Kenya Budget Review 2019/2020

Creating Jobs, Transforming Lives - Harnessing the “Big Four”

Contents

Cautionary statement: The taxation and miscellaneous proposals set-out in this document are based on the Budget Statement presented by the Cabinet Secretary and the Finance Bill, 2019. The changes proposed in the Finance Bill, 2019 are subject to parliamentary debate and ascent in the form of the Finance Act, 2019.

Economic Review

Summary

Most Kenyans felt a disconnect between their experience and the growth in the economy in 2018. This is mainly because a significant portion of growth arose from government spending and initiatives and capital intensive sectors including large scale agriculture, forestry and fishing, transport and storage and wholesale trade. This led to a disproportionate change in employment. Further, constrained access to credit experienced by the private sector led to SMEs borrowing at very high rates outside the banking system and poor performance by firms led to thousands of job cuts, resulting in a reduction in consumer spending.

Inflation is expected to stand at 5.1% by end of 2019 and remain between 5% and 6.5% in the long-term. According to World Bank's Ease of Doing Business Index, Kenya moved up 19 places to stand at position 61 out of 190 surveyed countries. These coupled with the apparent stability of the local currency portray an attractive investment landscape. The World Bank projects that Kenya's GDP growth will decelerate to 5.7% in 2019, compared to 6.3% in 2018, mainly as a result of the delayed long rains. This will impact agriculture which contributed 35% of GDP growth in 2018. Further impact will be experienced in electricity generation, water supply and other sectors that have strong interlinkages with the above mentioned sectors.

According to the KNBS' Economic Survey, 1.5m metric tonnes of food were lost, post-harvest, in 2018 (2017: 1.7m). This is an indicator of investment opportunities in post-harvest value-adding infrastructure.

The proposed Kenya National Multi Commodity Exchange (KOMEX) will provide ease of access to finance under a warehouse receipt system and proper storage of farm products especially for primary producers and farmers hence minimising post-harvest loss.

Activities of the tourism sector are likely to remain vibrant supported by strong expansion in tourist arrivals. The construction industry is expected to keep growing given the ongoing infrastructural development by the government as well as the prevailing private sector confidence, with 27 international brand hotels set to open in Kenya over the next 3 years.

With tertiary transition rates below 50% and ongoing education system reforms with a focus on employability, there is substantial demand for services at the tertiary level. Funding has been deepening as domestic and external investors seek projects that offer social impact returns. Given the underlying conditions, these investment opportunities are likely to stay available.

Private investment in the health sector has been vibrant, driven by a growing middle class, growing insurance coverage, expansion of the NHIF's scope of cover and its growing membership capturing members of the informal sector. Availability of funding has been deepening with investors seeking social impact investments.

The business community has been experiencing a credit crunch with the government's domestic borrowing accounting for 45% of domestic credit, crowding out the private sector. SMEs were most affected and have had to borrow from expensive sources outside the banking system.

The proposed development of industrial infrastructure such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and Industrial Parks across the country including the establishment of modern parks in Naivasha, Dongo Kundu in Mombasa, and Lamu, among others will in the medium and long term, boost manufacturing by reducing spending by the private sector.

The Kenyan President's recent directive for payment of all pending bills of approximately KShs 350 billion by 30 June 2019, is expected to boost liquidity in the private sector. In addition, Kenya is seeking to make it a criminal offence for government to delay payments to suppliers beyond 60 days. This will have a significant impact on the business environment, including but not limited to allowing the banking system to resume lending to private sector members who supply goods and services to the public sector.

Global Perspective

The global economy experienced decelerated growth of 3% in 2018 compared to 3.1% in the previous year. The decline is attributed to:

- uncertainties associated with political and geopolitical trade tensions;
- tighter financial conditions in some regions; and
- higher energy prices in the better part of the period.

The World Bank forecasts the global economic growth to decline further to 2.6% in 2019 due to the escalation of US – China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, tighter credit policies in China, Brexit and financial tightening partly resulting from the normalization of monetary policies in the larger advanced economies.

Beyond 2020, growth is projected to stabilize at around 2.8% boosted mainly by growth in China and India and their increasing weights in world income.

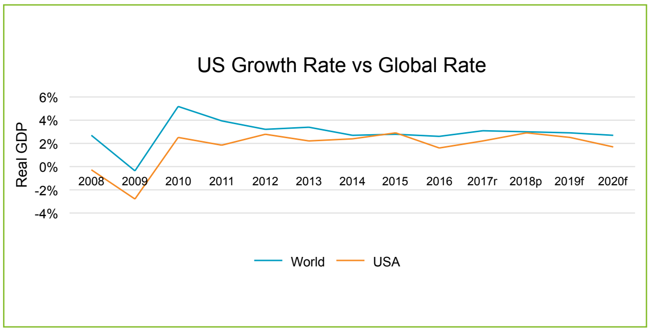
Global GDP Trends

Growth in advanced economies was 2.4% in 2018 compared to 2.5% in 2017. Most notable was the growth in the United States of America (USA) of 2.9% in 2018 (2017: 2.2%) which was as a result of a fiscal stimulus that boosted domestic demand. Growth in advanced economies will continue to slow gradually as the impact of US fiscal stimulus weakens and growth tends toward the modest potential for the group, given ageing trends and low productivity growth.

Emerging markets experienced a decline in growth from 4.5% in 2017 to 4.3% in 2018. This is attributed to the strengthening of the US Dollar which led to weakened capital flows and foreign reserve losses. Growth in emerging market and developing economies will stabilize at around 4.6%, albeit with considerable variance between countries as subdued commodity prices and civil strife weaken prospects for some. Real GDP growth in the Sub-Saharan region was at 2.5% compared to a growth of 2.6% in 2017. The growth was slowed by the performance of some of the large economies in the region such as Nigeria, South Africa and Angola. This was despite favourable weather conditions that led to increased agricultural production, robust growths in several non-resource intensive countries as well as high infrastructural investments.

Growth is expected to pick up to 3.3% in 2019 and 3.5% in 2020, supported by the 5% growth in non-resource-intensive countries which would see per capita incomes rise faster than the rest of the world, on average, over the medium term. The global economy showed improved labour market conditions during the period under review, with an estimated 3.3 billion people in the labour market. The global unemployment rate dropped from 5.7% in 2017 to 5.3% in 2018.

United States

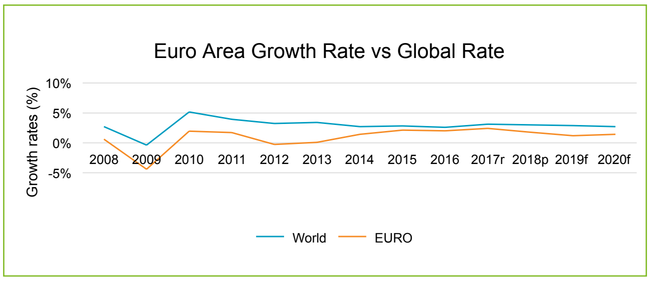


Source: Global Economic Prospects, World Bank Group June 2019
r- Revised p-Provisional f-Forecast

United States growth continued to improve to a rate of 2.9% in 2018 compared to 2.2% in 2017. The growth was mainly driven by strong domestic demand supported by procyclical fiscal stimulus and an accommodative monetary policy stance. Continuing decline in crude oil production in Venezuela and market concern about the impact of US sanctions on Iran contributed to rise in crude oil prices. This led to increased oil production in the US.

The US – China trade war has continued to intensify with some tariffs introduced on both sides and it is expected that this will reduce output over the next 2 years by 0.5% and 0.2% for US and China respectively. The US has threatened to impose 25% tariffs on all China imports and China has promised equal retaliation. The World Bank projects that this will reduce global GDP by USD 600 billion (0.5%) by year 2021 and output declines of 0.8% and 0.5% for China and US respectively.

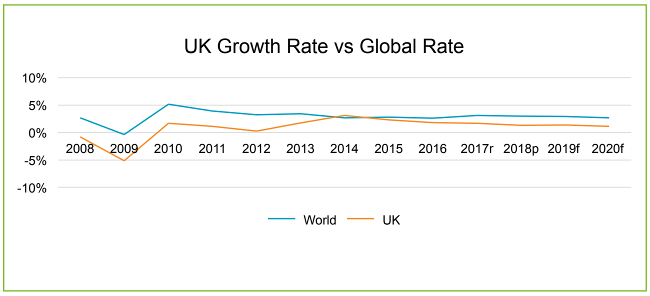
Euro Area



Source: Global Economic Prospects, World Bank Group June 2019
r- Revised p-Provisional f-Forecast

Economic activity in the Euro Area was somewhat weaker than previously expected, owing to a decline in net exports. The reduction in exports reflects the earlier appreciation of the Euro and slowing external demand. Moreover, Euro Area growth is projected to further decelerate over the forecast period as monetary stimulus is withdrawn and global trade growth moderates.

