The East Africa Perspective

At a glance…

East Africa at a glance

Kenya

Modest growth in all sectors

The Kenyan economy will grow by 5.8% in FY2012/13 compared to 4.6% in FY 2011/12. These results are mainly attributed to positive growth in all sectors of the economy with the highest growth being in energy, financial services and wholesale & retail trade sectors at 17.6%, 15.2% and 10.8% respectively.

In addition the following sectors also recorded improved growth in the year compared to FY 2011/12;

- Agriculture grew by 3.8% compared to 1.5% in FY 2011/12 due to favourable weather conditions;
- Building and construction grew by 4.8% compared to 4.3 % in FY 2011/12 mainly due to increased activity in the construction industry driven by government expenditure in the sector; and
- Tourism sector recorded a higher growth of 5% in the year compared to 4.2% in FY 2011/12.

Focus on improving productivity

Manufacturing sector recorded lower growth of 3.1% in the current year compared to 3.5% in FY 2011/12. This was attributed to high production costs, cost of credit and uncertainties related to the 2013 general elections.

In addition, inflation eased from an annual average of 16.42% in FY 2011/12 to 7.5% in FY 2012/13 due to the favourable weather conditions and tightening of monetary policies.

The priority areas highlighted in the FY 2013/14 budget include the following:

- Improving productivity, competitiveness, business climate and encouraging investments and trade aimed at accelerating growth;
- Supporting small and medium enterprises through capacity building, market access and financial support;
- Efficient public service delivery through the devolved government structure;
- Maintaining a stable macroeconomic environment; and
- Extension of the tax base and increased focus on efficiency in public expenditure.

Tanzania

The GDP grew by 6.9% in FY 2012/13 compared to 6.4% in FY 2011/12. This growth was mainly attributed to a 20.6% growth in communication sector and 5% in agriculture. Agriculture contributed 24.7% to the GDP thus has a significant impact on GDP.

Priorities for FY2013/14 - Tanzania

The priority areas for FY 2013/14 budget include:

- Improvement in energy, transportation, ICT, clean water and sewerage infrastructure;
- Focus on agriculture by improving accessibility of credit facilities by farmers;
- Assisting industries that use domestic raw materials;
- Enhancing human resources and skills development; and
- Improving availability and quality of social and financial services.

Continued focus on infrastructure and capacity building

Key economic objectives in FY 2013/14 include:

- 7% economic growth in 2013 and 7.2% in 2014;
- Increasing domestic revenue collection to 20.2% of GDP in FY 2013/14;
- Maintaining single digit inflation with a target of 6.0% by June 2014;
- Maintaining a stable and market determined exchange rate;
- Reducing interest rate spread; and
- Maintaining budget deficit after grants at a maximum of 5.0% of GDP in FY 2013/14.

Uganda

Uganda's GDP grew by 5.1% in FY 2012/13 compared to 3.4% in FY 2011/12. This growth is attributed to improved performance in the manufacturing, construction, transport, communication and real estate sectors.

Uganda witnessed a decline in inflation rate from 18% in June 2012 to 3.6% in May 2013 mainly as a result of increased food production.

The following are the priority areas in the FY 2013/14 budget:

- Infrastructure development focusing on roads, railway, inland water, energy, oil and gas and Information and Technology;
- Human resource development focusing on education, skills and health; and
- Private sector development, employment generation and poverty reduction.

Other objectives highlighted in the budget include the following:

- Achieving real economic growth of at least 7% per annum;
- Keeping annual consumer price inflation within single digit;
- Maintaining a prudent level of foreign exchange reserves of at least 5 months import cover to mitigate external shocks;
- Maintaining a competitive real exchange rate to support the growth of exports;
- Oil and Gas – undertaking capacity building and institutional development, exploration and appraisal and refinery development;
- ICT Sector – establishment of fully serviced industrial and Information Technology parks in various regions of the country, completion of the fibre optic cable projects, and implementation of

the digital television transmission; and

- Regulatory reforms - Simplifying business registration procedures, especially those affecting business start ups, and launching online services for company registration.

Focus on midterm development strategy

Rwanda

Rwanda's real GDP grew by 8% in FY 2012/13 as compared to 7% achieved in 2011/12. The strong performance was mainly driven by:

- 12.2% growth in service sector, particularly communication and transport which grew by 19.5%;
- 7.3% industry sector growth particularly due to 15.2% growth in construction; and
- 3% growth in agriculture.

Exports in value terms grew by 27% in 2012. At the same time, import growth was 26% which was largely due to Government's policy to increase investment, capital and intermediate goods to boost future domestic production for both the local and export markets.

Economic transformation

The allocation of resources in the 2013/14 fiscal year has been made taking into account the Economic Development and Poverty Reduction Strategy (EDPRS2) priorities. The thematic areas which are the core components of the EDPRS2, comprise of the following four areas:

- The economic transformation which has been allocated 28 % of the total budget. This mainly comprises of construction of power stations, electricity roll out, roads rehabilitation, construction of industrial parks and ICT sector development;
- The rural development which has been allocated RWF 164 billion equivalent to 10 % of the total budget. This mainly comprises of animal husbandry and food production;
- Productivity and youth employment which has been allocated 10 % of the total budget; and
- Accountable governance which has been allocated 2% of the total budget.

