



Thriving Amidst Uncertainty: Strategies for Resilient Growth and Development

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Economy and sectoral cross-cutting areas

Economy

Kenya’s economic growth is projected at 5.3% in 2025 supported by enhanced agricultural productivity, a resilient services sector, and the continued implementation of strategic priorities under the Bottom-Up Economic Transformation Agenda (BETA).

The total expenditure projection is set to increase from KES 3.98 trillion in FY 2024/25 to KES 4.29 trillion in FY 2025/26. Total revenue is projected to increase from KES 3.07 trillion to KES 3.32 trillion, reflecting ongoing efforts to enhance domestic resource mobilisation.

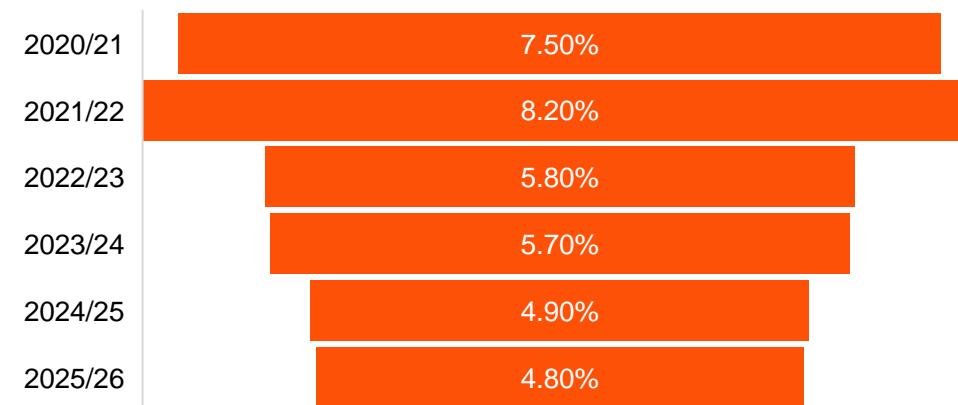
Notably, by the end of December 2024, revenue collection amounted to KES 1.33 trillion against a target of KES 1.44 trillion resulting in an underperformance of KES 107.6 billion (8% shortfall). To achieve the

projected revenue targets, the government should strengthen revenue collection enforcement mechanisms through KRA to reduce tax evasion and broaden the tax base, particularly in the informal sector.

The Government projects the fiscal deficit (inclusive of grants) to decline from 5.7% of GDP (KES 997.5 billion) in FY 2024/25 to 4.8% of GDP (KES 923.2 billion) in FY 2025/26. Achieving this target would be a significant step toward reducing reliance on borrowing and ensuring long-term fiscal sustainability.

The Government aims to finance the fiscal deficit in FY 2025/26 through net external financing of KES 287.7 billion (1.5% of GDP) and net domestic financing of KES 635.5 billion (3.3% of GDP).

Table 1: Fiscal deficit as a percentage of GDP

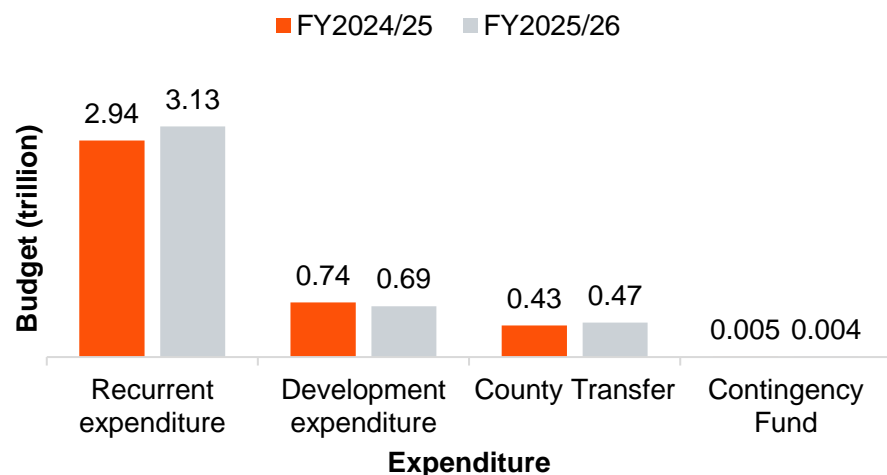


Recurrent expenditure is set to increase from KES 2.94 trillion to KES 3.13 trillion (6% increase), while there is a reduction of development expenditure by 4.6% from KES 727 billion to KES 693.2 billion.

Notably, recurrent expenditure is higher than budgeted ordinary revenue of KES 2.75 trillion. This shift indicates a prioritisation of operational costs over infrastructure and capital projects.

Economy (cont'd)

Table 2: Expenditure Allocation



The Government is looking to reduce external borrowings by KES 66.9 billion and increase domestic borrowing by KES 138.4 billion

The Government is looking to reduce external borrowings by KES 66.9 billion and increase domestic borrowing by KES 138.4 billion. This may lead to higher interest rates due to competition for local credit with other sector players and risks crowding out private sector access to credit.

The fiscal policy stance in the FY 2025/26 aims at supporting the priority programs of the Government under BETA. The plan targets to slow down the annual growth in public debt and implement an effective liability management strategy, without compromising service delivery to citizens.

Fiscal consolidation will be supported by continued efforts to enhance domestic revenue mobilisation, reprioritise and rationalise expenditure, while safeguarding priority Government programs and social spending.

To enhance efficiency, accountability, and reduce fiscal risks, the Government has

outlined comprehensive reforms targeting State Corporations. These include the merger of 42 corporations into 20 entities to eliminate redundancy; the dissolution of 25 corporations with functions reassigned to parent ministries; and the restructuring of six others to align mandates with performance goals.

Additionally, four public funds and 13 professional bodies have been proposed to be declassified from State Corporation status.

The Government plans to scale up Public Private Partnerships (PPPs) and envisages mobilising KES 70 billion in FY2025/26 in health, energy and transport sectors. Given that there may be concerns about affordability and access especially if PPPs involve user fees, the Government should ensure that PPP projects are inclusive and socially beneficial.

Economy (cont'd)

As of December 2024, Kenya's 12-month inflation rate stood at 3.0% as compared to 6.6% in December 2023. This stability was attributed to the effectiveness of tight monetary policy, improved food supply due to favorable weather, and a strengthening exchange rate that helped ease fuel and energy price.

To lower borrowing costs and stimulate private sector credit growth, the Central Bank of Kenya (CBK), through the Monetary Policy Committee (MPC), gradually eased the Central Bank Rate (CBR) from 13.0% in August 2024 to 12.75% in October 2024 and further to 11.25% in December 2024. We note that this reduction did not result in immediate benefits to the borrowers given that commercial bank lending rates remained high during the period. The government should enforce compliance with the Risk-Based Credit Pricing Model (RBCPM) to ensure monetary policy changes are passed on to borrowers.

The Government has allocated KES 2.747 billion to clear arrears including pending

bills. This is a reduction from the FY2024/25 budget allocation of KES 10 billion (73% reduction). As of 30 June 2024, counties reported accumulated pending bills amounting to KES 181.98 billion. This was an increase of KES 17.22 billion (10.45%) from KES 164.76 billion reported in the previous period. The Pending Bills and Verification Committee is set to submit a report to the National Assembly by the end of June 2025. As per the government the committee has analysed KES 522.9 of the reported KES 571.6 billion reported bills and recommended KES 229 billion for settlement. The paltry allocation to clear pending bills raises uncertainty regarding the Government's commitment and timelines to clear pending bills.

The government proposes focusing on clearing pending bills for MSMEs. Given the reduction in the allocation to pending bills, it would be interesting to see the sustainability of other non-financial measures such as digitisation, system and structural reforms, to prevent further accumulation of pending bills.

As part of fiscal consolidation, budget cuts have affected several areas such as the development budget, county allocations, external borrowing and total government expenditure. This points to a direct action by the government to curb its spending. The reductions in development expenditure should not target critical areas such as infrastructure, education and health which are essential for long-term economic growth and social welfare.



Economy (cont'd)

Key points

- The Government is keen on reducing the fiscal deficit by prioritising fiscal discipline. Reduction in borrowing and expenditure rationalisation especially on recurrent expenditure will be key to achieve that. Non-essential spending should be curbed.
- To attain realistic revenue targets, the government has reduced the revenue projections in the current year to align with the economic growth.
- Debt sustainability management is key for the Government. The shift from foreign borrowing to domestic borrowing risks crowding out private sector access to credit, potentially driving up interest rates and limiting affordable financing for SMEs. This could counteract broader economic development goals and reduce local investments.
- Measures aimed at increasing revenue; strengthening tax administration, expanding digital tax systems, tax base expansion, simplification of the tax process and transparency in tax usage will curb the revenue collection shortfalls.
- Keeping inflation and exchange rates stable is key - the Government should constantly keep this under watch and manage it using fiscal and monetary policies. To stabilise inflation, attention should also be paid to other key inflation drivers such as housing and rent, transportation costs, education and healthcare expenses, which directly affect household budgets and can quickly reverse inflation gain if left unchecked.
- Reduction in allocation to clear pending bills from KES 10 billion to KES 2.747 billion raises uncertainty regarding the Government's commitment and timelines to clear pending bills and counteracts the job creation objective.



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Optimising Domestic Resources in a Changing Aid Landscape: Kenya's FY 2025/26 Budget Strategy

With dynamic shifts in the international development landscape, particularly following changes in funding policy by the current U.S. administration, countries like Kenya are navigating a more stringent and competitive aid environment. This evolving context underscores the urgency of optimising domestic resource mobilisation to sustain essential service delivery. International development remains significant in Kenya's budget, reflecting the country's engagement with global partners and the influence of foreign aid on its development.

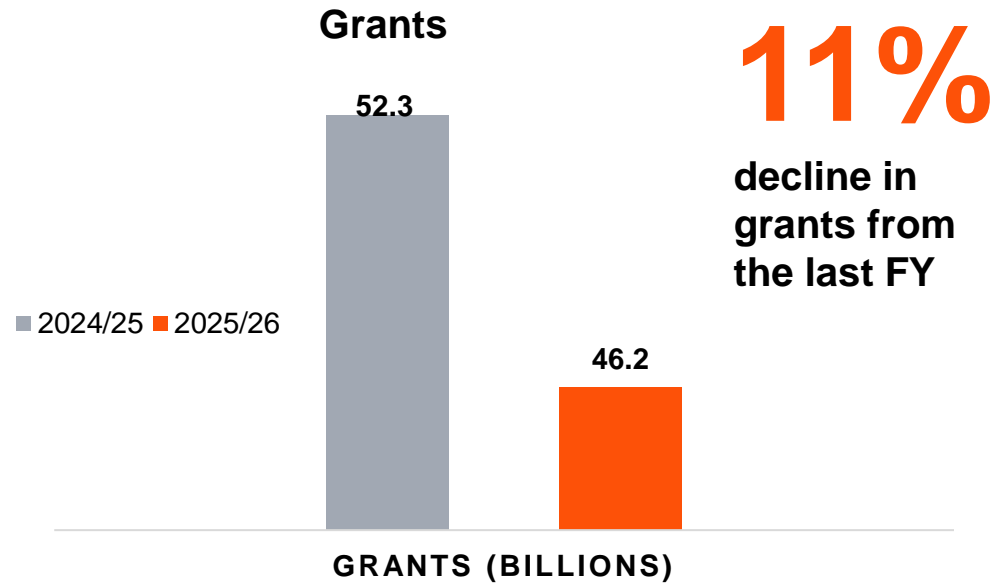
Strategic Financing and Implementation Framework

Description	Amount (KES, billion)
Total Budget Projection	4,291.9
Ordinary Revenue from Taxes & AiA	3,321.8
Grants	46.9
Deficit	923.2
Foreign Financing	287.7
Domestic Financing	635.5
Totals	923.2

As shown in the table above, the fiscal deficit (including grants) is projected at KES 923.2 billion, equivalent to 4.8% of GDP in FY 2025/26. This marks a reduction from the projected fiscal deficit of KES 997.5 billion (5.7% of GDP) in FY 2024/25.

The FY 2025/26 deficit will be financed through net external financing of KES 287.7 billion (1.5% of the GDP) and net domestic financing of KES 635.5 billion (3.3% of the GDP).

Optimising Domestic Resources in a Changing Aid Landscape: Kenya's FY 2025/26 Budget Strategy



According to the BPS, the government plans to finance the 2025/26 budget of KES 4,291.9 billion from ordinary revenues comprised of both taxes and Ministerial AIA of KES 3,321.8 billion and revenue from grants amounting to KES 46.9 billion.

The decline in grants is attributed to the withdrawal of key funding partners and the subsequent closure of operations for programs that previously supported significant socio-economic initiatives in Kenya.



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Budget Policy Statement Analysis: A Focus on International Development

Key highlights in collaboration with the development partners



The key donor-funded sector remains the health sector, with major programs including HIV, TB, and Malaria initiatives supported by The Global Fund, vaccine support from GAVI, and infrastructure projects such as the Neuropsychiatric National Teaching and Referral Hospital in Ngong, funded by the African Development Bank (AfDB) among others.



The government acknowledges that current national revenue is insufficient to fully fund all development initiatives, thereby, necessitating continued support from development partners.

In response to declining external funding, the government is implementing long-term strategies to enhance domestic revenue mobilisation.



There are growing sustainability concerns due to the health sector's reliance on donor funding.

According to the Budget Policy Statement, the government recognises the decline in donor support for strategic health programs and has agreed on a transition master plan with development partners, targeting full sustainability by 2030.



Development partners also continue to fund climate-related programs, with a flagship initiative being the National Tree Growing Programme, supported through the Financing Locally Led Climate Action (FLLoCA) Program and implemented in collaboration with County Governments.



To ensure continuity of donor-funded projects, the government has committed to prioritising counterpart funding in its budget allocations. Additionally, capacity building efforts are underway with multilateral funding organisations such as the World Bank, which, in collaboration with the National Treasury, is supporting the Global Program on Sustainability (GPS) to develop KENMod – a macroeconomic modeling tool for Kenya's economic planning and forecasting.

Budget Policy Statement Analysis: A Focus on International Development

Impacted sectors

The health sector, historically reliant on donor support, has been significantly impacted by declining external funding.

In response, the government increased its allocation to the sector by 12%, from KES 123 billion to KES 138.1 billion in FY 2025/26.

This boost is intended to supplement ongoing efforts by key development partners such as the Global Fund and The GAVI Alliance, with the Global Fund contributing KES 17.3 billion to support critical programs targeting HIV, Malaria, and Tuberculosis.

In the education sector, while specific donor contributions are not detailed, the government has continued to prioritise investment, increasing its allocation from KES 656.6 billion to KES 702.7 billion representing a 6% rise.