UK



Source: Global Economic Prospects, World Bank Group
UK – January 2019
World – June 2019
r- Revised p-Provisional f-Forecast

The United Kingdom (UK) economy grew by 1.3% in the review period compared to a growth of 1.7% in 2017. The decelerated growth was attributed to poor weather conditions, slowed aggregate demand due to trade uncertainties and a decline in households' purchasing power. Since the vote on Brexit, economic activity in the UK has slowed with a particular deterioration in business investment, as major companies put their spending decisions on hold amid the uncertainty surrounding the Brexit trade negotiations.

The inflation rate fell below the 2% target rate to 1.9% in the review period. The unemployment rate improved by 0.3% points to 4.1%.

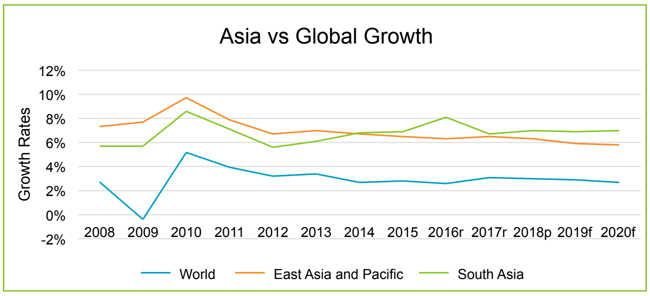
There is significant uncertainty caused by the possibility of a disorderly exit by the UK from the EU and it is possible that this is the reason the World Bank has left out the UK in their forecasts as at June 2019.

Prime Minister Theresa May is set to resign in June after failing to get a Brexit deal through parliament. May's successor will have to negotiate the UK's exit from the EU since it is scheduled to leave the EU, with or without a withdrawal agreement, on 31 October 2019. There are higher chances of a "no deal" Brexit and with stiff opposition from the parliament, a second referendum on Brexit may be demanded.

A "no deal" Brexit will inflict substantial economic damage to the UK and the rest of the EU with Britain and Ireland being the hardest hit. It is expected that Britain's economy would contract by 7% – 9% over 15 years to 2035.

Trade and investment in Africa will be affected by Brexit since most of the trade arrangements the UK has with African countries were negotiated through the EU. African governments may need to redefine their trade and diplomatic relations with a post-Brexit Britain and Europe which may take considerable time obscuring the exports to the UK.

Asia



Source: Global Economic Prospects, World Bank Group June 2019
r- Revised p-Provisional f-Forecast

Asia's growth led by China, Indonesia and Thailand, was more than double the world growth at 6.3%. East Asia and the Pacific have an average growth of 6.3% while South Asia has a growth of 7%.

Growth in the East Asia and Pacific region is projected to slow from 6.3% in 2018 to 5.9% in 2019-20, and to ease further to 5.8% in 2021. This will mark the first time since the 1997-98 Asian financial crisis that EAP growth dropped below 6%. In China, growth is expected to decelerate from 6.6% in 2018 to 6.2% in 2019, and gradually decline to 6% by 2021, reflecting softening manufacturing activity and trade amid domestic and external headwinds. In the rest of the region growth is also expected to moderate to 5.1% in 2019, before rebounding modestly to 5.2% in 2020-21, as global trade stabilizes. Risks to regional growth remain tilted to the downside and have intensified with the re-escalation of trade tensions. They include a sharper-than-expected slowdown in major economies, including China; an intensification of global trade tensions; and an abrupt change in global financing conditions and investor sentiment.

The South Asia region continued to enjoy solid economic activity in 2018, posting 7% GDP growth due to robust domestic demand. Pakistan was a notable exception, with a broad-based weakening of domestic demand against the backdrop of tightening policies aimed at addressing the country's macroeconomic imbalances. Regional growth is projected to remain close to 7% over the forecast horizon, as it benefits from strong private consumption and investment. The main risks to the outlook include a re-escalation of political uncertainty and regional tensions, financial sector weakness due to nonperforming assets, fiscal challenges, and a sharper-than-expected weakening of growth in major economies.

Economic activity in China slowed to 6.5% in 2018, with domestic demand helping to offset a deceleration of exports. Additionally, policies in China aimed at re-balancing the economy and countering the impact of higher US tariffs will continue to tilt activity toward domestic consumption and away from exports.

Africa

Sub Saharan Africa

Sub-Saharan Africa real GDP growth stood at 3% in 2018 compared to a growth of 2.9% in 2017. The growth was supported by favourable external environment, adjustment of domestic policies and higher commodity prices. In addition, increased agricultural activity in the wake of easing drought conditions impacted positively on the region's economic performance. Inflationary pressures eased to 8.5% in 2018 from 11% in 2017, mainly due to low food prices and a tight monetary stance. Real GDP in Sub-Saharan Africa is projected to grow by 3.5% in 2019, supported by investment in large economies and robust growth in non-resource intensive countries such as Senegal, Angola, Rwanda and C'ote d'ívoire.

Nigeria's growth reached 1.9% in 2018, an increase of 1.1% from 2017, reflecting a modest pick-up in the non-oil sectors being mining, quarrying and manufacturing. South Africa came out of recession in the third quarter of 2018, but growth was subdued at 0.8% over the year, as policy uncertainty in the energy sector and land held back investment. Angola, the region's third largest economy, remained in recession, with growth falling sharply as oil production stayed weak.

Growth picked up in some resource-intensive-countries like the Democratic Republic of Congo and Niger, as stronger mining production and commodity prices boosted activity alongside a rebound in agricultural production and public investment in infrastructure. In other countries like Liberia and Zambia, growth was subdued, as high inflation and elevated debt levels continued to weigh on investor sentiment. In the Central African Economic and Monetary Community, a fragile recovery continued as reform efforts to reduce fiscal and external imbalances slowed in some countries.

Besides the remarkable performance, many challenges still remain. Public debt levels and debt risk are rising, which are likely to jeopardize debt sustainability in some countries like Chad, Eritrea, Mozambique, Democratic Republic of the Congo, South Sudan and Zimbabwe; the availability of good jobs has not kept pace with the number of entrants in the labour force; fragility is costing the subcontinent a half of a percent point of growth per year; and poverty is widespread. While growth is expected to increase in 2019, it will remain insufficient to reduce poverty significantly.

2018 in Africa at a Glance

The African Continental Free Trade Area: In March 2018, 40-plus nations signed a free trade agreement in a bid to lift Africa's economic potential. By trading with each other, it is expected that African countries will raise value-added content and stop exportation of raw materials. Moreover, bigger markets attract more foreign investment.

China debt scare: China contributes approximately a sixth of all countries' lending to Africa and African countries are becoming more indebted to Beijing.

China's project of the century - One Belt One Road is expected to spur economic growth in Africa. However, it has troubling implications for debt sustainability and China has been increasingly criticized for an alleged "debt-trap diplomacy", and has been seen to acquire control of strategic infrastructure assets from its partners on their default.

Kenya's handshake: in March 2018, President Uhuru Kenyatta and Opposition Leader Raila Odinga "shook hands" on an agreement to work together, which details are unclear, after an outspoken rivalry between the two during and post the 2017 elections campaigns. Following the "handshake", political tension in the country has eased.

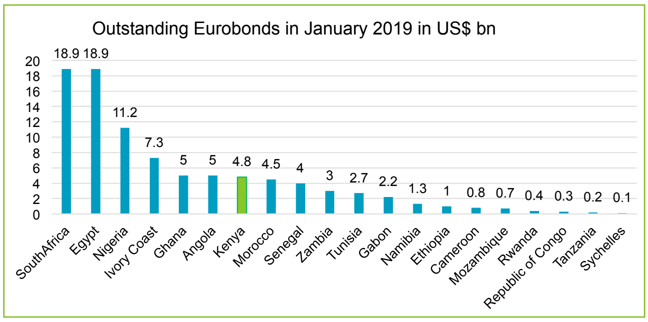
Zimbabwe's flawed election: After the ousting of Robert Mugabe in a military coup in 2017, there was widespread hope that the elections of July 2018 would crystalise change. However, the elections were disputed and ZANU-PF since descended into fighting causing further disruption to the economy.

Uganda's fight against autocratic leadership: Yoweri Museveni is one of a shrinking number of African autocrats still clinging to power. It is unclear how the 2021 elections will impact the country's economy.

Ethiopia's change in leadership: Having been appointed as the prime minister of Ethiopia in April, Abiy Ahmed within a few months of taking office has released thousands of political prisoners, allowed dissidents to return home, unblocked hundreds of websites and TV channels, appointed women to half of all cabinet posts and ended the state of war with Eritrea by agreeing to give up disputed border territory thereby normalising relations with the long- time foe.

Kenya - Tanzania Trade Relations - Trade relations between Kenya and Tanzania have appeared to sour in recent years due to tariff and non-tariff barriers. Past squabbles include a ban by Kenya on liquefied petroleum gas (LPG) from Tanzania and imposition of duty tariffs on Kenyan sugar confectionery, juice, ice cream and chewing gum by Tanzania. Talks are on course between the two countries to solve the gridlock.

