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Treasury slashes budget by Sh267bn on revenue shortfall

The Treasury has slashed the 2024/25 budget by \$h267.5 billion to reflect the reality of underperforming revenues amid a ballooning public debt.

Total expenditure and net lending for the financial year starting on July 1 is now estimated at \$h3.92 trillion, down from a previous projection of \$h4.188 trillion.

The lower budget estimates mirror expenditure cuts across the board. Day-to-day spending by the State or recurrent expenditure, including wages and salaries and interest payments and pension, is expected to fall by \$h77.6 billion to \$h2.781 trillion from a \$h2.859 trillion estimate earlier.

State costs outpace taxes despite President Ruto's pledge Development spending is once again set to take the largest hit in the rationalisation plans, as the expenditures are now estimated at \$h687.9 billion, down from \$h877.8 billion previously.

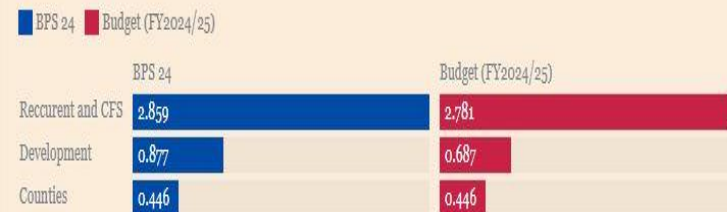
In its budget summary for the 2024/25 financial year, the Treasury has mainly attributed the spending cuts to the drag created by the underperformance of domestic revenues. Following the underperformance of revenues in the financial year 2023/24, the projected revenues in the approved 2024 budget policy statement (BPS) have been revised accordingly to reflect this reality on the baseline. Further, to remain on the fiscal consolidation path, there is a need to contain borrowing and rationalise expenditures to sustainable levels," the Treasury noted.

At the same time, the exchequer has revised down its revenue estimates to reflect the reality of below par mobilisation efforts in recent fiscal years.

The estimate for total revenues has, for instance, been revised down by Sh81 billion --from \$h3.435 trillion to \$h3.354 trillion. Ordinary revenue, which represents tax collections by the Kenya Revenue Authority

(KRA), is now projected to fall to \$h2.913 trillion in the financial year to June 2025 from an earlier estimate of \$h2.948 trillion. Collections from ministerial appropriations in aid have also been set down to \$h441 billion from \$h486.9 billion. The Treasury expects total revenues in the current financial year to come in lower at \$h2.886 trillion from an earlier target of \$h3.047 trillion, reflecting the general underperformance of taxes in the past 12 months.

FY2024/25 budget (\$h trn)



Development spending will take a \$h190bn cut (70 percent of the \$h267bn budget cut)

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[The 2024 / 25 Budget Season is on : here is what you need to know.](#)



If there is one lesson we have learnt from the 2023/24 budget cycle, it is that public participation in the end-to-end process is critical. Courts have underscored the importance of public participation, particularly in the promulgation of laws, as envisioned in Article 118 of the Constitution. Citizens would also be happier if actively involved in the law-making process. Perhaps to forestall some of these potential challenges and given the central role that the budgeting process plays in our economic pursuits, it is useful to recall the budget calendar. The budgeting starts with planning and collation of expenditure estimates of revenues and expenditure. Under the Public Finance Management Act (PFMA), this process kicks off by August 30 each year when the Treasury Cabinet Secretary (CS) issues guidelines on the process. These estimates are set out in the Budget Policy Statement, which is considered by the National Assembly. Not later than April 30 of each year, the Treasury CS is required to submit to the National Assembly the budget estimates and working with the National Assembly, the relevant Bills to implement the national government budget.

Once these documents are submitted to the National Assembly, the legislative process kicks in earnest and the Departmental Committee on Finance and National Planning essentially takes over the budget making process. In particular, this committee runs with the Finance Bill right from tabling it in Parliament, the first reading, second reading, committee stage and third reading before the Bill is passed into an Act of Parliament for presidential assent. Once the Bill is committed to the committee, the committee invites submissions and As memoranda and thereafter holds public participation to listen to views of the public. Many taxpayers as possible should participate in the process and hopefully, the outcome will be a consensus position on matters tax. The public hearings culminate in a report of the committee, which gives the public an idea of the eventual position of the committee and the likely final look of the Finance Act, particularly on contested matters. A common feature in these reports is the tight balancing act between the need to raise more revenues to finance expenditure and supporting economic activity and growth. As ever, the challenge remains imposing tax without destroying the twin pillars of demand and savings. Demand spurs spending, which results in higher indirect tax collections whilst savings spur investment and direct taxes from the income of those investments as well as the employee taxes.

Top insurance firms miss earnings release deadline

Kenya's top insurance companies, jubilee used the deadline for publishing financial results for the year ended December 2023 as they struggle to comply with a new industry accounting standard, denying investors and policy holders a peek into the financial health of the firms. Insurance firms must publish their financial statements before the end of April

and a number of Kenya's insurers have sought approval from the Insurance Regulatory Authority (IRA) to breach the deadlines. Some of them have had their requests rejected. The insurers have struggled with the switch to the new rules on how they report their profits, known as IFRS 17—which aims to make it easier for investors and analysts to compare the performance of the companies. The accounting standard is also designed to smooth out performance by forcing insurers to record profits from long-term policies over the life of the contract, rather than upfront, IFRS 17, which was first published in May 2017, was met with resistance from insurers, who said it would be costly to implement in a short time. The insurers cited high compliance costs from items such as upgrade of IT systems to recalculate millions of contracts each reporting period, advancement of staff skills, hiring of consultants, restating 2022 results and delays in building consensus between their actuaries and auditors over the application of the new rules.

[Treasury marks Sh5trn for loan repayment in five years.](#)

Interest payments on public debts will cost taxpayers ShS trillion over the next five

years, new data by the Treasury shows. In the Budget Summary for 2024/25, the Treasury projects that the government will spend an equivalent of Sh2.8 billion a day on interest payments during fiscal years 2023/24 to 2027/28, underlining the burden of public debt. Interest payments on public debt are a mandatory charge on the Consolidated Fund Services (CFS) and constitute the first item before any other expenditure.

The ShS trillion is the cost taxpayers have to pay lenders for loans the government has spent on projects and non-development activities. CFS allocation During the current fiscal year which ends in June, the government is expected to spend \$h630.6 billion on domestic interest payments, and \$h229.4 billion on external debt interest.¹² This is

expected to rise to \$h260 billion for external interest payments and \$h750 billion for domestic interest payments in the fiscal year starting July, as interest costs are projected to keep rising up to June 2028. The CFS has been allocated Sh1.21 trillion in the FY 2024/25. This includes allocations to cater for domestic interest payment of \$h749.9 billion and foreign interest payment of \$h259.9 billion, pension, salaries & allowances of \$h203.6 billion," the Treasury states in the document. In the domestic market, interest payments will rise to \$h771.2 billion in 2025/26, Sh800 billion in 2026/27 and \$h830.6 billion in the year ending June 2028, it added. Interest payments on domestic debts are expected to total Sh3.78 trillion in five years as the debt service costs continue to take more than half of the taxes collected.

[Workers get up to Sh2,058 in President Ruto raise](#)

The minimum monthly salary of workers will rise by between Sh486.59 and Sh2,058.17 in line with changes announced by President William Ruto Wednesday. The President recommended a six percent increase in the minimum pay amid increased outcry over the increased cost of living and new taxes that have cut the amount of money available for footing bills such as rent, food, and school fees and saving for retirement. The changes, when effected, will see general labourers, including cleaners, sweepers, gardeners, house servants, day guards, and messengers get a rise of between \$h912.10 and \$h486.59 depending on sector and location. Kenya's minimum wage varies by sector and location—covering about 45 separate categories. Those who will see a higher rise, in absolute terms, will be grade I artisans, cashiers, drivers of heavy commercial vehicles, and salespersons working within cities Nairobi, Mombasa, Kisumu, and Nakuru. Their minimum pay will rise by \$h2,058.17 to \$h36,360.92 from the current allowed minimum of \$h34,302. The minimum legal pay is usually

pegged on location, with those working within cities getting a higher pay compared with those working within the former municipalities and town councils of Mavoko, Ruiru, and Limuru. Those working in all other areas get less. Kenya labour market at a crossroads as State milks workers dry Miners, stonecutters, turn boys, waiters, cooks, night watchmen, machine attendants, bakery workers, tailor assistants, junior clerks, vehicle service workers, shop assistants, cars and light van drivers, and copy typists working in areas outside cities, former municipalities and town councils will be on the list of those whose minimum pay rise will be below Sh1,000. The minimum pay of general labourers, including cleaners, sweepers, gardeners, children carers, house servants, day guards, and messengers outside cities, former municipalities, and town councils will be Sh8,596.49 from the current Sh8,109.90. But it may be bad news for tailors and drivers of medium-sized vehicles within all former municipalities and town councils since their minimum pay will rise from \$h23,716.20 to Sh25,139.17, ushering them into pay as you earn.80 per of employed Kenyans poor as wages fail to cover basics. A similar fate will befall grade II artisans, salespersons, dyers, crawler tractor drivers outside cities and former municipalities and town councils, and grade II artisans working within former municipalities and town councils as their minimum pay crosses the \$h24,000 mark. In 2022, the minimum wage increased by 12 percent, marking the first review since 2018. However, the government has generally struggled to enforce the minimum wages, with the gazetted salaries remaining on paper. In 2022, the minimum wage increased by 12 percent, marking the first review since 2018. However, the government has generally struggled to enforce the minimum wages, with the gazetted salaries remaining on paper. Kenya Institute of Public Policy Research and Analysis in its Kenya Economic Report 2023 showed the country is grappling with a rise in the number of people whose wages and salaries are far below the minimum

required to meet the basic needs of food, shelter, and clothing.

[How weak tax collection opened Sh270bn budget hole](#)

The use of technology to seal leakages such as Poor tax mobilisation across nine months of the current fiscal year to the end of March has opened up a \$h270 billion budget hole, new disclosures show. Submissions by the Treasury to Parliament reveal the shortfall in total revenues, which was primarily due to the poor performance of ordinary revenues or taxes. By the end of March 2024, total revenue collected including appropriations in aid

A) amounted to Sh1.855 trillion or 11.5 percent of GDP against a target Sh2.126 trillion

(13.2percent of GDP) resulting in a shortfall of \$h270.7 billion (1.7percent of GDP the Treasury indicated.

This shortfall was mainly attributed to under collection of ordinary revenues by \$h255.1 billion and ministerial A-i-A by Sh15.7 billion. Consumption taxes growth declines to eight-year low Ordinary revenue collection amounted to Sh1.585 trillion or 9.8 percent of GDP against a target of Sh1.84 trillion over the same period. The poor collections signal the slow outcomes of reforms geared towards improving domestic revenue mobilisation in the immediate and over the medium term. The implementation of the Finance Act 2023, which included tax measures such as higher pay-as-you-earn rates for big earners had, for instance, been expected to boost revenue collection leading to a tax effort equivalent to 16.3 percent of GDP in the 2023/24 financial year. Other measures taken to enhance domestic revenue mobilisation have included the strengthening of tax administration by the Kenya Revenue Authority through enhancements of iTax and integrated customs management system and the use of the tax invoice management system. Additionally, the

government has focused on non-tax measures that ministries, State departments, and agencies can raise through the services they offer to the public, including the Ministry of Land, Immigration and Citizen Services.



to improve the tax system's administrative effectiveness, offer uniformity and clarity in

tax laws, and control tax expenditures. The missed domestic revenue targets have partly contributed to the slowdown in disbursements from the Exchequer, leaving the execution of the 2023/24 budget in jeopardy. Total expenditure and net lending for thenine months to the end of March amounted to \$h2.395 trillion against a target of Sh2.787 trillion, translating to a shortfall of \$h392.3 billion. Disbursements to county governments stood at \$h239. billion against a target of \$h310.8 billion, a shortfall of Sh717 billion. After the poor revenue performance, the Treasury has revised spending and collection estimates for the fiscal year to June downwards, a reflection of the mobilisation difficulties. Total expenditures and net lending are now estimated to fall to Sh3.837 trillion from

\$h3.981 trillion while total revenues are seen falling to \$h2.886 trillion from the prior estimate of \$h3.047 trillion, with ordinary revenues at Sh2.452 trillion. Previously, the Treasury cut its budget estimates for the financial year starting July 1to \$h3.92 trillion from \$h4.188 trillion after it assessed below-par revenue performance.

