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Driving priorities amidst uncertainties - delicate balance!

National Budget Bulletin

June 2024

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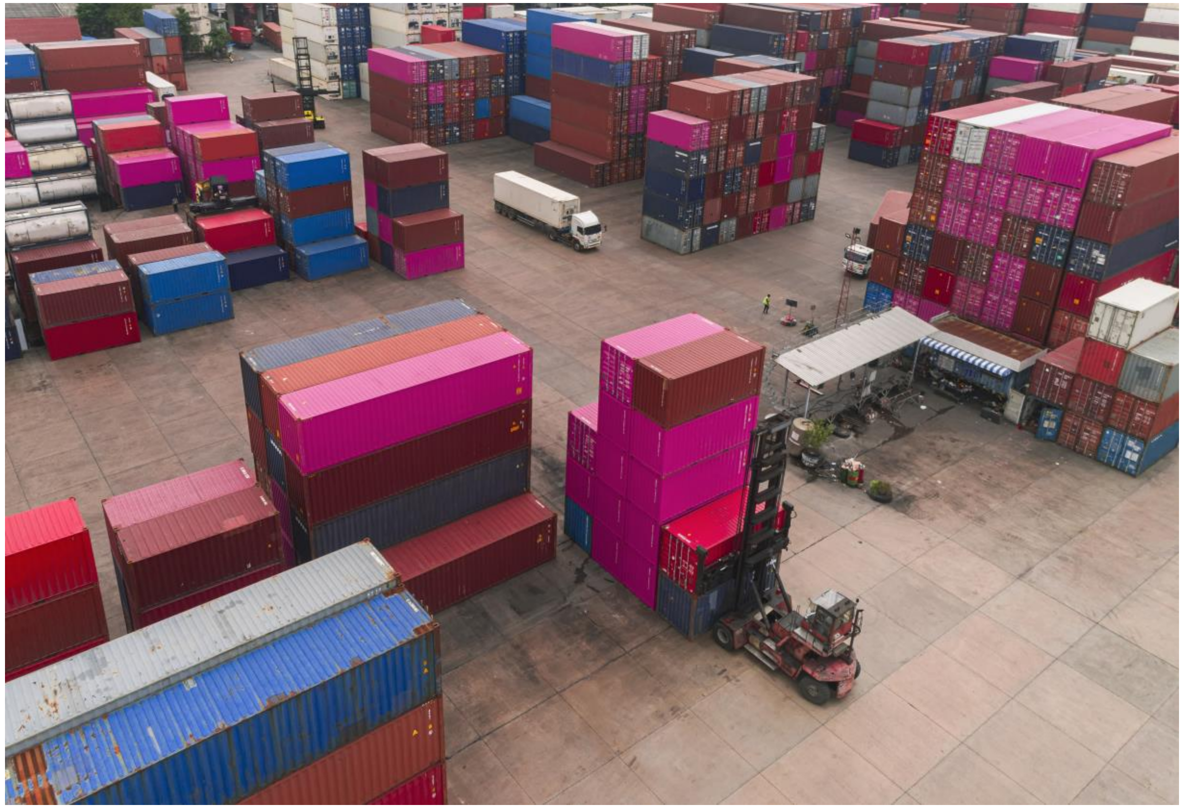


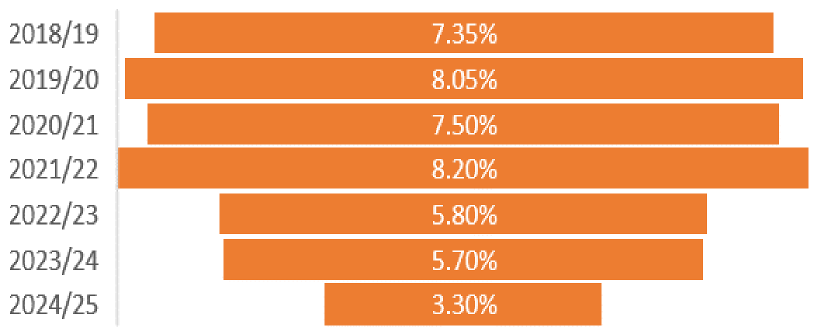
01

Economy and Sectoral Cross-Cutting Areas

Economy

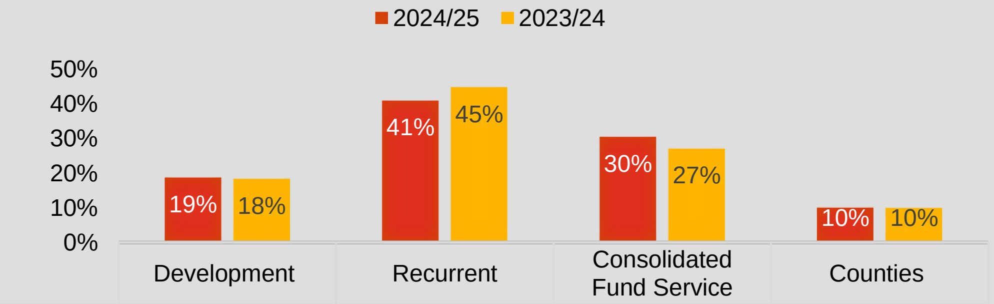
- Kenya's GDP growth grew by 5.6% in 2023, largely driven by the recovery of the agricultural sector, financial services and tourism. This is expected to slow down in FY 2024/25 to 5% largely because of a decline in the agricultural sector that had rebound, and tight monetary policy and fiscal space.
- The total expenditure is set to increase from KES 3.87 trillion in FY 2023/24 to KES 3.99 trillion in FY 2024/2025. Total revenue is projected to increase from KES 2.9 trillion to KES 3.4 trillion.
- Ordinary tax revenue is projected to increase from KES 2.46 trillion to KES 2.92 trillion. The finance bill 2024 is projected to mobilise majority of the additional revenue.
- The Government projects the fiscal deficit (inclusive of grants) to reduce from KES 925 billion (5.7% of GDP) in FY 2023/24 to KES 597 billion (3.3% of GDP) in FY 2024/25; a 43% decrease. This would be commendable if achieved as total borrowing is expected to reduce. Success of this lies with further fiscal consolidation and revenue mobilisation.
- The fiscal deficit will be funded mostly by foreign borrowing – KES 334 billion and domestic borrowing – KES 263 billion.
- Access to funds by the Government continues to be expensive in both the domestic and foreign markets. The Government has also cut back on its planned borrowing from the International Monetary Fund (IMF).

Table 1: Fiscal deficit as a percentage to GDP



- Compared to the supplementary budget II of FY 2023/24 – Development and Counties allocations have remained relatively the same. Development expenditure continues to remain below the Public Finance Management (PFM) Act requirement of 30% as illustrated in table 2 below.
- Recurrent expenditure has been projected to decrease by 4% indicating willingness of the Government to carry out fiscal consolidation. Consolidated Fund Service (CSF) has increased majorly due to interest payments which have been projected at KES 1 trillion. Management of fiscal deficit to reduce borrowing is of ultimate importance.

TABLE 2: EXPENDITURE ALLOCATION



	Development	Recurrent	Consolidated Fund Service	Counties
2024/25	19%	41%	30%	10%
2023/24	18%	45%	27%	10%

- The Government plans to mobilise revenue by initiating tax amendments and expanding the tax base. Key proposed tax measures include: Motor vehicle tax – 2.5% of the value of the car; withholding tax on goods supplied to public entities – 3% of the amount paid (resident) and 5% of the amount paid (non-resident); Significant Economic Presence (SEP) – 30% of deemed tax profit applicable to non-residents; Interest income on infrastructure bonds earned by residents be taxable; Taxation on family trusts; Application of VAT on certain financial services; Excise duty on money transfer services up from 15% to 20% among others. The finance bill of 2024 is projected to collect an additional KES 346 billion.
- The FY 2023/24 supplementary budget II slashed the revenue target by KES 250 billion in June 2024 with the National Assembly Budget and Appropriations Committee noting the revenue overestimation. At 30 April 2024, revenue target was 70% achieved. The FY 2023/24 finance bill had been projected to yield KES 214 billion but had so far yielded KES 131 billion – a 53% performance.
- Is the FY 2023/24 tax revenue underperformance due to high revenue targets, economic underperformance or non-compliance? This is a key question the Government should consider.

Economy

- The 12-month inflation rate in Kenya remained relatively stable and was at 5.1% as of May 2024 according to the Central Bank of Kenya (CBK). This was driven by monetary policies.
- The monetary policy committee of the CBK maintained the Central Bank Rate (CBR) at 13% in June 2024. The banks' gross Non-Performing Loans (NPLs) rose from 14.8% to 15.5% between December 2023 and February 2024, indicating a decline in economic performance. The Government is keen on keeping the inflation and the US Dollar to Kenyan Shilling exchange rates stable. An increase in the exchange rate would make foreign debt expensive among other economic challenges as Kenya is a net importer, while easing up of the CBR may open up the economy and fiscal space. The Government should seek a balance.
- CBK is also keen on progressively revising the core capital requirements for commercial banks from 1 billion to 10 billion and undertaking a comprehensive review of the legal and regulatory framework relating to capital markets.
- The issue of the settlement of pending bills continues to persist. The pending bills verification committee is yet to finalise its work. Total pending bills are estimated to amount to KES 662 billion. It should be noted that the FY 2023/24 supplementary budget II did not allocate any funds towards pending bills settlement. The budget estimates for FY 2024/25 have only allocated KES 10 billion (1.5%). This is a key area because of the positive impact it can have on the economy if resolved. Transition to accrual accounting will aid in alleviating the pending bills issue.
- With the tightening fiscal space, the Government is keen on leveraging Public-Private Partnerships to see it achieve its agenda, especially on infrastructure development.
- The Government is keen on fiscal consolidation. It is notable that budget cuts have happened in key sectors including education, agriculture, infrastructure, among others. It would be interesting to see the impact of this on FY 2024/25 economic growth and provision of Government services.
- The Budget is anchored on five pillars and twelve enablers. These pillars include Agricultural Transformation and Inclusive growth, Micro, Small and Medium Enterprises, Housing and Settlement, Healthcare, and Digital and Creative Industry – KES 283.5 billion has been allocated under the five pillars.
- Allocation to other thematic areas is as follows: Education – KES 656 billion; National Security – KES 219.4 billion; Food and Agriculture Security – KES 84.9 billion; Energy, Infrastructure & ICT – KES 477.2 billion; Health - 127 billion; Environment protection, Water and Natural resources – KES 110.1 billion among others.