Key highlights from Kenya, Tanzania, Uganda and Rwanda

Key indicators of the performance of the East Africa economies in FY 2012/13 (2011/12) are set out below. Where applicable, prior year comparatives have been included in brackets.

Improving economic indicators

Increased budgeted spend

	Kenya	**Tanzania**	**Uganda**	**Rwanda**
Real GDP growth	5.8% (4.6%)	6.9% (6.4%)	5.1% (3.4%)	8% (7%)
12 month overall inflation – May	5% (16.42%)	16% (12.7%)	3.6% (18.6%)	3.3% (8.3%)
91 day TB rates - June	6.7% (9.8%)	11.91%(13.47%)	9.1 %(15.7%)	11.95% (7.6%)
	Ksh	***TZS***	***UShs***	***RWF***
Annual average exchange rate to the dollar (Local currency = US$1)	85.24 (87.90)	1,587 (1,579.5)	2,575 (2,485)	641 (609)
Budgeted spend (billions)	1,641 (1,460)	18,248 (15,120)	13,169 (10,883)	1,653 (1,550)
Recurring (billions)	1,166 (1,003)	12,574 (10,592)	8,959 (5,576)	736 (708)
Development (billions)	475 (452)	5,674 (4,528)	4,210 (5,287)	803 (677)

Customs and Excise

East African Community (EAC)

Changes to common external tariffs

Goods imported into the EAC are subject to Common External Tariffs (CET). There are several CETs that were agreed by the EAC Sectoral Council of Finance and Economic affairs.

One of the key changes is the granting of 0% import duty on certain raw materials and industrial inputs in Uganda under the EAC Customs Union Protocol. The number of items in the list which are not granted 0% import duty (Uganda list) has been reduced from 138 to 49.

Other details of the changes in the tariffs effective in FY 2013/14 will be contained in the gazette notice to be issued by the EAC secretariat.

Other proposals

Some of other changes in the customs and excise that are proposed by the respective East Africa Community countries are as follows:

Kenya

New levy on imports in Kenya

- Introduction of a Railway Development Levy of 1.5% on all imported goods.
- Exemption of duty on importation of items used to facilitate railway operations.
- Exemption of import duty on plastic bag bio-gas digesters.
- Increase in import duty on welding electrodes from 10% to 25%.
- Increase in import duty on millstones and grindstones from 0% to 25%.
- Increase in import duty on plastic tubes for packing of toothpaste and cosmetics from 10% to 25%.
- Reduction of remission on beer packed in pressurized containers from 100% to 50% of excise duty for a period of 3 years, thereafter the remission lapses.
- Introduction of remission of 50% excise duty on beer made from sorghum, millet and cassava.

Tanzania

Customs duty

Introduction of a list of items that are not deemed to be capital goods and thus not qualifying for 0% import duty.

Excise duty

- Extension of application of CET rate of 10% on wheat grain for one more year (instead of the CET rate of 35%).
- Imposing of a duty rate of 25% on rice and sugar instead of 75% and 100% respectively when imported to cover gap in the local market.
- Exemption of import duty applicable on machinery and spare parts imported by Tanzania Railway Limited for use in railway operations.
- Exemption of duty on plastic bag biogas digesters.
- Increasing import duty on millstones and grindstones for milling, grinding or pulping to 25%.
- Exemption of water treatment effluent plant from duty.
- Continued exemption of duty to Armed Forces Canteen Organization for a period of one year.
- Introduction of excise duty at 5% on utility vehicles (under specific HS codes) aged more than 10 years.
- Increase in excise duty on dumping of non –utility vehicles older than 10 years to 25%.

- Increase in excise duty on diesel (by TZS 2 per litre) and petrol (by TZS 61 per litre).

- Imposing excise duty (at rates from 10% to 25%) on floor coverings, articles of leather, guns, ammunition, certain aircraft and helicopters, yatch and other vessels for pleasure, rowing boats and canoes etc.

Duty on telecommunication services

- Introduction of excise duty at 15% on certain imported furniture.

- Increase of excise duty, to apply on telecommunication services (including all mobile services, landlines and wireless telecom services) to 14.5%.

- Increase of excise duty on cigarettes whilst the excise duty on cigars remains at 30%.

Uganda

Excise duty

- Increase of excise duty on petrol and diesel by UShs 50 per litre.

- Re-instatement of the excise duty on kerosene which had been exempted from duty in 2011 at UShs 200 per litre.

Tax on gambling and betting

- Increase in the excise duty on imported un-denatured spirits from 80% to 140%.

- Introduction of 20% excise duty on revenue from promotional activities akin to gambling.

- Introduction of 10% excise duty on the mobile money transaction fees.

Rwanda

- Reduction of import duty on rice in the husk, husked (brown) rice, and semi milled or wholly milled as well as broken rice to 35%.