CIC Insurance spends Sh276m on staff exits

CIC Insurance Group incurred \$h275.65 million on a voluntary exit and redundancy programme announced in October last year, as the insurer switched to a leaner structure powered by technology. The group's latest disclosures show that the firm, which targeted up to 75 jobs, spent

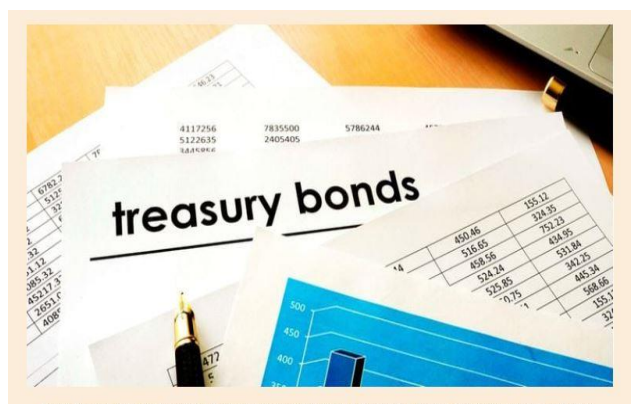
\$h198,69 million severance pay on employees who opted to retire or exit and booked a

further \$h76.96 million as pending payments. CIC announced the redundancy when it had 728 employees at end of October last year but closed December of the same year with 793 employees, meaning that the insurer may have fully replaced all those who exited and hired even more in the period earnings hit a record Sh1.44 billion. Restructuring costs relate to severance pay for employees who opted to retire/exit under the voluntary early retirement/exit programme in the year," said CIC in the latest annual report. CIC maintains dividends on record Sh1.44bn profit

Restructuring costs payable relate to severance pay for employees who opted to retire/exit under the voluntary early retirement/exit programme in the year, and their payments are due in the subsequent year. CIC Group Chief Executive Officer had in October last year said the restructuring came after a detailed review that resulted in adoption of a leaner, flatter and more transparent structure. He explained that the new structure aimed at optimising vital capabilities, eliminating functional and resources duplication, driving cost efficiencies and removing complexities relating to reporting lines. The Sh199 million severance pay pushed up CIC's staff costs to \$h2.69 billion from \$h2.27 billion spent in the previous year when it had 648 employees. CIC mid this month proposed to maintain a \$h0.13 per share dividend amounting

to \$340 million after posting a record \$1.44 billion net profit for the financial year ended December 2023. The record profit was the first full year under new accounting rules dubbed International Financial Reporting Standards (IFRS) 17 that in January last year replaced IFRS 4 that had been in use for 18 years. The new standard saw CIC restate its 2022 net profit to \$157.14 million from an earlier reported figure of \$1.09 billion. The restatement was to make last year's performance comparable with that of 2022, under IFRS 17. CIC plans to pay the proposed dividend on or about July 8, 2024 to shareholders on the (group's register at the close of business on June.

Investors in T-bills, bonds trounced inflation in 2023



Investors in government securities earned the highest inflation-adjusted returns over recent years in 2023 as interest rates on Treasury bills and bonds rose to new highs. According to data from the Economic Survey 2024, the real interest rate for the 91-day Treasury bill rose to a multi-year high of 9.1 percent from just 0.23 percent in 2022. The real interest rate describes inflation-adjusted returns on specific investment instruments by deducting the inflation rate from the nominal rate of return or

interest rate. The average interest rate for the 91-day Treasury bill closed in 2023 at 15.7 percent, with the inflation rate at 6.6 percent. Comparatively, the shortest-dated Treasury instrument closed in 2022 at 9.33 percent against a 9.1 percent inflation rate. Nominal interest rates on government securities soared in 2023 as Central Bank of Kenya (CBK) Governor Kamau Thugge tightened monetary policy by raising the benchmark interest rate to counter weakness in the domestic exchange rate and anchor inflation expectations. Interest rates on Treasury bills drop first time in two years Since taking office on June 19, Dr Thugge has raised the key lending rate three times, setting it at 13 percent in February this year from 9.5 percent, with the first lift coming Within a fortnight to his takeover Real returns on longer-dated securities such as bonds stand even higher, fuelled by aggressive bids as investors seek a hedge to duration risks. The signalling of higher interest rates by the CBK has resulted in not only higher rates on government securities but also commercial bank lending.

During the year under review, the CBK increased the Central Bank Rate to 12.5 percent in December 2023 as part of monetary policy measures. The 91-day Treasury bill rose to 15.7 percent from 9.33 percent in December 2022. The average interest rate charged on commercial bank loans and advances rose to 14.63 percent from 12.67 percent while inter-bank rates soared to 11.65 percent from 5.39 percent. The sweetened risk-adjusted returns are expected to subside this year, with interest rates anticipated to ease due to slowing inflation and a lesser demand for credit by the government from the domestic market due to outsized external disbursements. Higher interest rates have elevated domestic debt service costs for the government while fueling loan defaults in the banking industry.

Half of businesses snub transactions on KRA's eTIMS platform

More than half of businesses on the Kenya Revenue Authority (KRA)'s electronic Tax Invoice Management System (eTIMS) are not transacting on the platform, underlining the government's headache in its efforts to expand the tax base. Latest KRA data show that of the 236,000 businesses that have been onboarded on the eTIMS, only 49 percent are reporting transactions with other businesses, posing a challenge for the taxman even as 679,000 enterprises it had targeted stay off the radar. "About 49 percent of the onboarded taxpayers are transmitting invoices through the solutions that are currently available. Not the optimal. We'd expect that taxpayers onboarding are also using the solutions, the KRA's electronic tax invoice management chief manager. The taxman now says it intends to go hard on businesses to find out why about three-quarters haven't been onboarded and 51 percent of those on the system have failed to transact on the platform. Penalties are among the enforcement measures being lined up. At the point monitoring compliance, we'd like to look at uptake in terms of how many have on-boarded and also checking out of this number, how many are using the solution because that is the true definition of success in this implementation. KRA downplays data privacy concerns on eTims use a grace period up to March 31 when we did not enforce penalties as we gave taxpayers more time to onboard. We've only made about 236,000. So what happens to the rest? It means we need to add a layer of initiatives.

All businesses transacting with other businesses in the country are expected to invoice each other through the eTIMS effective April 1, 2024, with the

KRA preparing to monitor transactions and have better visibility of claims of VAT refunds by companies. The law was meant to become effective on January 1 but KRA extended it to March 31. By close of the deadline, 202,291 businesses had been onboarded, with an additional 34,000 joining since the deadline lapsed. A majority of the taxpayers are onboarding on the simplified solutions, noting that businesses onboarded constitute 26 percent. The simplified solutions include the use of a USSD code, the web application on eCitizen and a newly introduced mobile app on playstore to take care of small taxpayers, while VAT-registered taxpayers remain on the eTIMS platform. The KRA has since last year been in the field engaging players in different sectors, largely targeting SMEs that have for many years not been tax-compliant. The KRA has engaged in talks with farmers from horticulture, tea, coffee and sugar sectors, as well as other professionals such as doctors to bring them on sugar sectors, as well as other professionals such as doctors to bring them on board. The taxman notes that even as the apathy remains for businesses to on-board and transact on eTIMS, high VAT collections have been realised during months when it has gone hard on businesses to present electronic invoices when making VAT refund claims. State picks team to exempt farmers from KRA's eTims. "Most of it is attributed to the rollout of eTIMS. We've had months such as a July 2023 where the growth in VAT went up to 32 percent. That was the time when we had communicated to taxpayers that we would like them to support their expenses with electronic tax invoices and any invoices not within the system would be disallowed. The authority has put businesses trading with others outside the eTIMS platform on notice, noting that they face penalties. There are some who may not be onboard because they don't have all business they are doing right now but for those who are doing business and non boarding, you will find us adding a layer of enforcement, which includes penalties, Ms Wangwe said. pmburu@ke.nationmedia.com Provided by SyndiGate Media Inc. (Syndigate.info)

Kuscco Board Fired After Audit Reveals Sh 6bn Illegal Withdrawal

An audit of the financial records of the Kenya Union of Savings and Credit Co-operatives

(Kuscco) has revealed a rot that has cost the organisation over Sh6 billion in losses,

prompting the dismissal of the board and senior officials. The review, done by American audit firm Grant Thornton, disclosed misappropriation of member funds, illegal withdrawals, cash transfers, and engagement in illegal or unlicensed activities, ostensibly steered by the now dismissed officials. Cabinet Secretary for Co-operatives and Micro, Small and Medium Enterprises (MSMEs) Development said the officials will be surcharged in efforts to recover the lost amount to revitalise the already struggling organisation. preliminary findings indicate systemic deficiencies in the management of resources, including the creative and unreliable financial records. We will pursue all those culpable, all those that are involved, those who will be mentioned, until we recover every shilling owed to Kuscco members.

There were also "suspicious cash transfers to the company secretary of Kuscco Housing amounting to \$h318 million, and to insurance agencies totalling \$h434 million.

Additionally, Kuscco officials also oversaw the illegal extension of credit to senior staff and directors, including a Sh50 million loan to the managing director, Sh4.5 million to the company secretary, and Sh7 million to the head of Kuscco housing co-operative. It is not yet clear if the loans were ever repaid.

The organisation has also lost Sh80.5 million in the double purchase of a piece of land.

Money was also irregularly transferred to the group managing director (Sh67 million) and a total of Sh134 million to two other staff members.

The special audit was ordered by the ministry in January this year, after it was established that Kuscco's books had been audited by unlicensed entities for the last two years, the period when it came under financial distress.

Blacklisted Loan accounts Jump 97 Pc on costly Credit



Data from the CRBs reveal that 7.65 million of 29.72 million accounts were in default by the end of December, up from 3.89 million in March 2023. More than a quarter of loan accounts in Kenya have been blacklisted by credit reference bureaus (CRBs) in a soft economy where costly credit has pushed thousands of borrowers into a debt trap. Data from the CRBs reveal that 7.65 million of 29.72 million accounts were in default by the end of December, up from 3.89 million in March last year. This reflects a jump of 96.6 percent in the nine months to December, underlining a worsening cash flow for the majority of Kenyans who are yet to fully recover from economic shocks of Covid-19 that triggered jobs cuts, salary cuts, freeze in hiring, and business closures. The sluggish business environment emerged in a period that saw local banks increase their lending rates to

match the rising costs of funds as banks and governments fought for funds. The rise in the number of blacklisted loan accounts will jeopardise the chances of millions of Kenyans borrowing more to grow their businesses or for projects. Defaults have remained stubborn into this year with the indicator of gross non-performing loans reaching a 16-year high rate of 15.5 percent at the end of February or Sh599.1 billion in December compared to Sh507 billion in March. Trans Union — one of Kenya's three CRBs— has attributed the rise in defaults to higher borrowing costs in a year when workers' pay slips shrank on increased taxes including the housing levy amid stagnant pay.

Taxpayers to pick up Sh 1.1bn for president Ruto advisors

The cost of maintaining a team advising President William Ruto will cross the Sh 1.1 mark, underlining the burden of hiring consultants in government. Budget documents tabled in Parliament show that the six advisory units will spend Sh1.14 billion in the year starting July, up from \$977 million in the current fiscal year. The high-profile advisers including David Ndii, Henry Rotich and Monica Juma will splurge the bulk of the hundreds of millions on salaries, travel and entertainment. This emerges in an era where the State is racing to cut unnecessary expenditures, such as trips abroad and hospitality spending, to rein in a gaping fiscal deficit. The advice-givers and their support staff will consume \$759 million on pay, travel and entertainment, shining the spotlight on the outsized role of advisers under the Ruto presidency relative to his predecessors Mwai Kibaki and Uhuru Kenyatta. While a string of advisers under Kenyatta and Kibaki preferred to operate in the shadows of Cabinet Secretaries and Principal Secretaries, the consultants attached to the President's office. The rationale is that in presidential systems that Kenya adopted under the

2010 Constitution, the President sits at the apex of policy-making, and therefore, his advisers have executive roles. But this has come with an additional burden to taxpayers: The six advisory units will blow \$280.5 million in salaries and perks for the year starting July, up from \$207 million this year, a 35 percent jump. The budget for the advisers is under the policy analysis and research unit of the State House whose allocation has grown more than tenfold from \$87.2 million in the year of Uhuru Kenyatta's presidency to the current \$977 million. Mr Kenyatta had a loose advisory arrangement with the budget for his advisers not clearly spelt out in State financial statements. Under Ruto, three of the six advisory units that deal with the economy—the office of economic transformation, council of economic advisers and fiscal affairs and budget policy—accounted for more than half of the budget.

President Ruto's planned spending on advisers FY2024/25

Office	Holder	Amount (Sh m)
Economic Transformation	Augustine Cheruiyot	239.4
Council of Economic Advisers	David Ndii	194.5
Women Rights Advisor	Harriet Chigai	129.2
National Security Advisor	Monica Juma	109.7
Fiscal Affairs and Budget policy	Henry Rotich	100.0
Council of Climate Change Advisor	Ali Mohamed	55.1
Headquarters		286.2
Total		1114.3

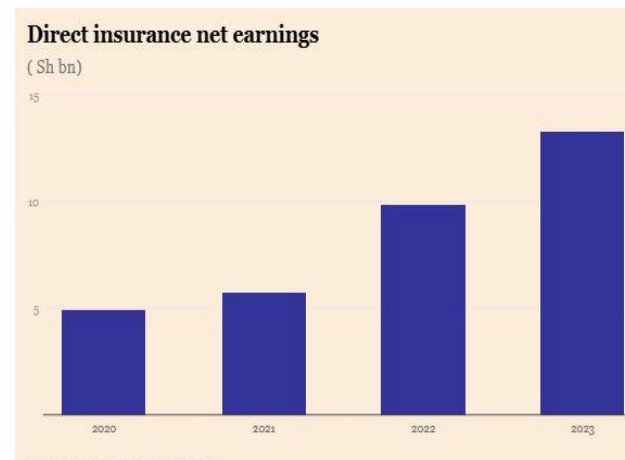
Inside President Ruto's first Sh3.6 trillion budget Mr Rotich was tapped to the position in February after the courts terminated his graft suit, which saw him hounded out of office on the accusation of fraud involving Sh63 billion tenders for two dams. His office has been allocated Sh100 million with travel consuming Sh41 million. These individuals have not only been responsible for the President's recent love affair with econ-speak, but they have also played a major role in crafting and shaping Kenya Kwanza's controversial policy decisions, including

taxation. The little-known Augustine Cheruiyot is the senior adviser and head of the economic transformation secretariat and has largely been pulling the strings from behind the scenes. His office had the largest allocation at Sh239.4 million, with travel and entertainment consuming Sh107 million and Sh35 million respectively. Dr Ruto, who was deputy President in the last government, rose to power in 2022 after casting himself as a hustler, vowing to ease the financial burden on the rank and file. He placed the economy at the heart of his presidency in the middle of high unemployment, sky-high inflation and mounting public debt.

