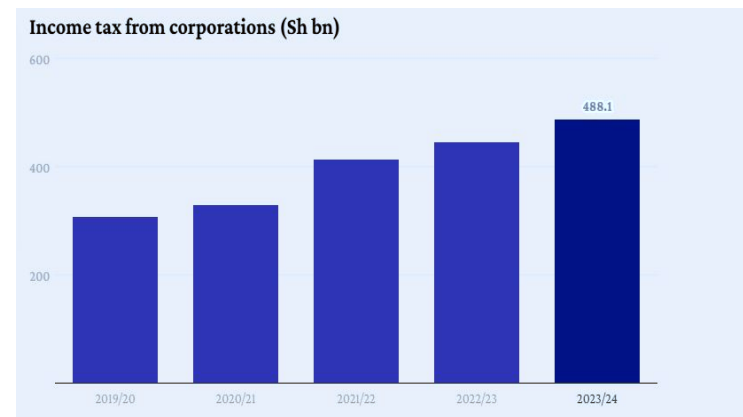
Invesco Assurance placed under statutory Management

The Insurance Regulatory Authority (IRA) has placed Invesco Assurance Company Limited under statutory management, citing unmet financial obligations. The regulator said the Policyholders Compensation Fund (PCF) has taken over the management and operations of Invesco Assurance Company Limited. IRA has with effect from August 14, 2024, placed Invesco Assurance Company Limited under Statutory Management as per Section 67C(2)(i) of the Insurance Act. The Authority has appointed the PCF as the Statutory Manager for Invesco Assurance Company Limited (under statutory management)," Commissioner of Insurance. When a company is placed under statutory management it means that the regulator takes over its core functions, managerial and operational. Under statutory management, the management of the affected company is barred from running its operations. Invesco defaults on Sh53m claims amid liquidity crisis. IRA said Invesco is not authorized to enter into any new insurance contracts. The insurer's existing policyholders are advised to immediately seek alternative covers from other licensed insurers to ensure that there is no unnecessary exposure. PCF will compensate the affected claimants as provided for under the Insurance Act, Cap 487 Laws of Kenya. The IRA's decision extends a streak of struggles the insurer has faced for several years now, including two instances when it has been placed under liquidation, and others when it has been fined for some offences. Last December, the insurer had to rush to the High Court after the IRA stopped it from issuing new covers, following petitions submitted before

the IRA by two claimants. The IRA's liquidation order followed a dire situation where by the end of September 2023, Invesco topped the list of insurers with the highest number of unpaid claims. The insurer had 3.85 million outstanding liability claims, up from 3.69 claims that were outstanding as of the end of 2022. The liability claims meant that even after insured customers approached the insurer to pay claims following losses emanating from an insured risk, Invesco had not settled. By the end of March 2024, IRA data shows that Invesco's outstanding claims were 3.74 million, down from 3.88 million at the start of January.

Tax from business profits, asset transfers suppressed despite higher rates

The Kenya Revenue Authority's collections from profits and proceeds from asset transfers for companies and other businesses have remained in the single digits for two consecutive years amid a raft of new and higher taxes. The KRA collected \$488.10 billion on corporate earnings from operations and capital gains from the transfer of property and shares in the year ended June 2024, up 9.28 percent from \$446.67 billion a year earlier.



The single-digit annual increase in taxes on profits earned by companies, cooperatives and trusts was the second in a row after growing 7.80 percent from \$414.35 billion in the last fiscal year ended June 2023. The collections fell short of Treasury's estimates of Sh579.52 billion for the year ended last June by \$91.42 billion or 15.78 percent, lending credence to the school of thought that President Ruto's administration's increased focus on higher and new taxes will not necessarily result in higher

collections. High taxes no cure for fiscal woes. Former Treasury Cabinet Secretary Njuguna Ndung'u surprised many last week when he joined the chorus calling for Kenya to focus more on increasing tax compliance rather than increasing tax rates. We have to move away from this notion that high tax rates will raise high tax revenue. The reality is the opposite, Prof Ndung'u said while handing over the office. "Because high taxes cannot bring you high tax revenue, what do we need to do? We need to study how we can optimise each tax instrument. Business leaders complained of increased tax pressures as a result of the Finance Act 2023, including the doubling of VAT on fuel to 16 percent and the imposition of a 1.5 percent housing levy on employees' gross salaries, to be matched by employers.