Economy

Key points

- From observation of the supplementary budgets in FY 2023/24, material changes were made to the original revenue targets and expenditure estimates, with the fiscal deficit changing from KES 781 billion to KES 925 billion. The budget process should endeavor to achieve reasonable and achievable targets and estimates.
- The Government is keen on stabilising the fiscal deficit. Revenue mobilisation and expenditure rationalisation will be key to achieve that.
- Realistic revenue targets with corresponding fiscal consolidation will reduce pressure to borrow.
- The Government should continue seeking new ways of increasing revenue – predictability in tax system, tax base expansion and simplification of the tax process is called for.
- Keeping a stable inflation and exchange rates is key - the Government should constantly keep this under watch and manage it using fiscal and monetary policies.
- Debt sustainability management is key for the Government.
- Transition to accrual accounting is key in resolving the pending bill issue.

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Budget Policy Statement Analysis: International Development Focus

The impact of the budget on the international development space is multifaceted, affecting both the recipient countries and the donor nations themselves. In the Kenyan context, the impact of the budget on the international development space is significant, reflecting the country's engagement with international partners and the influence of foreign aid on its development trajectory. The 2024 Kenya National Budget Policy Statement highlights several key aspects related to international development and fiscal management:

Implementation Strategy and Financing

The government plans to finance the national budget of KES 3,992 billion from ordinary revenues (Taxes and AIA - Ministerial) of KES 3,343.2 billion as well as revenue from grants which are estimated at KES 51.8 billion in FY 2024/25.

The revenue from grants is an increase from KES 38.4 billion in FY 2023/24 representing a 35% increase. Out of the expected grants of KES 51.8 billion a few grants/developments were mentioned in particular in the health sector such as the Global Fund at KES 28.7 billion.

35%

increase in estimated grants from last FY

Item	Amount in KES
Total Budget Projection	3,992.0 billion
Ordinary Revenue from Taxes & AiA	3,343.2 billion
Grants	51.8 billion
Deficit	**597.0 billion**
Foreign Financing	333.8 billion
Domestic Financing	263.2 billion
Total	**597.0 billion**

Areas of collaboration of Governments and Donors highlighted in Budget Policy Statement

- The Government with the support of development partners, in 2021, embarked on the **development of the Medium Term Revenue Strategy (MTRS) to enhance domestic revenue mobilisation.**
- The **Government plans to prioritise counterpart funds (matching funds)** which is the portion that the they must finance in support of the projects financed by development partners.
- The Government has launched the National Landscapes, Ecosystem Restoration Strategy that is aligned with the UN Decade for Ecosystem Restoration and Land Degradation Neutrality Targets under UNCCD, Global Biodiversity Framework and Nationally Determined Contribution (NDC) targets. This programme is expected to contribute to **climate change mitigation and adaptation,** and **employment creation for vulnerable groups and the youth.**
- In addition, the Government in collaboration with County Governments and development partners will continue to commit funds towards the **National Tree Growing Programme through the Financing Locally-led climate Action (FLLoCA) Program**

As per the Budget Policy Statement, some of the sectors that will be supported by grants, loans and aids are:

- Education
- Healthcare improvement
- Renewable energy expansion
- Water, sanitation and hygiene program
- Agricultural productivity and climate resilience
- Urban infrastructure and municipal development
- Capacity building and governance

International partners collaboration | Grants, Loans & Aids - Allocation to Counties

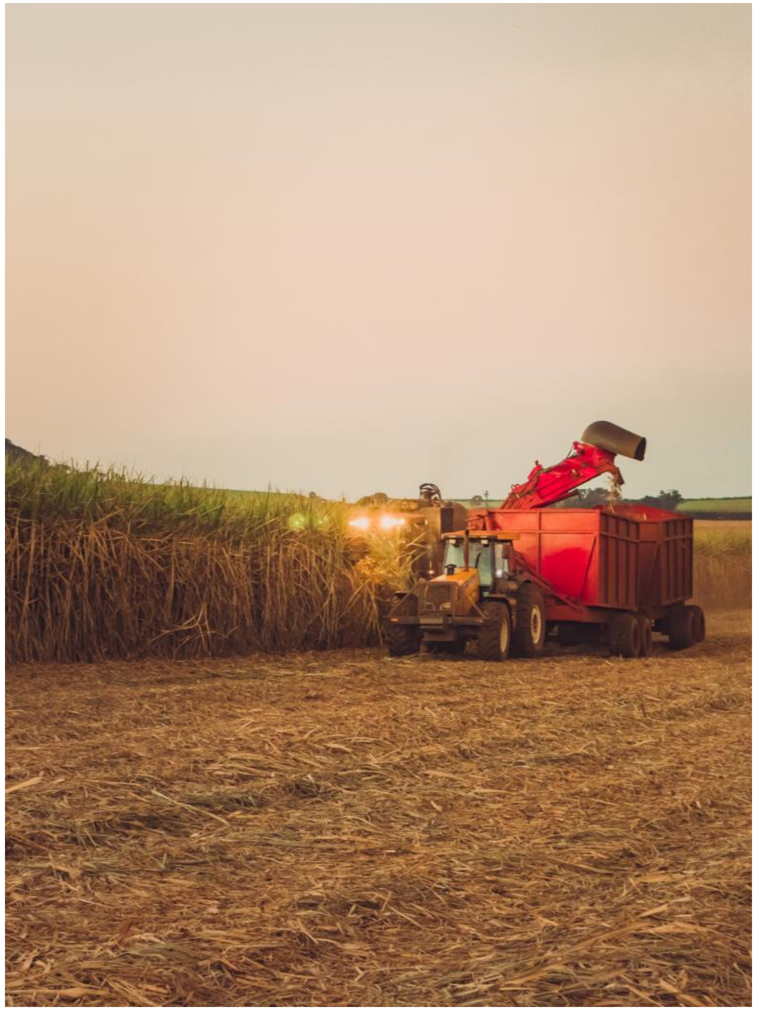
As per the 2024 Budget Policy Statement, the National Treasury proposes to allocate KES 44.4 billion as additional allocations (conditional and unconditional) to County Governments. Out of this, KES 8.76 billion will be financed from the National Government's share of revenue, and KES **35.66 billion from proceeds of loans and grants from Development Partners.**

A total of KES 35.66 billion has been proposed for transfer to County Governments as conditional additional allocations financed from proceeds of loans and grants from Development Partners in the FY 2024/25, to support a total of fourteen (14) donor-funded projects.

The major partners in the loans from development partners categories include the World bank, KfW (German Financial Cooperation) funding mostly conditional allocations.

Consistent with the objective of minimizing costs and risks of public debt, the Government plans to mobilise resources mainly from multilateral and bilateral Development Partners.

Some 14 donor-funded projects will be implemented at the County Government level as highlighted in the National Budget Policy Statement.



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02

Tax

Balancing priorities – a tax perspective

The Government's focus on Kenya's taxation framework culminated in the formulation of the National Tax Policy ("NTP") which is meant to support the implementation of economic recovery strategies laid out under the Government's Bottom-Up Economic Transformation Agenda ("BETA"). This is within the context of expenditure pressures arising from internal and external economic shocks and constrained liquidity for the Government.

The Government's statistics show that Kenya has witnessed a decline in revenue as a share of Gross Domestic Product ("GDP") in the last decade. The revenue to GDP ratio in FY 2022/23 declined to 14.3%, down from 15.1% in FY 2021/22. However, Government anticipates an improvement to 16% in FY 2023/24 as a reflection of its efforts in revenue mobilization.

The Government has attributed the decline in tax revenue as a percentage of GDP to factors such as rising tax expenditure, low tax compliance (at 70% in FY 2022/23); and the growth of the hard to tax informal and digital sectors. The agricultural sector has also been singled out by the Medium Term Revenue Strategy ("MTRS") as one that contributes more than 20% to the GDP but generates minimal tax revenue.

It is important to note that Kenya's potential of tax revenue to GDP has been estimated by the International Monetary Fund ("IMF") to be 25% which is consistent with the East African Community's ("EAC") target.

The NTP, which is aligned to the Fourth Medium-Term Plan ("MTP IV") 2023-2027 of the Kenya Vision 2030 ("Vision 2030"), is complemented by the three-year FY 2024/25 - 2026/27 MTRS. The Government considers the MTRS to be a comprehensive framework for guiding tax system reforms and revenue mobilization consistent with the NTP.

It expects its implementation to raise the tax revenue to GDP ratio to 20% by the end of FY 2026/27. A second MTRS for the FY 2027/28 to FY 2029/30 will cover the remaining period of Vision 2030 and is expected to raise the tax revenue to GDP ratio to 25%.

The Finance Bill, 2024 ("FB", "Bill"), which was tabled for the first reading on 13 May 2024 before the National Assembly, introduced significant tax proposals, some of which reflected the MTRS measures. It proposes to raise an additional KES 346 billion.

The Bill has since gone through a public participation exercise, and we are awaiting the report of the Finance and National Planning Committee of Parliament. At this point, only Parliament can make amendments to the Finance Bill.

Below is an overview of some of the significant tax proposals highlighted in the Cabinet Secretary's ("CS") Budget Statement. For the detailed proposals in the Finance Bill, please refer to PwC's Tax Alert.

Government affirms the introduction of motor vehicle tax

The Government has previously made clear its intention to introduce a wealth tax in the form of a motor vehicle circulation tax in the MTRS. In the budget speech, the CS reiterated the Government's position to introduce the motor vehicle circulation tax at the rate of 2.5% of the value of the vehicle subject to minimum amount of KES 5,000 per annum.

Noteworthy, while the Finance Bill proposed that the maximum motor vehicle tax payable would be capped at KES 100,000, the CS did not mention the cap of KES 100,000 in his speech.

Balancing priorities – a tax perspective

Expansion of Value Added Tax (VAT) tax base and minimization of tax incentives

The Government through the MTRS intends to review the current zero rating and exemptions regime for VAT with an aim of rationalising the existing VAT exemptions and zero-rated supplies i.e limiting zero-rating only to exported goods and services.