This reflects a sustained commitment to a sector that has traditionally benefited from development partner support in areas such as school feeding, infrastructure, and digital learning, even as external funding becomes less prominent.

Conversely, the agriculture sector has experienced a reduction in funding, with the government allocation dropping from KES 54.6 billion to KES 47.6 billion, representing a 12% decrease.

This decline comes at a time when the sector is also facing reduced donor support, raising concerns about the sustainability of programs related to irrigation, seed distribution, and climate-resilient farming that have previously been bolstered by development partners.

↑ **12%**

Increase in health sector funding

↑ **6%**

Increase in education sector funding

↓ **12%**

Reduction in agriculture funding



Tax perspectives

Optimizing tax collection without hindering growth

The Finance Bill, 2025 (“FB”, “Bill”), which was tabled for the first reading on 13 May 2025 before the National Assembly, did not introduce any new taxes nor increase tax rates. Its focus is on rationalization of tax expenditure and enhancing tax compliance by tightening administrative measures.

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 of the legislative process, only Parliament can make amendments to the Finance Bill. For the detailed proposals in the Finance Bill, please refer to **PwC’s Tax Alert**.

In this year's Budget Speech, the Cabinet Secretary ("CS") National Treasury set out to focus on fiscal consolidation and revenue mobilization.

The Government is seeking to implement a mix of tax policy and administrative measures aimed at increasing revenue collection.

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These include:

- Minimising tax expenditures;
- Implementation of the National Tax Policy (“NTP”) and Medium-Term Revenue Strategy (“MTRS”);
- Strengthening tax administration for enhanced compliance through the expansion of the tax base;
- Leveraging technology to enhance efficiency; and
- Sealing revenue loopholes and enhancing the efficiency of the tax system;

i. Minimising tax expenditure through rationalisation of tax incentives

In his Budget Speech, the CS National Treasury focused on rationalization of tax expenditures. He noted that the revenue forgone through tax incentives has increased significantly from KES 393.1 billion (2.9% of Gross Domestic Product (“GDP”)) in 2022 to KES 510 billion (3.4% of GDP) in 2023.

In line with this, the Finance Bill has proposals to reduce tax incentives. From an Income Tax perspective, this includes the introduction of a limitation of tax loss carry-over to five years and the repeal of investment deductions.

Additionally, from an indirect tax perspective, the measures include the- reclassification of zero-rated items to the exempt schedule and introduction of provisions seeking to curb misuse of tax incentives.

Optimising tax collection without hindering growth

ii. Implementation of the Medium Term Revenue Strategy (MTRS) and National Tax Policy (NTP)

We note from the Budget Speech that the Government aims to strengthen its domestic resource mobilisation efforts through implementation of the MTRS and NTP. Tax certainty is a key aspect that the NTP and MTRS seek to embed in Kenya's tax system. The CS National Treasury further elaborated the need of consistency and predictability of the tax policy and proposed to introduce Advanced Pricing Arrangements ("APAs") for transfer pricing.

APAs are expected to provide greater certainty and predictability for multinational enterprises, reducing the prevalence of Transfer Pricing disputes and uncertainties.

The CS National Treasury further stated that the Government is seeking to rationalise tax incentives so as to realise the objectives set out in the NTP and MTRS.

It is important that such rationalisation does not contradict other government policies. For example, the proposal to change the Value Added Tax ("VAT") status of electric motorcycles, bicycles, electric buses, solar and lithium-ion batteries from zero to exempt appears to be contrary to the Government's green agenda.

iii. Strengthening Tax Administration

The CS National Treasury noted the Government is keen on strengthening tax administration. The Government, through the Bill has proposed a raft of measures aimed at strengthening the Kenya Revenue Authority's ("KRA") powers. These measures include the proposal to grant the KRA with power to issue agency notices even when a taxpayer has appealed a Tribunal or High Court decision and the increase in times for consideration of tax refunds. Furthermore, the Bill proposes to expand the scope of agency notice to include non-residents.

The proposal aligns with the BPS's focus on strengthening tax administration and sealing revenue leakages, though it raises concerns around balancing enforcement with fairness and access to justice.

iv. Adoption of Technology

The CS National Treasury referenced the initiatives that the KRA is undertaking to introduce several digital tools to simplify compliance and boost operational efficiency in his Budget Speech.

An example is the electronic rental income tax system that has enabled transparent rental income declarations. Another is the forecourt electronic Tax Invoice Management System in the petroleum sector that connects fuel dispensers to Point of Sale terminals.

The latter example has enabled the real time transmission of sales data to the electronic Tax Invoice Management System simplifying compliance and ensuring greater transparency in fuel transactions.

Optimising tax collection without hindering growth (cont'd)

v. Sealing revenue loopholes and enhancing the efficiency of the tax system

We note from the Budget Speech that the Government aims to seal revenue loopholes and enhance tax system efficiency through tightening the application of VAT exemptions and zero-rating.

One key proposal, highlighted in the Bill and emphasized by the CS National Treasury during his speech, is the introduction of an anti abuse provision to curb the misuse of VAT incentives granted under preferential tax regimes.

This proposal seeks to impose tax where exempt or zero-rated goods and services are later used or disposed of in a manner inconsistent with their intended purpose.

Anticipated changes in Customs measures

The CS outlined upcoming changes expected in the Gazette Notice to be published by the East African Community ("EAC") Council of Ministers on 30 June 2025. These measures aim to boost manufacturing, support local assembly, and strengthen food security. They include:

- Stay of application of the EAC Common External Tariff ("CET") to import rice at the rate of 35%/\$200 per MT instead of 75%/\$345 per MT;
- Duty remission for wheat to apply at a rate of 10% instead of the CET rate of 35%. Millers who intend to benefit will be required to first purchase locally produced wheat;
- Extension of duty remission on inputs for local assembly of telecommunication devices such as mobile phones, laptops and tablets;



Optimising tax collection without hindering growth (cont'd)

- Extension of duty remission on inputs for the production of animal feeds;
- Stay of application of the CET rate and application of a higher import duty rate of 35% on leather products and importation of chemicals for leather processing under duty remission; and
- Duty remission on inputs for local assembly of cranes.

In addition, we can expect:

- A reprieve to local manufacturers of packaging materials as the Government will no longer pursue a stay of the CET rate ranging from 25% to 35% on certain types of paper used in manufacturing packaging materials. These manufacturers will continue to import raw materials under duty remission.
- A tariff split to distinguish between fully built and unassembled transformers, enabling targeted incentives for local assemblers. Previously, Excise duty on fully built units inadvertently affected disassembled ones due to undifferentiated tariff codes and the provision was deleted through the Excise Duty (Amendment) Act, 2025.



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Other Non-Tax Legislative Reforms

The Cabinet Secretary, National Treasury (the “CS”) indicated that the Government is considering the following non-tax legislative reforms:

Digital Finance and Payment System Reforms

- The Budget Speech confirms that the Government will fast-track the finalisation of the National Policy on Digital Finance to support reforms and modernise the national payment system. The policy will likely inform amendments to the National Payment System Act (Cap. 491A) and related Central Bank of Kenya (“CBK”) regulations.
- In parallel, the CBK is undertaking a comprehensive review of the legal and regulatory framework governing the national payment system. The review of the legal framework by CBK suggests forthcoming subsidiary legislation to support interoperability, round-the-clock settlement and consumer protection in digital transactions. Legal clarity will be essential to ensure alignment with data protection, anti-money laundering and financial consumer rights frameworks.
- Broadly, these reforms are expected to modernise Kenya’s digital finance infrastructure, enhance efficiency in transactions, and promote broader financial inclusion.

Retirement Benefits Sector Reforms

- The Government intends to fast-track reforms under the National Retirement Benefits Policy (2023), to address persistent challenges such as low pension adequacy, rising living costs, and limited coverage, particularly among informal sector workers.
- The policy signals a shift toward a more inclusive and sustainable retirement system. Key to its success will be the introduction of practical mechanisms for benefit portability, inflation protection, and long-term savings incentives, alongside alignment with broader fiscal and demographic realities, especially low-income earning groups.

Capital Markets Reforms

- In his speech, the CS highlighted plans to review the framework governing capital markets, and in particular, the frameworks surrounding licensing, margin trading, conduct of business for market intermediaries and mergers, acquisitions, and takeovers.
- These reforms are being implemented under the Capital Markets Act (Cap. 485A). They aim to modernise the regulatory environment, enhance investor protection, and align Kenya’s capital markets with international standards. Capital market players will need to monitor how these changes affect disclosure obligations, fund structuring and intermediary licensing.

Other Non-Tax Legislative Reforms (cont'd)

Insurance Sector Reforms

- The National Insurance Policy is expected to be approved and implemented to support growth in the insurance sector by improving access and enhancing consumer protection. If implemented, the policy could help address long-standing issues such as low penetration and limited product relevance.
- The policy will guide a review of the Insurance Act (Cap. 487). Legal reforms are expected to address any outdated provisions, enhance supervisory powers and support product innovation. The policy will also need to align with obligations on anti-money laundering and combating of terrorism financing as well as consumer protection standards.

Public Procurement Reforms

- To streamline public procurement, the Public Procurement and Asset Disposal (Amendment) Bill, 2024 ("PPAD Bill") has been tabled before Parliament. It seeks to enhance transparency and accountability, strengthen the role of the Public Procurement Regulatory Authority in enforcing standards, provide sanctions for non-compliance and promote the use of local content.
- This is a significant move towards creating a more robust legal and regulatory framework for public procurement in Kenya, enhancing efficiency and transparency in public procurement practices and aligning with international best practices.

- The PPAD Bill will require careful alignment with Article 227 of the Constitution of Kenya (Procurement of Public Goods and Services) and the principles of fairness, equity and cost-effectiveness in public procurement. The proposed rollout of the e-procurement system will also necessitate updates to procurement regulations and guidelines.

Virtual Assets and Virtual Assets Service Providers Reforms

- The 2025 Budget Policy Statement highlights the Government's intention to position Kenya as a regional leader in the digital asset space. To this end, and as mentioned by the CS in his speech, the Government has developed the Virtual Assets Service Providers Bill, 2025 ("VASP Bill").
- The VASP Bill aims to establish a licensing and supervisory framework for virtual asset service providers, addressing Kenya's compliance gaps under the Financial Action Task Force standards. It will need to be harmonised with the Proceeds of Crime and Anti-Money Laundering Act (Cap. 59A), the Data Protection Act (Cap. 411C) and existing financial sector laws to ensure regulatory coherence.
- This is a significant step toward formalising a fast-evolving sector. The framework will also need to strike a careful balance between enabling innovation and managing risks related to consumer protection, financial crime and market volatility. Its success will depend on coordination with existing financial sector regulation and adaptability to technological change.

Other Non-Tax Legislative Reforms (cont'd)

State Corporations Reforms

- The Government seeks to enact the Government-Owned Enterprises Bill, 2024 ("GOE Bill"), with the aim of enhancing the operational efficiency and governance of State Corporations.
- This Bill seeks to consolidate and modernise the legal framework governing State Corporations. It will likely repeal or amend parts of the State Corporations Act (Cap. 446) and related enabling statutes. Key legal issues include the redefinition of corporate mandates, governance structures and legal processes.
- The GOE Bill is a key component of ongoing reforms which include the mergers, dissolutions, restructuring and declassification of State Corporations to improve access to public services, ringfence financial risks and make state-run enterprises more relevant and efficient.

Public Sector Asset Valuation Reforms

- The Government is developing a policy on public sector asset valuation. This policy is aimed at supporting accurate financial reporting, strengthening fiscal discipline and informing evidence based public investment decisions.
- The proposed policy will support the transition to accrual-based accounting, as mandated under the Public Finance Management Act, 2012 (Cap. 412A) ("PFM Act") and align with international public sector accounting standards.



Other Non-Tax Legislative Reforms (cont'd)

- It will inform amendments or new regulations under the PFM Act to provide a legal basis for standardised asset valuation methodologies, periodic revaluation requirements, integration of asset data into the Integrated Financial Management Information System and accountability mechanisms for accounting officers.
- If effectively implemented, this measure could help reduce inefficiencies and ensure that public assets are properly accounted for and strategically deployed.

Disaster Risk Related Reforms

- The Government is finalising the development of the Public Finance Management (Disaster Risk Management Fund) Regulations, 2025. These regulations will operationalise provisions of the PFM Act by establishing a statutory fund for disaster risk financing. The framework will need to clearly define governance structures, fund access criteria, and audit mechanisms to ensure transparency and accountability in disaster-related spending.

County Government Reforms

- The County Governments (Revenue Raising Process) Bill, 2023 is now before Parliament. This bill seeks to implement Article 209(5) of the Constitution of Kenya (Power to Impose Taxes and Charges) by regulating how counties introduce taxes, fees and charges. It will provide a uniform legal process for public participation, regulatory review and dispute resolution. The bill, if passed into law, will be critical for ensuring predictability and legality in county-level taxation.



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East Africa highlights - Kenya

Summary of growth

Kenya's economy demonstrated notable resilience, recording an average growth rate of 5.2% between the Financial Year (FY) 2023 and 2024. This growth outpaced both global (3.3%) and sub-Saharan Africa (3.8%) averages.

Despite challenges such as adverse weather and social unrest, the economy grew by 4.7% in the last financial year. In the FY 2025/26, the economy's growth is projected to remain robust at 5.3%. This is underpinned by a stable macroeconomic environment, prudent fiscal and monetary policies and ongoing structural reforms.

Inflation has declined to 3.8% as of May 2025. The exchange rate has stabilized, with foreign exchange reserves at their highest levels thus providing a strong buffer against external shocks.

Economic drivers

The main drivers of economic growth in FY 2025/26 are anchored in the Bottom-Up Economic Transformation Agenda (BETA), which emphasizes value chain development and grassroots impact.

Key sectors expected to propel the growth include:

1. Agriculture – through enhanced fertilizer and seed subsidies, increased maize production and revived export crops;
2. Financial inclusion – expansion of the Hustler Fund through provision of affordable credit to the public and fostering a savings culture;
3. Health: - Expansion of social health insurance, with over 22 million Kenyans now covered under the Social Health Authority Fund;
4. Housing - Acceleration of affordable housing projects aimed at creating jobs and supporting local industries;
5. Digital economy – Expansion of fibre-optic connectivity, digital hubs and digitisation of government services;
6. Energy – Increased electricity generation and connections to support industrial and household needs;
7. Education – Investment in teacher recruitment, curriculum reforms and higher education funding;
8. Infrastructure – Continued investment in roads, bridges and transport systems;
9. Social protection – Expansion of cash transfer programs to vulnerable groups in the society.