Car and General profit falls 35pc on high costs

Diversified retailer Car & General (C&G) has posted a 35.4 per cent drop in net profit for the half year to June 2024, driven by an increase in finance and operating costs and a higher tax burden. The company posted a profit of \$h62.5 million in the period, down from \$h96.6 million in the six months to March 2023, after moving its financial year-end to December from September. C&G's revenue grew 3.7 percent to \$h10.9 billion from \$h10.5 billion, but costs rose at a faster rate, contributing to the fall in profits. Operating and administrative expenses, which include salaries, rent and utilities, rose 16.5 percent to \$h1.05 billion from \$h900.3 million.

Finance costs increased by 49.7 percent to \$h586.8 million from \$h392.1 million. The company also incurred a higher tax charge of \$h44.02 million, representing 41.3 percent of profit before tax in the period under review, compared with a tax charge of \$h29.7 million, representing 23.5 percent of profit before tax in the previous half year. Listed on the Nairobi Securities Exchange, the company has five different business lines including automotive and equipment distribution, property investment, financial services, poultry and helmet manufacturing. Car & General posts \$h273 million loss on forex, storage costs. The company said it would have reported higher sales were it not for

weaker demand for motorcycles in the Kenyan market. The performance was significantly affected by an 8.7 percent drop in sales at Kenya trading operations. Sales in Uganda have grown 45 percent and sales in Tanzania have grown 13.3 percent. Our trading operations in Kenya have been specifically affected by a 77 percent drop in the overall market for motorcycles since 2022 when market average monthly sales were 20,000 units. Market sales are now 4,000 units per month.

KRA Cleaning garbage budget doubles Sh 859 M

The Kenya Revenue Authority's (KRA) cost for cleaning and garbage services will double to Sh 859 million, after the procurement board stopped its plan to award a single firm part of the contract while blocking three others. KRA had budgeted Sh424 million for the two-year contract covering eight lots in its offices and residential houses, which saw four firms shortlisted to provide the services. When the taxman realized submitted bids exceeded its budget, it decided to terminate bids on five lots and only award three lots that were bid by a single firm, a decision the Public Procurement Administrative Review Board (PPARB) nullified and asked it to award all companies as per their bids. The 1st Respondent (KRA Commissioner-General) be and is hereby directed to reconvene the Evaluation Committee for purposes of forwarding the Evaluation Report dated March 15, 2024 in respect of Tender No KRA/HQS/NCB-034/2023 for Provision of Cleaning and Garbage Collection for KRA Offices and Residential Houses Countrywide for a period of two years to the head of the procurement function for preparation of a Professional Opinion having regard to the Board's findings in this Decision.

Students ordered to register with SHIF before schools reopen.

The Ministry of Education wants all learners to register with the new Social Health Insurance Fund (SHIF) before schools resume. Education Principal Secretary said learners must register as dependents of their parents under the new scheme — which will replace the current National Health Insurance Fund

(NHIF) — before schools resume for the third term. Registration of Kenyans to the Social Health Insurance Fund commenced on July 1, 2024, as a key enabler towards the realization of Universal Health Coverage. All school-going children are therefore required to register as dependents of their parents before school opening dates for third term 2024,” he added in a circular to regional and county directors of education dated August 16, 2024. The new development comes as a major relief to thousands of learners who were left without health insurance after the state terminated the Sh4.5 billion Edu Afya school insurance schemes, leaving more than 3.4 million learners without cover. The Kenya Secondary School Heads Association urged the government to ensure the continuity of the scheme, which expired on December 31, 2023. Students will now be covered under SHIF. Parliament opens probe on secondary school insurance Under the scheme, all Kenyans over the age of 18 will be required to make mandatory contributions to the SHIF, with billions of shillings earmarked to fund universal health coverage (UHC). Kenyan workers will pay 2.75 percent of their gross monthly salary into the SHIF from October 1, a move that will see contributions for top earners increase more than eightfold in an economy