Africa Eurobond Analysis



Source: Renaissance Capital

With Ghana's and Kenya's issuances in March and May 2019 respectively, the asset class reached USD 104 billion issued in global markets and in hard currency: 89% in USD and 11% in EUR, and 53% of the outstanding Eurobonds have yields of over 7%.

It is expected that issuance in 2019 will be lower than in 2018. Countries that may issue Eurobonds in 2019 include: South Africa, Angola, Egypt and Nigeria.

East African Community

In 2018, the Real GDP in the East African Community (EAC) grew by 5.9% compared to 5.3% in 2017 with Rwanda recording the highest growth in the region at 6.8%. This increase was attributable to a strong rebound in the agriculture sectors in Kenya, Uganda and Rwanda following the drought experienced in 2017. Rwanda's significant increase in growth was as a result of improved performance in the services and industrial sectors.

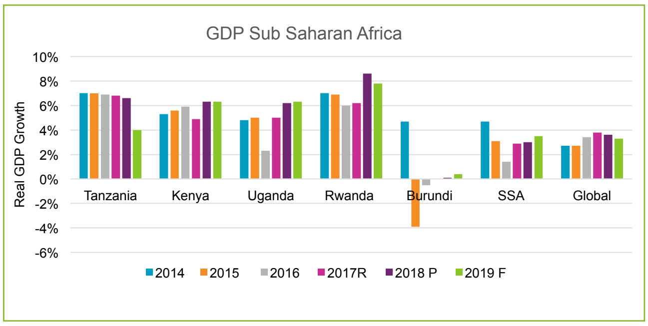
In Uganda, real GDP grew by 6.3% compared to a growth of 5% in 2017. This growth was fostered by increased investment in public infrastructure and a strong pick-up in the services and industry sectors.

Tanzania's economy is estimated to have expanded by 6.6% in 2018 compared to a growth of 6.8% in 2017. This increase was supported by private investment and strong growth in the service sector.

Burundi's real GDP growth improved to an estimated 0.1% in 2018, following a 0.2% contraction in 2017. The slight recovery in GDP was due to resurgence in the services sector following the return of relative calm and increased production of key export items such as coffee and tea. Manufacturing and agro-processing also contributed to the recovery with growth of 3.2%.

The East African Community current account deficit as a percentage of GDP widened as a result of deterioration in terms of trade and increased importation of capital goods for construction and building of infrastructure.

The graph below shows Tanzania's, Kenya's, Uganda's, Rwanda's, Burundi's, Sub-Saharan Africa's and Global growth rate over the period 2014-2019.



Source: Kenya National Bureau of Statistics 2019
r – Revised   p – Provisional   f - Forecast

Looking forward

The East African economic growth is projected to remain strong at 5.9% in 2019 and 6.1% in 2020. The main drivers of this growth are expected to include increased performance in service sectors followed by the agricultural sector.

The region however will continue to face various challenges that are likely to undermine economic growth and development prospects. These include: agriculture's vulnerability to the dynamic nature of weather, heavy reliance on primary commodity exports, poverty, corruption, political instability and rising oil prices.

The current account deficits in the region are also expected to remain high with unchanged main attributes:

- almost all countries in the region depend on primary commodities for exports and falling global commodity prices are expected to negatively affect their terms of trade; and
- the region's high growth has been achieved through high investment, which is above domestic savings.

Kenya Outlook

GDP

Real GDP in Kenya grew by an estimated 6.3% in 2018, compared to 4.9% in 2017, supported by good weather, eased political uncertainties, improved business confidence, strong private consumption and increased growth in the services sector.
However, most Kenyans felt a disconnect between their experience and the growth in the economy as:

- Growth was mostly in capital intensive sectors including large scale agriculture, forestry and fishing, transport and storage, and wholesale trade, leading to disproportionate change in employment.

- Constrained access to credit led to SMEs borrowing at very high rates outside the banking system.
- Significant portion of growth arising from government spending and government initiatives.
- Poor performance by firms leading to thousands of jobs cuts and resulting in a reduction in consumer spending.

The top 5 out of 21 sectors contributed about 66.3% of the GDP and 71.1% of the growth in GDP.

The table below shows the sectors' growth rates, contribution to GDP and contribution to GDP growth in 2018:

Sectors	Contribution to GDP	Growth (2018)	Contribution to GDP Growth
Agriculture, forestry and fishing	34.2%	6.4%	34.9%
Transportation and storage	8.0%	8.8%	11.2%
Wholesale and retail trade	7.4%	6.3%	7.4%
Construction	5.4%	6.6%	5.7%
Financial and insurance activities	6.0%	5.6%	5.4%
Manufacturing	7.7%	4.2%	5.2%
Real estate	7.0%	4.1%	4.6%
Education	4.3%	5.8%	4.0%
Public administration and defense	3.5%	6.1%	3.4%
Electricity supply	1.8%	10.5%	3.0%
Information and communication	1.3%	11.4%	2.4%
Accommodation and food services	0.7%	16.6%	1.9%
Human, health and social work activities	1.5%	4.5%	1.1%
Administrative and support service activities	0.9%	6.4%	0.9%
Professional, scientific and technical activities	0.8%	5.4%	0.7%
Other service activities	0.6%	6.7%	0.6%
Mining and quarrying	0.8%	2.8%	0.4%
Water supply	0.7%	1.6%	0.2%
Arts, entertainment and recreation	0.1%	6.4%	0.1%
Activities of household as employers	0.4%	1.6%	0.1%
Financial intermediation services indirectly measured	-1.9%	1.1%	-0.3%
Taxes on products	8.7%	5.2%	7.2%
Total	**91.2%**		**100.0%**

Source: Kenya National Bureau of Statistics 2019

Agricultural activities benefited from sufficient rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favourable to growth during the review period. The manufacturing sector grew mainly supported by increased agro processing during the review period. The real estate sector decelerated in the period mainly as a result of declining demand for homes amid increased supply of new housing units.

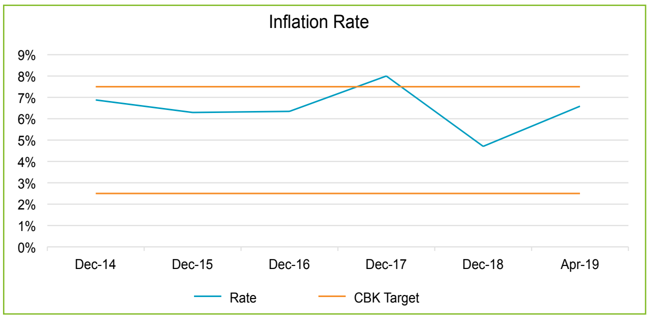
The current account deficit narrowed to stand at KShs 441.8 billion in 2018 compared to KShs 503.4 billion in 2017 mainly due to a faster growth of imports of goods and services.

The World Bank expects GDP growth to decelerate to 5.7% in 2019 mainly as a result of the delayed long rains. If this materializes, direct negative impacts will be felt within the activities of agriculture, electricity and water supply sectors. Further impacts could be experienced in industries that have strong interlinkages with these sectors. However, activities of the tourism sector are likely to remain vibrant supported by strong expansion in tourists' arrivals. The construction industry is expected to follow the current trend given the ongoing infrastructural development by the government as well as the prevailing private sector confidence.

Inflation

The annual inflation as measured by the Consumer Price Index (CPI) decreased from 8% in 2017 to 4.7% in 2018. The decline was on account of favourable weather conditions and prudent macroeconomic policies. The food and non-alcoholic beverages index, which has the largest weight in the CPI basket, recorded a modest increase of 1.37% in 2018 compared to 13.4% recorded the previous year. The highest year on year inflation of 12.78% was recorded with respect to housing, water, electricity, gas and other fuels. This increase was driven by a rise in the costs of house rents, kerosene and electricity in the year under review.

In April 2019, annual inflation peaked at 6.58% from 4.4% in March 2019. It is the highest inflation rate since September 2017, mainly pushed up by prices of food and other non-food items like housing, water, electricity, gas and other fuel products.

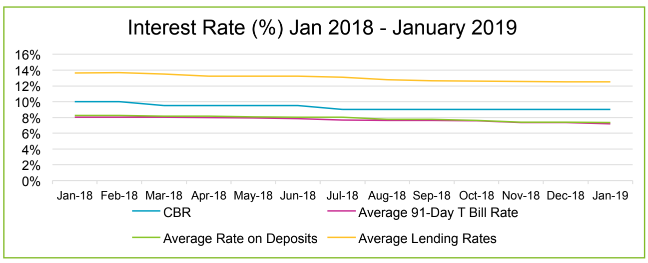


Source: Central Bank of Kenya

Looking forward, Kenya's inflation is expected to stand at 5.1% by end of 2019. In the long-term, it is projected to trend around 6.4% in 2020, within the Government's target band of 2.5% to 7.5%.