4.78%

The Kenyan economy growth rate in the last financial year

Economic constraints

The Kenyan economy faced several challenges despite the positive momentum portrayed. Some of the constraints include:

1. **Rising public spending demands** – increased pressure for higher public expenditure that risks the affinity for increased debts and the need for increased taxation;
2. **Public debt** – The country has accumulated debts that has narrowed its borrowing capacity thus necessitating prudent borrowing and fiscal discipline;
3. **Revenue mobilisation challenges** – The government faces the challenge of balancing the need to raise revenues with the imperative to keep the cost of doing business low.
4. **Climatic risks** – Extreme weather conditions that could threaten agriculture, infrastructure and food security.

East Africa highlights - Kenya

Government priorities

The government's priorities for FY2025/26 are focused on consolidating gains from BETA and stimulating sustainable economic recovery. The main priorities include:

1. Reducing the cost of living through food security initiatives and targeted initiatives;
2. Job creation for youth through programs like climate WorX, a nation-wide program that will engage over 110,000 youths across all counties, and investments in MSMEs;
3. Expanding the Tax Base through enhancing tax compliance and leveraging on technology through the GAVA connect platform
4. Infrastructure development through continued investment in roads, energy, water and digital infrastructure;
5. Public finance reforms through including zero-based budgeting-procurement and public debt audits
6. Inclusive growth through targeted investments in health, education, social protection and empowerment of women, youth, and persons with disabilities.
7. Climate resilience through implementation of climate finance strategies and disaster risk management frameworks.

Revenue policies

The government is committed to strengthening domestic resource mobilisation while easing the tax burden on Kenyans. The key revenue policies highlighted in the budget include:

1. Broadening the tax base through digitization, automation and targeted outreach to sectors like the digital economy and agribusiness.
2. Enhancing tax compliance by simplifying tax procedures and leveraging on digital platforms;
3. Reducing tax expenditures through rationalising tax incentives to unlock additional revenue;
4. Improving non-tax revenue collection avenues through enabling ministries and agencies to generate income from services; and
5. Administrative reforms such as launching platforms like GAVA Connect and digital tools for transactional taxes and rental income tax compliance.

Key tax highlights

The Finance Bill 2025 focuses on administrative reforms and rationalisation of tax expenditures. The government has chosen to enhance revenue through improved administration rather than higher taxes.

The key tax highlights from the budget include:

1. **Rationalization of tax expenditures** through introduction of reforms that are expected to raise an additional KES 30 billion by reducing tax incentives and exemptions;
2. **Income tax reforms:** Full cost deduction for certain business loose assets, clarification of tax treatment for gratuity payments, reduction of digital asset tax from 3% to 1.5%, and extension of mortgage interest relief to self-constructed homes;
3. **Customs Measures** to include lower duty rates for tea packaging materials and wheat imports, duty remission for inputs in key sectors like animal feeds, telecommunication equipment and leather processing;
4. **VAT Reforms** to include definition of tax invoice, mandatory invoicing for all supplies, shortened period for bad debt refunds and measures to recover VAT misused in Special Economic Zones.
5. **Excise Duty changes:** Clarification of classification rules, streamlined licensing and targeted rates for specific products; and
6. **Administrative Enhancements:** Expanded powers for tax recovery from non-residents on Excise Duty, provisions for waivers on penalties arising from system errors and streamlined appeals and enforcements.

East Africa highlights - Uganda

Summary of growth

The economy is projected to have grown by 6.3% compared to 6.1% last year.

The size of the economy increased to **UGX 226.3 trillion** (approximately USD 61.3 billion) from **UGX 203.7 trillion** (USD 53.9 billion) in FY2023/24.

Uganda's inflation during the year slowed to 3.4% in the past 12 months to May 2024 compared to 4.1% at the same period last year. Annual inflation is expected to remain below the policy target of 5%.

The Ugandan shilling appreciated by 4.0% year-on-year in April 2025, making it one of the most stable currencies in Africa.

Economic drivers

The main drivers of Uganda's economic growth include

- **Fiscal and monetary stability** including controlled inflation, stable exchange rate and growth in private sector credit and foreign direct investments.
- **Commercial agriculture** through prioritised research, increase in productivity, commercialisation and value addition in agriculture.
- **Industrialisation and manufacturing** through establishment and operationalisation of industrial parks and support for strategic manufacturing.
- **Export diversification and market access** including record-breaking coffee export earnings and increase in non-traditional exports.

2025 Economic constraints

Despite these positive trends, several constraints persist and among them are:

- A budget deficit estimated at 7.6% of GDP
- A public debt projected at USD 31.5 billion, or 51.26% of GDP.

The Government is emphasising on mobilisation of domestic revenue to bridge the revenue gap and lower reliance on borrowings. Some of the proposed measures include:

- Broadened tax base through strategic investments
- Streamlining and strengthening Uganda Revenue Authority (URA) by eliminating corruption, recruiting and training tax officers; and,
- Amending tax laws to seal loopholes that cause revenue leakage.

East Africa highlights - Uganda

Government priorities

Education

- Operationalisation of Bunyoro and Busoga universities;
- Completion of the ongoing construction of stadia and training facilities ahead of CHAN and AFCON27.

Water, Sanitation and Environmental Protection

- Construction of water supply infrastructure to increase service in underserved communities;
- Increasing rehabilitation and expansion of existing Water, Sanitation and Hygiene (WASH) infrastructure; and increasing forest and wetland cover.

Transport

- Completing the rehabilitation of the Tororo-Gulu Metre Gauge Railway line;
- Refurbishment of the Mukono-Jinja Metre Gauge Railway line; and
- Construction of the Standard Gauge Railway from Kampala to Malaba.
- Additional capitalisation of Uganda Airlines to acquire more aircraft;
- Operationalisation of Kabalega International Airport; and
- Rehabilitation and upgrade of the existing strategic airports and aerodromes.

Energy Development

- Enhance access to electricity through implementation of the USD 638 million Electricity Access Scale-up Project covering grid expansion, connectivity and clean energy options for 1 million new electricity connections.
- Development of new power generation plants to meet the growing demand including new hydro-power plants at Ayago and Oriang in Nwoya District, and Kiba in Oyam District, and the development of the nuclear power in Buyende District.

East Africa highlights - Uganda

Revenue policies

Uganda's financial strategy for FY2025/26 include measures such as:

- 1. Enhancing tax administration and implementing new tax policies** to generate and boost domestic revenue by UGX 1.89 trillion and UGX 538.6 billion respectively
- 2. Streamlining tax exemptions** by removing those that are inefficient and do not align with the country's industrial policy.
- 3. Reallocating resources** from less productive areas to high-impact sectors.
- 4. Securing more concessional funding** from international financial institutions such as the World Bank, IMF, African Development Bank, Islamic Development Bank, and BADEA.
- 5. Exploring innovative financing options, including** Public-Private Partnerships, climate finance, private equity, Sukuk bonds, Panda bonds, and diaspora bonds.



East Africa highlights - Uganda

Income Tax

Start-up tax exemption for 3-year period applicable to start-up businesses established by Ugandan citizens after July 1, 2025.

Exemption from capital gains tax when individuals transfer assets to companies they own and control to encourage business formalisation.

One year exemption to Bujagali Hydro-Power Project to mitigate a rise in electricity tariff.

Stamp duty

Exclusion from stamp duty mortgages and agreements to reduce the cost of debt and ease business transactions.

Tax Procedures Code

Waiver of interest and penalties on payment of outstanding principal tax as at 30 June 2024 by June 30, 2026.

Value Added Tax

Change of the penalty structure non-compliance with the Electronic Fiscal Receipting and Invoicing System (EFRIS) from a flat rate of UGX 6 million per invoice to twice the tax owed.

External Trade Taxes

Introduction of import declaration fee at 1% on the customs value of taxable imports under the Common External Tariff.

Introduction of export levy at a rate of USD 10 per metric ton on wheat bran, cotton cake, and maize bran to promote local value addition.

Reduction of import duty on fabrics and garments to USD 2/kg or 35% (from USD 3/kg) and USD 2.5/kg or 35% (from USD 3.5/kg) respectively.

East Africa highlights - Tanzania

Summary of growth

The real GDP growth was 5.5% (versus 5.4% target), compared to 5.1% in 2023. The projected growth in FY 2025/26 is between 5.7% and 6.1%.

Inflationary pressures continued to be moderate in Tanzania. The average annual headline inflation dropped from 3.8% in December 2023 to 3.1% in December 2024.

During this period, inflation decreased due to the effective implementation of monetary and budgetary policies (the Central Bank Rate (CBR) was maintained at 6%), stabilisation of oil prices in the global market, and improved availability of food in domestic markets.

Economic drivers

The leading industries contributing to real GDP being agriculture (26.3%), construction (12.8%), mining and quarrying activities (10.1%) and wholesale and repairs (8.6%).

Sectors that grew fastest included arts, entertainment, and recreation (17.1%), Electricity supply (14.4%), Information and communication (14.3%); financial and insurance activities (13.8%), Human health and social work activities (10.1%), and mining and quarrying (8.3%).

On the other hand, growth was more muted for agriculture (4.1%), construction (4.1%) and Water supply; sewerage, waste management (4.1%).

2025 Economic constraints

Despite positive growth prospects, several constraints and risks that could hinder the economic growth in FY2025/26 were identified as follows:

- Fiscal deficit (including Grants) is estimated to be 3.0 percent of the GDP in 2025/26 from 3.4 percent in 2024/25.
- The Government is expected to spend TZS 7.72 trillion for payment of principal amount of domestic and external loans as well as payments of interest on public debt amounting to TZS 6.49 trillion; and
- Foreign exchange shortages: Managed through prudent monetary policy and strategies to boost exports and import substitution.

East Africa highlights - Tanzania

Government priorities

The fiscal year 2025/26 is the fifth and final year of the implementation of the National Five-Year Development Plan and in the budget the government has specifically focused on four priority areas as presented below:

1. Completing flagship and strategic projects.
2. Enhancing human capital development especially in the social service sectors.
3. Improving investment and business environment to attract private sector participation in economic activities.
4. Strengthening productive sectors (agriculture , manufacturing, mining and tourism) which have multiplier effect in the economy.

Revenue policies

The government strategies to increase revenue in 2025/26 include the following:

Strategies for collection of domestic revenue

- Conduct research and evaluation of current revenue streams and enhance taxpayer, fee, and charge databases to reduce revenue loss and improve collection efficiency.
- Set up tax service centres in economically growing areas, especially those with emerging small businesses.
- Link tax systems with other public institutions to access data that helps identify and register previously unregistered taxpayers.

- Improve fee and charge collection in expanding sectors such as land, fisheries, forestry, livestock, and construction to increase revenue.
- Enhance the management of regulatory revenue sources by addressing operational issues and public complaints.
- Encourage digital payments to minimize cash transactions.
- Review tax incentives and exemptions to evaluate their effectiveness and decide whether they should be maintained.

East Africa highlights - Tanzania

Income tax

- Introduction of a 10% withholding tax on retained earnings.
- Expansion of definition of the term “equity” for thin capitalisation purposes to include retained earnings.
- Increase of Alternative Minimum Tax (AMT) rate to 1% (from 0.5%).
- Abolition of 10-year Income Tax exemption for special economic zone (SEZ/EPZ) investors selling goods and services locally.

Indirect taxes (VAT and imports controls)

- The Finance Act 2024 introduced an Industrial Development Levy (IDL) on importation of selected goods. The Finance Act 2025 expanded the scope to also include goods from the East African Community Partner States in this regime.
- Introduction of a Withholding VAT (WVAT) for certain entities (including the Ministry of Finance, government institutions) and some VAT-registered taxpayers.

Tax administration

- Removal of timeline for application for a waiver of tax deposit.
- Requirement to link taxpayer system for issuance of electronic receipts with that of TRA.

Other Acts

- Introduction of a 0.1% levy on gross market value of minerals.
- Mandatory requirement to set aside at least 20% gold produce for local beneficiation.
- Increase in the winning tax rates for sports betting and land-based casino games from 10% to 15% and 12% to 15% respectively.

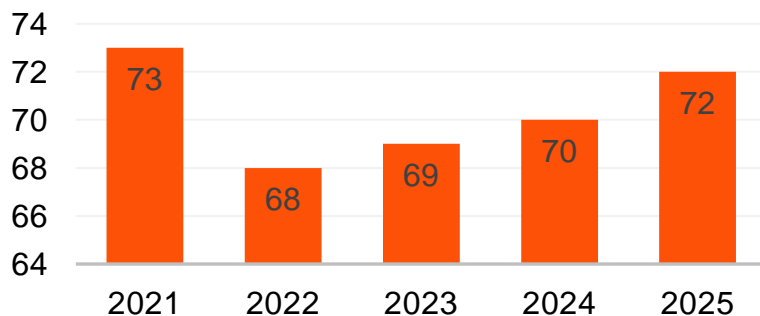


East Africa highlights - Rwanda

Summary of growth

- The Rwandan economy achieved a robust growth rate of **8.9%** in **FY 2024/25**, higher than the projected 8.3%. This growth was largely driven by strong performances in the services, industry and agricultural sector. The projected growth in **FY 2025/26** is **7.1%**.
- Real GDP growth from 2021 to 2023 was between 10.9% and 8.2%.
- Inflation stood at 6.3% as of April 2025. This remains within the National Bank of Rwanda's (NBR) target range of 2–8%.

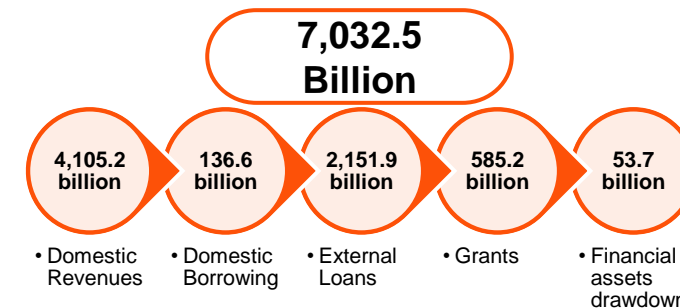
Debt Level (% of GDP)



- The nominal debt level to GDP has seen a growth to 72% at FY 2024/2025. In net present terms this is around 58.5% which is lower than the World Bank's threshold of 70%. It should be noted that a significant element (88%) of Rwanda's debt is concessionary presenting low risk.

Revenue policies

- The fiscal deficit to GDP is expected to increase to 7.4% in FY 2025/2026 from 5.5% in FY 2024/2025.
- The Government plans to allocate **RWF 7,032.5 billion** for the 2025/26 fiscal year, representing a 21% increase from the RWF 5,816.4 billion approved in the revised budget of FY 2024/25.
- The projected revenue financing structure comprises of :



- The revenue policy is to increase the ordinary tax revenue by increasing the tax base and uptake concessionary loans.
- The budget focuses on fiscal consolidation aiming to control spending. Recurrent spending is expected to decline from 17.8% to 17.3% of GDP by 2027/28, while new tax measures will boost domestic revenue to 19.7% of GDP.
- Strict controls are in place to limit wage growth, freeze new benefits, and require that any new programs be funded by reallocating existing resources. While the budget appears expansionary, it is designed to balance growth with fiscal discipline over the medium term.