- Reduction of import duty on road tractors and semi trailers to 0% from 10%.

- Reduction of import duty on wheat grain and wheat flour to 35%.

- Reduction of import duty on buses for transportation of more than 25 persons to 10% from 25%, and those that transport 50 persons or more to 5% from 25%.

- Increase of import duty on telecommunication equipment to 25% from 0%.

- Increase of import duty on construction materials from 0% to 25% for local investors with a minimum capital of US $100,000 in hotels and 10% for projects worth US $1.7 million and above.

Direct and indirect taxes

Kenya

Income tax

- Withholding tax on winnings from gaming and betting has been reintroduced.
- Premiums paid by employers on group life and group personal accident insurance policy covers on behalf of employees have been exempted from tax subject to certain conditions.
- A review of capital gains tax has been initiated.

Double Taxation Avoidance Agreement terminated

Value added tax (VAT)

- A revised draft VAT bill will be tabled for debate by parliament. The bill is aimed at simplifying the VAT rules.

Tanzania

Income tax

- Reduction of minimum tax rate on income of resident individuals from 14% to 13%.
- Reduction of skills and development levy payable by employers on gross payments to employees from 6% to 5%.

Withholding taxes

- Introduction of withholding tax at 10% on commission on money transfer via mobile phones.
- 5% withholding tax to apply on service fee compared to the current rate of 2% which only applies to those without Tax Identification Number.
- Introduction of 2% withholding tax on supply of goods to Government institutions.
- Abolishing of withholding tax exemption on leasing of aircrafts by persons engaged in air transport business.

Value Added Tax (VAT)

- VAT exemption on tourist services has been abolished.
- A special relief has been introduced for domestic textile manufacturers using locally produced cotton.

Fuel levy

Fuel levy has been increased from TZS 200 to TZS 263 per litre.

Uganda

Income Tax

- A legal framework through which the Uganda Revenue Authority, Kampala City Council and the Uganda Registration Services Bureau will be introduced.

Value Added Tax

- The VAT exemption on hotel accommodation and tourist lodges will be removed.
- VAT on the supply of water for domestic use has been reintroduced.
- Wheat and wheat flour made from cereal grown, milled and produced in Uganda will be subject to VAT at 18%.

Stamp duty

- Increase in stamp duty on third party insurance policies for motor vehicles by Shs 30,000.

Other

- Introduction of a levy on all incoming international calls.
- Motorcycle registration fee has been increased by UShs 70,000 from UShs 130,000 to UShs 200,000.
- Motor registration fee has been increased by UShs 200,000.

Rwanda

Income Tax

- A new mineral royalty tax on different types of minerals will be introduced. For basic metals the royalty tax will be 4% of the value of the minerals extracted, while for precious metals and stones the tax will be 6% of the value.

- Double Taxation Avoidance Agreement (DTAA) with Mauritius has been terminated with effect from January 2013. The DTAA will be revised.

Value Added Tax

- A new VAT law was introduced effective 5 February 2013. This law has repealed the old VAT law and all prior legal provisions including the Commissioner General's rules and Ministerial Orders that referred to the old law.

- The new VAT law requires registered taxpayers to use electronic billing Machines (EBM) among other measures.

Miscellaneous

Kenya

Tax administration

Reforms in the financial sector

- The powers of the commissioner to access books of account have been enhanced where tax evasion is proved in court.
- A Tax Appeals Tribunal Bill establishing a single tax appeals body will be tabled in parliament.

Others

- Insurance Act will be amended to open up the ownership of insurance companies and brokerage firms to other citizens of EAC.
- The law will be amended to remove restrictions of foreign ownership for insurance agents.
- The Capital Markets Act will be amended to provide for the issuance of regional fixed income securities.

Increased accountability.

Tanzania

Motor vehicle annual license

Licence fees have been increased by TZS 50,000 so that the rates on the motor vehicles are as follows:

- Engine capacity between 501 to 1500cc – TZS 150,000.
- Engine capacity between 1501 to 2500cc – TZS 200,000.
- Engine capacity above 2501 to 2500cc – TZS 250,000.

The licence fee on motor vehicles with engine capacity below 501 cc has been removed.

Petroleum levy

Introduction of petroleum levy of TZS 50 per litre.

Uganda

Tax administration

- There are plans to enforce the use of the Tax Identification Number for all traders who receive trading and other licences and permits from Kampala City Council Authority and Local Governments.
- The tax authority will be cleaning up the VAT register.

Others

- Streamlining tax exemptions to minimize revenue leakages.
- Introduction of new Tax Procedure Code.

Rwanda

Others

- Directors who are directly involved in the control and mismanagement of a private company are now jointly liable for any tax liabilities incurred by the company if it is proved that they intentionally or negligently caused the company to incur the tax liability.
- Shareholders who become involved in the mismanagement of the company and/or misuses company's funds are also liable for any tax liabilities if they led to the company's inability to meet its tax obligation.
- The Rwandan investment code will be revised to adapt to the prevailing business environments.