Kenyan banks see forex losses from subsidiaries as shilling strengthens

Kenyan banks recorded currency losses about Sh 50 billion in the first half of the year when translating the financial of regional subsidiaries into Kenyan shillings due to the appreciation of the shilling during the period. The shilling has appreciated between 19 and 31 percent against the currencies of Uganda, Tanzania, Rwanda, Burundi and the Democratic Republic of Congo (DRC) since the beginning of the year, reversing the depreciation of the local unit in 2023, when it was one of the world's worst performing currencies. Regional subsidiaries of Kenyan banks normally prepare their financial statements in their local currency (functional currency), but when they are consolidated into the group, the currency is translated into shillings (reporting currency). This means that there are exchange losses or gains, depending on whether the shilling has strengthened or weakened against

the respective operating currencies of the subsidiaries, these currency translations affect the value of assets and liabilities, earnings and dividends or distributions paid to the parent company. For example, a loan on the books of a Ugandan subsidiary denominated in Ugandan shillings would be worth less when translated into Kenyan shillings on the Group's books if the local currency had appreciated against its Ugandan counterpart. 1&M's foreign exchange loss stood at \$h7.1 billion compared to a gain of \$h2.2 billion in June 2023, while NCBA's translation losses stood at Sh2.87 billion, reversing a gain of Sh1.2 billion in the first half of last year. DTB is yet to release its half-year results for 2024, but in the first quarter of the year, its foreign exchange loss from regional operations stood at Sh6.7 billion. While the regional units contribution has been dampened by forex losses, Kenyan banks have still reported higher profits this year, thanks to high interest rates that have raised interest income. KCB Group led the industry in earnings in the period, with its net profit up 87 percent to \$h29.1 billion. The bank's Kenyan unit contributed \$h21.2 billion to the net profit. Equity Group's net profit rose by 12.1 percent to Sh28.54 billion, with its regional subsidiaries posting a combined profit after tax of Sh13.7 billion.

Cost of running public offices crosses Sh1trn

The cost of operations and maintenance for public offices under the national government crossed the Sh1 trillion mark for the first time in the financial year that ended June 2024, highlighting the rising burden on taxpayers to keep the government running. President William Ruto's government spent about Sh1.05 trillion on operation and maintenance expenses such as supplies of goods and services, transportation, utilities, travel, and repairs, provisional data from the National Treasury shows. The expenditure, in the fiscal year Kenya suffered a considerable \$h280 billion shortfall in ordinary revenue receipts, represents a 21.24 percent jump over Sh866.15 billion in the year ended June 2023. Analysis of the exchequer data shows that operations and maintenance (O&M) expenses have been amongst the biggest drivers of recurrent expenditures over the years, alongside debt service and pension costs. That spurred the government, in the 2024/25 Budget, to outline a raft

of tax increases to get its fiscal consolidation plans back on track.

Higher taxes geared at covering the increased spending for the current financial year ending June 2025 were, however, resisted through deadly youth-led protests, forcing Dr Ruto to shelve the plan. Operational expenses have been the softest target for expenditure cuts this fiscal year after the withdrawal of the Finance Act 2024 left a \$344 billion hole in the budget. Treasury defers Sh55bn payments on burst budgets. The cuts have included the removal of budgets for refurbishments and partitioning of government offices, purchase of new vehicles except for security agencies, halving of renovation expenditure, and reduction of budgets for travel and hospitality. The projected savings are, however, not enough to cover the estimated budget hole, prompting the Treasury to raise the target for borrowing by Sh172.19 billion for the year ending June 2025 to Sh1 trillion. Analysts have maintained that Kenya has an "expenditure problem and not a tax [raising] a problem", indicating that the government needs to tame its expenditure further to achieve a balanced budget where borrowing is kept at minimal levels.