East Africa highlights - Rwanda

Economic Drivers

- The positive economic growth momentum was mostly driven by factors such as increased production, consumption, investment and improved business environment through reforms and policies.
- Agriculture grew by 5%, boosted by strong food crop yields.
- Industry expanded 10%, driven by mining, quarrying, and construction.
- Manufacturing rose 7%, with notable gains in metal products, machinery, chemicals, and textiles.
- Services surged 10%, fuelled by trade, tourism, transport, and telecommunications.
- Despite the growth witnessed, there have been shortfalls attributed to global volatility, geopolitical tensions, revenue gaps, debt pressures, and foreign exchange shortages, requiring strategic fiscal and monetary management.

Government priorities

The government's spending will increase by 21% in 2025/26. This is guided by vision 2050 objectives and the National Strategy for Transformation 2 (NST2) which covers 2024 - 2029.

1. Economic transformation (63% of the budget):

- ✓ Agriculture productivity
- ✓ Promoting private investment, job creation and exports

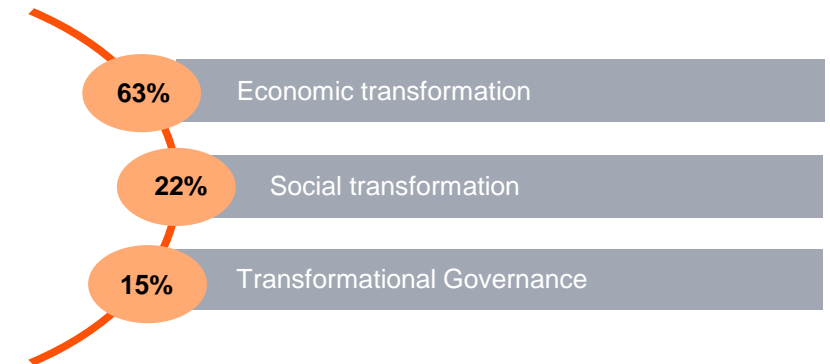
- ✓ Accelerating industrialization with focus on manufacturing
- ✓ Climate change mitigation and adaptation efforts
- ✓ Expanding access to electricity, water, housing
- ✓ Leveraging ICT and Innovation
- ✓ Deepening financial inclusion & literacy

2. Social transformation (22% of the budget):

- ✓ Ensuring access to quality health and education
- ✓ Promoting gender equality and strengthening family cohesion
- ✓ Promoting sustainable graduation from poverty & improving nutrition

3. Transformational governance (15% of the budget):

- ✓ Enhancing justice system,
- ✓ Public service delivery
- ✓ Citizen participation and engagement



East Africa highlights - Rwanda

Key tax highlights

- In line with the Medium-Term Revenue Strategy (MTRS-1), the Government recently announced a comprehensive tax policy reform plan that will span six fiscal years, from 2024/2025 to 2029/2030.
- The tax policy for Government is to broaden the tax base and ensure predictability. It is also addressing health and social issues.
- Major tax reforms for the period 2025/26 include:-
 - ✓ **Capital Gains Tax:** Rate increase from 5% to 10%.
 - ✓ **Digital Services Tax:** Introduced at 1.5%
 - ✓ **VAT Introduced On:**
 - ICT products, mobile phones, SIM cards.
 - Hybrid and internal combustion engine (ICE) vehicles.
 - Domestic road transport of goods.

Gambling Tax:

- Withholding tax on winnings: 15% → 25%.
- Gross Gambling Revenue tax: 13% → 40%.

✓ Excise Duties Introduced/Increased On:

- Beauty and cosmetic products: Introduced 15%
- Cigarettes: 36% of retail price tax -plus RWF 230 per pack
- Beer: Increased by 5%
- Financial transaction fees: Introduced 15%
- Phone airtime: the rate on airtime will gradually increase from 10% to 15% over three years,

✓ Tourism tax :3% on accommodation

✓ Environmental levy on plastic-packaged imports: Introduced 0.2%

✓ Road maintenance and Strategic Fuel levy increase: 15% of CIF

• Other Future Measures Proposed (2025-2030)

- ✓ VAT on :Fee based financial services except MOMO payment fees and interbank transactions, Fossil Fuel
- ✓ Annual Motor vehicle user charge
- ✓ Repeal of VAT exemptions on: Machinery, capital assets, raw materials.
- ✓ EV Policy: Sunset clock starts for VAT exemption on electric vehicles.
- ✓ VAT Reinstated: On zero-emission vehicles.
- ✓ VAT Introduced: On selected energy-efficiency equipment (e.g., solar panels, LPG).

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Devolution

Strengthening Devolution

405.1bn

Revenue Allocation

In FY 2025/26, the National Treasury has proposed an equitable share allocation of KES 405.07 billion to County Governments, which represents 25.79% of the last audited and approved national revenue of KES 1.57 trillion for FY 2020/21, in compliance with Article 203(3) of the Constitution. This is an increase of KES 17.6 billion from the previous year's allocation. Additionally, counties will receive KES 69.8 billion in conditional and unconditional additional allocations, bringing the total proposed transfers to KES 474.87 billion.

While this increase is a good indicator towards strengthening devolution, delays in disbursing allocations to County Governments have had tremendous negative effects in service delivery. **The National treasury should put in place mechanisms to ensure this trend is reversed.**

181.98bn

Pending Bills

As of 30 June 2024, County Governments reported pending bills amounting to KES 181.98 billion, reflecting an increase of KES 17.22 billion from the previous period. These unpaid obligations continue to undermine fiscal discipline, service delivery, and the growth of local enterprises. To address the persistent challenge of pending bills in County Governments, it is recommended that counties institutionalize robust commitment control systems. The Controller of Budget should intensify oversight on expenditure approvals to enforce compliance with budgeted allocations. Additionally, the adoption of accrual-based accounting should be accelerated to enhance transparency in reporting liabilities.

58.9bn

Own Source Revenue

(a) Year-on-Year Growth: Own Source Revenue (OSR) collection increased by KES 2.8 billion, marking a 5% increase from KES 56.1 billion in FY 2022/23 to KES 58.9 billion in FY 2023/24. This reflects a continued upward trend in local revenue generation.

(b) Improved Performance in Several Counties: Ten counties exceeded their annual OSR targets, indicating improvements in revenue mobilization strategies and administrative capacity.

(c) Automation and Reforms: Counties that invested in automation and revenue administration reforms generally showed better OSR performance, demonstrating the value of digitization and policy modernization. County Governments should prioritize full automation of revenue collection systems and adopt scientific forecasting tools to enhance accuracy, efficiency, and accountability in Own Source Revenue mobilization.

Proposed Policy Reforms

Public Finance Management

The 2025 Budget Policy Statement outlines a broad range of reforms aimed at strengthening county governance, enhancing service delivery and improving fiscal discipline. One key area of reform is public finance management:

- a) The Government is rolling out the Treasury Single Account (TSA) to County Governments in FY 2025/26 to centralize and optimize cash management.
- b) Counties are transitioning from cash-based to accrual accounting to improve financial reporting and asset tracking.
- c) The Government has also operationalized the Assets and Inventory Management Modules within the Integrated Financial Management Information System (IFMIS) to standardize asset registration and prevent misuse, while developing an Asset Valuation Policy Framework and Asset Tagging System for better monitoring of public resources

Performance Management

To improve development planning and service delivery, the Government will implement a robust performance management system across both levels of government.

Counties will benefit from the rollout of the Public Investment Management Information System (PIMIS) to strengthen the planning and monitoring of public projects. In line with enhancing human resource management, a Unified Personal Identification System is being developed to eliminate ghost workers. Additionally, the Government will finalise the transfer of constitutionally assigned functions to counties and ensure that state corporations adhere to devolution principles. Enhanced intergovernmental coordination and policy alignment will be facilitated through sector forums and regular engagement between the two levels of government.

Governance & Accountability

On governance and accountability, the Government is introducing a legal and institutional framework for mandatory and continuous vetting of all public officers and promoting public access to information through the 2023 Access to Information Regulations. The proposed Conflict of Interest Bill aims to prohibit activities that conflict with public interest and enforce asset declarations by high-level officials.

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4

Sectoral Analysis

Financial Services

The Cabinet Secretary (CS) noted that safeguarding financial stability and expanding access to affordable finance remain key priorities of the Government.

According to the CS, the Government continues to improve prudential regulation and supervision to address the increased sophistication of the financial sector.

Expansion of affordable financing

The Government plans to continue implementing the Hustler Fund targeting individuals and Micro, Small and Medium Enterprises (MSMEs) excluded at the bottom of the pyramid.

The CS has proposed an additional allocation of KES 300 million to the Hustler Fund to scale up access to credit for MSMEs and households. The Government also plans to convert the Credit Guarantee Scheme into the Kenya Credit Guarantee Scheme Company (KCGSC) to ensure sustainability and develop a Credit Guarantee Policy aimed at improving access to credit.

To promote agricultural productivity and transformation, the Government will continue to implement the Rural Kenya Financial Inclusion Facility (RK-FINFA). The CS has proposed an additional allocation of KES 1.3 billion to this project. The project aims to contribute to income growth, climate change resilience and improved livelihoods in rural areas.



Financial Services (cont'd)

Banking sector reforms

The Cabinet Secretary highlighted the continued stability of Kenya's banking sector, underpinned by an asset base that increased by 1.5% from KES 7.6 trillion in April 2024 to KES 7.7 trillion in April 2025. To further strengthen the sector, the CS also noted that the following reforms have been implemented:

- Lifting the moratorium on licensing new commercial banks to attract foreign direct investment, increasing competition in the sector and consequently lowering lending rates. This comes at a time that the Central Bank of Kenya (CBK) is implementing a gradual increase of the minimum core capital requirement for banks from KES 1.0 billion to KES 10.0 billion.

The regulation staggers the core capital increase as follows:

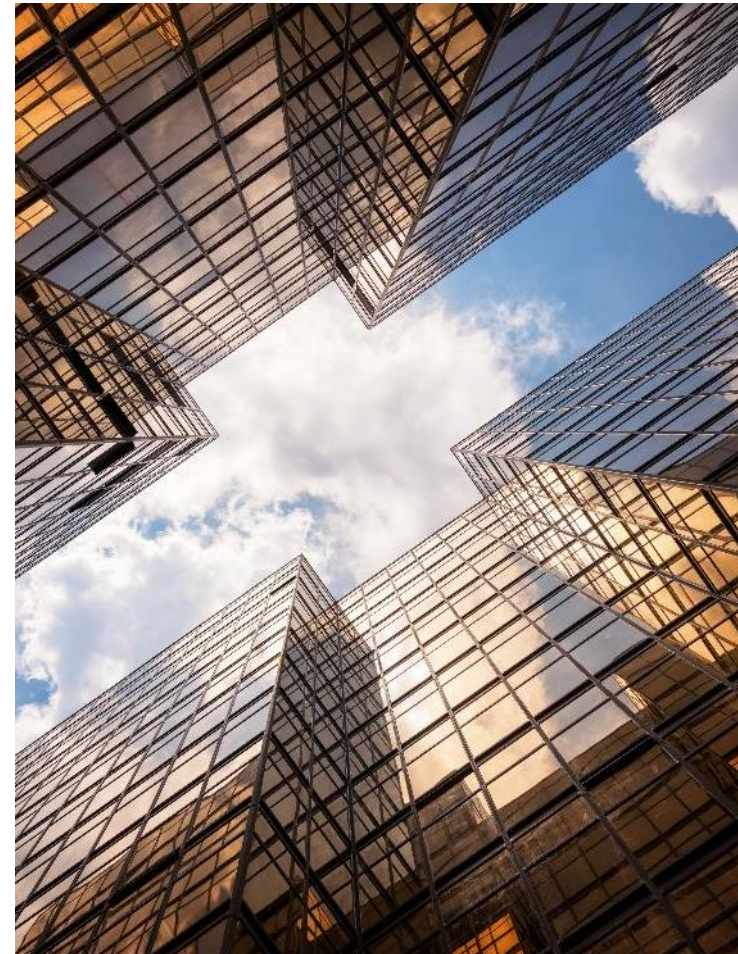
KES 3 billion by the end of 2025, KES 5 billion by the end of 2026, KES 7 billion by the end of 2027, KES 8 billion by the end of 2028 and KES 10 billion by the end of 2029.

The increase in capital is aimed at strengthening banks' resilience, improving their capacity to finance large-scale projects, and ensuring they have adequate capital buffers to absorb risks, particularly those arising from technological advancements. It is widely expected that the higher capital requirements may result in mergers and acquisitions for banks that cannot not raise the minimum capital.

- In April 2025, the CBK issued the Kenya Green Finance Taxonomy framework to guide classification of economic activities as 'green', environmentally sustainable or not. This will guide the banking sector and other market participants in making informed decisions and support the transition to a low-carbon economy.

The disclosure framework issued by CBK is intended to guide banks in integrating climate-related risks into their governance, strategy, risk management, and reporting processes, while also helping them tap into emerging green finance opportunities.

- Issuing new guidelines on the Global Liquidity Coverage Ratio, Net Stable Funding Ratio, and Leverage Ratio designed to bolster the sector's liquidity and capital adequacy, ensuring banks can absorb shocks, maintain stable funding, and manage risks effectively.



Financial Services (cont'd)



Deepening financial inclusion

The Cabinet Secretary stated that the Central Bank of Kenya (CBK), in collaboration with the National Treasury and other stakeholders, is developing the National Financial Inclusion Strategy (2025–2028) to provide a coordinated framework for advancing financial inclusion. The strategy aims to deepen access and usage of financial services while enhancing the quality of affordable financial products to better meet consumer needs.

National payment strategy review

The Cabinet Secretary emphasised that the Government of Kenya continues to advance its digital finance agenda through the implementation of the National Payment Strategy (2022–2025) and the finalisation of a National Policy on Digital Finance.

To reform and modernise the national payment system, the CBK will review the legal and regulatory framework and implement a Fast Payment System to address interoperability, affordability, and high transaction costs.

Additionally, effective 1 July 2025, the Kenya Electronic Payment and Settlement System (KEPSS) will transition to 24/7 settlement capability. The real-time settlement will support round-the-clock trade, enable faster payments, support real-time business transactions, and result in greater flexibility for consumers and financial institutions.

Insurance, pension and capital markets

Pension reforms

To tackle the exclusion of unemployed individuals in the informal sector from the retirement benefits system, the Cabinet Secretary noted that the National Treasury, in partnership with key stakeholders, is rolling out the National Retirement Benefits Policy.