General insurers' profit rises 35 percent

General insurers' net profit for the financial year ended December 2023 grew 35 percent to Sh13.33 billion as increased investment income helped offset the poor performance from the underwriting business in the review period. The latest data from the Insurance Regulatory Authority (IRA) shows the net profit rose from \$9.88 billion posted in the prior period, marking the third straight year of increasing profitability. Net profit had dropped by 45 percent to Sh4.9 billion in 2020 on the back of Covid-19 pandemic disruptions. The review period saw investment income rise by 17.4 percent to \$69.7 billion from \$59.3 billion. The Sh10.4 billion rise in investment income helped grow the net earnings for the general insurers, despite underwriting losses having widened. The increased returns from investments highlight the benefits of insurers' decision to cut their stakes in equities in favour of government securities, which made up 59 percent of the Sh164 billion investment portfolio for general insurers. General insurers cut losses 41 percent to Sh3.7 billion. General insurers' trend of underwriting losses in their mainstay business of insurance. Underwriting losses in the review period widened by 33 percent to \$4.96 billion from \$3.72

billion as claims from commercial vehicles and hospital bills rose sharply. The general insurers' performance mirrored that of long-term insurers where net profit rose by 39 percent to \$5.82 billion, helped by a 39 percent rise in investment income to \$6.8 billion. Long-term insurers' underwriting profit had dipped 57 percent to Sh591.7 million from Sh.38 billion. Underwriting losses—the difference between premiums collected and claims plus expenses paid—were highest in motor and medical business for the general insurers. Losses from underwriting private vehicles fell 35 percent to \$2.6 billion while the loss from insuring commercial vehicles decreased 6.5 percent to \$3 billion. However, losses from medical insurance rose 2.5 times to Sh1.8 billion, leaving the industry with overall underwriting losses in general insurance. Other classes of general insurance that returned underwriting losses include personal accident (Sh18.5 million), aviation (\$70.4 million), and engineering (Sh122 million)



Premiums collected rose by 13.3 percent to \$191.3 billion, being a slower pace than that of the growth in claims paid out. Direct expenses, including commissions, salaries and legal costs, rose to \$45.7 billion from Sh40.4 billion, further hurting the underwriting results. Insurers slash NSE investments to record lows. In terms of market share—measured by the amount of gross premium income underwritten in comparison with the

industry's total—APA took the lead at nine percent, overtaking Old Mutual, which closed at 8.7 percent.

Irony of State entities snubbing KRA's electronic invoice system

The Treasury is on the spot over the failure of ministries, departments and agencies (MDAs) to onboard their services on the electronic Tax Invoice Management System (eTIMs). The National Assembly's Finance and National Planning Committee said it will question Treasury Cabinet Secretary on the reasons behind State entities not listing with the new system. The government had set January 1, 2024, as the effective date for the implementation of electronic invoicing. The deadline was, however, extended to March 30, when all entities whether in the public or private sector, were to be onboarded on the eTIMS. This means that all businesses transacting with other businesses in the country were expected to invoice each other through the eTIMS effective April 1, with the Kenya Revenue Authority (KRA) required to monitor transactions and have better visibility of claims of value-added tax refunds by companies. It is surprising to learn from the Kenya Bankers Association (KBA) that ministries, departments, and parastatals have not been on-boarded on the eTIMS system, the committee.

State House renovations allocated Sh900m



The Treasury has allocated \$900 million to offer State House Nairobi a facelift, making

it the largest upgrade of the 117-year-old building. Budget documents tabled in Parliament show the upgrade budget will increase from \$795.4 million that has been allocated to State House Nairobi in the fiscal year ending this month. Architects had warned that parts of the expansive colonial structure had become unfit for habitation and recommended the construction of a new building. \$500 million will be spent on the construction of buildings, \$250 million on refurbishment, ICT equipment \$100 million and \$150 million for the purchase of specialised equipment.

The upgrade was set in late 2022 when it had a new occupant after President William Ruto rose to power after the August 9 general election. But a biting cash crunch delayed the facelift. It is not clear how much was disbursed to the State House this financial year from the \$795.4 million allocation. The Treasury had signalled difficulties in fully funding the upgrade, informing the staggered disbursement. Sh258m State House, lodges facelift for new President Challenges faced during the review period (FY 2020/21-FY 2022/23) include inadequate budgetary provision leading to pending bills which distorted the implementation of planned programs, increased cost of goods and services and high cost of maintenance of old infrastructure within State Houses and State Lodges, the Treasury states in its budget books. The enhancement comes at a time when the State has ordered all ministries

and State departments to cut their operational budgets for the fiscal year ending June. Kenya is facing deepening economic challenges due to growing debt repayments, rising interest rates and high taxes that have curbed consumer demand. The difficulties in mobilising domestic revenues have forced the Treasury to turn to budget cuts and seal a gaping fiscal deficit. The fiscal policy endeavours to strike an appropriate balance, addressing rising debt and social discontent while recognizing the difficult trade-offs exerted by Kenya's fiscal space that has been exacerbated by continued financing constraints the Treasury added.

Taxpayers will fork out Sh1.558 billion for the year starting July for the refurbishment of State Houses, including the Mombasa facility and State lodges such as Kisumu, Kakamega and Kisii. The State lodges were rarely used by former Presidents—Uhuru Kenyatta and Mwai Kibaki—but Dr Ruto has occasionally held Cabinet meetings in the Eldoret and Kisumu facilities. Built in 1907, State House Nairobi, formerly known as Government House, is an expression of European style and features a protruding entrance with a triangular top resting on columns. The now official residence of the President of Kenya was designed by Sir Herbert Baker with notes available online showing the residency was designed around a large columned patio on an old site that retained existing houses as a servant's wing. The building previously served as the official residence of the Governor of the British East Africa Protectorate when Kenya was a British colony but became the residence of the founding President Mzee Jomo Kenyatta at Independence. State House Nairobi is nicknamed 'the house on the hill' to mirror its topography in contrast with the rest of the Nairobi Capital. State House, KCC top entities with mystery staff. In January, President Ruto indicated he would work away from the official Nairobi residence during the renovations.

KRA seeks data protection waiver to spy on tax cheats.

The Treasury is seeking exemption for the Kenya Revenue Authority (KRA) to access sensitive personal data like details of properties owned and bank accounts operated by taxpayers without a court warrant in fresh efforts to catch tax cheats. Treasury Cabinet Secretary Njuguna Ndung'u has proposed to amend the Data Protection Act, 2019, through the Finance Bill, to allow the KRA unfettered access to sensitive information held by data controllers and processors, including banks, telecoms operators, utilities, schools, land registries and the National Transport and Safety Authority (NTSA). The Finance Bill, 2024 also proposes to integrate the databases of these data controllers and processors with the KRA's digital system, known as the i-Tax, in a far-reaching move that legal practitioners have described as "worrying. Section 51(2) of the Data Protection Act is amended by inserting the following new paragraph immediately after paragraph (b)—(ba) disclosure is necessary for the assessment, enforcement or collection of any tax or duty under a written tax law," says the Finance Bill which has been tabled in the National Assembly. Section 51 (2) of the Data Protection Act 2019 allows data controllers and processors, to share personal data with a third party if it relates to the individual himself purely for personal or household activity and when it is necessary for national security or public interest. Section 51 (2) (c) also allows for exemption if the disclosure is required by or under any written law or by an order of the court. But the KRA does not prefer using this provision in pursuing unpaid taxes. It wants to leverage on increased use of data and linkages between the KRA's systems with third parties such as banks and mobile money platforms like M-Pesa to spy on taxpayers' activities, use of Internet-enabled

cameras at excisable goods processing plants and full rollout of digital electronic tax registers (ETRs) to grow revenue.

How KRA will use computer wizards to catch tax cheats

The KRA's enforcement unit has been using various databases to pursue suspected tax cheats, including bank statements, import records, motor vehicle registration details, Kenya Power records, water bills and data from the Kenya Civil Aviation Authority (KCCA), which reveals individuals who own assets such as aircraft. Car registration details are also being used to smoke out Individuals who are driving high-end vehicles but have little to show in terms of taxes remitted. Kenya Power meter registrations are also helping the taxman to identify landlords, some of whom have been slapped with huge tax demands. The taxman has also sought details of suppliers and contractors hired by county governments in the quest to tighten the noose on individuals and firms evading tax.

The KRA says a sharp increase in imports of luxury goods and multi- million shilling investments in real estate has opened its eyes to a potentially massive tax leakage, which if tapped could yield billions of shillings in additional revenues to the Exchequer.

The argument is supported by the fact that only a few Kenyans have officially registered as belonging to the high-income earners' bracket despite the massive growth in conspicuous consumption, especially in Nairobi. Nicholas Abidha, an advocate of the High Court, wondered why the government allows the taxman to have absolute access to personal data through the Data Protection Act rather than amending Section 60 of the Tax Procedures Act which requires the taxman to first obtain a court order before going after private information. Section 60 of the Tax Procedures Act, which had once been declared unconstitutional by the High Court, requires the KRA to first get a court order before accessing

personal data. Instead what it (government) could do, instead of removing the recourse or the milestone of going to court first, is look into what is the problem with going to court. Is it that when they (the KRA) go to court there are delays and these delays are occasioning also a delay in justice? said Bob Mkangi, a constitutional lawyer and one of the architects of the The Finance Bill also amends Section 59A of the Tax Procedures Act to allow the KRA to establish a data management and reporting system to receive "electronic documents including detailed transaction data relating to those documents. The Commissioner may, by notice in writing, require a person to integrate the electronic tax system authorized under section 75 to the system referred in subsection (1) for the purposes of submission of electronic documents including detailed transactional data in a prescribed manner," says the Bill.

A person who does not comply will be liable, on conviction, to a penalty of Sh2 million for every month that he or she continues to be in breach. This is one of the proposals in the 2023 Medium Term Revenue Strategy through which the administration of President William Ruto aims to increase tax collection to \$2.95 trillion by the end of June next year. In terms of tax collected as a proportion of annual economic output, Kenya has been underperforming other nations like South Africa, State House said.

[CBK seeks Sh15bn from 10-year bond tap sale](#)

The Central Bank of Kenya (CBK) is seeking Sh15 billion from the tap sale of a 10-year paper first issued in March as it stays on the quest of bringing down interest rates and extending the yield curve outwards. Running upon the attainment of the targeted amount, it offers investors a return of 16.2273 percent. The 10-year paper was first issued in March as the longest tenor security in more than a year as the CBK pushed for a return to longer-

dated bonds. The initial issuance had a coupon of 16 percent, signalling guidance on interest rates by the apex bank.

The CBK netted Sh4.8 billion from the first sale at a weighted average rate of 16.5189 percent after it rejected the expensive bids that had set the market-weighted average rate of return at a high of 17.7593 percent. During the same month, the CBK mopped up Sh18 billion from tap sale. The paper was then reopened in April, eyeing a further Sh25 billion. The CBK found success in the paper's reopening as it drove down the weighted average rate of return to 16.2273 percent from 16.5189 percent previously while mobilising Sh10.9 billion. CBK seeks Sh25bn in reopened 10-year bond. At the same time, the market-weighted average rate of return investors targeted eased to 16.6681 percent from 17.7593 percent to signal the cooling down of interest rates in the government securities market. Combined, the paper has so far raised \$h27,7 billion in three auctions that include a tap sale and a reopening. The 10-year paper has seemingly become the yardstick through which the CBK measures the success of its efforts to bring down interest rates in the domestic debt market. Previously, CBK Governor Kamau Thugge had called the peak of domestic interest rates, pointing to changing investor sentiments following the elimination of perceived sovereign risks attached to the redemption of Kenya's debut Eurobond. CBK resists bid to take Treasury bills to 17pc. Further, subsequent budget revisions to lower the quantum of domestic borrowing requirements for the financial year to the end of June and the 2024/25 fiscal year have further firmed up expectations of falling interest rates on government securities.

Debt service costs to fall by Sh66 billion



The government will spend Sh66 billion less in debt service costs for the financial year ending June 30, signalling savings for the Exchequer in the period. Total debt service at the end of the 2023-24 fiscal year is now estimated at Sh1.79 trillion, down from Sh1.86 trillion, according to data from the second supplementary budget estimates by the Treasury. The fall in the debt service costs is due to several factors, including gains made by the Kenya shilling, the partial redemption of the country's debut sovereign bond in February, and lower-than-targeted new borrowing in the domestic credit market. Internal debt service costs are expected to fall the fastest at Sh39 billion to Sh613.9 billion from the previous estimate of \$h653 billion. External debt service is set to fall by Sh27.1 billion, reaching Sh1.18 trillion from \$hi.21 trillion, previously. Falling external debt service costs are due to gains in the domestic currency, which have reduced the size of upcoming payments in Kenya shilling terms. The Kenya shilling has rallied by more than 15 percent this year against the US dollar, resulting in substantive savings in, not only debt service costs but also the public debt stock.

Treasury spends Sh560bn on debt service in two months. In February, for instance, the stock of Kenya's external debt improved in local currency terms to Sh5.65 trillion from Sh6.18 trillion in January, even as external debt in US dollar terms expanded to \$39.38 billion from \$38.51 billion previously. We estimate that we have reduced the

shilling-denominated debt by about Shi trillion if you consider that our external debt stands at about \$38 billion and we have reduced the exchange rate from Sh160 to roughly around Sh130,” Central Bank of Kenya (CBK) governor Kamau ‘Thugge noted last month. That’s 30 shillings, and for every one shilling (gain in the exchange rate) we save the government \$h40 billion. At the same time, interest costs programmed for Kenya’s debut 2014 Eurobond up to June have fallen by \$h32.4 billion to \$h279.1 billion from Sh31L.6 billion signalling the impact of the partial redemption in February.