How strong Shillings benefited indebted firms listed on NSE

The strengthening of the Kenya shilling in the six month is to June lifted earnings for Nairobi Securities Exchange (NSE)-listed firms with dollar-denominated loans. For instance, data shows that five companies with such facilities including TPS Eastern Africa, Car and General, Kenya Airways, Umeme, and Sameer Africa booked a combined \$6.2 billion in unrealised exchange gains from foreign currency loans held, contrasting to losses of Sh15.9 billion from a weaker local unit at the same time last year. Indebted firms customarily declare forex gains or losses based on changes in the exchange rate at the reporting stage. In this arrangement, a firm revalue its foreign currency liabilities at the current exchange rate in a record acknowledging gains or losses that would result if the outstanding loan balances were to be settled at the prevailing rate. The forex movements are subsequently posted on the income statement,

impacting a company's profitability. I&M share price up 66pc after half year profit jump. A depreciation in the shilling against major world currencies such as the dollar for instance sees a firm record an un realised loss from its outstanding foreign currency ns. The vice-versa is true.

Access Bank goes into capital raising drive ahead of September NBK acquisition

KCB Group targets completing the sale of National Bank of Kenya (NBK) to Access Bank by September 30 even as the lender says the increase in minimum capital requirements for banks in Nigeria has potentially placed the transaction on the back burner of the market regulator's focus at the moment. Through a circular to all commercial, merchant and non-interest banks dated March 28, the Central Bank of Nigeria (CBN) revised upward the minimum capital requirements for banks in the country including Access Bank, citing the need to enhance resilience and solvency in the banking sector amidst rising headwinds. The notice for revised capital adequacy requirements came just 8 days after KCB had announced entering a binding offer with Access Bank for the latter's 100 percent acquisition of NBK in a deal whose valuation is placed at 1.25 price-to-book multiple, translating to about Sh13.3 billion. For commercial international banks in Nigeria, the minimum capital requirement has been bumped up from the initial 50.0 billion naira (Sh4.1 billion) to the new requirement of 500 billion naira (\$40.9 billion). Why Kenya is losing its shine as Africa's top investment hub. The regulator (CBN) is looking at both a recapitalisation plan and the acquisition. It is public knowledge that Access Bank is doing a rights issue and so they are in the market to raise some capital to meet the regulatory requirements," KCB Group's Finance.

Access Bank opened its rights issue of 17.8 billion ordinary shares on July 8 on the allotment basis of one new ordinary share for every two ordinary shares held looking to. raise 343.1 billion naira (\$28.1 billion) in net proceeds geared to enable the bank enhance its capital base and strengthen the balance sheet. The rights issue, which was initially slated to run until August 14, 2024 was extended to August 23. KCB Group says it has made considerable

progress on the deal having furnished both the central banks of Nigeria and Kenya with the requisite filings and is now expecting a no-objection at any time.

IRA Signs deal to curb Advocates withholding Insurance payouts.

The insurance regulator will intervene in cases where advocates are accused of withholding compensation amid condemnations that insurers have been reluctant to cooperate on complaints. This follows a memorandum of understanding (MoU) the Insurance Regulatory Authority (IRA) entered with the Advocates Complaints Commission (ACC) on to protect Kenyans by easing the settlement of accident claims. The MoU formalises the existing collaborative efforts between IRA and ACC to address concerns related to increased complaints against advocates, particularly in the settlement of insurance compensation claims the IRA said in a statement announcing the agreement. In the year to June 2023, the insurance sector contributed 60 percent of the abuse of buyer power cases investigated by the Competition Authority of Kenya (CAK), with 68 out of the 114 cases. A majority of the cases were on delayed payments. IRA revokes closure of Directline Assurance. The IRA noted that while complaints about advocates withholding insurance claim compensations continue to grow, insurers have been reluctant to provide the ACC—the statutory body mandated to enquire into complaints of professional misconduct against advocates and law firms—with information on settlement of claims. A significant number of complaints lodged with ACC involve withholding of compensation by advocates from settled insurance claims. ACC has faced challenges in obtaining information regarding the status of settlement of claims from insurance companies, hindering its ability to effectively investigate and resolve these complaints. Commissioner of Insurance, said the partnership would boost the integrity of the