Interest Rates

The monetary policy stance focused on maintaining inflation within the Government's range of plus or minus 2.5% of the 5.0% medium-term target. Pursuant to the objective of price stability and to boost output, the CBK adopted accommodative monetary policy by reviewing the CBR from 10% to 9.5% in March 2018 and 9% in July 2018. The easing of monetary policy aimed at reducing cost of borrowing particularly for the private sector to stimulate production and boost economic growth. The 91-Day Treasury bill dropped to 7.34% in December 2018 from 8.01% in December 2017.

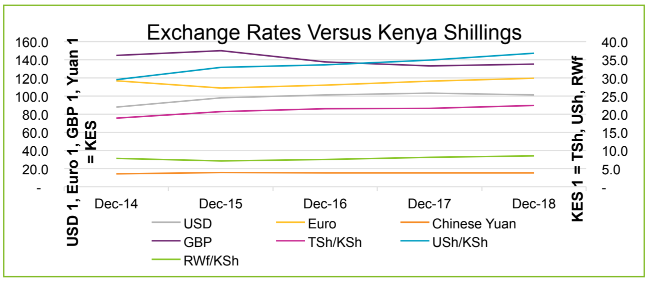


Source: Central Bank of Kenya

The High Court of Kenya, on 14 March 2019, ruled that the interest rate capping law is unconstitutional. The Court however, suspended the ruling for a period of 12 months to allow parliament to review the law.

Analysts expect monetary policy to remain relatively stable in 2019 with a skew to a possible easing, as the CBK monitors the inflation rate and the currency.

Exchange Rates



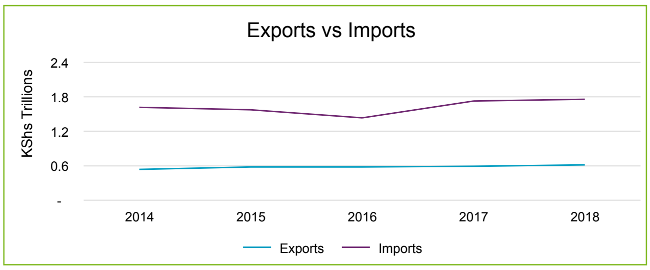
Source: Central Bank of Kenya

The Kenyan Shilling appreciated against major trading currencies as reflected in the Overall Trade Weighted Index, which stood at 115.7 in 2018 compared to 116.5 in 2017. The Kenyan Shilling strengthened against the Indian Rupee, the US Dollar, Saudi Riyal and UAE Dirham by 6.9%, 2.1%, 2% and 2%, respectively, in 2018. However, the Kenyan Shilling weakened against the Euro and Pound Sterling by 2.5% and 1.5%, respectively, in the same period. In the EAC region, the Kenyan Shilling gained against the Uganda Shilling, Rwandese Francs and Tanzanian Shilling by 5.4%, 4.8% and 3.8% respectively during the period.

Analysts expect the Kenya Shilling to range between KShs 101 and KShs 104 against the US Dollar in 2019, supported by the CBK in the short term through its sufficient reserves of USD 8 billion, increasing diaspora remittances and an improving current account position.

IMF claims that the Kenyan Shilling was overvalued by 17.5% in 2018. Over valuation of the local currency makes the value of imports and foreign debt repayment cheap. However, the value of exports became expensive resulting in some industries that compete with those imports hurt by stiff competition.

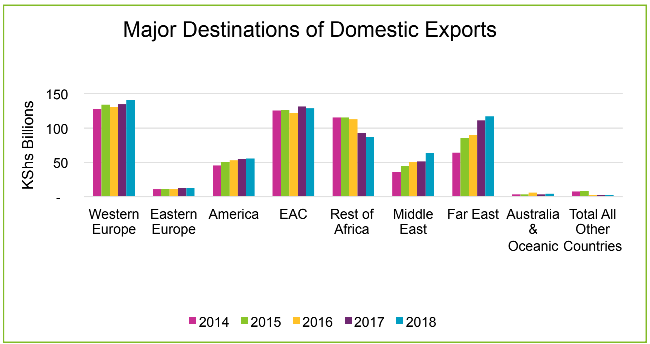
International Trade



Source: Kenya National Bureau of Statistics 2019

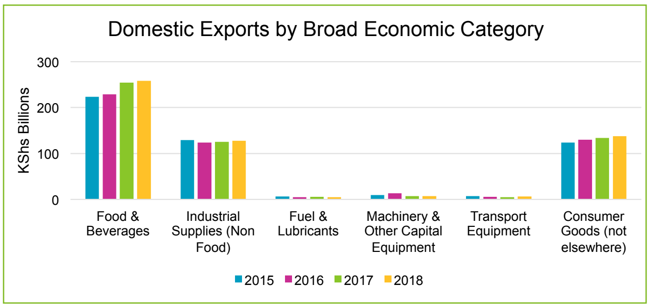
The volume of trade expanded in 2018 (2.3%) at a decreasing rate relative to 2017 (15.4%) to stand at KShs 2.4 trillion. Total exports grew by 3.2% to KShs 612.9 billion in 2018 compared to KShs 594.1 billion in 2017 mainly attributable to exchange rate differences occasioned by the depreciation of the Kenya Shilling to the US Dollar which is the main trading currency.

Total imports expanded by 2% to KShs 1,760.2 billion from KShs 1,725.6 billion in 2017, mainly attributable to petroleum products, industrial machinery and expenditure on road motor vehicle imports.



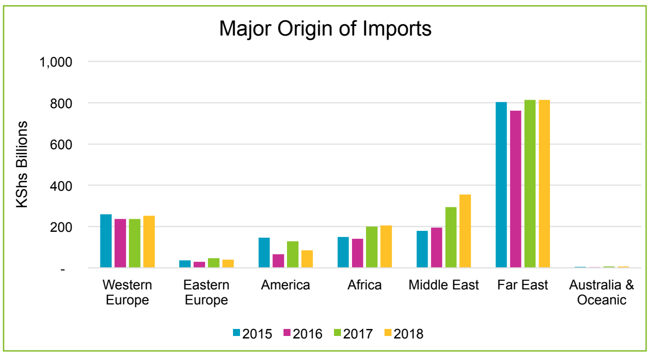
Source: Kenya National Bureau of Statistics 2019

Western Europe, the Rest of Africa, the East African Community and the Far East remain the biggest markets for Kenya's exports representing a combined 77% of the total exports in 2018.



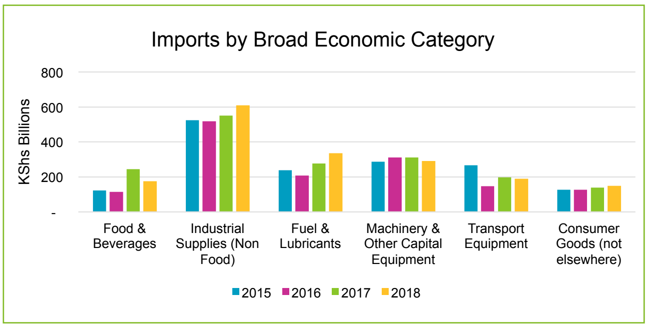
Source: Kenya National Bureau of Statistics 2019

Domestic exports grew by 2% in 2018, mainly attributable to growth in food & beverages and non-food industrial supplies by 1.5% and 1.6% respectively over the same period.



Source: Kenya National Bureau of Statistics 2019

Total Imports increased by 2% in 2018 which can be largely attributed to increased imports from the Middle East and Western Europe. Kenya's imports continued to be dominated by China which accounted for 21% of total imports representing a value of KShs 370.8 billion.

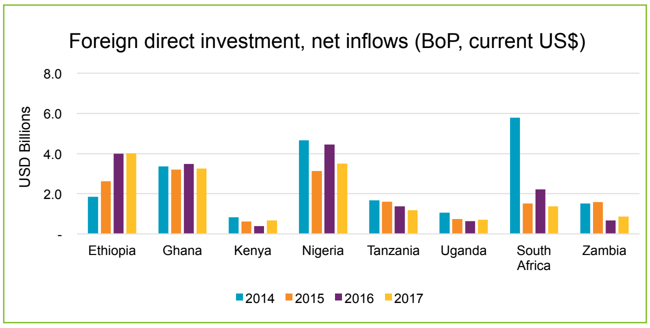


Source: Kenya National Bureau of Statistics 2019

The share of non-food industrial supplies to total imports increased from 31.9% in 2017 to 34.7% in 2018 and remained the dominant category of imports. This is mainly attributable to increased commodity prices of petroleum products, iron, steel, cement clinker and chemical fertilizer in the period. Food and Beverages imports reduced mainly because of increased domestic supply in 2018 and reduced import prices over the same period.

Foreign Direct Investment

Global foreign direct investment (FDI) flows fell by 23% in 2017 to USD 1.43 trillion from USD 1.87 trillion in 2016. The global fall is attributable in part by a 22% decrease in the value of cross-border mergers and acquisitions (M&As).