Domestically, the under-issuance of new securities has saved the Exchequer \$h22.5 billion in interest payments on new loans scheduled for the fiscal year to the end of June. This has offset expected higher internal payments covering funds on-lent to the government by the CBK from the International Monetary Fund and the overdraft borrowings by the State from the apex bank.



Debt service costs in the new financial year starting July 1 are, however, expected to rise to Sh1.85 trillion with interest payments alone expected to touch a high of Shi trillion from \$h846.3 billion. Redemption costs are seen easing slightly to Sh843.2 billion from \$h946.1 billion currently. Debt servicing costs up by \$h216bn on weak

shillingInterest payments on public debt are expected to cost taxpayers at least sh trillion over the next five years, of which \$h3.78 trillion will represent payments of domestic interest. The interest payments on public debt are a mandatory charge on the consolidated fund services and are a first charge item, paid out before other expenditures.

Budget boss loses fight to gain access to county accounts

The Controller of Budget has lost a bid to monitor counties’ bank accounts in real time, derailing efforts to tame the irregularities that have clouded how the devolved units pay contractors and other bills. A top official privy to the matter said that the matter, which saw the Office of the Controller of Budget pitted against the Treasury, the Central Bank of Kenya and county governors, had died a ‘natural death Legislators also failed to adopt a Bill that sought to change the law to allow the Controller of Budget, access the bank accounts. The failed attempt allows counties to escape scrutiny amid growing concerns over massive corruption in the payment of pending bills and other expenditures. Unpaid bills by the counties stood at Sh156.3 billion as at the end of last year, highlighting the magnitude of the delays that have led to business closures and loss of jobs as firms grapple with strained cash flows. The attempt (getting real-time access to the bank accounts) died a natural death, a source privy to the matter and who sought anonymity said without giving details. It is unclear why the CBK and the Treasury refused to grant the budget controller real-time access to the bank accounts. Budget Controller takes fight with Central Bank to Senate Key accounts that the budget controller sought real-time access to include the Consolidated Fund, Equalization Fund, and County Revenue Fund. Granting CoB access to the

bank accounts of the 47 units was key in ensuring that counties would only pay contractors whose payment had been approved by the budget controller besides cutting down on fictitious claims. Besides the delays, scores of contractors have decried demands for bribes by rogue officials at some of the counties to be paid. Some of the counties have been cited for paying fictitious claims at the expense of genuine ones after the CoB approved billions of shillings for the payments. The fixing of fictitious claims has been blamed on the inability of the CoB to track in real-time if the payments by counties match the list of contractors presented to her office for approval. Besides fictitious claims and discriminative payment of contractors, counties have also been flagged for breaching the law on the number of active bank accounts.



Notable counties flagged were Bungoma with 321 accounts, followed by

Migori at 208 and Kwale with 165 accounts. The Office of the Controller of Budget) notes that the County government uses commercial bank accounts to operate the above-established public funds contrary to Regulations 82(1) (b) of the PFM (County Governments) Regulations, 2015 which require that County government bank accounts must be opened and maintained at the Central Bank

of Kenya said in the latest report. The law requires that the accounts be domiciled at the CBK to ensure visibility on how taxpayer funds and money from other sources like grants and loans move in and out of the county accounts. Other counties with many accounts at the commercial banks included. Nyandarua with 88, Kiambu (65), Embu and Murang'a with 37 a-piece. The CoB had started pushing the CBK and the Treasury to grant her office real-time access to the bank accounts of the counties in 2022.

The CBK, the Treasury and CoB are the three offices at the centre of public finance management under the law. Additionally, the CoB had also drafted a Bill that sought to compel the Treasury and the CBK to give the budget controller real-time access to monitor cash movements into and out of the bank accounts of the devolved units. The Controller of Budget Regulations of 2021 did not however sail through in the Senate and National Assembly.

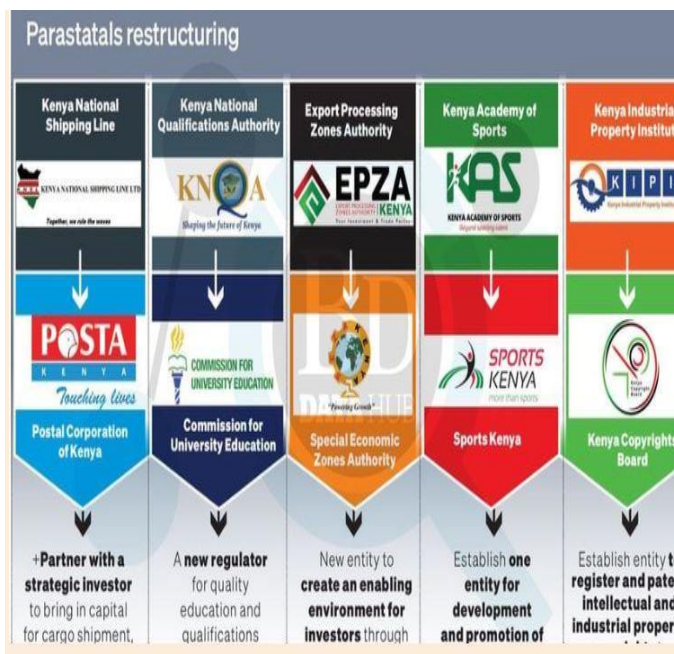
[e-Citizen portal set for forensic audit amid ownership doubts](#)

The e-Citizen portal will undergo a forensic audit to ascertain its ownership, the

amount transacted since its inception, and its integrity, Auditor. She told the National Assembly's Committee on Finance and National Planning that she has raised "very serious" issues about the management of e-Citizen, especially its controls. Have just concluded our annual planning for the audit for the 2023/24 financial year, and we intend to do an in-depth audit on the e-Citizen platform as a matter of priority Mr Kimani sought to know whether the Auditor-General had conducted an audit on the government web-based revenue collection platform to ascertain the ownership, efficiency, and integrity of the system. Engaged the Treasury on who actually owns the e-Citizen, but they said the Auditor-General is

conducting an audit on the platform. Have not been able to know who owns this critical system Mr Kimani said. Have been pushing as a committee to raise non-tax revenue. The e-Citizen generates significant non-tax revenues, but who actually owns this system? Is it government or private individuals? Have you conducted an audit on the e-citizen? The Government Digital Payment System was developed to ensure that individuals and businesses are enabled to make payments for government services electronically through all available channels.

The first 35 parastatals to be merged, axed revealed



The Treasury and President William Ruto's Council of Economic Advisors have identified an initial set of 35 parastatals that will be merged or wound up under the International Monetary Fund (IMF)-backed restructuring that could see at least 20 chief executives lose their plum jobs.

The restructuring will largely lead to mergers of State corporations with duplicating functions as well as winding up of struggling entities and transferring their functions to others, resulting in 15 "well-resourced" agencies. The Treasury team led by Principal Secretary Chris Kiptoo and presidential economic advisory council, chaired by David Ndi, firmed up recommendations for the planned restructuring Thursday last week, according to an official document seen by the Business Daily. The planned IMF-backed reforms come on the back of a financial evaluation for 50 State-owned enterprises (SOEs) which the Treasury said it was undertaking based on audited financial statements for the year ended June 2023. Kenya's 4-point plan to reform struggling parastatal. The Treasury had in the 2024 Budget Policy Statement (BPS) pledged to report the outcome of the evaluation to the Fiscal Risks Committee by the end of this financial year on June 30. The Business Daily has learnt that the Treasury and the presidential economic advisory council teams have from Monday been holding consultative meetings with the managements of the targeted parastatals together with principal secretaries for State Departments under which the entities fall. The meetings will end on Friday. as you are aware, the governments undertaking State corporations reforms to remove duplications, enhance synergy & effectiveness and ensure efficient use of public resources. You are invited together with chief executive officers and management of relevant departments of respective State corporations identified for consultative meeting," Dr Kiptoo wrote in the letter inviting the PSs, copied to parastatal chiefs on May 9.

Fiscal exposure of the 18 major state corporations(Sh bn)

*As at 2019/20

Group	Guaranteed debt	Commercial debt(non-guaranteed)	Conting liabilities
Profitable strategic	42.74	11.89	
Unprofitable strategic	51.90	53.80	
Marginal strategic role	0.00	1.70	4
Service provider	0.00	4.80	
Total	94.64	72.19	5

18 State corporations had contingent liabilities amounting Sh58 billion

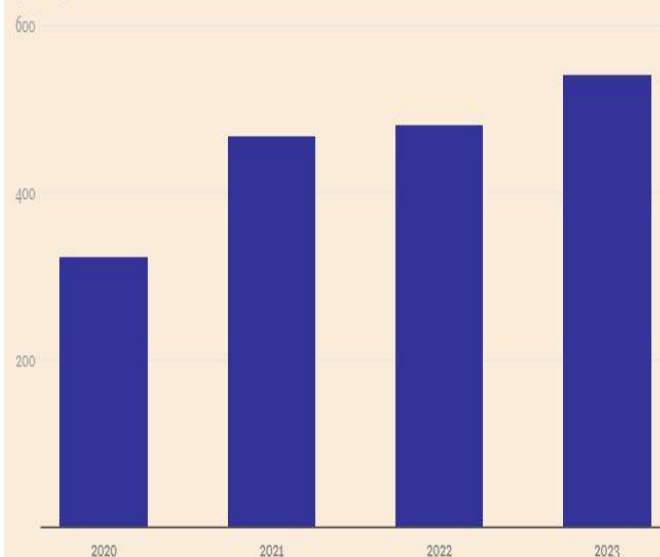
Pending bills verification team clears Sh110bn payments

The Pending Bills Verification Committee has tabled its first report indicating that the government owes contractors and suppliers Sh110 billion, a major reduction from the earlier estimate of Sh641 billion. The committee, however, noted that this does not mean the other claims were unjustified since more demands will be considered in another report expected, Treasury Principal Secretary Chris Kiptoo told the National Assembly's Finance and National Planning Committee that it has received the first verification report on pending bills. Have not factored in the 2024/25 budget provisions for payment of verified pending bills. Received the first report that indicates that Sh110 billion could be payable. Without a budget allocation for the pending bills, more than \$h\$30 billion that is yet to be confirmed is at risk of not being honoured in the next financial year which starts in July. Dr Kiptoo appeared before the committee chaired by Molo MP Kuria Kimani to defend the Treasury budget for the financial year

2024/25. Treasury eyes mini-budget in March to pay billions State owes businesses Last year, Dr Kiptoo told the Budget and Appropriations Committee (BAC) that State entities owe suppliers and contractors Sh641 billion. He said State corporations owe suppliers and contractors \$h407 billion, county governments (\$h160 billion), ministries, departments and agencies (Sh18.3 billion).He told the BAC that a budget will be established to clear the huge debts by September this year. The State is planning to partly use the mini-budget to pay contractors amid renewed efforts to settle the more than Sh641 billion pending bills to ease cash-flow woes businesses are grappling with. Dr Kiptoo told MPs the verification team will present the first list of claims by mid-March, paving the way for including the dues in the supplementary budget. Firms that supplied the State agencies and ministries have been grappling with cash flows due to the non-payment, triggering an uproar from businesses.

Cumulative pending bills for national government

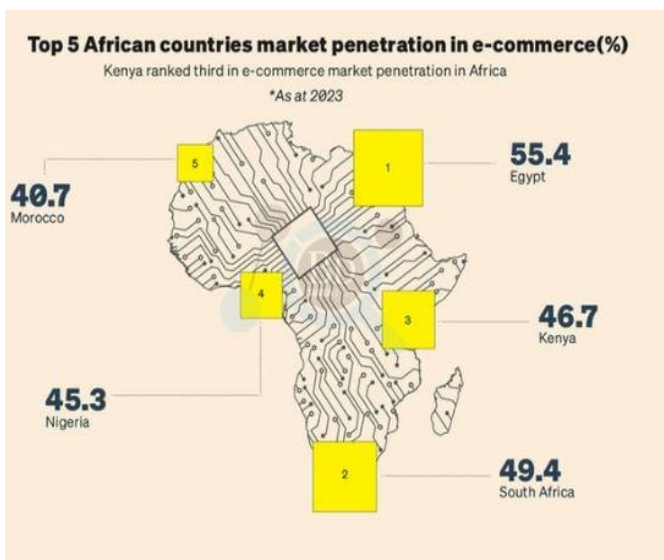
(Sh bn)



Treasury had pending bills amounting to Sh18,790,770,005 that were submitted to the team assessing the bills. This includes material amounts for merchants and GPA/WIBA claims and insurance

premium, Dr Kiptoo told the committee. In addition, the National Treasury has a running outstanding payment of Sh2,216,411,455 in the current financial year owing to budget rationalisation that has been experienced even in the supplementary estimates No 1 for the financial year 2023/24. The total bill is Sh21 billion. Parliament in February opened an inquiry into allegations of diversion of payments meant for suppliers blamed for the growing pending bills. Incomplete projects hit Sh1.3trn amid a pending bills nightmare President William Ruto last June formed the bills verification committee that the former Auditor General Edward Ouko chairs to audit liabilities between 2005 and 2022. Dr Ruto accused his predecessor Uhuru Kenyatta's administration of hiding more than \$200 billion in pending bills from the current budget.

Kenya third in Africa's e-commerce rankings despite local market woes



Kenya has grown to be the third-biggest e-commerce market in Africa, driven by the increase in internet penetration that has made it an attractive market for investors. Statista, a German data and business intelligence platform, has ranked Kenya as the third in the continent's e-commerce market penetration with 46.7 percent. This is behind Egypt, which came top with a 55.4 percent

e-commerce penetration and South Africa (49.4 percent). This is an improvement from being the fourth fastest-growing e-commerce economy in sub-Saharan Africa based on United Nations Conference on Trade and Development's 2020 analysis.