insurance industry. This partnership is a critical step in our ongoing efforts to ensure that the insurance industry operates with the highest levels of integrity and accountability. This will be cemented by working closely with the commission, and we are committed to addressing any gaps that allow for the exploitation of policyholders and ensuring that justice is served. Through the partnership, the IRA committed to ensuring that insurance firms cooperate with the ACC whenever it requires such information to strengthen transparency and fair treatment of insurance policyholders and claimants.

DTB 'S Profit Jumps 8.5 Pc on higher interest income.

Diamond Trust Bank (DTB) Group's net profit for six months ended June 2024 grew 8.55 percent to Sh4.34 billion on the back of increased interest and noninterest income. Results released showed net earnings for the group grew from Sh4 billion that had been posted in the preceding similar period last year. Net interest income rose by 8.3 percent to Sh14.2 billion despite the loan book shrinking to Sh267.86 billion from Sh281.17 billion.

KRA set back in Sh79m tax row with ports authority

The Kenya Revenue Authority (KRA) suffered a setback after its demand for a Sh78.5 million withholding tax from the Kenya Ports Authority from expenses on phase two of the Mombasa Port Development Project was dismissed by the Tax Appeals Tribunal. In its judgement, the Tribunal chaired by lawyer allowed the appeal by Kenya Ports Authority (KPA) against KRA's decision which it set aside. The Tribunal further ruled that the taxman was not justified in raising the withholding tax assessment. The dispute arose from KRA's determination that income earned by Japan Port Consultants Ltd (JPCL) for 2020-2022 on contractual consulting services was subject to withholding tax on income of a non-resident accrued and derived in the country.

KRA demanded the tax, arguing that it was due from payments made to KPA on its behalf. The

taxman said the withholding tax due was Sh25.5 million, Sh20.5 million, and \$h32.4 million for the years 2020, 2021 and 2022, respectively.

The Tribunal noted that KRA's argument that KPA ought to have advised its contractor or development partner to withhold income tax borders on an absurdity. It also ruled that failure by KPA to advise a development partner who has not been established as an agent to withhold income paid to a non-resident contractor was not a valid reason for KRA to demand the same from KPA.

Listed banks double interim dividend pay to Sh13bn

Listed banks have doubled their interim dividends to Sh13.4 billion from Sh6.7 billion in the first half of last year, signalling enhanced payouts for the full year ending December. The bumper payouts driven by the reinstatement of dividends by KCB Group. KCB has returned to paying interim dividends at a rate of Sh1.5 per share to shareholders on the back of an 87 percent surge in net profit through the six months ended June to \$h29.1 billion. NCBA Group, Stanbic Holdings and Standard Chartered Bank Kenya have meanwhile enhanced their dividend pay-out in the period to \$h2.25 per share from Sh1.75, Sh1.84 from Sh1.15 and Sh8 from respectively also on the backdrop of improved earnings. StanChart had, however, declared its previous interim dividend at the end of the third quarter in 2023 a shift from the norm of declaring the payout at the six-months point. Absa Bank Kenya has meanwhile retained its interim dividend at 20 cents per share or a cumulative \$h1.08 billion payout. Strong shilling lifts multinationals' dividend income from NSE

KCB has led the way in paying the largest interim dividend payout, which totals to Sh4.8 billion or Sh1.50 a share, ahead of NCBA's \$h3.7 billion and StanChart's \$h3.1 billion. Equity Group, I&M Group, Co-operative Bank of Kenya, DTB Group and HF Group have not declared any interim dividends in the period, keeping in line with their tradition of only making final payouts. The increased distribution to shareholders of listed banks comes amidst the improved industry profitability anchored

primarily on increased lending margins following elevated interest rates in the economy over the last 12 months.