In his budget speech, the CS reiterated that most of the products listed in zero rated schedule will be moved to the exempt schedule.

The above measure will have the effect of increasing the cost of supplies since the exemption does not provide relief for input VAT incurred and the cost will be passed on to the final consumers.

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The disparity in Excise Duty rates on money transfer services

Whilst the Bill included a proposal to increase the rate on money transfer fees by cellular mobile service providers from 15% to 20%, the CS indicated that the rate of 15% will be retained. a The proposal is a welcome move due to the benefit it will provide to the retail electronic payments ecosystem.

As the proposal does not cover financial institutions, it is likely to render the money transfer services provided by financial institutions comparatively more expensive and uncompetitive.

In his budget speech, the CS reiterated that most of the products listed in zero rated schedule will be moved to the exempt schedule.

Customs - East Africa Community (EAC) Proposals

Incentives for local manufacturing

The CS highlighted some of the proposals presented by Kenya during the pre-budget consultations with other East Africa Community (“EAC”) Partner states.

The tabled proposals are aimed at enhancing the competitiveness of locally manufactured products. This is by way of Duty remission and Stays of application. We detail below the tabled proposals highlighted by the CS.

Stays of application of import duty rates per the EAC Common External Tariff (“CET”) will apply for 1 year on: Rice (35% or USD 200 per Metric Tonne), wheat (10%), prime movers (25%), trailers (35%), iron and steel products (35%), leather bags (35%) and textile products (25% - 35%)

Duty remission will apply for 1 year on importation of: inputs for manufacture and assembly of smart telecommunication devices including mobile phones, laptops and tablets; raw materials for the manufacture of parts used in the assembly of motorcycles including leaf springs and wiring harness; completely knocked down kits for assembly of motorcycles at the rate of 10%.

A full list of the changes to the EAC Customs laws are to be published through an EAC Gazette Notice (“GN”) at the end of June and will be effective 1 July 2024.

Other legislative changes

The CS indicated that the government is considering the following legislative amendments:

State Corporation Reforms

To address the challenges faced by State Corporations ("SCs") including Government Owned Enterprises ("GOEs"), the Government of Kenya (the "Government") has embarked on the process of privatising and restructuring GOEs.

As part of the process, the Government aims to privatise GOEs whose mandates are no longer relevant and restructure SCs through mergers and/or transfer back to parent ministries or relevant SCs to remove duplication of functions.

In 2023, the Cabinet gave its approval to the Ownership Policy for GOEs, a crucial framework for governance reforms aimed at maximising the potential of these entities. To legally establish this policy and facilitate its practical application, the Government has completed the draft of the Government Owned Enterprises Bill, 2024. This bill is currently in the stage of public participation.

Government Investment Regulations, 2024 have also been drafted, to provide a framework for the efficient and effective management of government investments.

Commercial Bank Licensing Reforms

The CS noted that the Kenyan banking sector needs to constantly reform due to changing global, regional, and local influences. With this in mind, the Central Bank of Kenya ("CBK") is reviewing the minimum core capital for banks from the current KES 1 billion to KES 10 billion.

Further, the CBK plans to amend the Banking Act (Cap. 488) to provide for stiffer penalties that are proportionate to the violations committed with a view of promoting a stronger compliance culture in banks in alignment to international best practices.

Pension Reforms

In the budget speech, the CS mentioned that the Cabinet approved a policy in November 2023 mandating that all workers, whether on contract or permanent, be enrolled in a registered retirement benefits scheme.

This is in response to the low coverage of retirement benefits, which stands at 26%. To ensure the policy's success, the Government will undertake a review and harmonisation of existing retirement benefits laws.

Insurance Reforms

In order to support the expansion of the insurance industry, the Government developed a National Insurance Policy. This policy is intended to steer the review of the Insurance Act (Cap. 487). The proposed Insurance Professionals Bill of 2024, which is presently being considered by Parliament, aims to enhance the professional standards within the insurance sector. Additionally, it seeks to bolster the stability and efficiency of insurance companies.

Public Private Partnerships Framework

The Government, acknowledging the constraints in budgetary resources, is committed to expanding the utilisation of Public-Private Partnerships (PPPs) to fund projects that demonstrate commercial potential. Presently, there are numerous projects in different phases within the PPP framework. The CS proposes to introduce changes to the Public Finance Management Act (No. 18 of 2012). These amendments aim to expedite the attainment of financial closure and to guarantee that the fiscal expenditures and potential contingent liabilities associated with these projects remain at manageable levels.

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03

Devolution

Strengthening Devolution

KES 444.5 bn (+4%)

County Allocation

In FY 2024/25, County Governments have been allocated KES 444.5 billion. This allocation comprises KES 400.1 billion from the equitable share of revenue raised nationally, equivalent to 25.48% of the actual revenues raised nationally for FY 2020/21, thereby meeting the threshold stipulated in Article 203(2) of the Constitution. Additionally, KES 8.76 billion comes from the National Government's share of revenue as conditional allocations, and KES 35.66 billion as conditional allocations from Development Partners. The allocation of equitable share represents a 4% increase from FY 2023/24.

While the National Government has, for the first time, allocated over KES 400 billion to County Governments, past delays in disbursing funds remain a significant concern. These delays have adversely affected service delivery and budget absorption. **The National Treasury and other stakeholders should implement mechanisms to address and mitigate these disbursement delays.**

KES 163.6 bn

Pending Bills

As of September 30, 2023, counties reported accumulated pending bills amounting to KES 163.62 billion. In relation to the ineligible pending bills, the Intergovernmental Budget and Economic Council (IBEC) through a resolution on 5th June 2023 instructed all County Governments to finalise verification of ineligible pending bills. Once verified, County Governments should prioritise payment of these arrears. Whilst this is highly commendable, much more needs to be done. **The Government should develop a clear strategy to address the issues surrounding pending bills.**

KES 47.1 bn

Own Source Revenue

An analysis of Own Source Revenue (OSR) performance in FY 2022/23 shows that County Governments were able to raise a total of KES 47.1 billion, against an annual target of KES 66.1 billion, representing a deficit of 22.9%. It is also noted that several County Governments face challenges in setting realistic revenue targets. The National Treasury plans to build the capacity of County Governments to generate statistics for tax analysis and revenue forecasting in FY 2024/25. While these measures are commendable, **additional efforts are necessary to support counties in realizing their full OSR potential**.

Proposed Policy Reforms

Own Source Revenue Reforms

All counties to adopt a uniform Integrated County Revenue Management System (ICRMS) that will ensure uniformity in the collection, recording and reporting of own source revenues and generate reliable data for revenue forecasting and revenue enhancement.

The enactment of the National Rating Bill will see counties increase OSR thus improved service delivery. The bill provides for among others, standards in the way rating and valuation is conducted in the country.

The County Governments (Revenue Raising Process), Bill 2023 provides for a process by which the County Governments introduce revenue raising measures in conformity with Article 209 (5) of the Constitution. The Bill, which is currently before Senate, has gone through the first reading.

"Implementation of this National Policy will increase efficiencies and accountability of County Governments in the management of Own Source Revenue"

Other Public Finance Management Reforms

To ensure efficient public spending, the Government plans to roll out the e-Government Procurement (e-GP) System. The system will be interfaced with the Integrated Financial Management Information System (IFMIS) to process payments of contracted suppliers.

The Government also plans to roll out Public Investment Management Regulations that aim to streamline initiation, execution and delivery of public investment projects. The system is aimed at improving the management of development projects in the counties.

The National Treasury has made a request to Parliament to fast-track the approval of County Government Addition Allocation Bill (CGAAB), 2023 in order to facilitate the processes leading to timely disbursements and requisition of the funds for additional conditional allocations made to County Governments in FY 2023/24.

"These policies will ensure efficient public spending as well as streamline management and delivery of public projects"

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04

Sectoral Analysis

Banking Sector

The Cabinet Secretary (CS) noted that the banking sector remained stable and resilient in 2023 with strong liquidity and capital adequacy ratios. The CS also noted that there has been a transformation in the banking sector evidenced by; growth in the asset base by 0.3% from KES 7.72 trillion in February 2023 to KES 7.74 trillion in February 2024, increased adoption of branchless banking and a shift in the risk profile prominently in cybersecurity, cross-border and climate-related risks.

Banking sector reforms

The Cabinet Secretary noted that the following three key sector reforms have been implemented in the banking sector to enable its role in Kenya's socio-economic transformation:

- Licensing and oversight of Digital Credit Providers to address inherent challenges such as high cost of credit, unethical debt collection, inadequate disclosure and lack of transparency, breach of data privacy, and abuse of personal information.
- Issuing of the draft Kenya Green Finance Taxonomy for public participation that will serve as a tool to classify whether economic activities are 'green' or environmentally sustainable and serve as a guide for banking sector and other market participants in making informed investment or financing decisions.
- Revising the Central Bank's Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation Financing supervisory framework through implementation of risk-based supervision, undertaking institutional and sectoral risk assessments, and enhancing staff complement and capacity for supervision.

The Cabinet Secretary proposed the following reforms:

- Progressively increasing the minimum capital requirements for commercial banks from KES 1.0 billion to KES 10 billion aimed at increasing their capacity to finance large projects and enable banks to withstand shocks caused by continued emerging risks. The Central Bank of Kenya will engage the market to come up with a reasonable implementation timeframe. We note that this is not the first time the regulator has attempted to increase the minimum capital requirement for banks.
- Amending the Banking Act to provide for penalties that are proportionate to the violations committed, support a strong compliance culture in banks, and align to international best practices. The current level of penalties imposed on banks for non-compliance are not sufficiently punitive.

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Coffee brokers licensed by the Capital Markets Authority to boost income for coffee farmers

Capital markets developments

The Cabinet Secretary noted that the Capital Markets Authority has licensed 14 coffee brokers to enhance price discovery and boost income for coffee farmers. To date, 29 auctions have been conducted under the Capital Markets (Coffee Exchange) Regulations, 2020, at the Nairobi Coffee Exchange. The Authority has also approved the direct settlement system which has been operationalized by one of the local commercial banks.