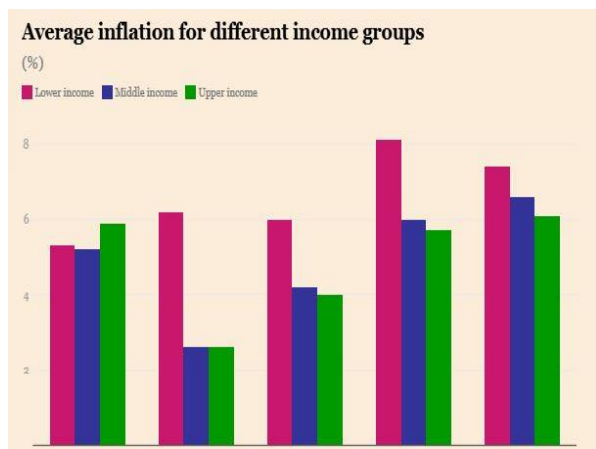
Kenya's improving rankings, however, come at a time when e-commerce companies continue to make big losses that have driven some out of the market. For instance, Jumia which had made accumulative losses of \$87.8 million (Sh11.5 billion) by the end of 2021 recently closed down its food delivery business in Kenya alongside seven other countries in Africa. Kenya food delivery market jinx replays on exit of Jumia Other players, including Sky Garden and OLX, encountered several challenges. In 2020, Statista revealed that e-commerce in Kenya topped in digital revenues with a share of 76.1 percent estimated to the tune of \$1.1 billion. The growth of e-commerce has been fuelled by the implementation of the digital economy blueprint targeting ICT sector and e-commerce activities.

Additionally, the proportion of Kenyans aged above 15 with a mobile money (68.7percent) or bank accounts (50.6 percent) is grown over the years.

otably, the number of individuals using the Internet has tripled in a decade from 7.48 million users in 2014 to 22.7 million in January 2024. As a result, more Kenyans can now transact online due to the high usage of developed mobile money systems such as M-Pesa. In a recent report by Kepios, e-commerce revenues were primarily drawn from electronics (\$366 million), fashion (\$280.3 million), toys and hobby (\$45.5 million) and furniture (\$32.2 million). The report also indicated the share of Kenyan Internet users engaged in e-commerce activities. It put Kenyans purchasing a product online at 37.6 percent, followed by those using online price comparison services (15.7 percent).

Why surviving on below Sh46,355 a month in Nairobi was a nightmare in 2023

Seven out of 10 households in Kenya's capital Nairobi are low-income earners, according to the 2024 Economic Survey released this week. The statistics agency classifies low-income households in the city as those with monthly income below \$h46,355 while middle-income houses holds are those earning between \$h46,356 and Sh184,394 monthly while the rich get more than Sh184,394. Inflation, an indicator that shows how expensive a basket of goods and services has become over a period, averaged 7.0 percent in Nairobi last year, which was lower than the overall inflation in the country that averaged 7.7 percent.



Despite inflation for the lower income group softening marginally by 0.7 percentage points to 7.4 percent in the year, this cadre was still the worst hit of the three income groups. An analysis of the data shows that inflation for the middle-income group stood at 6.6 percent while that of the upper income averaged 6.1 percent in 2023. As a result, low-income households in East Africa's biggest city were hit hardest by the rising cost of living since a large portion of their income was used to buy food.

Food, housing, water, electricity and transport that consume more than half of the

consumer basket, are the biggest drivers to the hard economic times for the city dwellers. The large share of food and basic needs in the total expenditure increases the vulnerability of low-income households to shocks of food and energy prices. The prices of essential commodities were not spared by inflation. Sugar, for instance, had a 40 percent price increment followed by electricity (33.1 percent) and maize grain (14.7 percent). Nairobi income groups by proportion (%) Upper income (5)'Middle income (25.6) Lower income (70.9)

KRA owes suppliers over sh 9.4 billion

The Kenya Revenue Authority (KRA) has accumulated pending bills of Sh9.45 billion, with the bulk owed to a Swiss multinational security printer, Sicpa for the supply of excise duty stamps.

The taxman asked Parliament to allocate Sh4.47 billion towards clearing the Excisable Goods Management System (EGMS) debt. KRA awarded Sicpa SA a contract for the supply of excisable stamps on a range of consumer products, including soda, bottled water, fresh juice, beer, spirits, cosmetics and cigarettes. The excise contract is a multibillion-shilling deal, involving the printing of stamps and provision of technology to detect fake stamps. the KRA Commissioner-General, told the National Assembly Committee on Finance and National Planning that the taxman owes medical service providers Shi.22 billion, ICT system licences and maintenance providers (Sh792.5

million) and scanner leasing and maintenance contract providers (\$h796.14 million. KRA also owes insurance providers \$h173.9 million, landlords (Sh522.million), car leasing firms (\$h183.2 million), utilities and general suppliers (\$h424.1 million) and electronic seals maintenance (Regional Electronic Cargo Tracking System) \$h867.7million. The bills

are attributable to the delayed disbursements and inadequate funding.

KRA enlists big companies to arrest wealthy tax cheats

We need to give them a budget of two per cent of the revenue target. Then we shall

hold them to account for missed revenue targets. Mr Kimani demanded to know why it had taken so long for the KRA to complete six on going projects including the East African Regional Transport, Trade and Development Facilitation Project, the Horn of Africa Gateway Development Project, and the KRA Comprehensive Tax Platform. This has been aggravated by a reduction in the additional funding allocation by \$h3.5billion from the amount communicated of Sh10,7 billion. He said \$h7.1 billion of the allocated budget funds for the fiscal year 2022/23, including Sh2 billion for EGMS debt was not disbursed. KRA to miss target by Sh300bn despite new tax measures. The authority has prioritized part of the amount in the FY 2023/24 additional funding, told lawmakers.

The project anticipates attracting investments totaling \$3.6 billion, sourced from international investors, development agencies, pension funds and an exceptionally large number of Kenyan private investors," said Ever strong in a statement. The public private partnership (PPP) project will be undertaken for a period of between three to four years, with financing being led by "American Development institutions and significant investments from Kenyan private sector investors and pension funds," Ever strong added. Once completed, Ever strong and its partners will charge toll fees for 30 years when they are expected to have recouped their investments. Earlier this year, the Treasury revealed that the Public Private

Partnership (PPP) Committee had granted the Mombasa-Nairobi Expressway first-stage approval. Construction of the 475-kilometre high-speed highway had been mooted by the administration of retired President Uhuru Kenyatta and was to be done by Bechtel, a US construction company.

Common Reporting Standard regulations' impact on taxpayers

In the era of global financial transparency, governments worldwide have been implementing regulations to combat tax evasion and promote tax compliance. One such significant initiative is the Common Reporting Standard (CRS), developed by the Organisation for Economic Co-operation and Development (OECD). This is a pivotal framework for facilitating the automatic exchange of financial information between countries. Kenya, as part of the global community, has also embraced CRS regulations to enhance its tax information exchange mechanisms and uphold international standards. The CRS was developed in 2014 by the OECD to enhance transparency on financial information across tax jurisdictions following the revelation that many organisations were using offshore entities to trade or hold financial assets for aggressive tax planning or to conceal taxable income. CRS regulations in Kenya require Financial Institutions (FIs) to collect and report information on foreign account holders to the Kenya Revenue Authority (KRA), who then share this data with the tax authorities of the account holders' countries of tax residence. This information exchange enables KRA and other tax authorities to identify and assess taxpayers' compliance with their tax obligations, particularly concerning income earned and assets held abroad. Implementation in Kenya recognising the importance of international cooperation in tax matters, has taken steps to implement CRS regulations within its financial

system. The KRA serves as the central competent authority responsible for overseeing the implementation of CRS in the country. Kenya, as a signatory to the CRS Multilateral Competent Authority Agreement, legislated the Common Reporting Standard (CRS) through the introduction of section 6B of the Tax Procedures Act (TPA) through the Finance Act 2021. The CS National Treasury vide Legal Notice No. 8 of 2023, gazetted the CRS regulations on 7 February 2023, with an effective date of 1 January 2023. The implementation will enable Kenya to exchange financial account information with over 100 jurisdictions worldwide. Switzerland, Cayman Islands, BVI and even Mauritius to mention but a few are among the participating jurisdictions which have domiciled CRS into domestic laws. Notably, these are all key jurisdictions for setting up offshore

wealth management structures. Implications for Taxpayers For individuals and entities with foreign financial accounts, CRS regulations have significant implications. This entails accurately determining their tax residency status in accordance with CRS guidelines and accurately disclosing relevant financial information to the KRA. Therefore, individuals and entities with offshore financial assets need to proactively manage their tax affairs to ensure compliance with the local tax authority. In addition, entities with complex financial structures should review their existing setups to ensure

compliance with CRS regulations. In particular, the exchange of information has also influenced global tax planning strategies for high-net-worth individuals and families. Taxpayers may need to consider the impact of CRS regulations when structuring their affairs, including the choice of jurisdictions for investment, residency and asset holding. From a legal perspective, the implementation of CRS has led to changes in the regulatory environment, including updates to tax laws and regulations to align with CRS requirements. KRA seen missing tax target by

Sh330bn On the converse, we have observed changes in domestic tax and structuring laws on the tax benefits available to family trusts and holding companies including private limited liability companies set up as family-owned companies as wealth management tools. These amendments to the law have resulted in tax-efficient local solutions for wealth management and succession planning.

CMA admits five new firms as demand for license grows

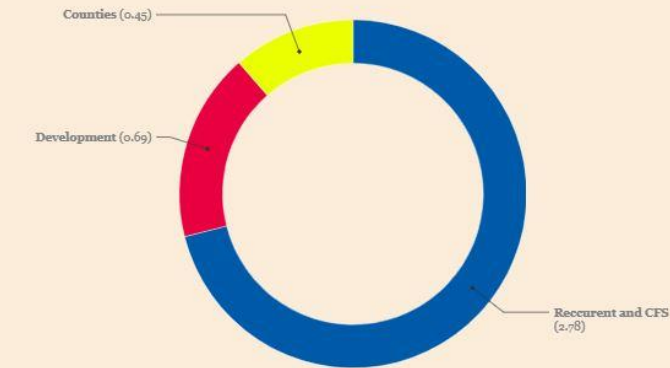
The Capital Markets Authority (CMA) has licensed five new firms to enter the financial

services sector, saying demand was rising. Tim Walsh Advisory Services has been admitted as an investment adviser while IC Markets Kenya comes in as an anon-dealing online foreign exchange broker. GTXN Investments has been approved as a fund manager while Slopes Coffee Brokerage. Company Limited's conditional permit as a coffee broker has earned full licence status. Coffee Estates Bourgeoisie Brokers got a conditional licence in coffee brokerage to run for six months. The CMA says the increased demand for licences signifies the continued competition and innovation by market intermediaries to reach consumers/clients, especially in the retail space. The increasing demand for licences in the intermediary sector in recent years is a positive emergence as it enhances competition, innovation and the reach of capital markets products and services to retail investors," noted CMA's. During the quarter to March, the capital markets regulator licensed NCBA Bank Kenya Plc to operate as a real estate trusts trustee.

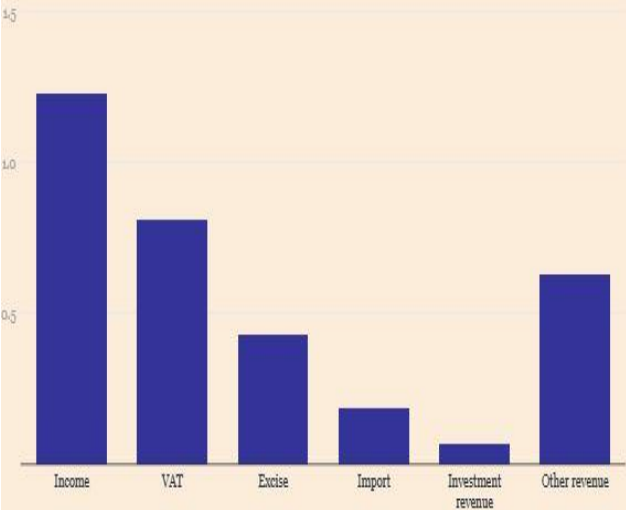
Who gets what in Sh3.9trn 2024/25 budget

Initial budget/BPS 24 (Shtrn) BE Development(0877,21%Counties2.446,1%FY2024/25Budget (Sh trn)l Development 0657,18%lCountiesDevelopment spending will take a Shig@bn cut (7@ percent of the Sh273.3bn President William Ruto’s bottom-up economic transformation agenda will get a sh257.31 billion shot in the arm in the coming financial year. The budget summary for the 2024/25 financial year reveals that five key areas in poverty alleviation which feed into other thematic areas will get considerable spending in infrastructure and social services.

FY2024/25 Budget
(Sh trn)



Revenue streams FY2024/25
(Sh bn)

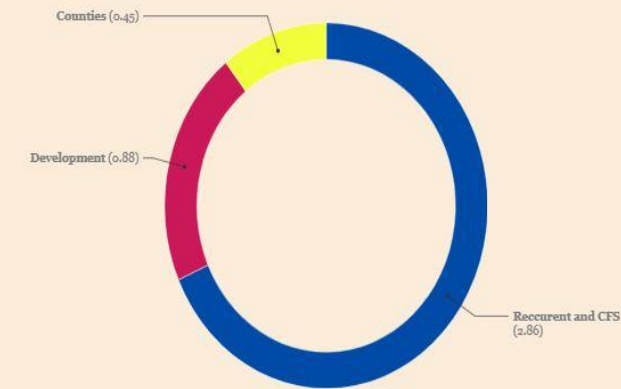


Projected revenue for the year will be \$h3.35 trillion being Sh81 billion more than the earlier estimated \$h3.43 trillion with the state setting an ambitious Sh2.91 trillioncollection from taxes and investment income.