Source: World Bank

FDI inflows to Kenya increased by 71% to KShs 67 billion (USD 671.5 million) in 2017 from KShs 39 billion in 2016. The increase is mainly attributable to buoyant domestic demand and inflows into the country's ICT industries.

However, the country was trailing other key Eastern African economies, key among them Ethiopia which received USD 4 billion of inflows in 2017. Ethiopia saw the largest inflows of FDIs in Sub-Saharan Africa in 2017.

PKF

The Big Four Agenda – What Have We Achieved?

The Big Four Agenda was announced in 2017 to guide the development agenda of the Country in the period 2018 – 2022. It focuses on key basic needs that are critical in uplifting the standard of living of Kenyans on the path to becoming an upper middle-income country by 2030. Two years down the line it is important that we take stock of what has been achieved thus far.

Broadly, the Government has initiated key policies, legal and institutional reforms across all the Big 4 sectors in addition to collaborating with County Governments to create an enabling environment that attracts investments in the relevant programmes. Specifically, the Government has achieved the below:

Manufacturing – The Government is supporting the development of industrial infrastructures such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and Industrial Parks across the country including the establishment of modern parks in Naivasha, Dongo Kundu in Mombasa, and Lamu, among others. The Government is also promoting Technical Vocational Education and Training (TVET) institutions to encourage technical specialization among the Kenyan workforce to feed into the manufacturing industry. Key sectors that have received support thus far include the textile industry through the introduction of genetically modified cotton that is pest-resistant and the fishing industry through operationalization of the Liwatoni Fishing Complex and creation of the Kenya Coast Guard Service to patrol Kenya's waters.

Food and Nutritional Security – The Government has aligned all policies towards increasing food production, boosting smallholder productivity and reducing the cost of food. The Government is continuing to provide subsidized fertilizer to farmers to reduce planting cost. A Multi-Institutional Technical Team (MITT) has also been formed to provide technical support in the eradication of Fall Armyworm that attacks the maize crop.

To achieve food security, the Government of Kenya needs to enhance ease of access to agricultural financing. According to the KNBS Economic Survey, only 2.3% of the bank loans go to agriculture despite most Kenyans being employed in agriculture. The government's fertilizer subsidy program is inefficient, often benefiting medium/large scale farmers relative to small-scale farmers. Reforming fertilizer subsidies to ensure that they are efficient and transparent, and target smallholder farmers remains key in restoring productivity.

The proposed establishment of Kenya National Multi Commodity Exchange (KOMEX) that will allow commodity exchange will be a great boost to the agricultural sector in realising food security. The system will provide ease of access to finance under a warehouse receipt system and proper storage of farm products especially for primary producer and farmers hence minimising post-harvest loss.

Universal Health Coverage – The Government has developed guiding documents for Universal Health Coverage including the Universal Health Coverage roadmap and the Universal Health Coverage pilot framework. Notably, the Government has already rolled out the pilot project for configuring the National Hospital Insurance Fund (NHIF) to align with the Universal Health Coverage in four Counties namely; Machakos, Nyeri, Isiolo, and Kisumu. Residents of these Counties will receive free health care services in all health facilities from their local health centres all the way to the referral facilities.

To increase the uptake of NHIF, the Government has expanded the programme to cater for comprehensive medical cover for students in public secondary schools, elderly and vulnerable persons in all the NHIF-accredited mission and private hospitals. The Government is also continuing its support for the Linda Mama Programme with the aim of having 1.36 million women covered by 2022.

To increase specialized treatment, the Government is continuing to avail and improve specialized medical equipment and infrastructure to hospitals across the country.

Affordable and Decent Housing – The Government appreciates that unlocking land for affordable housing supply is a critical enabler to building affordable houses. As such, appropriate sites have been identified and 7,000 acres availed to roll out the programme. The Government has also signed agreements with 36 County Governments to extend the project in their regions. Under these agreements, the County Governments are expected to provide land while the National Government will provide infrastructure such as power, water and roads.

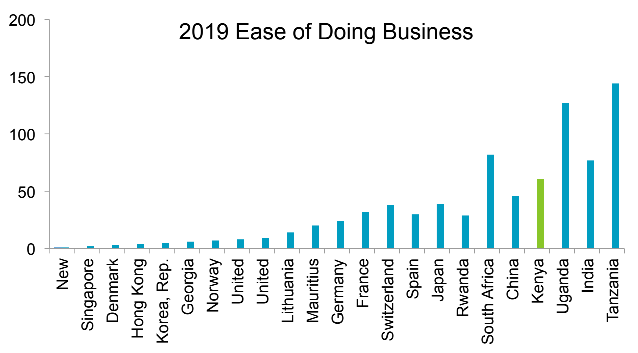
To finance the programme, the Government is engaging the private sector and development partners such as the United Nations Office for Project Services (UNOP) that will see the UN agency delivering 100,000 affordable housing units. The National Housing Development Fund has also been established to mobilize capital, offer certainty of sales in the form of an off-take undertaking to developers, and provide accessible finance for house buyers through a National Tenant Purchase Scheme. Along these strides, the Kenya Mortgage Refinance Company (KMRC) has been established to make it easier for banks and other financial institutions to access long term finance for house loans.

To grease the wheels, the Government has lifted some levies in the housing sector in order to reduce the cost of doing business and incentivise the private sector.

Ease of Doing Business

According to World Bank's Ease of Doing Business Index, Kenya moved up 19 places to stand at position 61 out of 190 surveyed countries. Kenya strengthened its access to credit, protection of minority investors and ease of paying taxes by merging all permits into a single unified business permit. Kenya also made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings, providing for equal treatment of creditors in reorganization proceedings and granting creditors greater participation in the insolvency proceedings. However, the country struggled with construction permits, registering property and starting a business which remains a cumbersome process in Kenya.

The country was ranked third in the continent behind Mauritius and Rwanda.

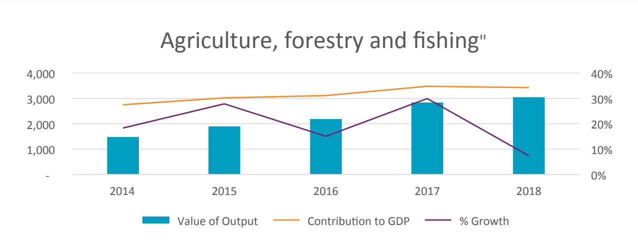


Source: World Bank

Sectoral Outlook

1. Agriculture

The agriculture sector grew by 6.6% in 2018 (2017: 1.9%), the highest in five years, which contributed to the largest weighted share to GDP growth (34.9%), as shown in the graph below.

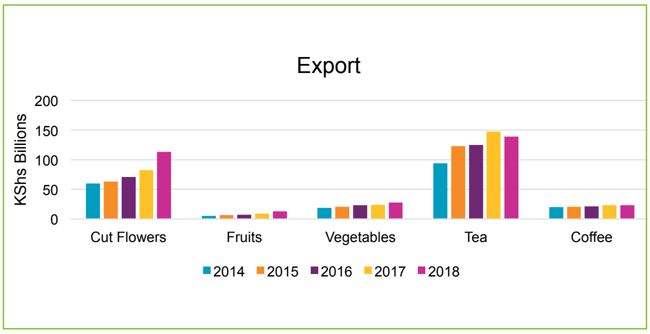


Source: Kenya National Bureau of Statistics 2019

The growth in 2018 was as a result of favourable weather conditions for both crops and livestock production occasioned by the long rains in 2018. This resulted in a decline of Kenya's food import bill in 2018 to USD 1.7 billion from a record high of USD 2.3 billion in 2017.

In addition to favourable rainfall, other drivers of the growth include improved transport infrastructure, growing agro-processing capacity in the country, decreasing reliance on rainfall and development and dissemination of dry land crops and livestock breeds.

According to the KNBS' Economic Survey, 1.5m metric tonnes of food were lost, post-harvest, in 2018 (2017: 1.7m), showing the need for in investment in post-harvest value-adding infrastructure.



Source: Kenya National Bureau of Statistics 2019

Despite an increase in the quantity of marketed tea and coffee from 34 and 440 thousand tonnes respectively in 2017 to 37 and 493 thousand tonnes respectively in 2018, earnings decreased due to a reduction in international prices, further highlighting the need for domestic post-harvest value addition. A bumper harvest of cereals across the region caused an oversupply and a subsequent fall in prices, resulting in farmers struggling to get market access and leaving the Government unable to buy all the maize for their strategic reserves.

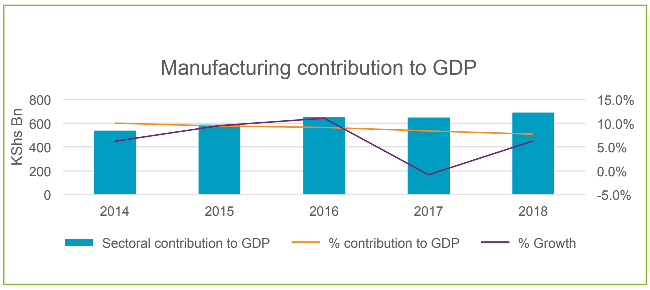
The government is working to privatise state owned sugar factories; South Nyanza, Nzoia, Chemelil, Muhoroni (in receivership) and Miwani (in receivership), ahead of the expiry of the COMESA agreement that protects the country from cheap imports.