The budget policy contained government plans to undertake a comprehensive review of the National Payments System legal and regulatory framework aimed at mitigating current and future consumer protection risks. However, the Cabinet Secretary did not expound on these plans in the budget statement.

Pensions, Insurance and other proposals

Pensions and Insurance

Increasing Pension Coverage

The Cabinet approved the National Retirement Benefits Policy in November 2023 that requires all entities to enroll their employees to a registered retirement benefits scheme. This was to address the pension coverage in Kenya which is currently at about 26%. To effectively implement this policy, the CS noted that the government has initiated the review and harmonisation of all laws governing the retirement benefits sector.

To handle pension from the informal sector, the National Treasury has established the Kenya National Entrepreneurs Savings Trust (KNEST). This sector has remained excluded from pension coverage mainly due to its unique and heterogeneous needs.

To promote savings for post-retirement, the Finance Bill 2024 proposes to increase the tax-free pensions contributions threshold from the current KES 240,000 per annum to KES 360,000 per annum.

To also support retired employees, the Finance Bill 2024 proposes an amendment to the Income Tax Act to exempt from tax all retirement benefits paid from a registered pension fund, registered provident fund, registered individual retirement fund of National Social Security Fund and the Public Pension Scheme, upon attainment of the retirement age. If pensioners retire early, they will be exempt from income tax on retirement benefits if they had contributed to a registered pension scheme for at least 20 years.

Insurance Reforms

The CS noted that the government has developed a National Insurance Policy which will guide the review of the current Insurance Act and facilitate overall growth of the insurance sector. The Insurance Professionals Bill, currently under consideration by Parliament, is intended to strengthen the standards of practice in insurance and improve the stability and performance of insurance companies.

Other financial services proposals

Hustler Fund

To expand access to affordable financing to individuals and Micro, Small and Medium Enterprises (MSMEs), the government plans to continue implementing the Financial Inclusion Fund, or the ‘Hustler Fund’. The Government is proposing an additional allocation of KES 5.0 billion to the Hustler Fund to scale up access to credit for households and MSMEs.

The savings component of the Hustler Fund has been anchored within the KNEST to provide a channel for voluntary savings for the informal sector.

Dhow CSD

The Cabinet Secretary noted that the Central Bank of Kenya (CBK) launched an upgraded Central Securities Depository code dubbed “DhowCSD” which has transformed Kenya's financial markets through enhanced operational efficiency and expansion of digital access, broader financial inclusion and improved monetary operations. The Cabinet Secretary noted that the government will soon launch a retail bond for amounts as low as KES 600 for inclusivity purposes.

Financial Services

Tax measures

The Cabinet Secretary (CS), National Treasury retained certain measures that were already included in the Finance Bill 2024 (“the Bill”). Some of these tax measures were also contained in the Medium-Term Revenue Strategy (MTRS).These provisions have elicited a lot of discussion due to the significant impact they will have on stakeholders once enacted into law.

Introduction of motor vehicle tax

As proposed in the Bill and MTRS, the CS has retained the proposal to introduce motor vehicle tax. The insurer of motor vehicles will be responsible for collection and remittance of the motor vehicle tax within five working days of issuing the cover.

However, while the Bill proposed a minimum amount and a maximum amount of KES 5,000 and KES 100,000 respectively, the CS did not touch on the maximum cap of KES 100,000 as proposed in the Bill.

This is expected to have an adverse effect on the uptake of motor vehicle insurance policies and in the case of commercial vehicles, the additional costs are likely to be passed onto the consumers. For the insurance companies, it is expected to increase the administrative costs relating to compliance.

Application of VAT on certain financial services

As proposed in the MTRS, the CS has reiterated the proposal to rationalise the VAT Act by restricting the VAT exemption and zero rating to only services meant for export. However, while the Bill had explicitly listed certain financial services to be removed from the exemption schedule, in the budget reading the CS did not indicate which services will be taken out.

We note that the Bill had proposed to delete insurance services other than insurance and reinsurance premiums from the exemption schedule as well as the following financial services; Issuing of debit and credit cards, telegraphic money transfers, foreign exchange transactions, cheque handling, procession and clearing, issuance of bills of exchange, assignment of debt for consideration and provision of financial services on behalf of another on a commission basis.

These proposed amendments are likely to inflate the cost of financial services to consumers. In addition, the changes will bring additional VAT compliance burden to financial services providers increasing their operational costs. It may however provide relief where the institutions incur significant vatable supplies as the institution will be eligible to claim input VAT on supplies used in generating the taxable supplies.

Tax measures

Harmonisation of excise duty rates on fees charged on money transfer services.

This proposal by the CS is aimed at harmonising the excise duty rates on certain excisable services which includes fees charged for money transfer services by banks and money transfer agencies to the rate charged on other fees by financial institutions at 20%.

Whilst the Bill included a proposal to increase the rate on money transfer fees by cellular mobile service providers from 15% to 20%, the CS has proposed for the exclusion of these services from the increment.

Although this proposal is a welcome move due to the benefit it will create to the retail electronic payments ecosystem, it is likely to render the money transfer services provided by banks more expensive and thus uncompetitive.

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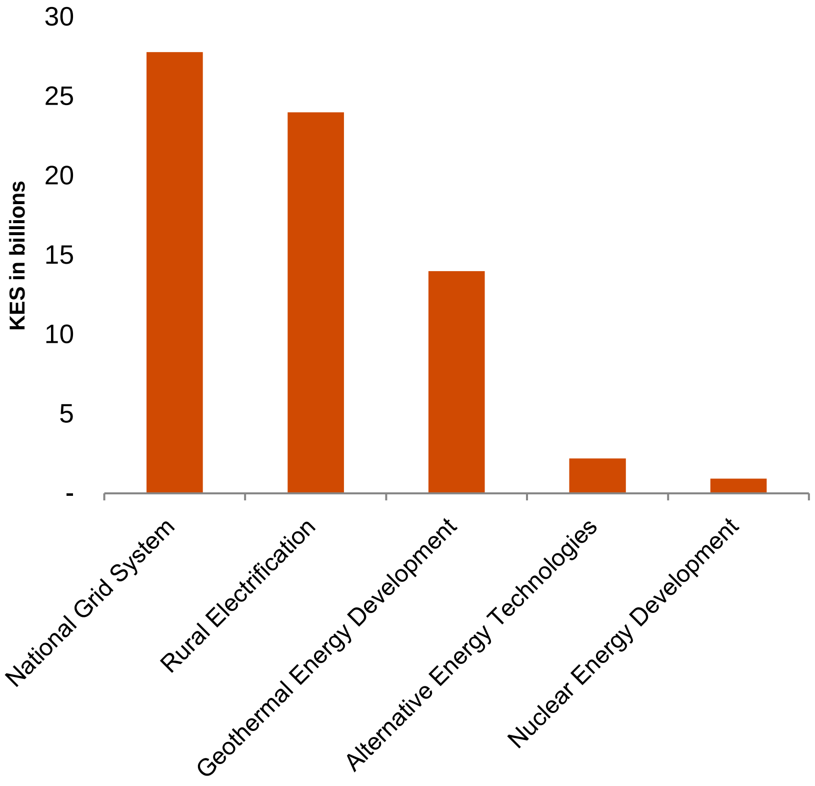
Infrastructure

Electricity

> The scaling up of development of critical infrastructure will reduce the cost of doing business and ease the movement of people and goods and promote competitiveness.
>
> **Professor Njuguna Ndung'u**
> Cabinet Secretary

Funding for electricity



Source: Kenya Budget Statement, PwC Analysis

Electricity

As envisioned in the Bottom-Up Economic Transformation Agenda (BETA) and Kenya's Vision 2030, access to affordable and efficient energy is key in the attainment of socioeconomic transformation of the country. Electricity continues to be expensive despite the growth in generation capacity and electricity connections in the country.

The Government has put in place a number of initiatives to reduce electricity prices in the country, which includes:

1. Renewable Energy Feed-in Tariffs (REFIT)
2. Investment in geothermal energy
3. Rural electrification
4. Engaging Independent Power Producers (IPPs) specifically on renewable energy procurement.

The prioritisation of investments in renewable energy to reduce dependence on the expensive fossil fuels is expected to reduce the cost of electricity over time. The focus on green energy is in line with the Government's goal of achieving zero carbon by 2050.

The Government has allocated KES 69.7 billion towards reliable and affordable energy for the FY 2024/25. This allocation has been distributed to the national grid system, rural electrification, geothermal energy development, alternative energy technologies and nuclear energy development.

Infrastructure

Transport Infrastructure

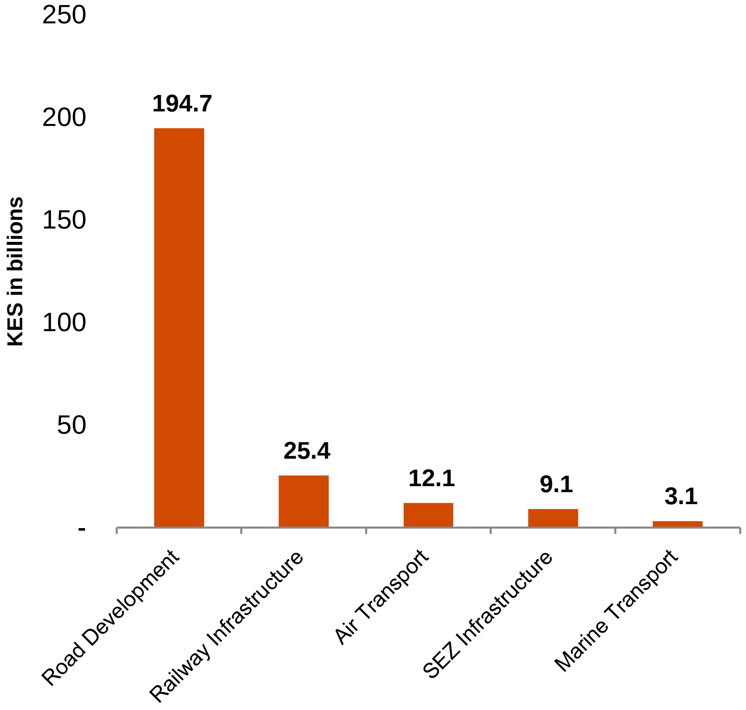
Roads

With the growth in the country's population and economic activity, the Government has strengthened the institutional framework for road development to accelerate completion of new and stalled road development. All projects will be completed within two years and no new projects will be initiated before completion of ongoing projects to minimise wastage of resources.