Fiscal deficit (Sh bn)



Initial budget/BPS 24
(Sh trn)



Small Firms Spared VAT Registration pain

Businesses with annual sales valued below Sh8 million could be relieved from having to register as Value Added Tax (VAT) agents, as the Finance Bill proposes to raise the threshold from those making Sh5 million in annual turnover.

The Finance Bill 2024 proposes to amend Section 34 of the VAT Act, 2021, whose impact would be to relieve businesses with annual turnovers between \$h5 million and Sh8 million- which have previously been collecting VAT on behalf of the government, of the burden. Section 34 of the VAT Act is amended in Subsection 1, in paragraph (a) by deleting the words 'five million shillings' and substituting therefor the words 'eight million shillings' and in paragraph (b) by deleting the words five million shillings' and substituting therefor the words 'eight million shillings'," the Finance Bill, 2024, proposes. The VAT Act, 2021, requires that any person who in the course of doing business makes taxable supplies with a Sh 5 million annual value should register as a VAT taxpayer. Registering as a VAT taxpayer obligates a business to withhold VAT and remit it to the government, failure to which one would be penalized. A person who in the course of a business is about to commence making taxable supplies the value of which is reasonably expected to exceed five million shillings in any period of twelve months, shall be liable for registration under this Act and shall, within 30 days of becoming so liable, apply to the Commissioner for registration in the prescribed form,' the Act adds in Section 34. KRA builds new system for SMEs after e-Tims uproar But should the proposal in the Finance Bill 2024 be passed, this would see businesses with annual revenues of less than Sh8 million (about sh666,666 monthly revenues) not obligated to withhold VAT on behalf

of the government. A business with an annual revenue of Sh8 million translates to an average daily revenue of Sh22,000. Currently, businesses with an average daily revenue of about Sh13,700, are obligated to withhold and remit VAT to the government, failure to which they face penalties.

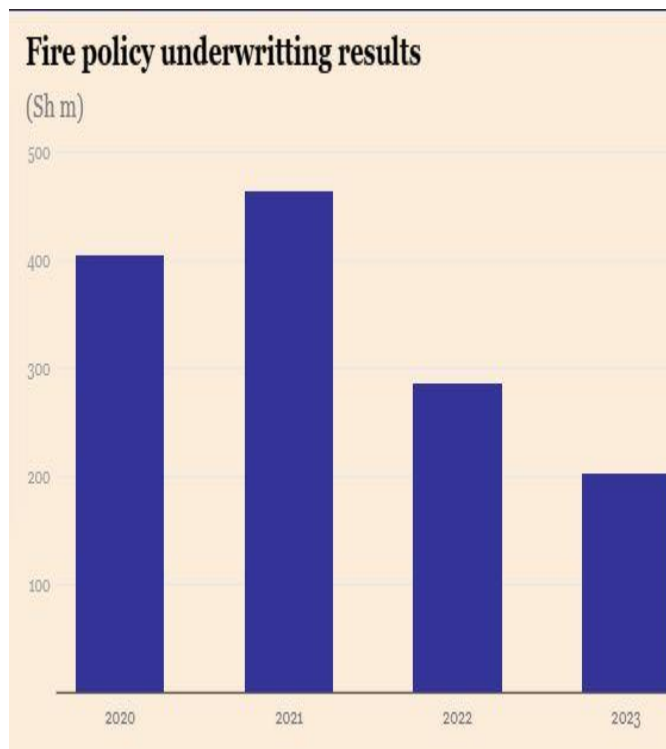
Insurers Pay more Claims on damages brought by floods.

Insurers are set to incur higher claims due to the losses brought by the floods that are ravaging various parts of the country. The floods, which have killed more than 200 people, destroyed property and disrupted businesses in recent weeks, are expected to hit general insurers the most. These insurers offer cover for risks whose occurrence has increased in the wake of the higher-than-normal rainfall there will certainly be an elevated number of claims arising from the floods. Particularly in fire, motor, and property policies, executive director of the Association of Kenya Insurers (AKI). Many cars were flooded, and properties were also damaged. Damage from floods is part of the risks covered in policies protecting assets.

The Nairobi metropolitan area—where economic activities are concentrated—is among the hardest hit by the floods. Britam, Swiss Re and Oxfam unveil cover against flooding General or short-term insurers offer policies covering business operations and assets such as motor vehicles and buildings. A fire policy, for instance, can protect a customer from risks to their property, including fire, flood, landslide, riots and malicious damage. For an insured property, the sum assured would typically be the value of the asset. Customers have been raising their protection against these risks in recent years. The general insurers collected premiums of \$h20.4 billion from fire industrial policies in the year

ended December 2023, up from Sh17.6 billion a year earlier. Fire domestic also saw its premiums grow to \$h2.03 billion from Shi.81 billion over the same period, while private and motor commercial also recorded higher premiums, according to data from the Insurance Regulatory Authority. Until the floods, the fire or property policies had generated minimal losses. For the insurers, which had seen them keep most of the premiums as underwriting profit. In the current state of floods, we have registered several flood claims that are in the process of being compensated principal officer and CEO at Britam General Insurance. Britam is among the major players in the fire and motor vehicle insurance classes, alongside others like APA Insurance, GA Insurance, CIC General

Insurance, and ICEA Lion General Insurance, based on premiums collected.



Workers to get 15pc relief on housing levy

Employees are expected to earn a relief of 15 percent on housing levy contributions in new proposals, which would expand the number of

rebates available to four. The 2024 Finance Bill proposed the new relief, which would marginally reduce the amount of tax payable by each employee. The amount of affordable housing relief shall be 15 percent of the employee's contribution but shall not exceed \$h108,000 per annum reads part of the 2024 Finance Bill. National Assembly clears 1.5pc housing levy on gross pay. This implies that an employee earning a gross salary of \$h50,000 per month and contributing \$h750 as a housing levy shall earn a relief of Shi2.50, which shall partly offset their taxable pay. The relief for persons earning at least Sh4 million or more per month pays a levy of Sh60,000 and will stand to benefit from a relief of Sh9,000, which is the maximum allowable in the proposal. Employees began paying for the housing levy last year, with their contributions being matched at the same rate by employers. Each employee and employer is obligated to pay the affordable housing levy at the rate of 1.5 percent of the employee's total gross monthly salary, which is remitted within nine working days at the end of the

month. At present, employees qualify for three tax reliefs, including the personal relief set at a flat Sh2,400 per month or \$h28,800 annually, with there bate seeking to lighten the tax burden. Insurance reliefs also granted to an employee who has paid insurance premiums for life or health or education policies at the rate of 15 percent of premiums paid up to a maximum of \$h60,000 per annum. Contributions to the National Health Insurance Fund, which is expected to be transitioned to the Social Health Insurance Fund, also qualify for insurance relief at the same rate. The affordable housing levy, legislated through the 2024 Affordable Housing Act, is meant to provide resources for the development and access to cheap housing. According to the latest budget estimates, the Treasury expects to collect sh54.6 billion from the levy in the fiscal year ending in June and Sh63.2 billion in the next cycle starting July1. Kenyans are expected to pay between \$h840,000 and ShS.76 million for the low-cost homes programme, which

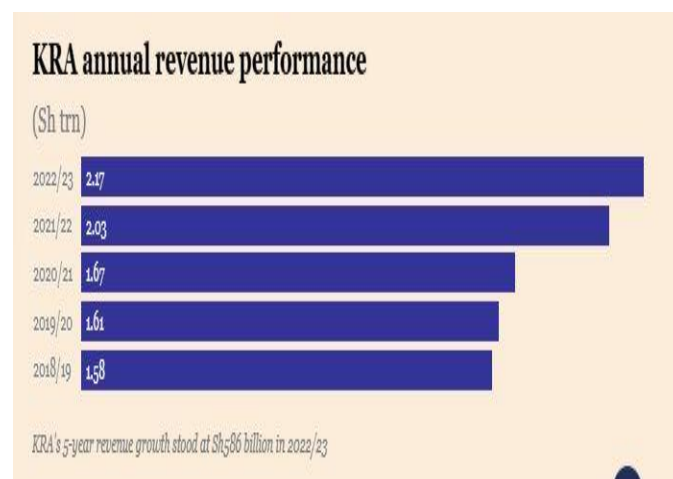
aims to put up 250,000 units every year. AG advises KRA to stop collecting contentious housing tax. Affordable housing units will be made up of studios (bedsitters), and two- and three-bedroom apartments, which form one of the categories of the State-backed developments. Social housing, a lower tier of the programme, will meanwhile comprise one, two and three-room houses targeting slum dwellers. Additionally, the programme will oversee the development of market-driven units, which will comprise two-and three-bedroom houses.

KRA To Miss Target By Sh 300 bn despite New tax Measure

The Kenya Revenue Authority (KRA) has recorded its highest shortfall in tax collections from employees despite the introduction of two new tax bands targeting top earners, even as the Treasury projected that the taxman would miss this year's targets by about \$h300 billion. A quarterly report published by the National Treasury shows that the KRA missed its pay-as-you-earn (PAYE) target by \$h72.3 billion in the first nine months of the current financial year. The taxman had a target of collecting \$h463.3 billion from salaries in the period ending March, but only raised \$h390.96 billion, which means it missed its target by 15.6 percent, the highest shortfall according to available data.

In the Finance Act 2023, the Income Tax Act was amended to introduce two individual tax bands. The Act introduced a new tax band of 32.5 percent for a monthly income of between \$h500,000 and \$h800,000 and 35 percent for income above \$h800,000. However, in cumulative numbers, the PAYE collections in the review period increased by 10.9 percent to \$h390.96 billion from \$h352.57 billion in the same period last year. How weak tax collection opened \$h270bn budget hole Treasury Principal Secretary Chris Kiptoo told MPs this week that the revenue gap forced the government to invoke the provision of Article 223 of the

Constitution to give the taxman an additional \$h7.482 billion to help in revenue mobilisation. By the end of June, we may not be able to collect the \$h300 billion that we anticipated in the current budget. We have a revenue gap and that is why we increased the budget of the KRA," Dr Kiptoo said. Debt service is the biggest problem that we have. In one week alone, we paid \$h100 billion in debt service with interest accounting for 28 percent to 30 percent.

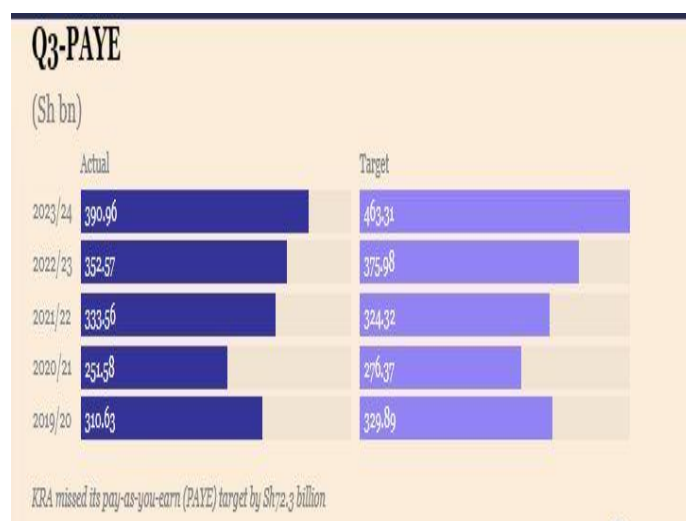


Ordinary revenue collection was \$h1,585.7 billion against a target of \$h1,840.7 billion. All ordinary revenue categories recorded below target performance during the period under review except other revenue which surpassed its target by \$h8.1 billion," said the Treasury in the Quarterly Budget Review for the third quarter of the Financial Year 2023/24. Several macro-economic factors have depressed the business environment, including high inflation and interest rates owing to the global supply shocks triggered by the war in Ukraine and the lingering effects of the Covid-19 pandemic.

The PAYE shortfall is worse than the one recorded in the third quarter of the Financial Year 2020/21 when the containment measures to curb the spread of the pandemic resulted in business closures and layoffs. In that period, PAYE collections fell short of the target of \$h24.8 billion or around 8.9 percent of the target. Collection of PAYE was also a naemic in the period ending March 2017 when the KRA fell

short of the \$h276.4 billion target by 8.9 percent. employers freeze hiring in reaction to increased costs of doing business. Data from the Kenya National Bureau of Statistics (KNBS) shows that the number of new jobs created by December 2022 dipped to 816,600 from 924,900 in similar period a year earlier, a development that might have explained the sluggish PAYE collections in the review period which started six months later in June last year.

However, unemployment among the working-age population dropped marginally to 13.9 percent of the working population in the fourth quarter of 2023 from 13.3 percent in the same period in 2022. The employment figures include a big fraction of the workers in the informal sector who do not pay taxes. By the end of March 2024, total revenue collected including ministerial fines and fees, or appropriations in aid (AIA), amounted to Sh1.92 trillion against a target of Sh 2.13 trillion. Factoring in the AIA, the revenue collection was below target by Sh208.1 billion, with a big chunk of the shortfall attributed to ordinary revenue which, besides PAYE, includes Corporate Income Tax, value added tax (VAT), excise duty, and import duty. Ordinary revenue fell short of the target by \$h255.1 billion while the collection of the ministerial AIA was above the target by Sh 47 billion. Income taxes include withholding tax and capital gains tax, which is paid on gains on the transfer of properties or unquoted shares. Together, non-PAYE taxes are categorized as 'Other Income Tax' and fell short of the target by Sh53.3 billion, or a shortfall of 14.5 percent of the \$h366.46 billion target.