Higher deduction push NSSF cash past Sh 400 bn

The value of pension cash held by the National Social Security Fund (NSSF) crossed sh400 billion in the year ended June 2024, fresh data shows, buoyed by new higher deductions. Data shows that pension cash held by NSSF stood at \$h402 billion, from \$h328.1 billion in December 2023.

This comes on the back of the revised contributions to the fund effective February 2024 which saw Tier I deductions bumped up from the previous \$h360 to \$h420, given the upward revision of the revised lower limit from \$h6,000 to Sh7,000, while Tier II deductions doubled from the previous \$h740 to \$h1,740 in line with the NSSF Act 2013. Tier I deductions are those that apply to pensionable income up to \$h7,000. Tier II deductions are those that apply to pensionable income between \$h7,000 and \$h36,000. NSSF nets additional Sh10 billion on higher member contributions. The total investments held by NSSF increased by \$h73.89 billion to stand at Sh402 billion in June 2024, up from \$h328.11 billion in December 2023. The NSSF internally managed assets amounted to \$h52.50 billion. The overall NSSF portfolio is heavily invested in government securities representing 67.9 percent of total assets, the Retirement Benefits Authority (RBA) states in its latest report. NSSF investing 67.9 percent of its funds in government securities means it is trending significantly above the pension industry's average which stands at 51.1 percent invested in government paper. Available data shows that on average, NSSF delivers a 2.5 percent gross annual return on members' funds based on its performance for the period 2016/17 to 2021/22. The NSSF's internally managed assets amounted to \$h52.5 billion as of June 30th, 2024 while externally managed assets increased by

\$70.8 billion to stand at Sh348.7 billion,” RBA says in its latest report.

The top three fund managers holding NSSF's externally managed funds are African Alliance Kenya Investment Bank which holds the lion's share at Sh77.9 billion followed by Gen Africa Asset Managers at Sh70.8 billion and then Cop-op Trust at Sh63.9 billion. This means that between December 2023 and June 2024, African Alliance Kenya Investment Bank toppled Gen Africa Asset Managers from the top position in holding NSSF's externally managed funds.

Banks defy hard times to report huge profits

Banks have emerged as the big winners in a difficult economy characterised by high interest rates, as companies in other sectors struggle to generate profits and give returns to their shareholders in form of dividends. Companies in sectors such as manufacturing, services, investments, energy and agriculture have reported significantly lower profit growth over the first half of 2024 when compared to banks, whose earnings were boosted by high interest rates. The non-bank firms have cited factors such as reduced demand for goods and services, high cost of credit, exchange rate fluctuations and costlier inputs as some of the reasons for their slow earnings growth.

The 10 listed Kenyan banks collectively reported a 27 percent or \$25.2 billion rise in net profit to Sh19.82 billion in the six months to June, their respective financial filings show. Their net interest income over the period grew by 18.5 percent to \$236.3 billion, while non-funded income was up 13 percent to Sh145.6 billion. The growth in the two income lines helped soften the impact of a rise in cost of funding or interest expense by 54.5 percent to Sh17.1 billion.

Why only banks recorded growth in 2024 quarter 1 Unlike non-bank firms, which have limited options to cushion against economic shocks, analysts say that the lenders have been able to lean on risk-based pricing of loans to protect their margins. The approval of their risk-based pricing plans has enhanced their pricing power compared to earlier

years, widening their margins even in the face of deteriorating asset quality as bad loans go up, and the rising cost of funding, a senior analyst at AIB AXYS Africa, a Nairobi-based investment bank.