The pilot phase of the million-acre Galana-Kulalu irrigation has been unsuccessful despite expenditure of over KShs 7.3 billion reported by the media, and small irrigation schemes have been suggested as alternatives.

Dry weather across much of Kenya is likely to curb economic growth this year. The onset of March-May long rainy season delayed with risks including drought conditions that could curtail agricultural output, especially with the country's grain-growing counties being affected. This is likely to drag down the 2019 economic growth this year, reducing its forecast to 5.7%.

2. Manufacturing

Being one of the pillars of the "Big 4" agenda, there has been a major emphasis and concentration devoted to the manufacturing sector over the past year. According to the goals of the "Big 4" agenda, the manufacturing sector is projected to contribute 15% of Gross Domestic Product by 2022. During 2018, the manufacturing sector grew by 4.2% compared to a revised growth of 0.5% in 2017.

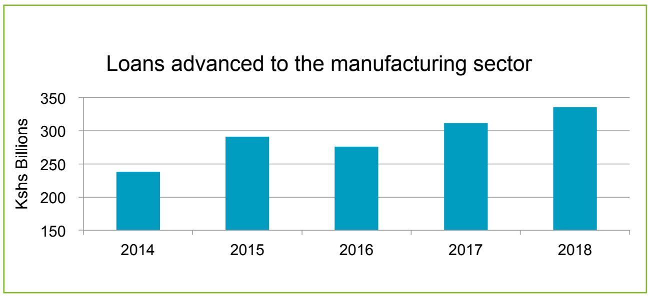


Source: Kenya National Bureau of Statistics 2019

From 2017 to 2018, the sector has seen an overall increase in total production with the largest growth coming from agro-processing which was attributed to favourable weather conditions and deepening funding for the subsector.

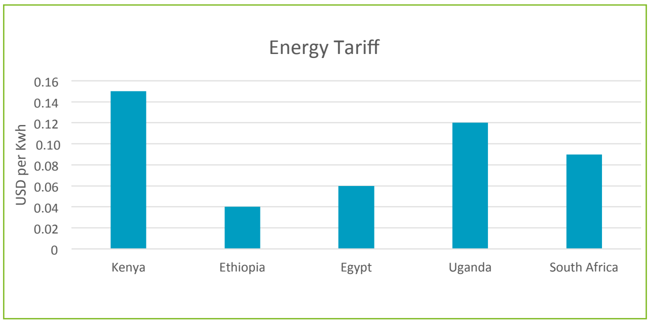
The contribution to the GDP has been declining over the period under review due to due to high fuel and energy prices, a credit squeeze, cheap imports and lack of formalization in a significant portion of sector participants.

This has led to local manufacturers facing competition from significantly cheaper and counterfeit imports from countries such as China and India.



Credit advanced to the sector by commercial banks and development financial institutions rose from KShs 315.3 billion in 2017 to KShs 335.7 billion in 2018.

According to KAM, energy cost in Kenya is USD 0.15/kWh. This compares poorly with some of the other countries in Africa as shown below:



Source: Kenya National Bureau of Statistics 2019

The notable drop in 2016 is partly attributable to interest rate capping that came into effect on 14 September 2016. A repeal of the law would increase availability of credit to the private sector.

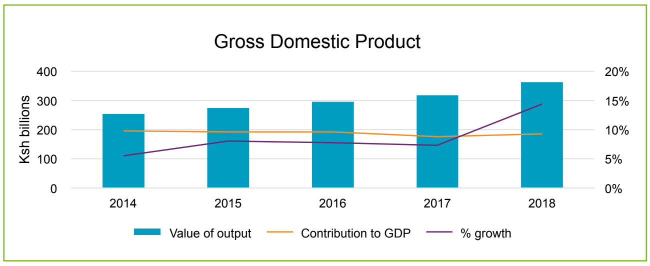
Sales by Export Processing Zone (EPZ) enterprises went up by 14.7% to KShs 77.2 billion in 2018 from KShs 67.3 billion in 2017. This increase is attributed to the expansion in agro-processing and apparel firms under AGOA.

3. Transport, Logistics and ICT

This sectors gross value accelerated due to an increase in total cargo throughput through the port of Mombasa, an increase in the total volume of container traffic, an increase in commercial and domestic passenger traffic and a tripling in the rail freight traffic due to an introduction of freight transportation service. The Information and Communication Technology (ICT) sector recorded growth as well as a result of service providers' investments in the latest technologies and infrastructure.

Transport

Improved transportation network is crucial in facilitating and promoting trade and investment as it enhances connectivity and mobility. In 2018, the value of output expanded by 14.6% from KShs 1.1 trillion in 2017 to KShs 1.3 trillion in 2018.



Source: Kenya National Bureau of Statistics 2019

Domestic passenger traffic increased during the period under review and rail freight traffic tripled due to an introduction of freight transportation services. These were among the contributors to growth in the transport sector.

The launch of the SGR was expected to reduce the cost of transporting cargo but on the contrary, the cost of haulage has increased and surpassed transport of goods by road. Inefficiencies such as duplication of roles by agencies involved, led to increased processing time and higher cost of doing business. Additional costs are incurred due to re-marshalling and storage by Kenya Ports Authority (KPA). A 20-foot container to Nairobi costs KShs 142,000 while a 40 feet container costs KShs 213,000, double the cost of transporting the goods by road. A joint technical committee has been appointed to come up with recommendations that will see reduction of rates which may include striking out some charges from the KPA tariff.

Following the development of a non-motorized transport policy in 2015 – a joint initiative of UN Environment's Share the Road Programme and the Nairobi City County – the government has made notable strides in implementing the policy in order to improve the walking and cycling environment and catalyse investment in non-motorized transport. In Nairobi, 20% of its road construction budget is allocated towards non-motorized transport infrastructure. It is now mandatory that all new and improved roads have non-motorized transport components which include: Safety and security, directness, coherence, comfort and attractiveness.

The Bus Rapid Transit (BRT) system aimed at decongesting Nairobi city will become operational after the Ministry of Transport finalized the purchase of the first batch of buses to be used in the pilot phase in Nairobi. The buses are yet to arrive.

With the extension of the Standard Gauge Railway (SGR) line from Nairobi to Naivasha still in the pipeline, the government opted to first rehabilitate Naivasha-Malaba Meter Gauge Railways (MGR) system as an interim measure for ensuring sustainable and efficient transportation of goods to Uganda. The Kisumu-Naivasha SGR wing will commence after the completion of the Naivasha-Malaba MGR wing. These developments are expected to have a positive economic return on the economy in terms of industrialisation, creation of jobs and tourism.

China last year withheld funding for the final segment of the SGR to the Uganda border and asked Nairobi to work with Kampala in conducting a fresh feasibility study for the project. The future of the Kisumu-Naivasha SGR is hanging on Uganda's enthusiasm for the grand project. It is Beijing's assessment that without Uganda, whose participation is key to connecting South Sudan and Rwanda to the Indian Ocean port of Mombasa, the SGR's viability is grossly undermined.

Logistics and Storage

The Port of Mombasa experienced a 9.8% growth in container traffic registering 1.3 million twenty foot equivalent units during 2018 against 1.2 million units handled in the same period in 2017. The total cargo volume through the Port of Mombasa increased by 1.4% to 30.8 million tons in 2018 from 30.3 tons recorded in 2017.

Dry bulk goods, which include grains, clinker, fertilizer and coal, recorded a slight growth of 0.2%. However, liquid bulk and conventional cargo declined to 7.8 million deadweight tonnage (DWT) from 8.3 million and from 2.1 million tons to 1.8 million respectively during the period under review. The drop in liquid bulk was mainly attributed to a decline in the importation of refined petroleum products and vegetable oils. Similarly, the decline in conventional cargo was attributed to the decrease in importation of vehicles and Iron and steel products during the year under review.

KPA increased storage charges at its Inland Container Depot in Nairobi (ICDN) aimed at de-congesting the facility. It issued an ultimatum to have cargo owners collect their goods on time, failure to which they would be auctioned or destroyed. The congestion caused by additional levels of approval compelled KPA to hire warehouses to provide extra storage for the cargo that was above ICDN's storage capacity.

The country is currently in the process of updating the Merchant Shipping Act to give full effect to the Nairobi wreck removal Convention on Kenya's coastline. This convention, part of the International Maritime Organisation's objectives, ensures increased safety of Kenya's global marine and coastal environment. The convention provides a sound legal basis for coastal states to remove, or have removed, from their coastlines, wrecks which pose a hazard to the safety of navigation or to the marine and coastal environments, or both.