In total, the income taxes—which reflect increased production—fell short of the target of Sh125.69 billion. Dr Kiptoo said the Treasury has not been able to contain the fiscal deficit which went up from a target of 5.5 percent to 5.6 percent in the current financial year. He said the budget deficit had increased from \$h868 billion to \$h908.6 billion in the current financial year. We are trying as much as possible not to cross the year with unpaid bills. Otherwise, we would have done like last year where we were cutting down everything and shutting down the Integrated Financial Management Information System (Ifmis) This shortfall was largely on account of the shortfalls in revenue performance and liquidity constraints. He said both recurrent and development expenditures remained below target by shi79.3 billion and Shi40.8 billion respectively.

KRA plans system to gather data on overseas tax cheats

A report by the Treasury puts the estimate of the import declaration fees to be collected in the coming financial year Sh60.7 billion, which means the KRA is entitled to Shi2.14 billion should it hit this target.

It is a shot in the arm since the KRA has struggled to meet its annual tax collection targets blaming it on poor financing. Depending on the discretion of the Treasury Cabinet Secretary, the KRA might also retain about two percent of what it collects on behalf of the Exchequer. In 2024/25, the Treasury has given the KRA a target of \$h2.95 trillion, which means that its income should it meet its ordinary revenue target will be \$h59.96 billion, pushing the total income to Sh71 billion. The KRA is also entitled to a bonus of three percent of the surplus revenue collected. In the Draft Budget Policy Statement, the National Treasury had hinted that the KRA would receive an additional Sh12.9 billion in funding to help with tax administration aimed at enhancing compliance and broadening the tax base this financial year.

[KRA gets Sh12 billion extra allocation to nail tax cheats](#)

The Kenya Revenue Authority (KRA) will be allocated an additional sh12 billion to pursue tax cheats in a major crackdown after the Treasury proposed to amend the law and see the taxman get a fifth of revenues it collects from import declaration fees. Through the Finance Bill, 2024, the Cabinet Secretary for National Treasury wants the KRA to get at least 20 percent of the monies it collects from the import declaration fees. The war chest will allow the KRA to hire extra intelligence and enforcement officers as well up its tech capabilities to bolster revenue collection from planned levies and pursue tax cheats as the Treasury seeks to raise at least \$h364 billion in additional taxes for the fiscal year starting next month. To shore up revenue, President William Ruto's administration is proposing tax increases on items such as bread, mobile money transfer, banking, car tax and eco-levy. The KRA wants to go after tax cheats by integrating its system with that of third parties such as banks, telcos, Kenya Power and land registries. The Treasury has also proposed to increase the import declaration fees to three

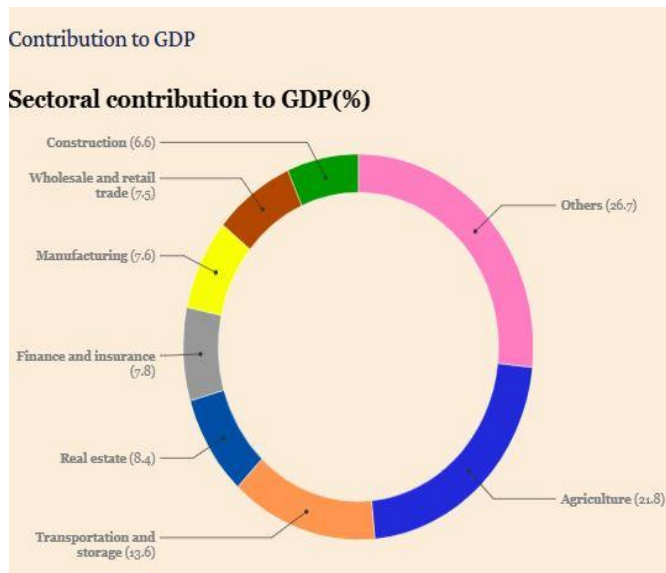
percent from 2.5 percent. Currently, the Miscellaneous Fees and Levies Act requires that 10 percent of the import declaration fees collected to be paid into a Fund and used for the payment of Kenya's contributions to the African Union and any other international organization to which Kenya has a financial obligation. By deleting subsection (7) and substituting therefore the following new subsection—(7) Ten percent of monies in the Fund under subsection (6) shall be used for the payment of Kenya's contributions to the African Union and any other international organization to which Kenya has a financial obligation, while twenty percent will be used for revenue enforcement initiatives or programmes, the proposed amendment reads.

The KRA has been pursuing suspected tax cheats using databases such as bank statements, import records, motor vehicle registration, Kenya Power records, water bills and data from the Kenya Civil Aviation Authority that reveal ownership. Car registration details are also being used to smoke out individuals driving high-end vehicles but have little to show in terms of taxes paid. Kenya Power meter registrations are also helping the taxman to identify landlords, some of whom have been slapped with huge tax demands. How KRA will use computer wizards to catch tax cheats The taxman also seeks details of suppliers and contractors hired by county governments. It says a sharp increase in imports of luxury goods and multi-million shilling investments in real estate have exposed a potentially massive tax leakage, which if tapped could yield billions of shillings in additional revenues. Only a few Kenyans have registered as belonging to the high-income earners' bracket despite the massive growth in conspicuous consumption.

[Kenya Economy edges up to 3.6 pc in 2023](#)

The Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2024 on detailing how various sectors and jobs market performed. The manufacturing sector grew at a slower rate of

2.7 percent last year after recording a 3.7 percent growth rate in 2022. The real estate sector was the second biggest contributor to the economy at 13.3 percent. The number of housing units completed under the affordable housing program was 3,357, up from 1,390. Expenditure on housing stood at Sh92.5 billion in financial year 2023/24, an increase from Sh9.1 billion from the previous period. The depletion of titanium ore, mined by Kwale-based Base Titanium, has seen a drop in mineral production to 4.3 percent last year, KNBS. Highlights Formal employment grew by 2.7 percent to 362,300 last year. International visitor arrivals have surpassed the pre-pandemic levels, growing by 35.4 percent to 2.1 million in 2023. Passport issued dropped by 5.1 percent to 404,028 in 2023 due to frequent processing hitches at the Immigration Department at Nyayo House. Crimes reported increased by 19 percent to 104,842, pointing to increased insecurity. Total number of cybercrimes reported in 2023 more than doubled to 1.7 billion from 700 million in 2022.



Vehicle dealer Plan open Air Sale Day in Mombasa

Car dealers in Mombasa plan to introduce an open-air sale day as a new strategy to attract more buyers after facing a hit from high prices in the last two years. Car Importers Association of Kenya chairman Peter Otieno said the move is to ensure there is access to the market for buyers and sellers. We have that plan where someone can bring his or her vehicle willing to sell, and at the same time, car dealers will have the opportunity to display their new model for a small fee. Car dealers in Mombasa plan to introduce an open-air sale day as a new strategy to attract more buyers after facing a hit from high prices in the last two years. Car Importers Association of Kenya chairman Peter Otieno said the move is to ensure there is access to the market for buyers and sellers. We have that plan where someone can bring his or her vehicle willing to sell, and at the same time, car dealers will have the opportunity to display their new model for a small fee.

State invests housing levy billions in Treasury bonds absorption

The government is investing Sh20 billion collected from the affordable housing levy in Treasury bills and bonds, signalling a low absorption rate for the funds meant to build cheaper homes for low- and middle-income households. Bonds are medium to long-term government securities and their purchase indicates that the government is collecting the levy at a faster pace than it can deploy in the construction of the houses. The State Department for Housing says the government had collected a total of Sh34.72 billion by the end of April 2024. Housing Principal Secretary Charles Hinga told the National Assembly's Committee on

Housing, Urban Planning and Public Works that \$h6.93 billion from the fund had been spent so far. He said out of the total collections, \$h20 billion has been transferred to the Affordable Housing Board for investment in Treasury bills and Treasury bonds. Most of the future collections are also set to be parked in the debt securities first, helping to fund the government as the building of houses takes a back seat due to a legal hitch. The funds derived from the mandatory monthly deduction of 1.5 percent of an employee's gross salary which is matched by the employer. The new money after the Affordable Housing Fund Act came into effect on March 19, 2024, is now being collected under the Affordable Housing Fund Board. The board has written to the Treasury to open an account at the Central Bank of Kenya for collection of the levy.

He said the Treasury had given the board guidance to invest all proceeds of the levy in Treasury bills and bonds. The first \$h20 billion is headed for investments in Treasury bonds and bills. The board needs to open an account at the CBK to receive the money. He told the committee chaired by Emurua Dikir MP Johana Ng'eno that the Affordable Housing Act vests the responsibility of determining how funds will be spent on the board. He said the board has not yet received an investment plan. National Assembly clears 1.5pc housing levy on gross pay. The Act envisions a situation where the board can allocate money for projects to be developed in private lands. But they have not been able to receive funds from the housing levy board. Mr Hinga said the Affordable Housing Board is expected to receive \$h63.22 billion from the affordable housing levy in the 2024/25 financial year that starts in July. Out of the \$h63.22 billion, \$h32.5 billion is earmarked for the construction of affordable housing, \$h15 billion for social housing, \$h1 billion for construction of police housing and \$h14.66 billion for social and physical infrastructure. Kenyans are expected to pay between \$h840,000 and \$h5.76 million for the low-cost homes program, which targets putting up 250,000 units every year.

Affordable housing units will be made up of studios (bedsitters), and two- and three-bedroom apartments. Social housing, a lower tier of the programme, will meanwhile comprise one-, two- and three-room houses targeting slum dwellers. Additionally, the programme will oversee the development of market-driven units which will comprise two- and three-bedroom houses. On average, we are collecting \$h5.5 billion every month from the affordable housing levy said while defending the State Department's budget for the financial year 2024/25. The money is no longer an appropriation of the State Department for Housing but the board. I will have to go to the board to seek funding just like other implementing agencies like the National Housing Corporation.

Foreigners hold only \$h834m infrastructure bonds

Foreign investors held a mere \$h834 million or a 0.2 percent share of outstanding infrastructure bonds issued in the 2023/24 financial year to the end of March despite expectations for higher holdings on improved macroeconomic sentiment. Data from the Treasury shows domestic financing from non-residents through infrastructure bonds in the quarter ended March was against the perceived high participation by foreigners in the February tax-free bond.

During the paper's auction, the Central Bank of Kenya (CBK) highlighted the healthy appetites for the issue from foreigners which coincided at the time with Kenya's issuance of a new Eurobond to partly offset the maturity from its debut 2014 sovereign bond. We are expecting external inflows because of the infrastructure bond and we have also seen interest even in just the regular auction of Treasury bills and bonds. CBK Governor Kamau Thugge observed on February 7. Foreign interest in the infrastructure bond, which closed with a 18.4607 percent coupon, could however be masked by subsequent sell-offs in the secondary market as

the paper dominated trading to sell at a premium. Bond turnover in the secondary market rose nearly two-fold in the first quarter to March, hitting \$458.2 billion from \$162.5 billion in the same quarter last year, according to data from the Capital Markets Authority. The February tax-free bond continues to sell at a premium to date, fetching as much as sh105.73 during Monday's trading session.

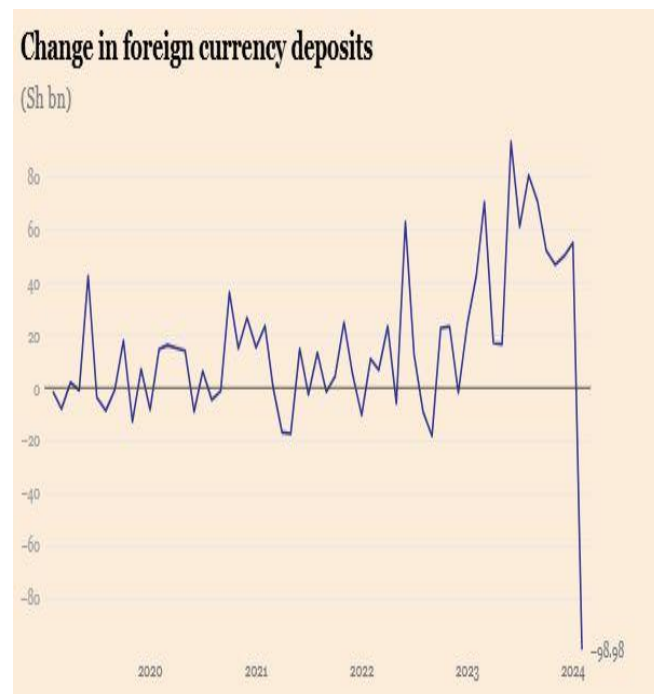
Shilling rally wipes Sh99bn from local dollar holdings

Wealthy Kenyans, traders, and businesses took a Sh98.9 billion hit as the value of foreign currency deposits plunged from the recent strengthening of the Kenya shilling. Foreign currency deposits, expressed in local currency terms, saw their largest month-

on-month drop in more than five years in February, dipping to Sh1.502 trillion from a peak of Sh1.601 trillion in January, according to data from the Central Bank of Kenya (CBK). The 6.1 percent drop in the mostly US dollar deposits coincided with a 10.6 percent gain for the shilling, which moved from \$160.67 against the greenback to Sh143.51 in the same period. This implies that the drop in foreign currency deposits is largely a factor of a stronger local currency than an absolute drop in the nominal hard currency holdings by the banks. According to Absa Bank Kenya's director for consumer banking, Moses Muthui, the sector remains awash with hard currency as holders of foreign exchange maintain their balances despite the recent gains for the shilling. The dollars and other foreign currency monies are very much there. We are awash with foreign currency liquidity in terms of the real hard currency Shilling wipes out Sh13bn payout to foreign investors Most of the holders of foreign currency are traders, business people, and corporates and they need this to manage their business and trade flows, given Kenya's position as a net importer. Last year, speculation on the weakening of the shilling led to a large build-up of

hard currency in banks as both corporates and households moved to seek a hedge against the weakening domestic unit, Foreign currency deposits, expressed in local currency terms, for instance, rose from \$945.2 billion to Sh1.54 trillion between January and December 2023. Expressed in US dollar terms, the deposits remained on the ascendance, rising to \$10.17

million in the quarter to December from \$8.98 million in the quarter to the end of 2022. The weakening of the local unit by more than 20 percent in 2023 led to not just a higher demand for hard currency but also a rise in dollar deposits in local currency terms. Risks surrounding the June 2024 Eurobond maturity served to drive investor jitters, taking the performance of the shilling to its worst levels in nearly three decades as some speculated a devaluation of the unit in a default event, helping lift the demand for dollars. The partial repayment of the \$262.2 billion (\$2 billion) payment in February has, however, turned sentiment in favor of the shilling, wiping out some of the paper gains made by dollar depositors.