The ability of banks to charge higher interest charges has meanwhile been one of the major sources of difficulties for the other companies, which rely on credit to fund their operations and working capital. Manufacturing firms have particularly taken a hit from the increased cost of funding due to their large capital needs. This increase in finance costs, at a time when inputs have also become more expensive, has been a factor behind the reduced profitability of listed companies such as EABL, BAT Kenya and Flame Tree Group. EABL's net profit for the year ended June 2024 fell by 12 percent to Sh10.9 billion, while BAT Kenya's net earnings for the half year to June declined by 24 percent to Sh2.14 billion.

State rental income up 176 pc amid plan to raise rates

Rental income generated from government-owned houses jumped nearly two-fold the year ended June 2024, signalling improved collections even as the Housing Department insisted the proposal to raise rates for civil servants was shot down. The State received a record Sh9.44 billion from rent on buildings and land, Treasury documents show a 176.35 percent climb over \$3.42 billion the year before. The Treasury data shows the rental income for the year ended June exceeded the Sh6.47 billion estimates by 45.83 percent, or nearly \$2.97 billion.

Treasury counterpart, seeking approval to raise the rent for civil servants in 56,892 State-owned residential houses by at least 10 percent to triple the rental rates for some of the State-owned houses. The review also sought Housing ministry moves to triple rent for civil servants

It was noted that the rent rates have stagnated since 2001 for most government housing. Therefore, it remains an avenue that can increase Appropriation In Aid (AIA) for the State department in line with the observations made in the meeting held on September 22, 2023, with you on enhancing

AIA for the State department the letter to Dr Kiptoo dated September 28, 2023.

Kenya to dominate East Africa Investment

Kenya is poised to be East Africa's top investment hotspot for private equity (PE) firms in the next 12 months, a survey shows, driven by the government's push to privatise key firms in diverse sectors such as energy, hospitality, and manufacturing. The 2024 Deloitte Africa Private Equity Confidence Survey shows 28 percent of the polled PE funds say they will focus on Kenya in the next year, making it the most attractive followed by Tanzania and Uganda tied at 22 percent each.

Rwanda and Ethiopia dose the top five attractive countries to PE firms at 18 percent and nine percent respectively. Deloitte says the focus on privatising key firms presents compelling opportunities for investors looking to put their money in Kenya. The government recently approved and published a list of 26 public institutions earmarked for privatisation. The public institutions on offer are from a range of sectors including energy, manufacturing, financial services, and hospitality, presenting an opportunity for investment from diverse PE sources East Africa private equity leader at Deloitte.

Public entities poised for privatisation, particularly those in the manufacturing sector, offer sizable investment potential. The 2023 Deal Makers Africa Annual report showed Kenya last year recorded \$600.3million (\$h77.3 billion) PE investments with 95 deals closed in this period. Kenya beat Nigeria and Ghana which attracted \$493 million (h63.5 billion) and \$291 million (\$h37,5 billion) respectively.

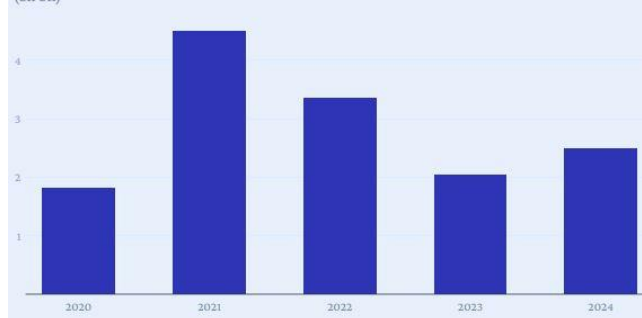
Jubilee Holdings half year earnings jumps 22pc to Sh2.5 billion

Jubilee Holdings net profit for the six months ended June has increased by 22.7 percent to Sh2.5 billion on increased income from insurance, with the

insurer maintaining an interim dividend of Sh2 per share. The rise in half year net profit from Sh2.04 billion the year before came in the period insurance service revenue—which is money from written premiums—rose 28.4percent to Sh12.58 billion from \$h9.8 billion. Jubilee said the growth in profit was driven by increased performance in life and health business lines, riding on improvement in sales, claims control and technology-driven efficiency.