The Government will prioritise the upgrade and maintenance of rural access roads to enable farmers to get their produce to markets faster and at a cheaper price. The Government will also upgrade urban informal settlements and critical national and regional trunk roads that have the highest immediate economic impact.

In the FY 2024/25 budget statement, the Government has allocated a total of KES 232.4 billion to the wider transport and logistics sector.

Funding for transport infrastructure



Source: Kenya Budget Statement, PwC Analysis

Proposed road development funding largely comprises construction of roads and bridges (KES 86.2 billion), roads rehabilitation (KES 37.7 billion) and road maintenance (KES 69.5 billion).

Railway infrastructure allocation is largely towards the expansion of the railway transport and associated infrastructure (KES 25.2 billion).

Special Economic Zones including Konza Metropolis and Dongo Kundu were also key beneficiaries of the infrastructure budget with KES 6.7 billion and KES 2.4 billion respectively, mainly targeted at horizontal infrastructure development to help catalyse occupancy of the zones.

Infrastructure

Water Infrastructure

Water

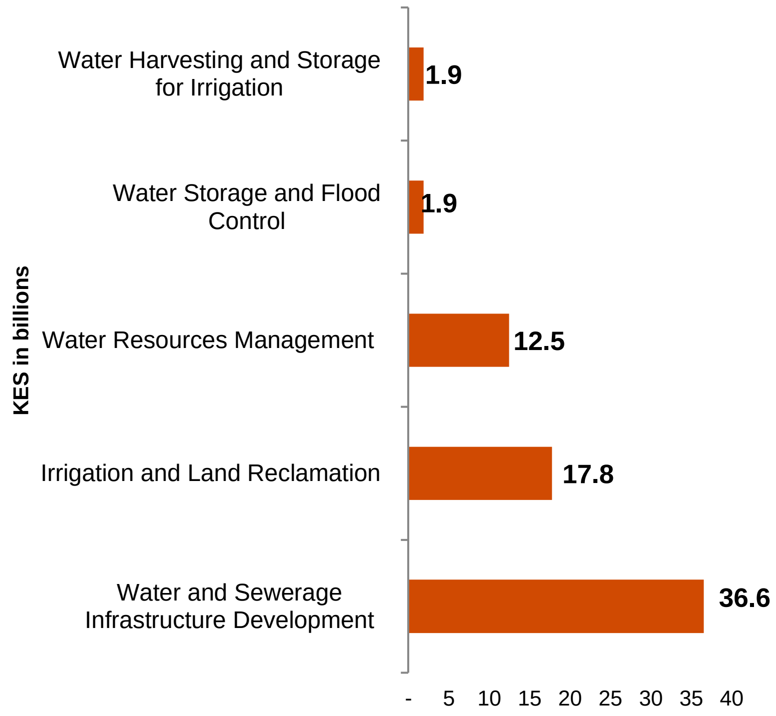
Water is a critical and largely scarce resource for Kenya, specifically in the agricultural sector where only 20% of land is deemed suitable for rain-fed agriculture. The remaining land requires irrigation to ensure optimal production due to inadequate rainfall.

To ensure access to safe water for domestic, industrial and irrigation use, the Government has made progress in developing the Water (Amendment) Bill, 2023 which seeks to promote private investment in the water sector through the public-private partnerships (PPP) model.

This amendment seeks to expand the roles of the National Government entities and National Water Storage Authority to provide water services. These include the ability for these institutions to enter bulk water purchase agreements under the PPP Act, 2021, which was previously reserved for Water Service Providers.

The Government proposes to allocate a total of KES 70.7 billion to water and sewerage.

Funding for water infrastructure



Source: Kenya Budget Statement, PwC Analysis

Affordable housing

Housing and settlement

Housing and settlement

Housing is a core pillar in the BETA agenda. In that regard, the Government targets provision of at least 200,000 affordable houses every year which will increase the supply of affordable houses from 2% to 50%.

Urban Housing

It is estimated that there is a shortfall of 200,000 urban housing units per year. To bridge this gap, the Government has started the construction of affordable housing across the country, with the construction of 46,792 units already underway, while another 40,000 units are ready to commence construction while 746,795 housing units are in the pipeline.

To lower the cost of construction and improve access to affordable housing finance, the Government is structuring affordable long-term housing finance schemes, which will include National Housing Fund and Cooperative Social Housing Schemes. These schemes will guarantee off-take of houses from the developers. The Housing Levy enacted under the Affordable Housing Act, 2024 provides for an off-take fund which will de-risk investors and offer affordable finance to homeowners.

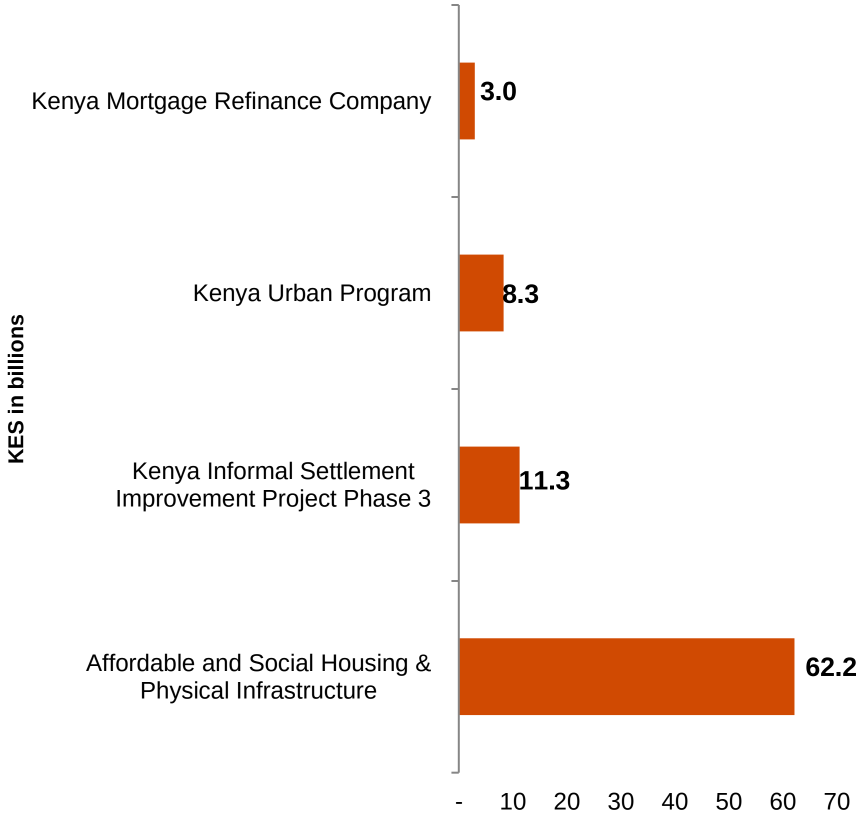
The proposed allocation to housing for FY 2024/25 is KES 92.1 billion to be distributed as follows:

- Affordable and social housing and physical infrastructure – KES 62.2 billion
- Kenya informal settlement improvement project phase 3 – KES 11.3 billion
- Kenya urban program – KES 8.3 billion
- Kenya mortgage refinance company – KES 3 billion

Following the enactment of the Affordable Housing Act, the Government projected to collect KES 63.2 billion in the FY 2024/25 through the housing levy per annum.

It is notable that the projected collections are less than the overall allocations towards housing.

Funding for affordable housing



Source: Kenya Budget Statement, PwC Analysis

Affordable housing

Housing and settlement

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Source: Kenya Budget Statement, PwC Analysis

Consumer Business

Manufacturing

The Government is committed to strengthening the manufacturing sector to boost economic growth and competitiveness of local industries

> The total allocation of KES 23.7 billion under various implementing Ministries, Departments, and Agencies for promotion of local industries represents a 12% reduction from the FY 2023/24 allocation of KES 26.9 billion.

Key allocations to promote local industries

Area	Allocation (KES, millions)
Establishment of County Integrated Agro-Industrial Parks	4,500
Supporting Access to Finance & Enterprise Recovery (SAFER) Project	1,900
Construction of Investors Sheds in Athi River	1,100
Establishment of six (6) Flagship Export Processing Zones Hubs	1,900
Development of SEZ Textile Park in Naivasha	440
Kenya Jobs Economic Transformation (KJET)	1,000

The manufacturing sector, which contributes nearly half of Kenya's industrial output, has faced challenges due to rising costs of production and shrinking local demand. Despite these setbacks, manufacturing remains vital for economic growth, employment, and export competitiveness.

The Government's value chain approach aims to revitalise the sector through various initiatives:

Agro-Processing

The Government supports value addition in agriculture to enhance job creation and wealth through promotion of local processing of tea, coffee, meat, sugar, dairy, fruits, and vegetables. The construction of County Aggregation and Industrial Parks (CAIPs) across all 47 counties by FY 2025/26 aims to reduce post-harvest losses and improve storage and handling practices.

Leather and Leather Products

With Kenya being a major producer of hides and skins, the Government is focused on expanding tanneries, developing leather parks such as Kenanie and establishing processing clusters in various regions.

Building and Construction Materials

To bolster the building and construction sector, the Government plans to establish industrial parks for construction materials, enhance local manufacturing of materials and fittings, and support Micro, Small, and Medium-sized Enterprises (MSMEs) involved in low-cost housing projects.

Manufacturing

The Government is committed to strengthening the manufacturing sector to boost economic growth and competitiveness of local industries

Garments and Textiles

The garments and textiles sector faces high labor costs and low agricultural productivity. Government measures will focus on attracting investment modernizing textile mills and cotton ginneries and linking MSMEs (tailors) with schools and institutions for uniform production.

Dairy Products

The Government aims to double milk production from 5.2 billion to 10 billion litres annually. Initiatives include modernising Kenya Cooperative Creameries (KCC) plants, installing milk coolers nationwide, eliminating brokers, and promoting investment in cold chains among others.

Edible and Crop Oils

Kenya imports a significant portion of its edible oil consumption. The Government aims to triple domestic production to 240,000 metric tonnes annually, reducing import dependence.