ICT

A lot of funding is also being committed in developing Mobile ICT start-ups, which creates a fertile ground for the growth of e-commerce. Sendy, was the first start-up to receive USD 1 million funding from the Safaricom Spark Fund. The fund aims to support mobile ICT start-ups and enable the development of innovative mobile solutions.

Already established e-commerce players in the country include Africa Internet Group's Jumia, Kilimall International, Safaricom's Msoko and OLX, a unit of Johannesburg-listed Naspers Ltd. With internet connectivity in Kenya hitting 60% while the penetration of formal retail is estimated at 30%, the number of Kenyans buying goods online is expected to grow. The reason why more players are entering the e-commerce scene is the high turnover it offers, approximated at 25 times higher than physical retail stores. It also has lower overheads because it doesn't require expensive infrastructure to set up. Taxi hailing business in Kenya is on an all-time high. This advancement in technology has modified the taxi services in Kenya by offering a reliable, instant, affordable and fast service with some of the economic benefits coming from easy access to loans.

Output of the ICT sector expanded by 12.9% to KShs 390.2 billion supported mainly by growth in the digital economy which includes; mobile telephony, uptake of e-commerce, penetration of internet. Progress in this regard is being fueled by favourable government policy, investment in infrastructure and a vibrant entrepreneurial ecosystem.

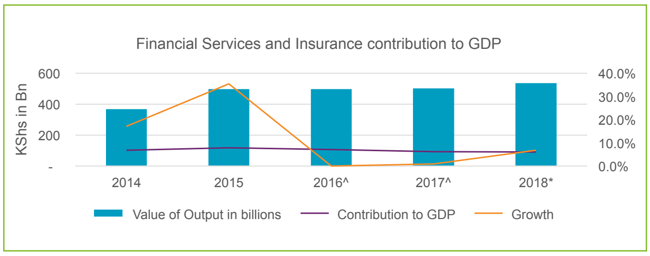
CBK issued additional guidance notes on Cybersecurity that outlines the minimum requirements for banks to enhance their cyber security which include; governance, regular independent assessment and test, outsourcing and training/awareness. Guidelines for payment service providers and insurance service providers have also been rolled out.

The firms were required to report within 24 hours of an attack and later file a quarterly report with CBK on the incidents experienced over three months and how they were handled. This is expected to keep the regulator in the loop on the number and nature of cyber threats on banking industry players and mobile money operators as well as inform policy decisions.

Mobile operators are now looking at the requirements of 5G. We expect in the coming year that there will be an acceleration of existing ICT and digital economy platforms.

The Ministry of Lands and Physical Planning upgraded the Electronic Transaction Management System to ease the processing of transactions. The ministry intends to reduce the 9 steps of property registration to 3 steps with most of the processes being digital. The full roll out is expected to be done by the end of 2019 where a customer will be given a tracking number making it easy to process transactions.

4. Financial Intermediation



Source: Kenya National Bureau of Statistics 2019
^Revised * Provisional

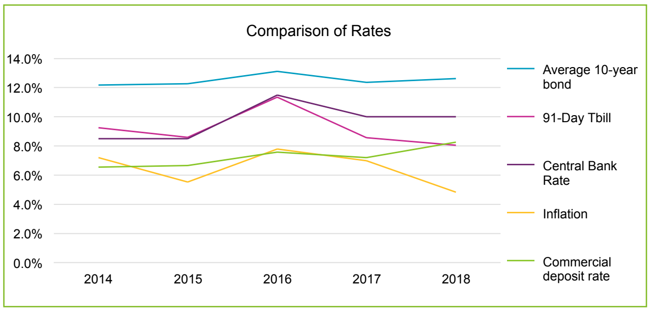
During the financial year 2017 - 2018, the financial sector expanded by 5.6% in 2018 compared to 2.8% in 2017. This growth was mainly due to credit by local banks to the public sector, with credit to the National Government increasing by 16.9% to KShs 956.3 billion and credit advanced to the County Governments increasing by 9.2% to KShs 4.3 billion as at the end of 2018.

Credit to the private sector increased by 1.9%. Credit advanced to manufacturing sector increased by 6.5% from KShs 314.2 billion as at end of 2017 to KShs 334.6 billion as at end of 2018 while credit advanced to wholesale and retail trade, hotels and restaurants increased by 2.9% to KShs 429.3 billion as at the end of 2018.

Inflation remained low at 4.7% in 2018 compared to 8% in 2017 as a result of considerable decline in prices of food due to increased food production as a result of favourable weather conditions occasioned by the long rains in 2018. Maize production increased by 26% while production of tea, coffee and sugarcane increased by 12.1%, 7% and 10.4% in 2018.

Banking Sector

The banking sector has seen significant changes over the last year:



Commercial banks liquidity ratio rose from 46.4% in December 2017 to 50.6% in December 2018. This was due to commercial banks opting for less risky lending in the form of Government securities.

As at December 2018, total deposit liabilities increased by 25.3% to KShs 593.4 billion due to growth in deposit liabilities of Government and local banks.

The banking industry is shifting gears to innovative technologies which will eventually reduce the need for human involvement. Technology has the potential to revolutionize the industry in a different way, by improving operational efficiency in areas of real importance, like tracing money launderers or enhancing the customer experience. Staff headcount for 8 of the eleven listed banks reduced in 2017 led by KCB (709), Equity Group (519), Barclays Kenya (323), Standard Chartered Bank (285), Housing Finance (76), Co-operative Bank (58) and Diamond Trust Bank (44).

Banks' involvement in the Big Four agenda, if strategically optimised, will translate into closer public-private partnerships, which would demonstrate the value that commercial banks add to economic growth and development.

Mergers and acquisitions have featured in the Kenyan banking sector as banks merge to form strategic partnerships, leading to the acquisition of struggling banks especially those that do not serve a niche thus resulting to a more stable and safer banking sector. KCB and Equity Bank are eying the larger East and Central African market to accelerate growth and deepen operations outside the country.

- KCB is completing a deal to acquire 30% of Imperial Bank's good assets. It has also announced a deal to acquire a 100% stake in National Bank of Kenya and to buy out banks in Rwanda and DRC
- The merger between NIC Bank and Commercial Bank of Africa will create Kenya's third largest bank in terms of assets size and customer deposits
- Equity Group Holdings has entered into a preliminary agreement to buy out banking units in Zambia, Mozambique, Tanzania and Rwanda that are owned by a London Stock Exchange-listed firm

After the interest rate capping in 2016, banks became more rigid in issuing loans to the private sector in favour of the public sector. The resultant credit crunch has seen SMEs forced to borrow from expensive sources. It is expected that a reversal of this cap will lead to unlocking liquidity for the private sector.

Insurance
Insurance sector registered a decelerated growth from 6.5% in 2017 to 5.5% in 2018. This was attributed to lower revenues in the stocks market, real estate slowdown and lower revenues from investment in government securities. The situation was made worse by rising claim costs in the review period.

- Under life insurance, gross premium income increased by 5.3% in 2018 to KShs 87.3 million, total liabilities grew by 12.5% while that of assets grew by 10.9% in 2018.
- Under reinsurance life business, gross premium income grew by 17.4% in 2018 from 15.8% in 2017.
- Under general insurance gross premium income increased by 2.2% in 2018 to KShs 127.5 million, total liabilities grew by 3.14% while that of assets grew by 2.9% in 2018.
- Under reinsurance general business, gross premium income grew by 0.88% in 2018 from 14.6% in 2017.

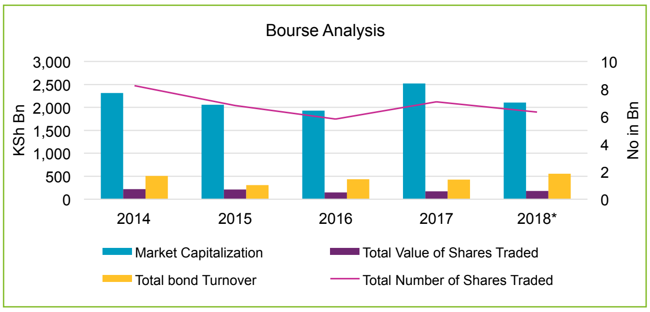
The growth in gross premium income is attributed to increased consumer education, industry stability, good consumer protection policies and provision of quality customer care services. The growth in insurer's asset base is largely composed of income generating investments funded through shareholder's equity. The growth in reinsurer's asset base were composed of investments that were mainly held in treasury bills and bonds.

Insurance firms are expected to turn more to automating claims and underwriting processes as they ride on robotics to cut costs and root out fictitious claims.

Firms like CIC Insurance Group is planning to increase its footprint in the Eastern and Central African region, eyeing its entry into Ethiopia, Tanzania and Rwanda.