The policy presents a clear and forward-looking approach to resolving persistent structural issues, including fragmented legal frameworks, the marginalisation of informal sector workers, limited access to medical cover for the elderly, weak portability of benefits, and inadequate mechanisms for resolving disputes.

Further, the Government aims to re-engineer the public service pension administration through the digitisation and restructuring of the Pension Management Information System. This includes the launch of a pensioner self-registration platform aimed at enhancing data accuracy, expediting claims processing, reduce processing time and ensure real time claims tracking. The reforms will ensure integration with national identification and payroll systems, reducing errors and potential leakages.

Insurance sector

The Cabinet Secretary emphasised the Government's commitment to expediting the approval and implementation of the National Insurance Policy to strengthen and expand Kenya's insurance industry. The Policy will guide the review of the Insurance Act, which has undergone progressive amendments over the past 30 years to ensure it remains relevant and effective.

The Insurance Regulatory Authority is undertaking focused training on livestock and crop insurance as a tool for mitigating climate-related risks. This is part of a broader effort to improve understanding and access to agricultural insurance, particularly under the drive project, which aims to protect the livelihoods of farmers and enhance business mobility in arid and semi-arid regions.

In addition, the Authority has conducted a vulnerability assessment of the insurance industry to identify gaps and strengthen the framework against anti-money laundering and anti-terrorist financing, reinforcing the sector's integrity and resilience.

Health insurance reforms

The newly established SHIF enables citizens to contribute toward a comprehensive range of healthcare benefits.

As of May 2025, over 22 million Kenyans have registered for SHA. The implementation is backed by the Digital Health Act, which streamlines claims processing and minimises fraud through digitisation.



Insurance, pension and capital markets

Capital Markets developments

The Cabinet Secretary noted that the government is actively reviewing the legal and regulatory framework to strengthen capital markets and address emerging challenges. Additionally, the government has implemented the following measures to modernise Kenya's capital markets and create a more robust investment environment:

- Overhauling the Public Offers Regulations and Collective Investment Schemes Regulations to boost product uptake while ensuring investor protection;
- Approving new regulatory frameworks to support credit ratings and alternative investment funds, which have attracted strong investor interest; and
- Ongoing reviews of regulations for licensing, margin trading, market intermediaries, and mergers & acquisitions to enhance efficiency and market facilitation.

The Cabinet Secretary also stated that the Government issued a Sukuk bond and is planning to roll out other Shariah-compliant products to diversify its financing sources. The first Sukuk bond raised KES 3.2 billion, which has been deployed into the Affordable Housing Programme.



Virtual assets



The Cabinet Secretary urged Members of Parliament to fast-track the enactment of the Virtual Asset Service Providers Bill 2025, which is currently under consideration

Virtual Assets (VAs) and Virtual Asset Service providers

The Cabinet Secretary urged Members of Parliament to fast-track the enactment of the Virtual Asset Service Providers Bill 2025, which is currently under consideration.

The bill aims to address technical deficiencies in Kenya's policy and regulatory framework for Virtual Assets and Virtual Asset Service Providers, as outlined in Kenya's Mutual Evaluation Report following Kenya's grey-listing by the Financial Action Task Force in February 2024.

In June 2025, the European Commission also added Kenya to its list of high-risk countries for money laundering and terrorism financing (AML/CFT). The high-risk listing will have dire consequences on the financial ecosystem such as stricter checks on financial transactions involving Kenyan entities, higher compliance costs, reduced investor confidence and reputational damage.

Tax measures



Amendment on definition of digital lender

The proposed amendment to the definition of "digital lender"; aims to redefine "digital lender" as an entity that provides credit through electronic platforms, explicitly excluding banks licensed under the Banking Act, Sacco Societies registered under the Co-operative Societies Act, and microfinance institutions licensed under the Microfinance Act.

This adjustment seeks to align the definition with the practical realities of digital lending operations and remove any ambiguity regarding the scope of covered entities, especially due to the growing digital financial ecosystem of which the formal banking system is now part of.



Proposal to enhance certainty as to the timelines for issuance of excise licence

As entities providing excisable services, financial institutions are required to apply for excise licences. The Cabinet Secretary proposes changing the licensing rule so that once the necessary documents are received, the Commissioner has (14) fourteen days to review the application and either approve or deny the licence.

This clarifies the deadline for issuing a licence decision, but it is still uncertain what steps can be taken if the Commissioner does not make a decision within 14 days.



Expansion of scope of excisable services provided by non-residents

The proposal aims to extend the scope of excisable services provided by non-residents in Kenya to include those delivered via the internet, electronic networks, or digital marketplaces.

The expansion of excisable services to include those provided by non-residents via digital platforms is intended to modernise Kenya's tax framework and support fiscal sustainability by placing non-resident financial services providers at par with their resident counterparts.

However, it may also increase costs for digital services, potentially impacting consumers and businesses and slowing the adoption of digital solutions. The mechanism for administering registration and compliance for these non-resident providers has not yet been specified, and a clear framework will need to be established to operationalise this policy effectively.

Additionally, the proposed redefinition of "digital lender" would subject all entities offering credit electronically to excise duty, regardless of whether lending is their primary business.

This change could raise the cost of installment-based purchases, limit access to affordable financing, and pose challenges for digital inclusion, particularly affecting low-income consumers who rely on credit for essential items like smartphones and electronics.

Tax measures

Replacement of ‘life fund’ with ‘life insurance fund’ under Section 19 of the Income Tax Act

The proposed amendment aims to align the tax terminology with the Insurance Act, 2018 to ensure consistency in the treatment of actuarial surpluses and shareholder transfers. It clarifies that only amounts from the life insurance fund specifically tied to life insurance policies are subject to tax provisions. Under the current provisions, only the portion of the surplus recommended for transfer by the actuary for shareholder benefit is taxable.

However, it does not clearly define which parts of the surplus should be taxed, leading to inconsistent practice. By addressing this ambiguity, the amendment establishes clear guidelines on taxable amounts and aligns taxation practice with regulatory standards, providing a consistent framework for insurance businesses and the tax authorities.

Additionally, it also introduces clearer rules for handling deficits within the life insurance fund, allowing shareholder injections to be treated as negative transfers, but only up to previously recommended surplus amounts. Currently, the tax provisions lack explicit guidance on how shareholder injections should be treated when covering financial shortfalls. This will enhance regulatory clarity, improve tax compliance, and support more accurate financial reporting in the insurance sector.

Proposed deletion of data protection safeguards in Section 59A(1B) of the TPA

The proposed deletion removes existing protections that prevent the KRA from accessing taxpayers’ trade secrets and highly sensitive personal and financial data held by financial institutions.

This expansion of access raises significant concerns about data privacy, financial security, and regulatory compliance. Banks, insurers, and other financial entities, entrusted with safeguarding customer data, may face heightened legal and operational challenges as they navigate the implications of this change.

The broader access granted to tax authorities could erode trust in financial institutions, creating uncertainty around how confidential financial information is handled and protected.

Furthermore, this move undermines the principles of certainty and stability outlined in the National Tax Policy, particularly since the provision being repealed was only introduced in December 2024 through the Tax Laws (Amendment) Act, 2024. The rollback risks increasing legal and operational uncertainty for financial institutions.

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Infrastructure

The total budget allocated for Infrastructure for FY 2025/26 is KES 473.1 billion. This has been distributed to electricity, water & irrigation, roads & bridges, and housing development



Infrastructure

Infrastructure remains a key enabler for the implementation of Bottom-Up Economic Transformation Agenda (BETA) through provision of cost-effective public utilities and essential services geared at promotion of socio-economic transformation across the country.

Some of the key infrastructural initiatives identified for implementation include:

- Expansion of roads and transport networks;
- Enhanced generation of clean energy and power distribution capacity;
- Construction of affordable housing units; and
- Expansion of railway infrastructure.

Tax Policy changes

The Cabinet Secretary (CS), National Treasury retained certain measures that were already included in the Finance Bill 2025 (“the Bill”), directly impacting the Infrastructure sector. The Government seeks to charge VAT at the standard rate of 16% on the following items:

- Specialised equipment for the development and generation of solar and wind energy.
- Taxable goods, excluding motor vehicles, imported or purchased for direct and exclusive use in geothermal, oil or mining prospecting or exploration by a company granted a prospecting or exploration license

Some of these proposed changes will have a direct impact on the cost of major infrastructural projects, mainly targeting the Energy, Oil and Gas.

Housing and settlement

The Affordable Housing Programme provides an avenue for the development of quality and affordable houses for Kenyans by facilitating the delivery of over 200,000 housing units annually

4,888

housing units are set for completion



Social housing units allocated



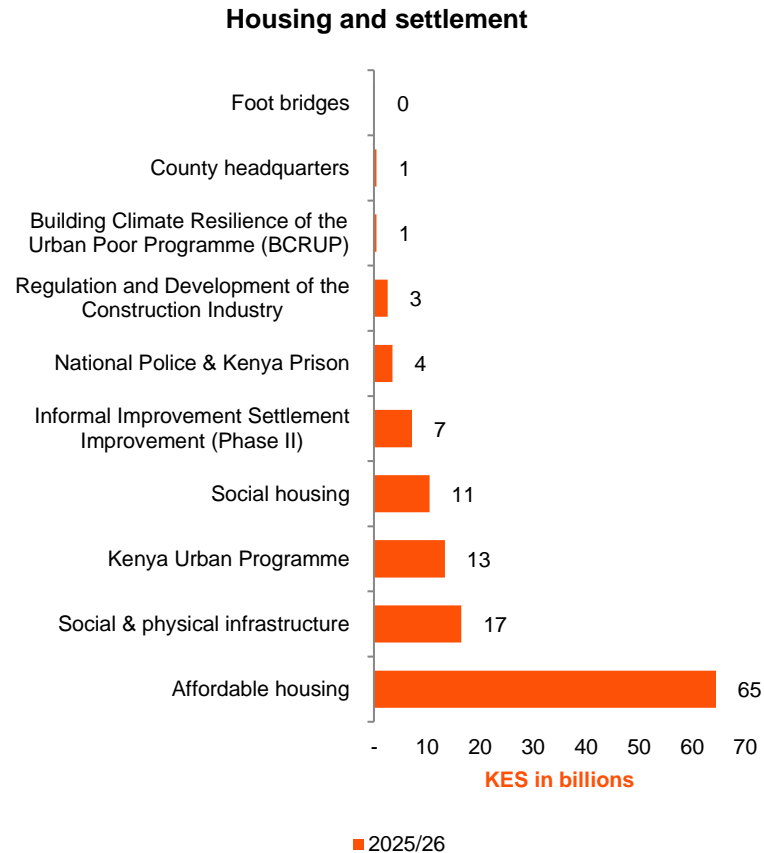
Affordable housing units



Affordable middle-class housing units

KES 119bn

Sector Allocation



Urban Housing

The Cabinet Secretary has allocated KES 13.4 billion for the Kenya Urban Programme (KenUP), which is expected to strengthen the capacity of urban municipalities to improve delivery and resilience of urban infrastructure and services.

The Cabinet Secretary has allocated KES 7.2 billion to the Kenya Informal Settlement Improvement Project Phase II. Objectives of the programme include:

- Fast tracking the land tenure regularization;
- Upgrading infrastructure and improve access to basic services in informal settlements, and;
- Strengthen institutional capacity development for slum upgrading.

Energy

Peak demand growth from 2,149 MW in July 2022 to 2,316 MW in February 2025

- As envisioned in the BETA and Kenya’s Vision 2030, access to affordable and efficient energy is key in the attainment of socioeconomic transformation of the country.
- Kenya's energy sector, especially hydroelectric power, is vulnerable to changing rainfall patterns. Rising temperatures also reduce the efficiency of geothermal plants and transmission systems. Such vulnerabilities often require the utilisation, of more expensive fossil fuel powered generation plants to bridge supply deficits.

Total installed capacity growth from 3,076 MW in 2022 to 3,243MW in 2025

Electricity in the country continues to be considered expensive by consumers despite the growth in generation capacity by 5.4%, which has been through the injection of cheaper renewable sources.

To curb the rising cost of electricity, the government has endeavoured to continue supporting the development of cheaper energy. Planned projects include:

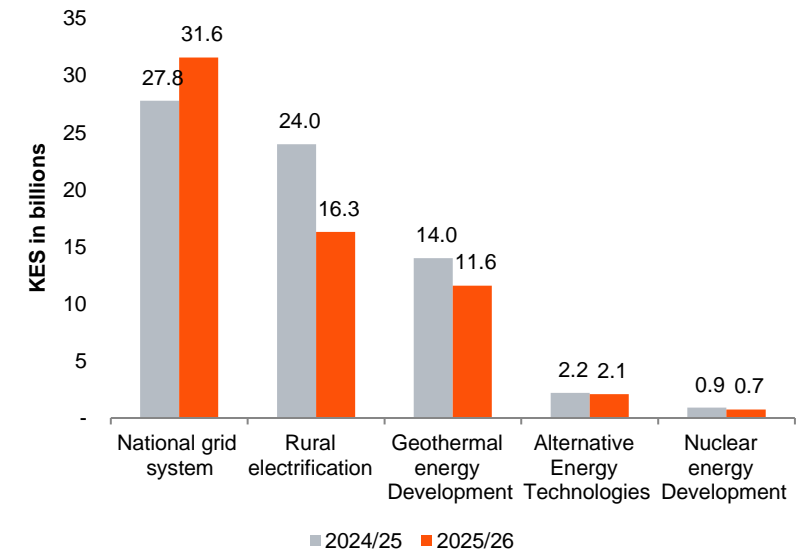
- Construction of 34 geothermal wells
- Construction of 55 institutional biogas plants and 1,800 household biogas plants
- Engagement with Independent Power Producers (IPPs) on renewable energy procurement and pricing



The budget allocation for the energy sector dropped by 9.5%, decreasing from KES 69.7 billion in 2024/25 to KES 62.8m. This reduction was primarily driven by a 32.1% cut in funding for rural electrification during the same period.

The ongoing Power Purchase Agreement (PPA) moratorium has limited additional private sector participation in power generation. The current situation poses supply risks, with the narrowing reserve margin creating vulnerabilities. Both sector participants and energy users remain optimistic that the moratorium shall soon be lifted.