Tea and Coffee Sub-sectors

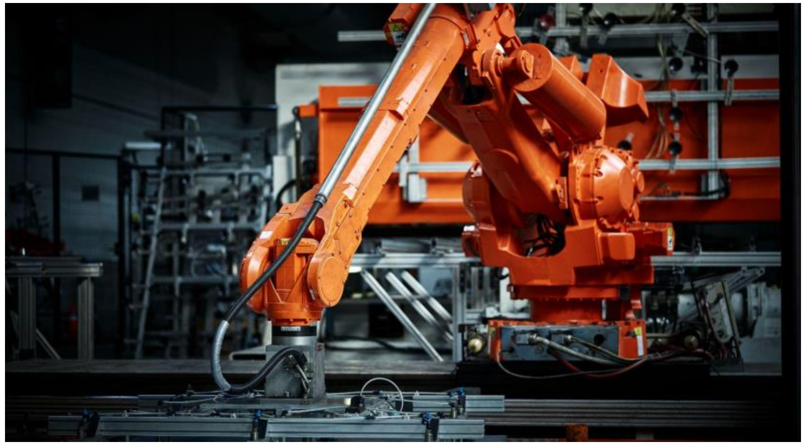
The tea and coffee sub-sectors are being revitalised through legal reforms, value addition, export promotion, and infrastructure development as they are crucial for livelihoods and foreign exchange. Coffee sector reforms have increased advance pay for farmers and enhanced representation at the Nairobi Coffee Auction.

Sugar Sub-sector

To enhance competitiveness before the COMESA sugar safeguards expire, the Government is restructuring public sugar mills and expediting the leasing of five companies.

Other allocations in FY 2024/25 budget statement

- Coffee Cherry Revolving Fund - KES 2 billion in addition to KES 4 billion allocated in the current fiscal year
- Payment of sugarcane farmers debts - KES 1.5 billion
- Cotton Industry Revitalization - KES 120 million
- Pyrethrum Industry Recovery - KES 150 million
- Coconut Industry Revitalization Project - KES 90 million
- National Edible Oil Crops Promotion Project - KES 260 million
- Milk processing related projects including modernization of KCC - KES 2.25 billion
- Kenya Industry and Entrepreneurship Project - KES 1.3 billion
- Construction of Industrial Research Laboratories - KES 119.9 billion
- Constituency Industrial Development Centre - KES 114.3 billion



Micro, Small and Medium Enterprise (MSME) Economy

The Government is keen to transform the base of the economic pyramid

"Hustlers"

In the Budget Policy Statement, the Cabinet Secretary mentions that Micro, Small, and Medium-Sized Enterprises (MSMEs) are a key intervention for strengthening economic recovery.

As part of the Bottom-up Economic Transformation Agenda (BETA), the government seeks to undertake transformation of the MSME economy through targeted actions, particularly by ensuring that the MSMEs have access to affordable credit through the Credit Guarantee Scheme.

To address the challenge of accessibility of credit to most Kenyans at the bottom of the economic pyramid, the Government proposes additional allocation to the following:

Sector	Allocation KES, millions
Hustler Fund	5,000
Youth Enterprise Development Fund	200
Centre for Entrepreneurship Project	163
Rural Kenya Financial Inclusion facility	1,900

The Government established the Financial Inclusion Fund, or the "Hustler Fund", in 2022 to cushion the individuals at the bottom of the pyramid and MSMEs against high cost of credit.

The Budget Policy Statement included other initiatives being pushed forward by the government to address the challenges in the sector including:

- Rationalisation of business licences
- Establishment of MSME Business Development Centres
- Creation of industrial parks
- Development of business incubation centres.

These measures will improve capital and technical accumulation among MSMEs, hence improving their productivity and enlarging their contribution to inclusive economic growth and sustainable development.

KES 7.26 bn

FY 2024/25 budget allocation to MSMEs

KES 10.6 billion

FY 2023/24 budget allocation to MSMEs

Tourism

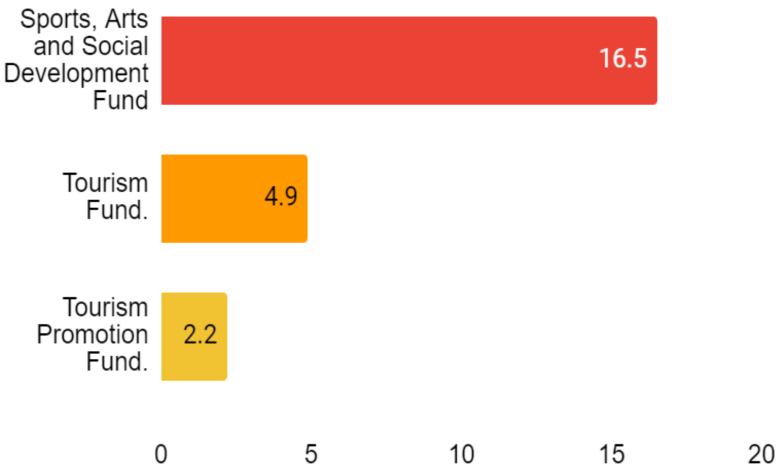
In the tourism sector, Government interventions are aimed at growing tourist visits from the current 1.4 million to 200 million over the next 10 years

A total of KES 23.7 billion has been allocated to Tourism, Sports, Culture, Recreation and Arts, which is approximately 89% higher than the KES 12.5 billion allocated in FY 2023/24

The Kenyan Government continues to recognize the critical role of the tourism sector in driving economic growth and job creation through its Bottom-Up Economic Transformation Agenda. The tourism marketing model in Kenya is shifting towards a more inclusive approach to maximize economic potential and create employment opportunities. This strategy aims to diversify from the traditional focus on wildlife and safari tourism to showcase Kenya's rich cultural heritage, pristine beaches, adventure tourism and emerging markets like eco-tourism.

To this end, the Government proposes allocation of KES 4.9 billion for the Tourism Fund, KES 2.2 billion for the Tourism Promotion Fund and KES 16.5 billion for the Sports, Art and Social Development Fund.

Investment in Tourism, Sports, Culture, Recreation and Arts (KES, billions)



The government is also seeking to strengthen mainstreaming of arts and culture infrastructure and support cultural production and the creative economy.

Manufacturing

Conclusion

The Government is committed to revitalising Kenya's manufacturing and tourism sectors to enhance economic resilience, boost job creation, and improve competitiveness in export markets.

Timely and efficient implementation of the proposed initiatives could yield significant expansion of these sectors, if augmented by measures aimed at boosting local consumption. Continued shrinkage in disposable incomes has put pressure on local consumption, depressing the potential growth of these sectors.

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Agriculture

Value Chain Approach to Agricultural Transformation & Inclusive Growth

The agriculture sector's contribution to GDP expanded to 21.8 % in 2023 from 21.0% in 2022.

The sector accounted for 10% of the wage employment in 2023.

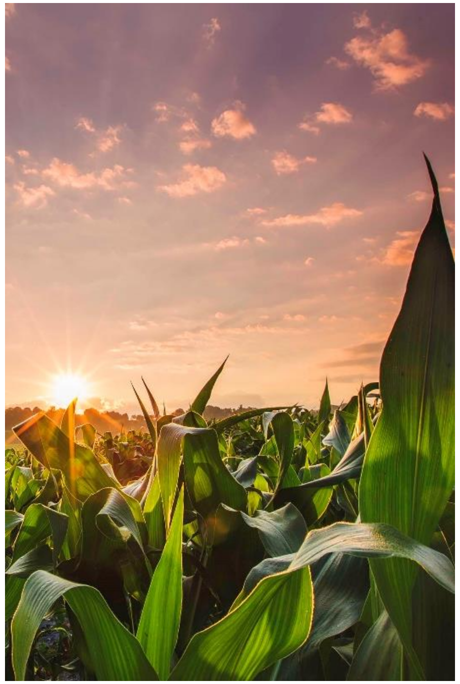
The agriculture sector reversed the negative growth trend recorded since 2021 to register an impressive recovery of 7% 2023. The growth resulted from favorable weather conditions and enhanced government interventions including countrywide farmer registration and fertiliser subsidy programme.

The Bottom-Up Economic Transformation Agenda (BETA) highlights **Agricultural Transformation and Inclusive Growth** as one its priority areas to drive job creation and economic recovery.

A key theme in relation to agriculture is "**recover and rebounding**" of the agricultural sector mainly attributed to the increased rainfall levels and the ongoing government initiatives such fertilizer and seed subsidy program.

In the recent past, agriculture has been adversely affected by shocks such as drought, locusts, the recovery post COVID-19 and adaptation to the impact of conflicts within the region and globally. Although Kenya has experienced increased rainfall which is a contributor to the sector recovery, the occurrence of recent floods presents another challenge for recovery and adaptation not only in the agriculture sector but across aspects of the economy and the well-being of Kenyans.

Mechanisation, irrigation and water management, financing of agricultural projects, comprehensive chain development, disaster risk reduction, management and resilience will remain at the centre of **Agricultural Transformation and Inclusive Growth** agenda in FY 2024/25.



Agriculture

KES 54.6 bn

Allocation to promote value addition in BETA priority agriculture value chains including: (i) leather and leather products; (ii) textile and apparel; (iii) dairy; (iv) edible oils; (v) tea; (vi) rice; (vii) blue economy; (viii) natural resources including minerals & forestry.

The allocations will support access to adequate and affordable working capital to all farmers through cooperative societies and deploying of modern agricultural risk management instruments that ensure farming is profitable and income is predictable.

12.3 billion Livestock Resources Management and Development	11.3 billion Blue Economy Priority Projects	10 billion Fertilizer Subsidy Programme	300 million Development Leather Industrial Park - Kenanie
6.1 billion National Agricultural Value Chain Development Project	3.7 billion Settlement of the Landless	2.5 billion Emergency Locust Response	340 million Ending Drought Emergencies Project
2.4 billion Enable Youth and Women in Agriculture	1 billion MSMEs Agricultural Credit	930 million Processing and Registration of Title Deeds	
657 million Small Scale Irrigation and Value Addition Project	642 million Food Security and Crop Diversification Project	585 million Digitization and Construction of Land Registries	

Agriculture

Access to Finance by Farmers

The budget proposes **KES 1.9 billion for the Rural Kenya Financial Inclusion Facility** to enhance financial inclusion and support the transformation of the rural and smallholder agriculture sector through private sector-led development.