The review period however saw insurance service expenses, mainly made up of claims paid, rose to Sh11.3 billion from \$h9.7 billion. This left Jubilee with a net insurance gain of \$h959.92 million compared with the previous period when it lost Sh107.15 million. On the back of improved profits, Jubilee has maintained dividends at Sh2 per share amounting to Sh144.95 million.

Jubilee Holdings half year net profit
(Sh bn)



Jubilee Holdings doubles its interim dividend to Sh145m. Jubilee Holdings Chairman said the half-year performance and the interim dividend highlights the group's commitment to delivering strong returns for its stakeholders. This performance reflects the resilience of our core businesses and the success of our strategic initiatives, particularly in claims management and cost control. As we move forward, we will continue to capitalize on our solid financial foundation and broaden our product offerings to maintain this positive trajectory.

Jubilee in 2022 rolled out a digital strategy in which it committed to spend \$h2.25 billion, spread over five years, on digital transformation including investing in robotics, artificial intelligence and data analytics as it eyes customised covers and improved service delivery. Jubilee says the digital investment

i having reduced by 40 percent amid improved fraud detection capabilities. so far paying off with claims processing time. The insurer also introduced Maisha Fiti 2.0, the wellness app that includes telemedicine, teleconsultation, self-navigation, community engagement and access to informative articles and events.

NSE banks' deposits expense rises 54pc as rate hits 1998 level

Kenyan banks listed on the Nairobi securities Exchange (NSE) paid depositors 117.1 billion in the six months ended June 2024, marking a 54.5 percent rise as interest rate on deposits soared to levels last seen 26 years ago. The rise in interest expense on deposits from \$75.8 billion highlights the price banks have had to pay as they compete with the government for depositors in an environment where returns on Treasury bills and Treasury bonds have been rising, hitting as high as 18 percent.

Latest Central Bank of Kenya (CBK) data shows banks raised interest rates on deposits to 11.48 percent by end of June, a level only dwarfed by the 17.85 percent that banks were offering customers in May 1998. The 26-year high rates in a bid to avoid loss of deposits have seen commercial banks end up with a higher interest expense, slowing the pace of growth in net interest income in an environment where high interest rates on loans clipped the appetite for loans. Strong shilling lifts multinationals' dividend income from NSE. The biggest driver in our market today is sovereign, not clients. So even with few thousand [of shillings], my customers are saying 'I want to buy a bond' and now we. Have a decision to make between keeping the deposits and allowing them to buy the Stanbic Bank Kenya and South Sudan chief executive officer, In a recent interview.

Financial results for the half-year ended June 2024 shows the increased deposit rate has seen banks' interest expense on customer deposits rise at a faster pace than that of accumulating additional deposits.

Why private equity firms shun NSE when exiting investment

Private Equity Exchange (NSE) as an option for exiting their investments in Kenya and the region due to liquidity concerns firms are shunning the Nairobi securities and a burdensome listing process a survey shows. The 2024 Deloitte Africa Private Equity Confidence Survey shows that 56 percent of PE firms preferred secondary sales to their peers while 32 percent favoured to sell to strategic investors or exit partially. Sales to peers and strategic investors have tended to attract higher valuations, deeming them the best exit strategies for PE firms. Liquidity concerns in East African exchanges and onerous listing processes have raised questions about the feasibility of initial public offers (IPOs) as a viable exit route the survey observes. The NSE has not seen any listing from a PE fund in the recent past even as it struggles to register anew IPOs. Kenya's last IPO was in 2015 when property investment fund ILAM Fahari I-Reit was listed on the NSE after raising Sh3.6 billion. Property fund Fahari starts restricted trading. The apathy by PE firms for Kenya's public markets, however, contrasts with the fact that the country remains a hotbed for PE deals in the region driven by the governments.



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