Energy



Source: Kenya Budget Statement, PwC Analysis

Water, Roads & Bridges

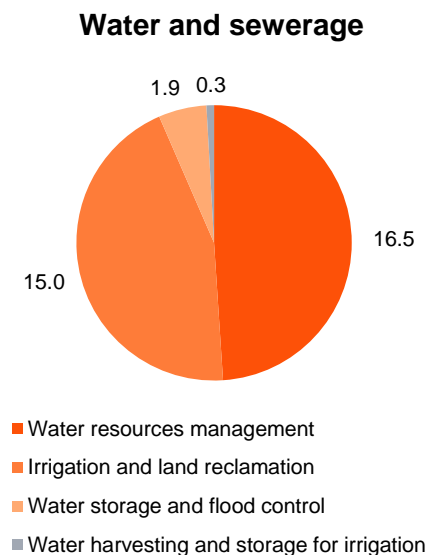
Government support mechanisms will aid in enhancing the viability and bankability of water and roads infrastructure



Water Sector

KES 33.7 bn Sector Allocation

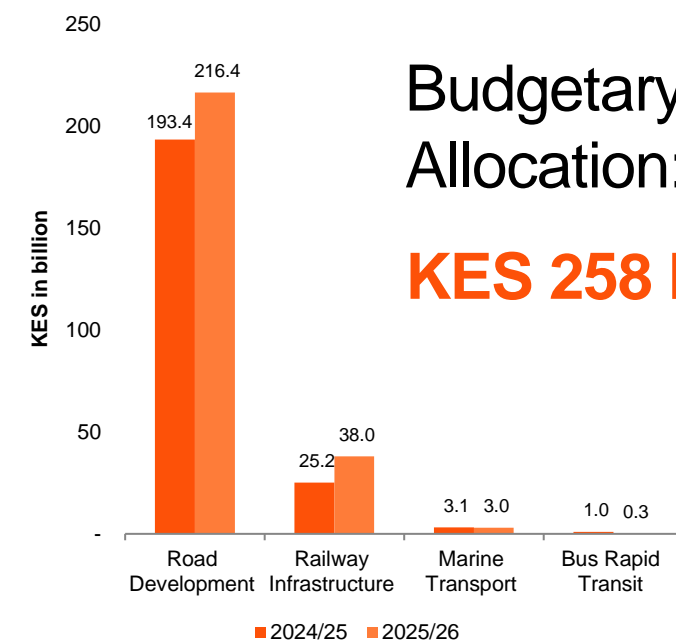
Kenya's water resources continue to come under pressure with increased demand and a growing population, as well as reduced hydrology influenced by climate change. The Government has prioritised development and management of water resource, albeit with reduced allocation.



Roads and Bridges

Budgetary allocation for FY25/26 has increased relative to last financial year, with road development remaining the largest beneficiary, emphasising the importance of enhancing the national transport network to improve connectivity.

Transport



Budgetary Allocation:

KES 258 bn

Public Private Partnerships

Public Private Partnerships

According to the Budget Policy Statement, the National Treasury estimates that the government requires USD 2bn annually to meet infrastructure development goals.

PPPs have been identified as an enabler towards meeting this funding requirement, with a current pipeline of 32 projects with an estimated value of KES 70bn currently under development.

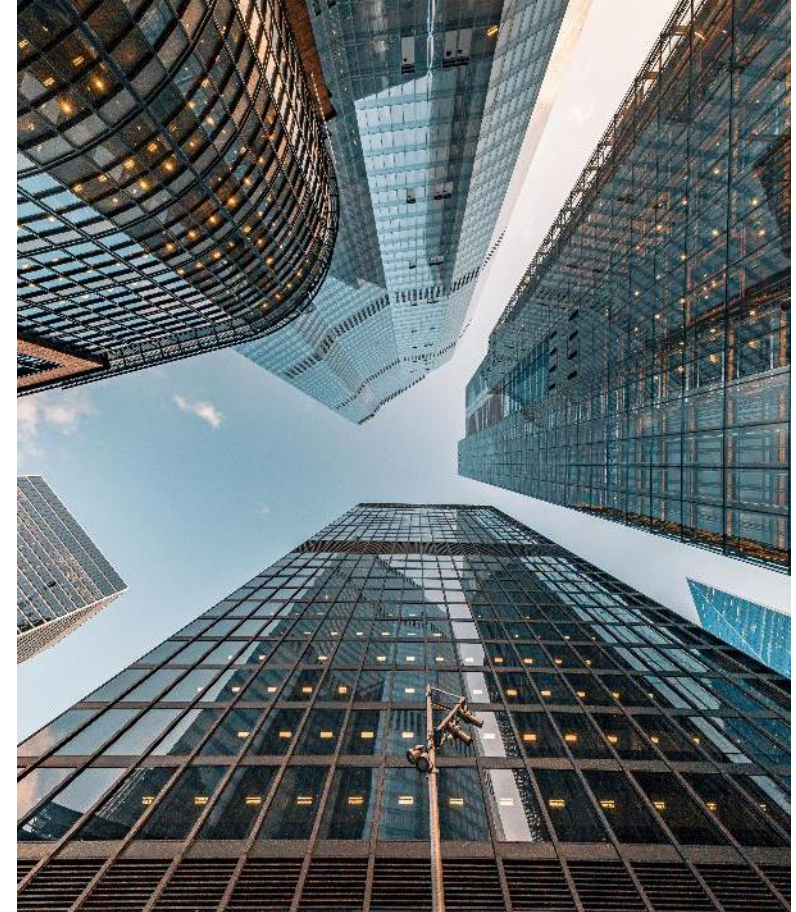
Properly structured PPP projects can leverage private sector funding and expertise while achieving equitable risk sharing.

To safeguard public interests and boost transparency, the CS has proposed mandatory disclosures to be made for all privately initiated proposals under the PPP framework.

Incentives for Private Sector Participation

The Budget Policy Statement has proposed several incentives to enhance project bankability and transparency:

- Government Support Measures (GSMs) to private investors in PPP projects in the form of Letters of Support, Partial Risk Guarantees and Indemnity Agreements.
- Retention of VAT exemptions on agricultural inputs, pest control products, tractors and trailers to encourage private participation in the agricultural sector.
- The enactment of Water (Amendment) Bill, 2023 aims to expand the roles of national water utilities such as Water Works Development Agencies (WWDAs) by allowing them to enter into bulk water purchase agreements, reducing the risks of contracting with sub-sovereign entities such as water service providers (WSPs), and promoting private sector participation.



Public Private Partnerships

The recently constituted Committee of Experts, tasked with facilitating the unlocking of local capital for PPP investments, has also recommended the creation and operationalisation of a Public-Private Partnership Implementation Trust Fund (PPP-ITF).

Priority projects

Some of the priority projects identified in the Budget Policy Statement for implementation under PPP include:

- Sabaki Water Carrier Project – KES 28bn
- Generation and Transmission projects, Nairobi Street lighting Project – KES 10bn
- Stony Athi Affordable Housing Project – KES 9.2bn
- Mombasa – Nairobi Express Way

KES
28bn

**Sabaki Water
Carrier Project**



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Manufacturing

The Government has embarked on interventions aimed at revamping and improving the competitiveness of the manufacturing sector by focusing on value chains development...



Leather and leather products

The Government has made budget allocations to the manufacturing sector to modernise and build capacity to support large-scale processing, and to improve for competitiveness in the regional and international markets.

Agro-processing

The Government is prioritising agro-processing through complementary initiatives including integrated agro-industrial parks and food processing hubs aimed to strengthen market access and accelerate industrial transformation.

Textile and Apparels

Key initiatives by the Government in advancing cotton, textile, and apparel sectors include modernising ginneries, establishing textile value addition centres and constructing industrial sheds.

Building and Construction

The Government is enhancing building and construction sector by supporting ‘jua kali’ MSMEs, promoting green materials, and boosting local manufacturing. Future plans by the Government include an industrial park, expansion of waste recycling, and stronger MSME integration in housing projects through incubation centers and cooperative schemes.

Key allocations by the Government to promote local manufacturing

	Budget allocation (KES, Million)
Development of Kenanie leather industrial park	340
Development of Athi textile hub	602
Development of special economic zone textile park	504
Modernisation and revitalisation of cotton ginneries	120
Export processing zones hubs	705
County integrated agro-industry park	4,500

Manufacturing (cont'd)

Dairy

The Government's interventions in the dairy sector are aimed at doubling production.

The key pillars of the Government's initiatives in this sub-sector include development of increased cooling and processing capacity, supported by increased production of raw milk due to improved access to suitable animal feed.

Edible and Crop Oils

Supporting increased production of raw materials (i.e., edible oil crops) and increased processing capacity, continue to be the Government's primary channels for promoting growth of this sub-sector.

These interventions are anchored in measures such as distribution of seeds/seedlings and processing infrastructure.

Tea and Coffee Sub-sectors

The Government continues to leverage regulatory and policy reforms, subsidised inputs (e.g., fertilisers) programs, value addition through increased processing and development of the export market as the key drivers of growth in the tea and coffee subsectors.

In a boost to tea exporters, the EAC Pre-Budget Ministers meeting allowed Kenya to import tea packaging material at a lower duty rate of 10%.

	Budget allocation (KES, Million)
Excess Milk Mop-Up	400
Modernization of milk processing factories	150
National Edible Oil Crops Promotion Project	300
Coffee Cherry Revolving Fund	2,000
Coffee Debt Waivers	2,000
Sugar Sector Reform	1,500

Sugar Sub-sector

In a bid to improve competitiveness of the sugar sub-sector, four state-owned sugar factories have been placed under competitive leasing arrangements.

The Government, in November 2024, also enacted the Sugar Act, 2024 to support ongoing revamp of the sector through appropriate policy intervention.



Tourism and Aviation Sectors

Tourism Sector

Tourism remains a cornerstone of Kenya’s economic strategy offering potential for inclusive development and job creation.

In the FY 2025/26, the Government will continue implementing targeted strategies to promote sustainable and inclusive tourism.

The Government will focus on: destination marketing through increased funding of marketing campaigns, promotion of community-based tourism and conservation activities. This will position Kenya as a top destination for Meetings, Incentives, Conferences, and Exhibitions (MICE), and improve accessibility to key tourist circuits.

29.7bn

The total allocated to Tourism, Sports, Culture, Recreation and Arts

The Magical Kenya: Expanding markets, strengthening policies and enhancing global markets



	Budget allocation (KES, Million)
Sports, Arts and Social Development Fund	13,500
Automation and Digitalisation System for the Sports Registrar	2,300
Anti-Doping Agency of Kenya	241
Sports Kenya	402
Kenya Academy of Sports	245
Tourism Fund	8,200
Tourism Promotion Fund	4,800

Aviation Sector

To strengthen its role as a regional aviation hub, the Government has refurbished Terminals 1B and 1C at JKIA and rehabilitated 15 aerodromes nationwide.

The Government plans to further revitalise the sector by:

- Constructing control towers and rehabilitating the Kisumu and Diani airports.
- Building a new terminal at JKIA which can handle 20 million passengers annually.
- Upgrading of facilities in terminal 1E to permanent status; and
- The installation of equipment and systems for air navigation services.

To promote Nairobi as a regional aircraft maintenance hub and improve cost efficiency in the sector, the Government proposes to retain the exemption on spare parts for all aircrafts and to amend the Miscellaneous Fee and Levies Act to introduce Import Declaration Fee and Railway Development Levy on small aircrafts and helicopters.

Blue Economy

Harnessing Kenya's Blue Economy: Investing in Growth, Sustainability, and Coastal Livelihoods

The blue economy presents a significant opportunity for Kenya to accelerate inclusive green growth, as envisioned under the Bottom-Up Economic Transformation Agenda (BETA).

The Government projects a potential increase of blue economy contribution to the economy to KES 80 billion within the next five years from the current KES 20 billion. The government is taking a strategic approach that aims to maximise the potential of blue economy through infrastructure development, support to small scale farmers, enhancing fishing capabilities and ultimately fostering industrial growth.

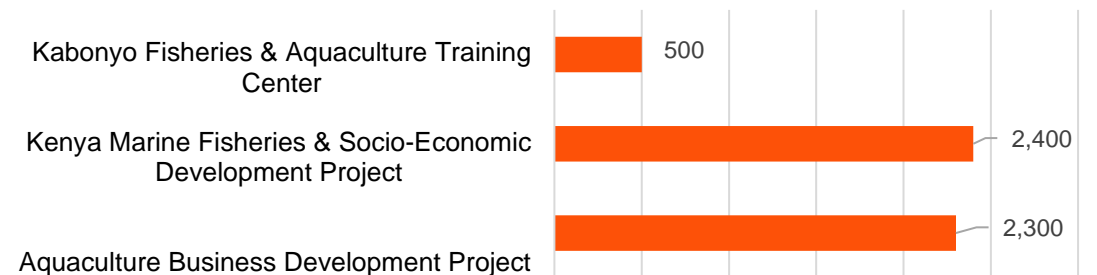
80bn

Targeted contribution to the economy by the blue economy within the next 5 years



To support the growth of the blue economy, the government has proposed a total of KES 8.2 billion to the Blue Economy and Fisheries sub sector.

Allocation in KES Million



Micro, Small and Medium Enterprise (MSME) Economy

The Government's hustler fund initiative continues to provide access to affordable credit to millions of customers...

The FY2025/26 Budget reinforces the government's commitment to empowering Micro, Small and Medium Enterprises ("MSMEs") and grassroots enterprises by expanding access to affordable credit, strengthening entrepreneurship infrastructure, and deepening financial inclusion in rural areas. The Government has disbursed loans amounting to over KES 71 billion by the end of May 2025 Hustler Fund.

Through targeted funds and strategic programs, such as the Center for Entrepreneurship, the budget aims to unlock the potential of small businesses, support youth-led innovation, and formalise informal enterprises as part of the Bottom-Up Economic Transformation (BETA) Agenda.

Allocation in FY2025/26 budget statement

The allocation for MSME in the FY25/26 budget statement is as follows:

- Financial Inclusion Fund (Hustler Fund) – KES 300 million
- Youth Enterprise Development Fund – KES 308 million
- Centre for Entrepreneurship Project – KES 550 million
- Rural Kenya Financial Inclusion Facility – KES 1.3 billion



71 Billion

Total amount disbursed by the Hustler Fund as of May 2025



26 Million

Total number of customers served by the Hustler Fund as of May 2025

Conclusion

The FY2025/26 Budget reaffirms the government's commitment to inclusive economic transformation through the Bottom-Up Economic Transformation Agenda (BETA).

With a strong focus on empowering manufacturing, tourism, blue economy and MSMEs, the budget aims to stimulate sustainable growth, create jobs, and improve livelihoods.

As Kenya navigates fiscal constraints and global uncertainties, this budget lays a pragmatic yet ambitious foundation for economic resilience, equity, and long-term prosperity.

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ESG and sustainability

The 2025 Budget Policy Statement (BPS) integrates a forward-looking strategy that addresses climate change, climate risk mitigation, fiscal sustainability, and inclusive development through Environmental, Social, and Governance (ESG) frameworks.

Key topics

Climate Change and Fiscal Risk Analysis

Kenya remains vulnerable to the impact of climate change and is committed to transitioning to a low carbon and a climate resilient future.