Revitalising and maximising benefits from cash crops

1. KES 2.2 billion to enhance milk processing
2. KES 2.0 billion for Coffee Cherry Revolving Fund
3. KES 1.5 billion for payment of debts owed to sugarcane farmers, arrears to employee and maintenance of Cane Testing Units
4. KES 120 million for the Cotton Industry Revitalization Project
5. KES 150 million for Pyrethrum Industry Recovery.
6. KES 90 million for the Coconut Industry Revitalization Project
7. KES 260 million for the National Edible Oil Crops Promotion Project

Post Harvest Loss Management

Proposed allocation of **KES 4.5 billion for County Aggregation and Industrial Parks (CAIPs**) to reduce post harvest losses. The CAIPs are special zones being set-up by the Government targeting all 47 Counties by FY 2025/26. CAIPs will provide value addition centers for agricultural products as well as storage facilities. They will include investment in necessary infrastructure, to facilitate post-harvest management and prevent losses.

KES 4.5 bn

for County Aggregation and Industrial Parks (CAIPs)

Agriculture

Proposed VAT Considerations

- VAT exemptions on tea packaging material
- VAT exemptions on all inputs and raw materials whether produced locally or imported, supplied to manufacturers of agricultural pest control products
- The proposed changes result in inflating of the products' cost due to non-deductibility of input VAT.

Proposed Remission of Excise Duty

- The Finance Bill 2024 proposes that the Cabinet Secretary may grant remission of Excise Duty on beer, spirit or wine made from sorghum, millet or cassava or any other agricultural products, (excluding barley), grown in Kenya. The proposal will promote increased demand for these agricultural products.

The productivity of the agricultural sector remains vulnerable to the risk of climate change shocks. KES 38.7 billion allocation to support environment, water conservation and response to climate change will boost the sector's resilience.

The construction and operationalizing of County Aggregation and Industrial Parks (CAIPs), placing of extension officers in all wards, availability of affordable quality inputs and credit will be critical for the sector to sustain the turn around and growth recorded in 2023.

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Health Sector Focus

The Universal Health Coverage remains a key area of focus for the Government of Kenya under the healthcare pillar of the Bottom-Up Economic Transformation Agenda.

The Government proposes continuation of the following interventions:

i. Provide a fully financed public primary health care system, an emergency care fund and health insurance fund that covers all Kenyans.

ii. Install a digital health management information system.

iii. Set up a fund for improving health facilities.

iv. Set up an Emergency Medical Treatment Fund.

v. Establish a National Insurance Fund that covers all Kenyans; and

vi. Avail medical staff who would deliver Universal Health Coverage.

In FY 2024/25 Budget, the sector has been allocated KES 127.0 billion, a decrease from KES 141.2 in FY 2023/24.

Key Allocation Areas in the Health Sector

- **KES 4.2 billion** - Universal Health Coverage Coordination and Management Unit
- **KES 4.6 billion** - Specialized Medical Equipment and Stipend for Community Health Promoters
- **KES 2.0 billion** - Free Maternity Health Care
- **KES 3.6 billion** - Managed Equipment Services
- **KES 861.5 million** - Medical Cover for the Elderly and Severely Disabled in our Society
- **KES 4.1 billion** - Primary Healthcare Fund
- **KES 2.0 Billion** - Emergency, Chronic and Critical Illness Fund
- **KES 28.7 billion** - Global Fund (HIV, Malaria, TB)
- **KES 4.6 billion** - Vaccines and Immunisations Programme
- **KES 1.2 billion** - Construction and Equipping Kenya Medical Training Colleges (KMTC)
- **KES 2.6 billion** - Kenya National Hospital Burns and Pediatrics Centre
- **KES 1.1 billion** - Construction and Strengthening of Cancer Centers; and
- **KES 4. 1 billion** - Management of Medical Personnel.

Future Plans in the Healthcare Sector

The key sector programme priorities for the FY 2024/25 – FY 2026/27 based on the Budget Policy Statement (BPS) include:

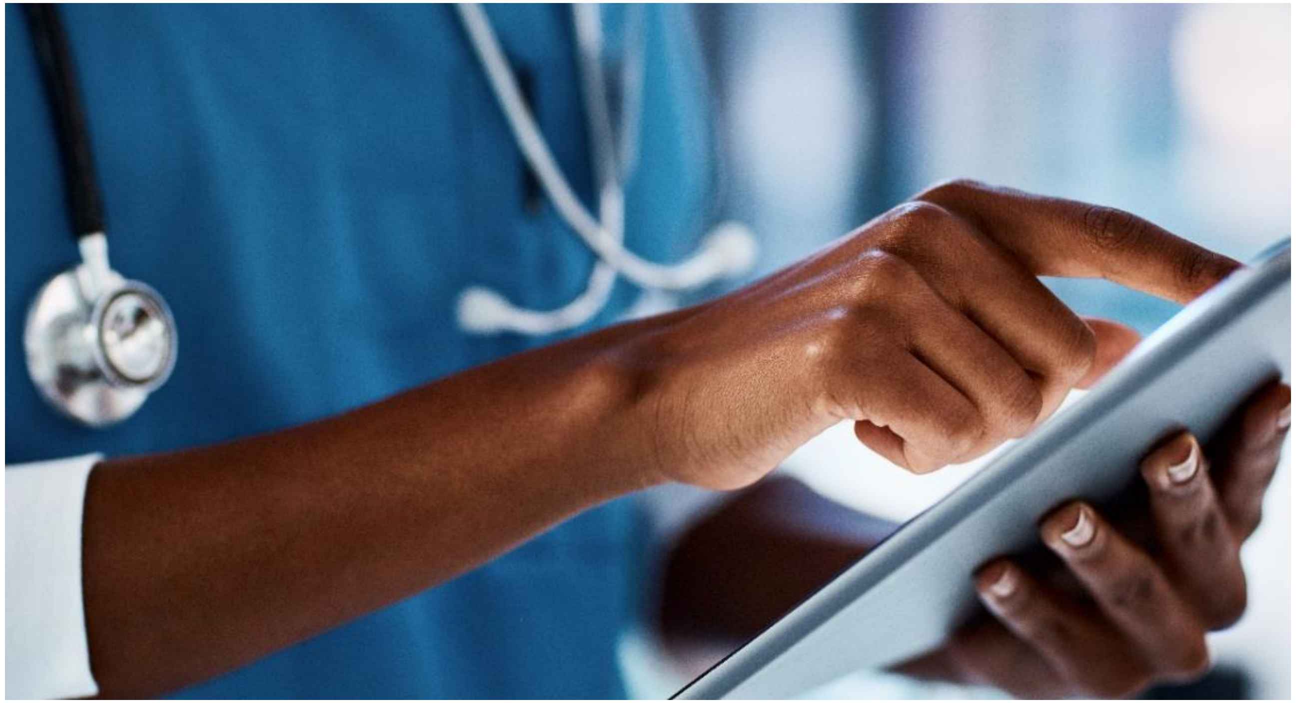
- National Referral and Specialized Services;
- Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) Services;
- Health Innovations and Research;
- General Administration and Support Services;
- Preventive & promotive health services;
- Health resource development & innovation; and
- Health policy standards & regulations.

Comparing the 2024/25 financial year's allocation to the health sector with the previous year's budget reveals a mixed picture regarding the government's commitment to health spending.

Recent Trends:
The allocation to the health sector has seen a decrease from KES 146.8 billion in FY 2022/23 to KES 141.2 billion (3.8% decrease) in FY 2023/24, then dropping to KES 127.0 billion (10% decrease) billion in FY 2024/25. This fluctuation highlights the variable nature of health sector funding over recent years.

Impact of Donor Support:

The reliance on donor support has also affected health sector allocations. While the government has increased its absolute allocation to the Ministry of Health budget, the decline in donor support has left a financing gap for key health inputs



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Governance and Accountability

Dealing with Corruption Headwinds

> Corruption, resource wastage, inefficiency, and negligence are threats that present significant headwinds to the Bottoms-Up Economic Transformation Agenda. They need to be addressed for effective use of public funds and resource mobilisation.

The Transformation Agenda and Corruption headwinds

Governance is underscored as a key enabler of the Bottom-Up Economic Transformation Agenda. The 2024 Budget Policy Statement (BPS) highlights corruption, resource wastage, inefficiency, and negligence as threats that present significant headwinds which need to be addressed for effective use of public funds.

The BPS proposes the '*Hard Budget Constraint Principle*,' mandating strict adherence to spending ceilings at all government levels to ensure prudent management of public resources. This principle is seen as instrumental to advancing economic transformation and enhancing livelihoods through the Government's Bottom-Up Economic Transformation Agenda. Efficient use of limited resources with a focus on value for money is emphasized. This proposal is welcome, given public concerns regarding wastage and corruption in government expenditure.

The concerns at the national level are reflected at the county level, with reported challenges in the management of public funds during the previous financial year, according to the BPS. The challenges highlighted include inadequate integration of planning and budgeting and non-compliance with the Public Procurement Act resulting in high pending bills, low absorption of development budgets, poor own-source revenue performance, and non-adherence to financial systems.

Other issues included fiscal principal violations, vulnerabilities in manual systems leading to resource misappropriation, limited understanding of the Controller of Budget's mandate, inflated wage bills, deficient human resource management, inadequate oversight by County Assemblies, and weakened internal audit functions. In the Budget speech, the Minister specifies a number of measures aimed at addressing these challenges. The measures broadly fall within the realm of technology, regulatory changes and enhanced funding of anti-corruption and oversight measures.

Accountability and Transparency

On-going measures to enhance accountability and transparency

For actualisation of the proposed hard budget constraint principle, there will be need to track critical specific expenditure items to avoid leakages. It is also important that we consistently apply well-defined consequences for non-compliance. The 2023 Cabinet-approved Public Audit (amendment) Bill and the 2023 Assets Declaration and Conflict Interest Bill will be instrumental in achieving this.