How plunging UK pound against dollar is affecting Kenya Despite the risks involved in contracting such facilities, dollar loans can attract relatively lower costs when contrasted with domestic interest rates. People would want to get foreign currency facilities because the interest rates are in the low single digits. A five percent US dollar loan when there is inflation and currency depreciation ends up being equal or less expensive to a Kenya shilling loan priced at say 17 percent.

State House bursts budget by Sh900m in nine months

State House more than the budget for the nine-month period ended March 2024, signaling poor ice of the President withdrew near] million projections in expenditure plans. quarterly Treasury disclosures show expenditure at President William Ruto's official office and residence as well as the offices for his coterie of aides amounted to Sh1.29 billion between July 2023 and March 2024 against a target of Sh10.40 billion.

This translates to an over-expenditure of Sh882 million, pointing to the offices at State House and Harambee House committing more money to projects than budgeted for. Expenditure above the budget goes against a commitment by the National Treasury to reject cash requests beyond what has been 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 wrote in the Budget Review and Outlook Paper for the current fiscal year ending June. additional spending pressures will be accommodated within approved ceilings, that is reallocation possibilities, except those of the security and education sectors. The Treasury's quarterly budgetary disclosures show that expenditure at the State House surpassed the Sh7.38 billion budget by \$h689 million, while the

Executive Office of President's withdrawals exceeded the \$h3.03 billion target by \$h193 million. The expenditures exclude those for the Office of the Deputy President and | Cabinet Secretary which are done under separate votes. This is despite them under the Executive Office of the President through Executive Order Deputy President Rigathi Gachagua's office spent \$h2.995 billion, slightly Sh3.224 billion budget for the nine-month period. Prime CS Musalia surpassed the Sh897 million target for the nine-month period by Sh10 million

Doctors hit patients with cash bills on eTIMS row

Doctors are forcing patients to pay medical bills in cash on continued snub of the Kenya Revenue Authority's electronic invoicing portal, exposing millions of insured customers to out-of-pocket spending despite Sh5.5 billion monthly spending on health covers. Medical insurers who spoke to the Business Daily said some doctors are asking patients to pay in cash and then seek reimbursements from their insurers. Doctors are forcing patients to pay medical bills in cash on continued snub of the Kenya Revenue Authority's electronic invoicing portal, exposing millions of insured customers to out-of-pocket spending despite Sh5.5 billion monthly spending on health covers. Medical insurers who spoke to the Business Daily said some doctors are asking patients to pay in cash and then seek reimbursements from their insurers. Patients are, however, incurring losses given the law that requires all individuals and entities involved in business to electronically generate and transmit invoices through KRA's electronic tax invoice management system (eTIMS).

The KRA in April 2024 rolled out eTIMS making the electronic tax invoices compulsory to allow it to know the amount of tax to expect from individuals and entities in business. Irony of State entities snubbing KRA's electronic invoice system Many doctors operating private clinics have, however, snubbed the platform citing among other reasons, data privacy for their patients and a mismatch between invoices raised and the actual payment received for medical services rendered. Medical insurance is the largest class of general insurance. Customers paid insurers \$h66.3 billion for covers in the financial year ended December 2023 or Sh5.5 billion monthly while insurers paid out claims worth \$h37.11 billion, in what marked a 17.6 percent rise from the previous year. Patients are, however, incurring losses given the law that requires all individuals and entities involved in business to electronically generate and transmit invoices through KRA's electronic tax invoice management system (eTIMS).

The A-Z of new taxes in the 2024 Finance Bill

President William Ruto's administration plans to spend \$h3.914 trillion in the new budget cycle that starts in July. To fund this plan, the government hopes to collect \$h3.354 trillion from taxes. This will be made up of \$h2.913 trillion as ordinary revenues while appropriations-in-aid is expected to net another Sh441 billion. Appropriations-in-aid is revenue received by state departments and retained to meet expenditures instead of being paid into the Consolidated Fund. But this will leave the government with a fiscal deficit of Sh703.9 billion, which translates to 3.9 percent of Kenya's Gross

Domestic Product (GDP). This deficit will be financed by debt.

To meet this ambitious tax target, the Treasury has lined up new taxes with proposals agreed with the International Monetary Fund (IMF) that will introduce Kenyans to some of the most painful taxes yet. Some of the new proposals include the contentious motor vehicle tax set at a rate of 2.5 percent of the value of the vehicle, with a floor of \$h5,000 and a ceiling of \$h100,000. Another key change is the extension of the time frame for the Kenya

Revenue Authority (KRA) to issue decisions from 60 days to 90 days. Then there is a proposal to increase the value added tax (VAT) registration threshold for Taxpayers making taxable supplies from Sh5 million to Sh8 million. Small firms spared VAT registration pain. For the first time, the Finance Bill 2024 will also bring incomes from investments of an amateur sporting association, registered trust schemes, and income or principal sum of a registered family trust within the tax net. The taxman will also be empowered to tax income from the National Housing Development Fund and any capital gains relating to the transfer of title of immovable property to a family trust as well as any amount withdrawn from the National Housing Development Fund to purchase a house by a

contributor who is a first-time homeowner.

Treasury sets Sh5m as minimum commodities platform investment

The National Treasury and the Nairobi Securities Exchange (NSE), the founding shareholders of the Kenya National Multi Commodities Exchange Limited (Komex), have set Sh5 million as the minimum investment as they court new equity partners in the firm. Komex is a private firm tasked with developing, operating and managing a demutualized exchange which includes an over-the-counter spot market for physical agricultural

and non-agricultural commodities and a digital marketplace. The firm is seeking at least Sh1.5 billion from private sector partners whose investments will be converted into equity shareholding as part of its operationalization plan.

New vehicle sales decline 17pc on high taxes, interest rates

Sales of new vehicles fell 17.66 percent in the first quarter of the year, marking the sharpest drop in seven years, largely on increased taxation, rising interest rates, and battered shilling. New vehicle dealers and assemblers sold 2,271 units in the January-March 2024 period, compared with 2,758 units in the same period last year, data tracked by the Kenya Motor Industry Association shows. The double-digit decline, amid weak corporate and household earnings, pushed orders for new motor vehicles to the lowest levels in a decade, based on analysis of available KMIA numbers dating back to 2015, when demand peaked. Dealers, including Isuzu, CFAO, and Simba Corporation, have since last year complained of a tough operating environment. They have cited climbing interest rates, which have depressed demand as most of the orders are financed by banks while accumulating pending bills yet to be settled by the government and private firms have exhausted cash flow positions. New vehicle sales fall 15pc on tough economy The market is still difficult, but thank God, the exchange rate is beginning to turn. It has been difficult to import vehicles and vehicle parts because we needed to buy dollars to get these materials from abroad. Aside from the bad [exchange] rate, it was also hard to get dollars. managing director at Isuzu East Africa, in a March interview. Interest rates have been high, meaning most of our customers were not able to get funding. Today, it is between 18 and 25 percent. We have not

seen such an interest rate in many years, and so, it is tough for our customers too Under pressure The shilling had crossed the Sh160 mark against the globally bullish US dollar, as per official rates, in January before starting to regain footing in mid-February. However, most vehicle units [and their parts] sold in March had been ordered months earlier, when the Kenyan currency was under pressure. Vehicles are, as a result, among the goods that have witnessed one of the biggest price increments in the past year, compounded by higher taxes.

The Kenya Revenue Authority increased duty on shipping cars into the country from 25 percent to 35 percent in July after the East African Community Council of Ministers approved Kenya's application to levy a higher rate than 10 percent of the common external tariff for the seven-nation EAC bloc. Importation of vehicles further attracts excise duty ranging from 25 percent to 35 percent depending on the size of the engine, in addition to the standard 16 value-added tax.

Laws Firms eye Sh gom Eurobond fees payout

The Treasury wants Parliament to allocate \$h90 million to clear legal fees for lawyers who helped Kenya raise cash and buy back a 10-year Eurobond of \$2 billion that matures in June this year. Treasury Principal Secretary Chris Kiptoo told Parliament that local lawyers have not received payment for the legal services they rendered in February 2024. Kenya in February tapped the international bond market to \$1.5 billion bond, which will mature in 2031, and was oversubscribed four times. We had the services of legal experts during the Eurobond buyback. We got joint lead managers for the transactions. The country raised \$1.5 billion through a more expensive Eurobond issued to global investors to help partially settle the \$2 billion Eurobond that was issued in 2014 and which had a June 24, 2024 maturity date. President William Ruto announced the country had paid \$1.5 billion

from the proceeds of the Eurobond that was priced at 10.37 percent. Dr Kiptoo appeared before the committee to defend the budget for the State Department for the National Treasury for the financial year 2024/24, President Ruto's administration borrowed \$223.5 billion in the four months to January out of which \$30 billion went to preparations towards the refinancing or repurchase of the Eurobond. The Treasury data tabled in Parliament shows that Kenya contracted 11 new loans from multilateral and commercial creditors between September 1, 2023 and January 31, 2024. The details of the new borrowings show that 10 of the loans are from multilateral lenders, and one from a commercial lender. The report shows that Kenya took a syndicated term loan facility worth \$30.63 billion (\$210 million) on December 28, 2023, from the Eastern and Southern African Trade and Development Bank that will be repaid in US dollars.

Jubilee Holdings pays record Sh1bn dividend

Jubilee Holdings Limited has declared a record dividend of Sh14.30 per share amounting to Sh1.036 billion for the financial year ended December 2023, supported by a special distribution from final gain on sale of majority stakes in general insurance subsidiaries

to global underwriter Allianz. The firm's board on Wednesday recommended payment of Sh10 per share as ordinary dividend and a special dividend of Sh2.30 per share, adding to the Sh2 per share interim payout that had been made in early October last year.

The latest payout marks a 19.2 percent rise from Sh12 per share paid on the financial

year ended December 2022 and topples the previous peak of Sh1.015 billion that the Nairobi Securities Exchange-listed firm paid on the 2021 results, subsidiaries to \$246.86 million from Sh2.16 billion booked in the prior year. The restated 2022 profit was to reflect the shift to a new

accounting standard, International Financial Reporting Standard (IFRS) 17 that replaced IFRS 4 starting January last year. Jubilee in 2021 sold majority stakes in its general insurance business to Allianz SE and has been booking gains from the deal, supporting profit growth and special dividends. Insurance revenue for last year hit \$22.78 billion from \$21.1 billion, driven by growth in the health underwriting business. Jubilee said the revenue was up 13 percent, excluding the deconsolidated business following the Allianz deal. The health insurance sector, spearheaded by Health Kenya, was a key driver of the revenue growth. The segment's focus on innovation and customer-centric solutions resonated well with the market leading to the reinstatement of Jubilee Health Insurance as the number one health insurer in the region. Jubilee declares interim dividend of Sh1 per share. Insurance service expenses rose to \$21.83 billion from Sh19.6 billion. Jubilee said the was due to strategic investment in technology, people, and marketing as well as a rise in claims in medical insurance.

High earners handed tax free per diems in New finance BILL

Employees earning a monthly income of \$40,000 and above are set for more tax-free per diems, making the highflyers like chief executive officers and senior public officials with fat paychecks some of the major winners in the amendment proposed in the Finance Bill, 2024. The Bill proposes to amend the Income Tax Act to exempt per diem —or the daily stipend designated to cover expenses incurred by employees during business travel —to five percent of an employee's gross monthly salary. The tax exemption on per diem is currently up to \$2,000 per day, a situation that favoured low earners. Section 5 of the Income Tax Act is amended in subsection (2) in paragraph (a) (ii), by deleting the words 'the first two thousand shillings' and substituting therefore the words 'and the employer has a policy on the payment and

accounting for subsistence, travelling, entertainment or other allowances, an amount not exceeding five percent of the monthly gross earnings of the employees the Bill. Senior public officials tend to pocket the highest amounts in per diems, a figure that is reflected in higher spending on their domestic and foreign travels published in reports of the Controller of Budget. An employee with a gross salary of Sh1 million, for example, will now be eligible for tax exemption on per diem of up to Sh50,000, up from the current cap of Sh2,000. Employees with a gross monthly income of \$h500,000 will now be eligible for tax-exempt per diem of Sh25,000 while the one earning \$h100,000 will enjoy non-taxed per diem of Sh5,000. However, an employee earning a gross monthly income of \$h30,000 will see his or her tax-free per diem drop to Sh1,500. For senior government officials, increased per diem means reduced tax exposure as it reduces the amount of income that will be subjected to tax. High-ranking government officials, such as the Cabinet Secretaries, can be given per diem as high as Sh194,550 when they visit a country such as Singapore, data from the Salaries and Remuneration Commission (SRC) shows. However, for an employee taking home a gross salary of Sh35,000, it means only

Sh1,750 would be eligible for tax exemption, down from Sh2,000. The travel budget for public officials has been on the rise, translating into increased per diems, particularly on foreign trips. Data from the Controller of Budget shows that the government spent Sh1.4 billion on both domestic and foreign travel in the first half of the current financial year ending in June, an increase from 40.2 percent from Sh8.1 billion.



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