- A key feature of the BPS is the inclusion of a climate-related scenario analysis which includes:
 - Evaluating the long-term macroeconomic and fiscal risks posed by climate change.
 - A comparison of four escalating climate scenarios against a baseline that assumes no climate change.

Minor annual reductions in Gross Domestic Product (GDP) and labour productivity can compound significantly over time. In the most severe “hot” scenario, Kenya’s GDP could be 4.2 percentage points lower than the baseline by the end of the century. This underscores the urgent need for climate-resilient economic planning.

To address the challenges and opportunities in climate finance and investment, the following frameworks have been developed:

- Central Bank of Kenya introduced the Kenya green finance taxonomy and climate risk disclosure framework. This is to guide banks in classifying sustainable activities, managing climate risks, seizing green business opportunities, supporting the transition to a low-carbon economy and enhancing environmental sustainability in the banking sector.
- Climate finance mobilization strategy
- National policy framework on green fiscal incentives
- Carbon market framework
- Further, the Government is developing a sustainability linked bond framework to allow issuance of a bond.

ESG and sustainability (cont'd)

Environmental Inclusion and Green Growth

- As the BPS promotes green growth, it has also been criticised for overlooking other economic sectors such as the yellow, blue, and brown economies.
- Stakeholders recommend revising the BPS title to reflect a more inclusive growth agenda. Inclusive green growth not only prioritises environmental sustainability but also ensures that economic benefits are equitably distributed across all sectors and communities.
- Electric mobility (e-mobility) remains a crucial strategy for promoting inclusive green growth and advancing climate action. It aims to reduce greenhouse gas emissions and air pollution while ensuring that consumer mobility needs are effectively met.
- Tree planting remains a focal point to ensure conservation of biodiversity and implementation of the national disaster risk management policy.
- Looking forward, there is commitment to prioritize clean cooking at a household level and develop policies to attract climate funds.

Social Protection and Health

- The BPS addresses gaps in healthcare access, particularly for vulnerable populations.
- The Edu Afya and Linda Mama programs have been integrated into the new Social Health Insurance Fund (SHIF) under the Essential Health Benefit Package to ensure integration and continued support for school-going children, mothers, and the elderly.
- The SHIF also expands social protection through subsidised insurance and cash transfers for older citizens, reinforcing the government's commitment to Universal Health Coverage (UHC) and equitable healthcare access.



ESG and sustainability (cont'd)

Governance and Gender Responsiveness

- The Governance pillar of the ESG framework emphasizes gender equity.
- In 2025, the National Treasury has committed to including a section on Gender Responsive Budgeting in the BPS. This ensures fiscal policies promote gender equity, economic growth, and sustainability. It is a critical tool for achieving inclusive development and addressing systemic inequalities.



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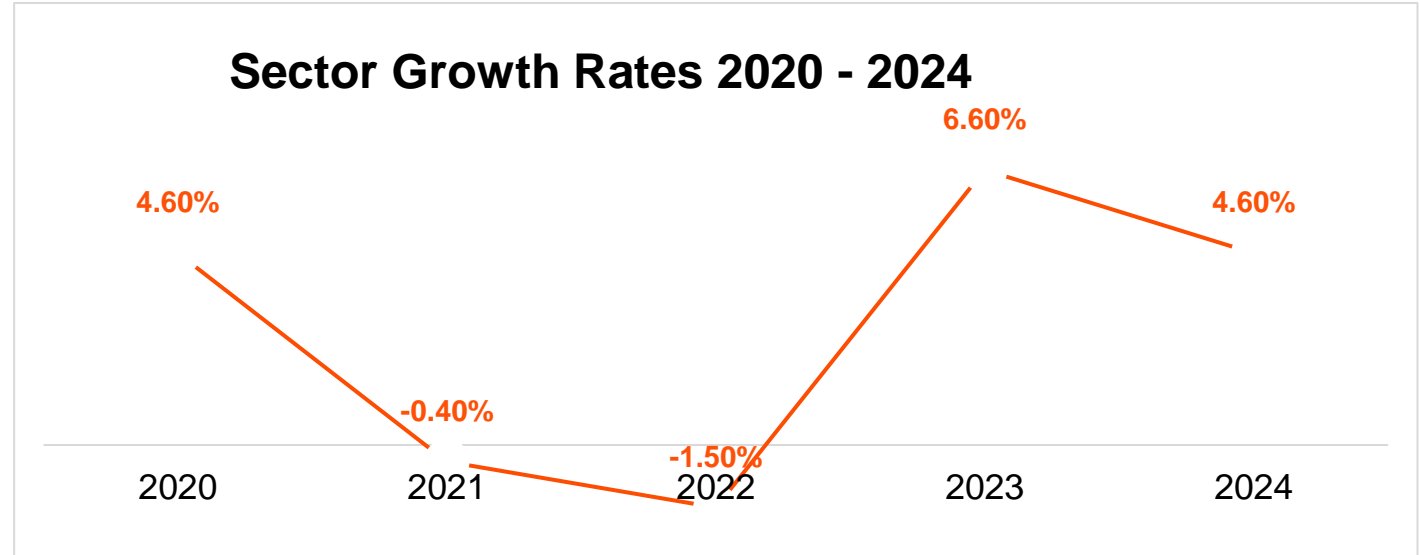
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Agricultural transformation and inclusive growth

82.8bn

2% of KES 4.29T

Despite agriculture's crucial role in Kenya's economy, the sector received 2% of the national budget — well below the 10% target set by the Malabo and Kampala Declarations. Meeting this 10% benchmark is essential for driving consistent sector growth, targeted at 6% annually.



KNBS Economic Survey 2025

Agriculture growth slowed to 4.6% in 2024, down from 6.6% in 2023

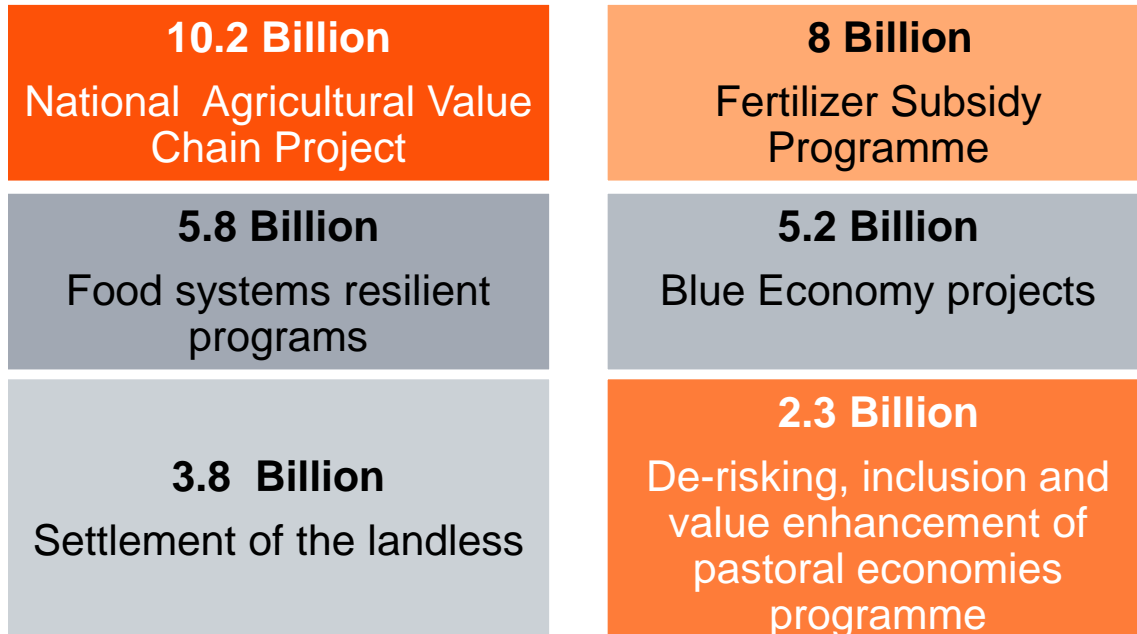
The **Agriculture Orientation Index (AOI)** slightly declined from **0.179** to **0.175**, highlighting that the sector continues to receive a disproportionately small share of public expenditure relative to its economic contribution.

This decline occurred **despite agriculture's contribution to GDP rising from 21.5% in 2023 to 22.5% in 2024.**

Agricultural transformation and inclusive growth (cont'd)

47.6bn ↓

The allocation to the State Department for Agriculture has been reduced by 12%, now standing at KES 47.6B. Despite the cut, this funding aims to boost productivity across agricultural value chains through support in input financing, subsidies, and extension services.



CAIPs will provide value addition centers and storage facilities for agricultural products.

- The classification of goods including inputs for manufacture of animal feeds, packaging materials for tea and coffee, transportation of sugarcane from farms to milling factories and solar lithium-ion batteries from zero-rated to exempt status have the effect of increasing the products' cost due to the non-deductibility of input VAT. This could potentially reduce the competitiveness of local producers including those seeking to set shop in the 18 CAIPs.
- While physical infrastructure; warehouses, aggregation centers, utilities is being prioritized, operational progress in value chain services is minimal.

4.5bn

18 County Aggregation and Industrial Parks (CAIPs) – targeting to expand to all 47 counties by FY 2025/26.

Agricultural transformation and inclusive growth (cont'd)



Agriculture sector policy priorities

- Enhance agricultural productivity and food security through programmes like the fertiliser subsidy programme, food systems resilience project, and food security and crop diversification project, aiming to **lower production costs and increase yields.**
- Strengthen land reforms and tenure security via initiatives such as the processing and registration of title deeds, digitisation of land registries, and settlement of the landless ensuring **farmers have secure and legal access to land.**
- Modernize value chains and rural livelihoods through Investments in the national agricultural value chain development project, blue economy projects, Kenya livestock commercialization programme, and development of the Kenya leather industrial park, to **support exports and agro-industrial growth.**
- Provide crop insurance for farmers and pastoralist communities aimed at providing financial protection against crop losses and promoting agricultural sustainability.

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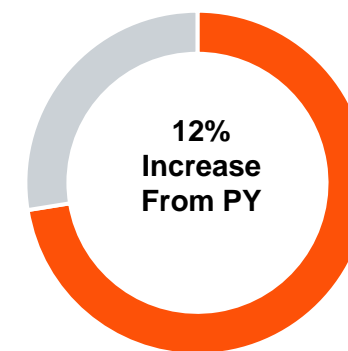
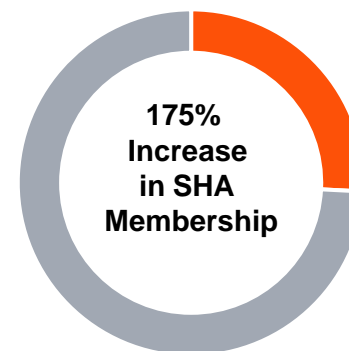
Health Sector

Access to quality and affordable healthcare through the Universal Health Coverage (UHC) Program is a cornerstone of the Government’s development agenda. This initiative is not only a fulfilment of a constitutional right but also a strategic investment in the nation’s human capital. By ensuring that every Kenyan, regardless of income or location, can receive essential health services without suffering financial hardship, laying the foundation for a healthier, more productive, and equitable society

Health sector Priorities – FY25/26 and beyond

As per the budget policy statement, the key sector programme priorities for the FY 25/26 and beyond include:

- **UHC Expansion:** Focus on strengthening primary healthcare, maternal and child health, and essential medical supply chains.
- **Digital Health:** Invest in infrastructure to connect over 6,000 health facilities to the National Optic Fibre Backbone (NOFBI) by 2028.
- **Data-Driven Systems:** Roll out the Electronic Community Health Information System (eCHIS) and real-time UHC tracking via the Kenya Health Situation Room.
- **Social Health Insurance Expansion** – As of May 2025, more than 23 Million Kenyans were registered with SHA. To ensure attainment of 100% in health insurance coverage, the government will continue to implement the Social Health Insurance Act, 2023.



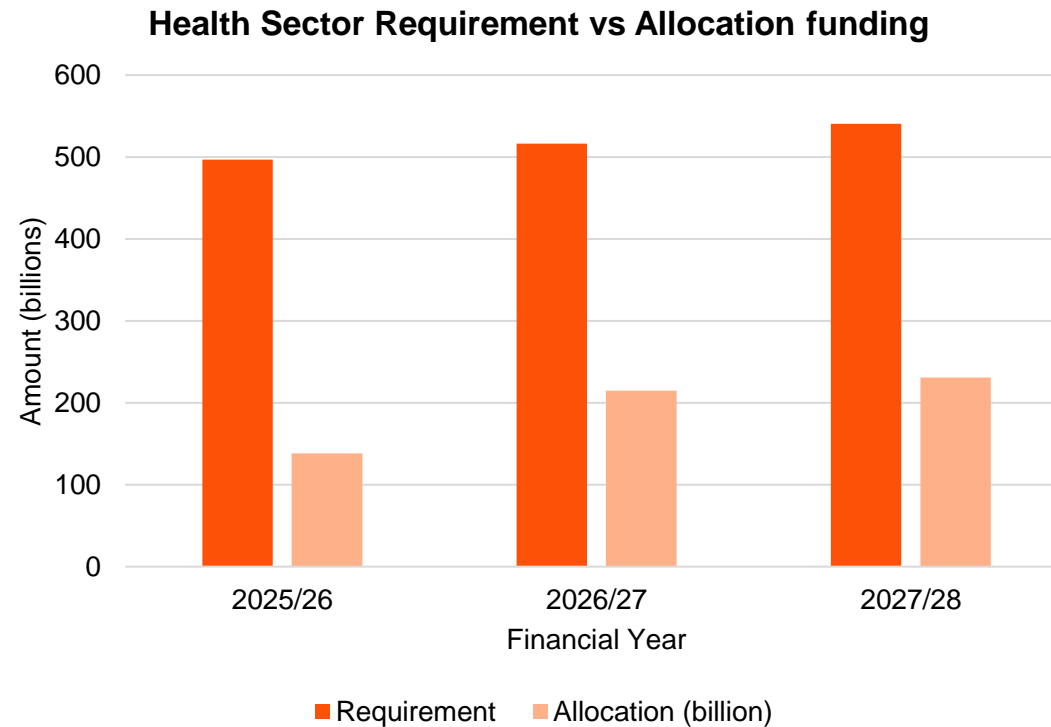
Gaps Remain: Urgent Action Needed to Sustain Kenya’s Health Gains Amid Declining Donor Support

- From the FY2024/25 budget allocation, approximately 71.50% was from Government funding and an estimated 28.5% from external funding (loans and grants).
- World Bank (IDA), Global Fund, USAID, Government of Denmark, UNICEF, GAVI, JICA, and the EU collectively contributed 28.5% of the health sector financing in FY2024/25.
- With U.S Government’s funding cuts, a significant funding gap was created in key health programs. USAID alone accounted for 4.97% of the total health budget. To bridge the funding gap, it was anticipated that the government would increase its allocation by an equivalent or greater proportion to support HIV/AIDS, maternal and child health, and health systems resilience, which have been the traditional USAID priorities in Kenya.