The Public Audit Bill is intended to enhance the Auditor General's independence and transparency in executing her mandate to make certain that public resources are used as intended. It grants the office explicit powers to investigate fraud and corruption. On the other hand, the Assets Declaration and Conflict of Interest Bill consolidates the management of asset declaration under the Ethics and Anti-Corruption Commission (EACC). It defines clear consequences for non-compliance including fines of up to KES 1 million or imprisonment for up to two years.

The government has further committed to strengthening institutions mandated to address corruption, promoting good governance and enhancing its recovery capacity for corruptly acquired assets. Similarly, at the county level, some of the proposed solutions to the challenges in the management of public funds as reported in the BPS include; strengthening of county structures and institutions, reviewing and adhering to the existing policy, legal and regulatory frameworks as well as enhancing County staff capacity.

Despite the efforts above, the country is yet to implement comprehensive whistleblower protection laws and promoting transparency through public access to key data and information. The Policy Statement is silent on the Whistleblower Protection Act 2023 which has not been enacted despite long-standing commitments under international conventions such as the Africa Union Convention on Preventing and Combatting Corruption and the United Nations (UN) Convention on Anti-Corruption.

Further, commitments on public access to critical information such as procurements as provided by the previous administration have yet to be actualised. Availing data and information to citizenry is essential for ensuring government and institutional accountability, empowering citizens with the knowledge needed for informed decision-making, and fostering trust within the system. When such information is available, it allows individuals, civil society organisations, and the media to closely examine government actions, spending, and decision-making processes. By providing comprehensive, accessible, and timely information, the government can build trust, foster citizen engagement, and reduce corruption.

Accountability and Transparency

Proposed measures in FY 2024/25

In the Budget Speech, the Minister listed a number of initiatives which if properly and comprehensively implemented, should help enhance transparency and accountability.

These include the automation of the end-to-end procurement process through the government e-procurement system that is currently in the piloting stage and that is expected to significantly reduce procurement fraud. Rationalisation and automation of human resource management and its linking to the Kenya Revenue Authority i-Tax system should help reduce Human Resources fraud while reforms in State Owned Enterprises should improve their governance. The operationalisation of the Assets and Inventory Management modules of Integrated Financial Management Information System (IFMIS) should help manage assets misappropriation while the enhanced anti-money laundering and counter-terrorist financing (AML/CFT) measures will help curb illicit flows and improve chances of success in recovery.

Transparency, accountability, and government responsiveness are key factors influencing public trust in the government. We therefore look forward to the timely actualisation of these new measures.

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Embrace the Digital Economy to Sustain Economic Recovery

Government focus under the Bottom-Up Economic Transformation Agenda (BETA) is aimed at doubling down on Kenya's Digital Economy leadership with a commitmentment to enhancing investments in the following areas:

1. Digital Superhighway and the Creative Economy;
2. Scaling-up Broadband Connectivity
3. Digitising and Automating critical Government processes to achieve greater convenience for citizens.

Investments in Kenya’s Digital Superhighway, and enhancement of broadband connectivity

Significant efforts are underway to bridge the digital gap between urban and rural areas, in an effort to improve Kenya’s internet penetration rate, that currently stands at 40.8% of the total population.

The government aims to do this by prioritising its efforts towards improving digital connectivity through the Last Mile County Connectivity Network initiative that aims to connect each county to the Kenya National Optical Fiber Backbone Infrastructure (NOFBI), thereby extending the National Fibre Optic Backbone infrastructure.

Perspective:

The extension of the National Fibre Optic Backbone will add 100,000 km of fiber optic infrastructure to boost internet connectivity. This is earmarked to expand connectivity for 25,000 small towns and 25,000 public institutions, linking them to the fiber backbone, with an additional 15,000 public Wi-Fi hotspots to be set up.

For long-term sustainability, consideration should be given to funding operational costs and technical support. Critically, robust cybersecurity measures are required to protect users and data, as public Wi-Fi networks are particularly vulnerable to cyber attacks.

Strengthening the Digital Workforce: The government aims to strengthen Konza Technopolis which will increase the digital workforce.

To further strengthen the digital workforce, the government is prioritising the teaching and learning of digital skills through the Digital Literacy Programme and provision of Technology research capabilities to help prepare students to be competitive in the economy of the future.

Allocation	Initiatives
KES 1.1 billion	Government Shared Services
KES 704 million	Digital Superhighway
KES 585 million	Digitization and Construction of Land Registries
KES 360 million	Digital Literacy Program and ICT Integration in Secondary Schools
KES 1.5 billion	Konza Technopolis - Horizontal Infrastructure Phase 1
KES 5.2 billion	Konza Data Center & Smart City Facilities
KES 2.3 billion	Construction of Kenya Advanced Institute of Science and Technology
KES 2.8 billion	Last Mile County Connectivity Network
KES 2.8 billion	Kenya Digital Economy Acceleration Project
KES 700 million	Research, Science, Technology and Innovation
KES 800 million	Automation of Judiciary

Technology

Expanding Investments in Kenya's Creative Economy

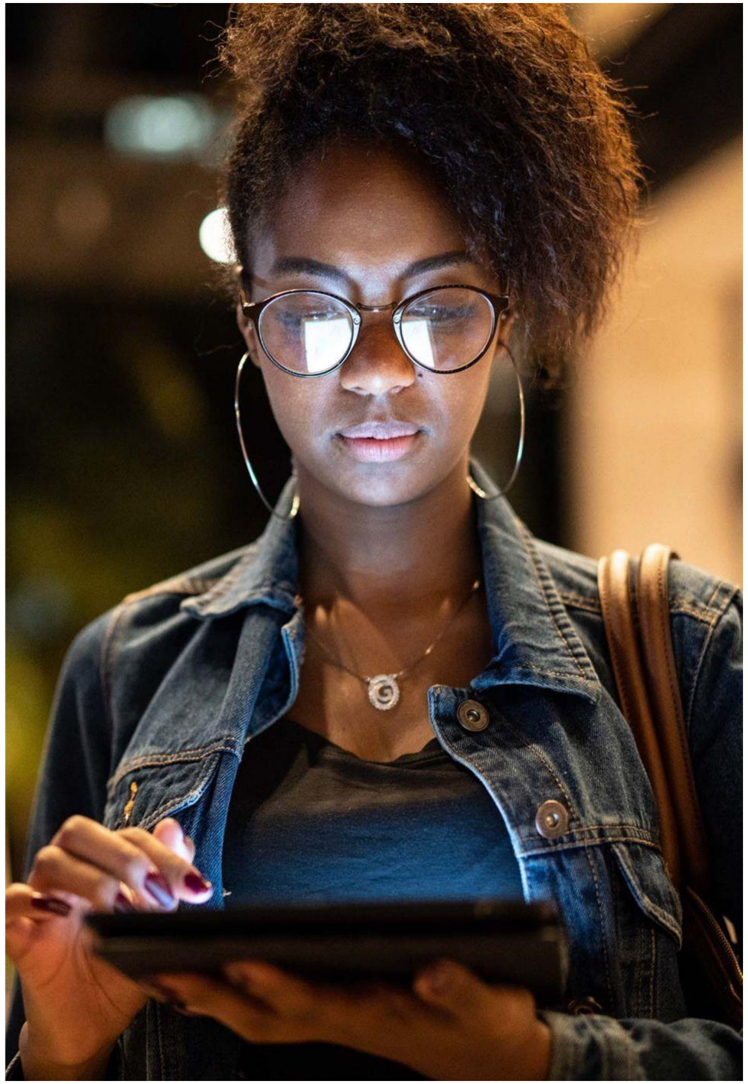
The Government recognizes the creative economy's role in achieving its objectives through increased productivity and competitiveness. Promotion of music, theatre, graphic design, digital animation, fashion and craft among others, continues to create job opportunities for the youth.

In promoting the Creative Economy, the Government's emphasis on protecting intellectual property rights will promote the development of arts and culture infrastructure.

Perspective:

The Government intends to mainstream the creative economy using various initiatives including Brand Kenya, commercial diplomacy and the establishment of a vibrant film and music ecosystem for promotion of entrepreneurship and monetisation.

With the funds being allocated to double down on the Creative Economy to grow this thematic area, enabling legislation such as the Creative Economy Bill, should seek to safeguard the responsible adoption of emerging technology, while providing protection of original creative works.



Digitising and Automating all critical Government processes countrywide to achieve greater convenience for citizens

The government's aims to accelerate economic recovery and the digitization and automation of critical government processes forms an important component of the recovery plan. The Government aims to onboard all government services by the end of the 2024.

The initiative aims to spur economic recovery by improving revenue collection and digital service delivery. Some of the key initiatives include:

- Adoption of a Uniform Integrated County Revenue Management System
- Unified Human Resource Information System
- Public Investment Management Information System
- Rollout of a Pension management system
- Digitizing asset reporting through operationalization of IFMIS asset module by all MDAs
- Roll out of an end-to-end e-Government Procurement (e-GP) system to the National and County Governments

Technology

> The Government will roll out the Unified Human Resource Information System for the entire Public Service starting 1st July 2024. The System consolidates human resource and payroll data in the Public Service for access through a single warehouse. The System has been linked to Kenya Revenue Authority i-Tax to facilitate filing of PAYE returns.
>
> This reform will eliminate the multiple, manual and stand-alone payroll systems.
>
> **Budget Statement - FY2024/25**

DhowCSD: The successful upgrade of the Central Securities Depository through the introduction of DhowCSD is a testament to the improved service delivery that can be experienced by a successful digital transformation.

Combating Money Laundering: To combat money laundering effectively, the Government plans to enhance financial integrity and compliance with international standards. In response to strategic deficiencies identified in the Mutual Evaluation Report 2022, the Central Bank of Kenya has revised its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and Proliferation Financing supervisory framework.

Perspective: The Government has amended various legislations related to AML/CFT through the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Act, 2023 to further combat money laundering. These amendments have led to the alignment and re-issuance of several regulations, including the Proceeds of Crime and Anti-Money Laundering Regulations, 2023.

With increased digitisation of government services, more investments should be earmarked for controls, cyber attacks and fraud, particularly with the implementation of data privacy and governance controls. This is imperative as data exchange and transfer activities are required for the centralization of government services such as in the implementation of the Integrated County Revenue Management System.

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