Health Sector

Health Sector allocated KES 138.1 Billion an increase from KES 123 Billion in FY 24/25

As projected by the MoH in their health sector medium term expenditure framework report (period 2025/26-2027/28, the country needs KES 1,553.6 Billion for the next 3 fiscal periods against an allocation of KES 583.9 Billion to the health sector in the same period.



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Health Sector

Key allocation areas in the health sector

1

Universal Health Coverage (UHC) and Primary Care

- UHC Coordination and Management – **KES 6.2 billion**
- Primary Health Care – **KES 13.1 billion**
- Community Health Promoters – **KES 3.2 billion**
- Medical Cover for Orphans, Elderly, and Persons with Disabilities – **KES 430 million**

2

Disease Prevention and Control

- HIV, TB, Malaria, and Enhanced Vaccination – **KES 17.3 billion**
- Vaccines and Immunisation Programs – **KES 4.6 billion**
- Procurement of Family Planning Commodities – **KES 500 million**
- Procurement of equipment at National Blood transfusion Center – **KES 300 million**

3

Specialized and Chronic Care

- Emergencies, Chronic and Critical Illness Fund (Managed by SHA) – **KES 8 billion**
- Construction of Cancer Centre at Kisii Level V Hospital – **KES 1 billion**
- Strengthening Cancer Management at KNH – **KES 100 million**
- Expansion of Cancer Treatment at Kenyatta Teaching and Referral Hospital – **KES 100 million**

4

Health Infrastructure and Service Delivery

- Health Service Delivery at Various Referral Hospitals – **KES 42.4 billion**
- Construction of KNH Burns and Paediatrics Centre – **KES 1.3 billion**
- Kenya Medical Supplies Authority (KEMSA) – **KES 5.2 billion**

5

Health Workforce, Training, Research and Systems Strengthening

- Medical Interns – **KES 4.3 billion**
- Kenya Medical Training College (KEMTC) – **KES 8.9 billion**
- Kenya Medical Research Institute (KEMRI) – **KES 2.7 billion**
- Training of Health Personnel **KES 330 million**



Kenya has made notable progress toward achieving Universal Health Coverage, yet the current health sector allocation of KES 138.1 Billion—slightly lower than the KES 141.2 Billion allocated in FY2023/24—may not fully meet the growing demands on the health system. This comes at a time when donor support for key programs such as TB, HIV, malaria, and family planning is gradually declining, and the cost of health commodities continues to rise.

Given that health is a devolved function, it is important that county governments also prioritize health in their planning and budgeting processes. A well-resourced health system at both national and county levels remains essential for ensuring equitable access to quality healthcare and for safeguarding the gains made so far.

While the proposed allocations reflect the government’s commitment to health, there remains an opportunity to strengthen this further through increased and sustained investment. Doing so will be key to realizing the full promise of UHC and building a resilient, inclusive health system for all Kenyans.

Accountability and Transparency

Sustained efforts to improving transparency and accountability

Over the last financial year, the government made commitments on enhancing governance, transparency and accountability. While it has implemented some, others either remain in progress or are yet to be actualised.

Key successes

- a. Publication of Kenya's Access to Information (General) Regulations in 2023, which outlines the process for access to information by the public, thereby enhancing transparency.
- b. The conflict-of-interest bill, which is aimed at promoting the responsible use of public funds and fully automating public disclosure of asset declarations by high-level public officials.
- c. Strengthened capacity of the Judiciary and other institutions for trial of corruption cases and improved access to justice via judicial appointments and provision of infrastructure. This has enabled the government to avert KES 10.9bn in losses and recovered KES 17.7bn from corruptly acquired assets as per the World Bank.
- d. Passage of the Anti-Money Laundering and Combating of Terrorism Financing Laws (Amendment) Bill, 2025 in Parliament, a bill that included the virtual assets and cryptocurrencies under anti-terrorism scrutiny and empowered the Betting Control and Licensing Board to regulate for AML/CFT compliance.
- e. Following the recent calls for greater transparency and accountability, the government has been conducting public participation and consultation in policy making processes through town hall meetings and other forums.
- f. Establishment of the Pending Bills Verification Committee which deemed ineligible 57% (KES 268bn) of the pending bills, an indication of systemic gaps in enforcement and effectiveness of procurement laws.
- g. Development of the Public Policy Handbook and Guidelines, aimed at encouraging involvement of citizens and stakeholders early in the law and policy making process.

Accountability and Transparency (cont'd)

Missed opportunities and areas of further action

Despite the efforts above, the government is yet to implement the 2023 public audit bill approved by the cabinet that sought to enhance the Auditor General's (AG) independence and transparency in executing her mandate.

Additionally, the government had committed to the roll out of the National Ethics and Anti-corruption policy across sectors and counties. While the policy has since been passed, implementation has not commenced. More also needs to be done by implementing proposals made by Constitutional commissions like the Ethics and Anticorruption Commission including amendment to the Anti-corruption and Economic Crimes Act (ACECA) to strengthen asset recovery mechanisms, enhance penalties for corruption related offenses and clarify provisions of unexplained wealth.

There is also need to review the Leadership and Integrity Act to align it with Chapter Six of the Constitution and provide clarity on enforcement mechanisms for ethical conduct among public officials.



Accountability and Transparency (cont'd)

Looking into the future

The 2025 BPS emphasises strengthening governance, transparency, and accountability as critical enablers of the government's Bottom-Up Economic Transformation Agenda (BETA)

The BPS proposes the following measures to drive a new era of accountable governance

- The governance diagnostic assessment by the International Monetary Fund (IMF) that will play a crucial role in ensuring the effectiveness and integrity of use of public funds.
- Amendment to the Witness Protection Act to incentivize whistleblowing within and outside government, a critical aspect in identifying economic crimes.
- Amendment to the Evidence Act and the criminal procedure code to ensure that all economic crimes are determined within 6 months.
- Implementation of the Unified Personal Identification system that assigns a unique code to all government employees, an effort that seeks to eliminate payroll fraud and its associated ghost employees, which The World Bank estimates has cost the government KES 5.3bn between 2019 and 2023.
- Use of “hard sector ceilings” as a basis for allocation of funds to various Ministries, Departments, Agencies as well as County governments to enhance prudent management of public resources.

In his budget Speech, the Minister placed emphasis on a number of ongoing governance and accountability measures that had been highlighted in the BPS.

- Implementation of a number of Public Procurement Reforms including through enactment of a Public Procurement and Disposal (Amendment) Act currently in consideration by parliament. The Minister also emphasized the implementation of the e-Government procurement (e-GP) system in July 2025, with a budget allocation of KES 700m. E-GP is a long-outstanding milestone project in Kenya's public procurement reforms and if well implemented, will greatly enhance transparency of the procurement process and potentially save up to 10% of procurable budgets.
- Implementation of zero-based budgeting approach for the first time in the FY25/26 budget to identify and eliminate wasteful expenditure.
- Fast-track the process of transitioning from cash to accrual basis of accounting to enhance cash management and improve quality and accuracy of financial reporting.

Accountability and Transparency

Looking into the future (Cont.)

- Operationalise the Assets and Inventory Management modules within IFMIS for all Ministries, Departments and Agencies. This will ensure the government has full visibility of all assets and inventory, ensure optimal utilization and dispose off idle and unserviceable assets.
- Enhanced Anti-money laundering and counter-terrorist financing (AML/CFT) measures through the ascent to law of the Virtual Assets and Virtual Asset Providers Act of 2024 will help curb illicit flows through virtual assets.
- The Government further indicated that the National Treasury has mandated disclosures of Privately Initiated PPP Proposals. This supplements ongoing government efforts to enhance disclosure of public information and enhance public participation, including the aforementioned Access to Information Regulations. The Government could consider ensuring that the information disclosure requirements are comprehensive and provided in a manner that enhances public participation in key projects.
- The Pending Bills Verification Committee is envisaged to present their report to Cabinet for approval in the next few weeks, with the government intending to settle KES 229B of verified claims.
- The Minister acknowledged the current public perception that there is a lack of transparency in the country's management of public debt. In this regard, the Minister announced that there's an ongoing public debt audit exercise by the Office of the Auditor General, which once completed will be presented to the National Assembly.

The proposed institutional and policy reforms if well implemented should move the needle in the transparency and accountability of public funds. Successful and effective implementation will require political goodwill and committed stewardship by those responsible for the reforms.



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Digital Transformation

Digital Superhighway

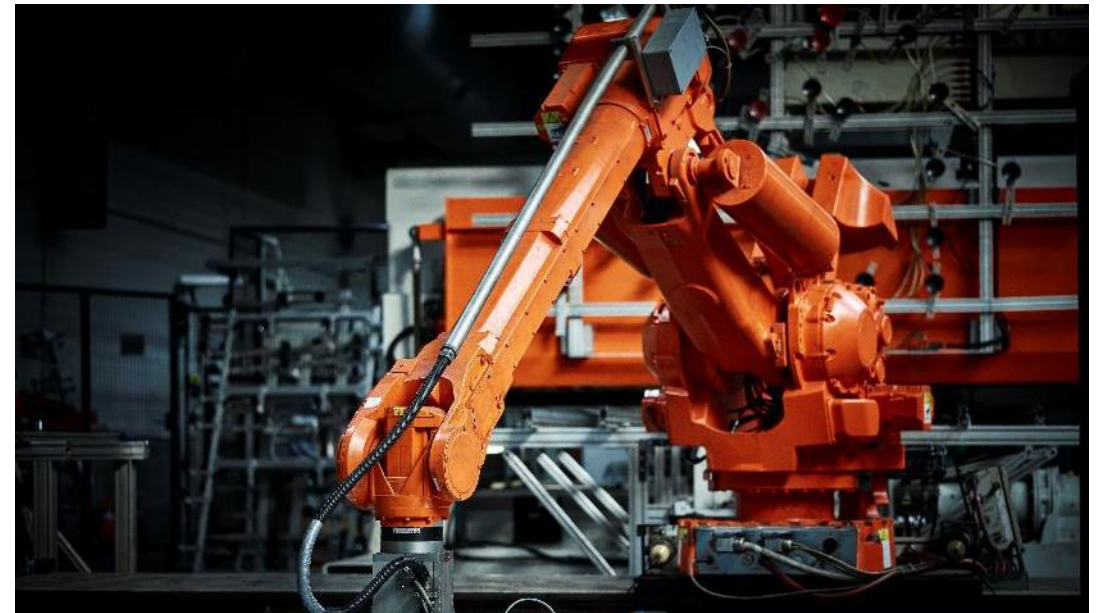
The Government proposes to spend KES 12.7 Billion for ICT initiatives which include: Government Shared Services (KES 333.2m); Digital Superhighway (KES 382m); Digital Hubs (KES 689m); National Optic Fiber Backbone Infrastructure (KES 750m); Kenya Advanced Institute of Science and Technology at Konza Technopolis (KES 2.3bn); Kenya Digital Economy Acceleration Project (KES 3.7bn); Konza Data Centre and Smart City Facilities (KES 3.1bn); and e-Government Procurement (e-GP) system rollout (KES 700m).

Moreover, the Government looks to build on the progress it has reported across Digital Transformation, having reported advancements across various dimensions including:

- reaching 13,590 km of last-mile fibre optic coverage in 2025, against a target of 100,000 km of fibre optic by 2032.
- reaching 20,955 digitized government services, with plans to add 13,800 more services onto the e-Citizen platform.
- plans to install 18,510 public Wi-Fi hotspots, up from the current 1,262.

The Government continues to drive enhanced public access to digital services and improve government efficiency. There is scope for the Government to enhance in-App Citizen User Experiences, while protecting citizen data privacy and security.

The National Budget outlines Kenya's Digital Transformation Agenda, with systemic modernization across public service delivery, financial services, healthcare, education, agriculture, governance, and innovation ecosystems. These reforms are designed to drive inclusivity, transparency, resilience, and economic competitiveness in alignment with the Bottom-up Economic Transformation Agenda (BETA).



Digital Transformation

GAVA Connect and KRA Tools

In 2025, the Kenya Revenue Authority launched Gava-Connect, an open Application Programming Interface (API) platform that gives software developers access to KRA systems and data, enabling them to embed KRA services in their applications, and in turn driving tax mobilisation and compliance.

KRA has also introduced digital tools such as: Automated VAT returns, PAYE return simplification, electronic rental income solutions and forecourt electronic tax invoice management.

While Gava-Connect has the potential to streamline access to public services and support innovation, its success will hinge on widespread adoption by the developer community. The greater the number of developers and startups that build on it, the more meaningful its impact will be for citizens and the wider digital ecosystem.



Central Bank Digital Finance and Payments Transformation

The Government will continue to strengthen Digital Finance in Kenya through the ongoing implementation of the National Payment Strategy (2022-2025) and finalising the National Digital Finance Policy.

Digital Transformation remains a key enabler for Financial service reforms. The launch of a Fast-Payment System aims to address challenges in interoperability, affordability, and the high cost of digital transactions. On 1 July 2025, the Kenya Electronic Payment and Settlement System (KEPSS) will transition to a 24/7 settlement, enabling round-the-clock clearing of payments amongst government, business and consumers.

The Central Bank of Kenya, plans to Go-Live on 1 July 2025, with an upgraded T-24 Core Banking System upgrade which will support the implementation of Treasury Single Account system functionalities. This will enable the National Treasury to roll out key elements of the Treasury Single Account system, as it works to onboard County Governments in 2026, and final phase for integrating all remaining National Government entities by FY 2026/27

Digital Transformation

Digitalisation Efficiencies

The Government has reported progress in digitising critical government services with key systems including:

- e-Government Procurement (e-GP) system – which was launched in April 2025, for July 2025 rollout. It is aimed at enhancing efficiency and transparency in public procurement processes.
- Unified Human Resource Management System – to be fully implemented by July 2025 across Government Ministries and Departments and County Governments. The system is designed to help better public wage bill management.
- Pension Management Information System – to be launched in July 2025, designed for enhanced efficiencies in public service pension administration.

While these digital initiatives lay a strong foundation for transformation, success should be measured by how meaningful these initiatives enhance everyday experiences for citizens. The Government should aim to make these digital platforms frictionless, intuitive, and accessible at every touchpoint.



State Corporation Reforms

Reforms within the State Corporations will involve merging of entities, dissolution of entities, restructuring of entities and declassification of public funds and professional bodies.

This is a strategic moment to advance reorganisation efficiency through Digital Transformation. The Government should put in place mechanisms to eliminate redundancies through technology rationalisation. This will help achieve digital systems that are fit for purpose and interoperable as part of the broader digital transformation agenda.

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Thank you

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