Pensions
In 2018, there were 24 fund managers, 31 administrators and 11 custodians registered by the Authority to offer services to registered pension schemes. Assets of the pensions fund grew by 21.1% from KShs 0.96 trillion in June 2017 to KShs 1.16 trillion in June 2018. The increase was due to increased investment in guaranteed funds and government securities. Currently, 36% of pension scheme funds are invested in government securities and with 1% in private equity. In 2015, pension funds were allowed to invest up to 10% of their portfolio in private equity and venture capital funds. Recently, nine Kenyan pension plans have formed a consortium to invest in local infrastructure, private equity and real estate. Increasing infrastructure financing by tapping the pension funds pool will tremendously unleash opportunities for growth and diversification of retirement fund investment portfolios. This will create a win-win situation by driving a generation of superior returns to the investment companies and the pension plans.

Capital Markets



The Nairobi Securities Exchange (NSE) 20-Share index declined from 3,712 points in 2017 to 2,801 points in 2018 following the review of NSE 20 index constituents.
The total number of licensed/approved institutions in the capital market increased by 11 to 143 in 2018 after CMA approved a number of institutions including EGM Securities Limited, Cytonn Fund Managers and Salaam Investment Bank among others.

The Board of the Capital Markets Authority (CMA), in March 2019 established a Financial Markets Law Review Panel of 16 leading domestic and international financial market lawyers and practitioners to ensure that capital markets law remains responsive to market realities and appropriately facilitative to evolving market expectations from both a domestic and international perspective.

CMA launched the issue of listed and unlisted green bonds in February 2019. The green instruments will play an important but niche role in driving the growth of Kenya's capital markets, in line with the Marrakech Pledge which calls for an increase in the volume, flow and access to finance for climate projects. The Ibuka programme will enable the NSE host local Kenyan companies on a 10-month incubator programme aimed at enhancing their visibility and to unlock the potential of small and medium sized companies and scale up their business.

Deposit Taking Savings and Credit Cooperatives (DTSs).
Total assets increased by 12.4% to KShs 497.3 billion in 2018 from KShs 442.3 billion in 2017 following a growth in membership which rose by 13.7% from 21,811 in 2017 to 24,810 in 2018.

Total liabilities increased by 11.5% from KShs 307 billion in 2017 to KShs 342.3 billion in 2018 due to borrowing largely from banks to meet the high demand for loans and advances from their members.

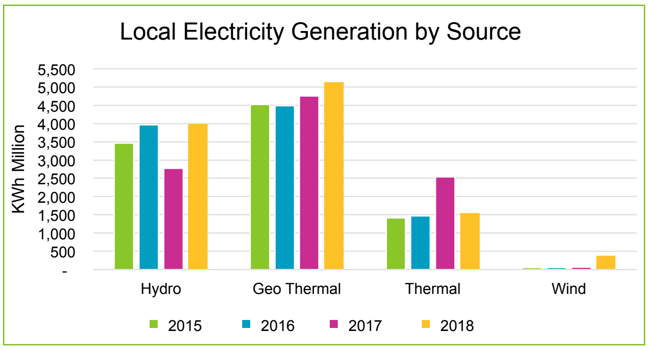
Loans and advances increased by 12.0% to KShs 358.6 billion in 2018. This is attributed to Kenyans borrowing more than they saved in Sacco's, compelling the member-managed entities to borrow from commercial banks to bridge the loan demand.

Pensions

Through the Financial Act 2018, the Retirement Benefits Authority (RBA) Act 1997 was amended. The amended Act gives power to RBA to recover unremitted contributions from employers and penalize or wind up non-complying pension schemes.

5. Energy

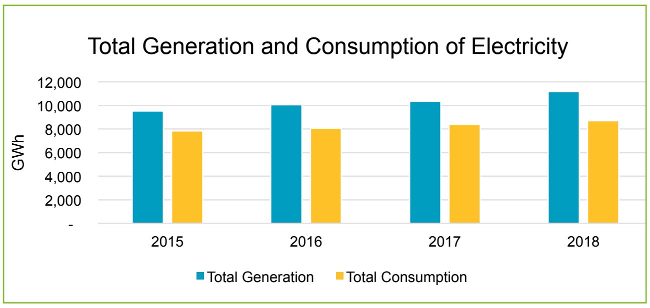
According to the Institute of Economic Affairs of Kenya, Kenya's energy sector relies on three main sources of energy: biomass, petroleum and electricity; at 68%, 21% and 9% of total energy consumption in Kenya.



Source: Kenya National Bureau of Statistics 2019

Electricity generation grew by 10.5% in 2018 compared to a growth of 8.9% in 2017 partly as attributable to the shift in the sources of generation from thermal to hydro. In addition, Kenya's reliance on renewable energy sources continued to grow in 2018 with the introduction of additional power from wind and solar to the national grid. Geothermal electricity generation grew by 31.6% to stand at 5,127 Gigawatt hours (GWh).

Electricity supply also grew due to significant growth in hydro, wind and solar energy additionally leading to a decline in generation from thermal sources (39%) and electricity imports (43.3%) during the review period.



Source: Kenya National Bureau of Statistics 2019

2018 experienced lower oil production by producers in Organization of Petroleum Exporting Countries (OPEC), Russia and USA. This coupled with a decline in oil production in Venezuela and the US, and sanctions on Iran, contributed to an increase in crude oil prices from USD 54.9 in 2017 to USD 71.48 in 2018. In Kenya the total import bill of petroleum products went up from KShs 265.2 billion in 2017 to KShs 327.8 billion in 2018 as a result of increased international oil prices. Kenya also embarked on the extraction of crude oil in Turkana with the Early Oil Pilot Scheme (EOPS) producing 2,000 barrels per day in 2018.

The government targets to generate 649.5 MW of power; construct 1,432km of electricity transmission lines; connect 2 million new customers to electricity, install 5,398 new transformers; drill 270 oil wells, produce 600,000 barrels of oil, distribute 20,482 metric tonnes of oil and gas and construct Kipevu Oil Terminal (KOT).

An overhaul in the regulatory framework of the energy and petroleum sectors resulted in the enactment of two laws namely the Energy Act, 2019 and the Petroleum Act, 2019 that put emphasis on the management of oil resources and increasing electricity connectivity.

The new Petroleum Act provides an outline on how crude oil revenue will be shared, with the National Government being allocated 75%, County Government 20% and the local community 5%. Under the Energy Act, three key institutions have been established that will be tasked with managing and regulating Kenya's energy resources.

Kenya has potential for power generation from renewable energy sources ranging from solar, hydro, wind and geothermal resources. The Kenyan government plans to fully transition into renewable energy sources by 2020. According to the Ministry of Energy, renewable energy accounts for over 70% of Kenya's installed capacity compared to the world average of 24%.

Renewable energy power plants under development in Kenya include the 300 MW Lake Turkana Wind Power Plant, which is the single largest wind power plant in Africa, 70 MW Olkaria I and the 165 MW Olkaria V.

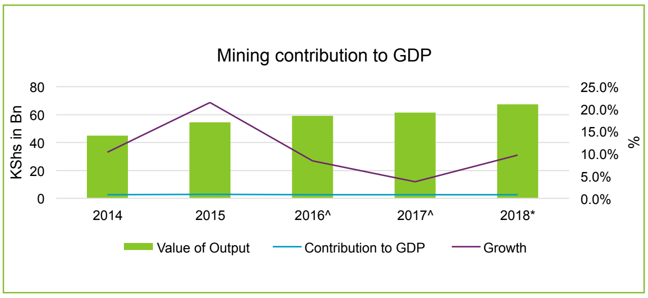
In 2019, fuel prices increased further in new monthly rates announced by the Energy and Petroleum Regulatory Authority (EPRA). The increase in fuel prices is attributed to the increased landing cost of petroleum products and a weaker Kenya Shilling that depreciated 0.65% to the USD over the period. According to EPRA, the new prices have factored in the 8% value-added tax as stipulated in the Finance Act, 2018. Fuel prices are set to fluctuate depending on the cost of petroleum products, the currency exchange rate between the Kenya Shilling and the US dollar as well as the effect of Value Added Tax (VAT).

Drastic drop in crude oil prices in 2015 is a key concern for investment in oil and gas for this has seen investors shy away from potential oil rich countries like Kenya and Uganda. There is a widening gap between the current demand and the lack of a sustainable supply of Biomass. Solutions include development of sustainable plantation of fast growing tree species, integrating wood fuel into the farmland system, and improving the current technologies for manufacturing charcoal from waste charcoal dust.

Bio-fuels, namely bio-diesel, bio-ethanol and bio-gas are hardly used in Kenya, despite the fact that they are fully substitutable with petroleum-fuels.

6. Mining

Mining contributed 0.8% of the Kenyan GDP in 2018 registering a 9.8% growth from the previous year.



Source: Kenya National Bureau of Statistics 2019
^Revised * Provisional

The value of mineral output has been increasing by a continuous annual growth rate (CAGR) of 9.4% over the period under review, from KShs 21 billion in 2014 to KShs 30 billion in 2018. The major boosters of the growth include gold, gemstones, titanium ore minerals, and diatomite which has been increasing by a CAGR of 26%, 23% 22% and 6% respectively.

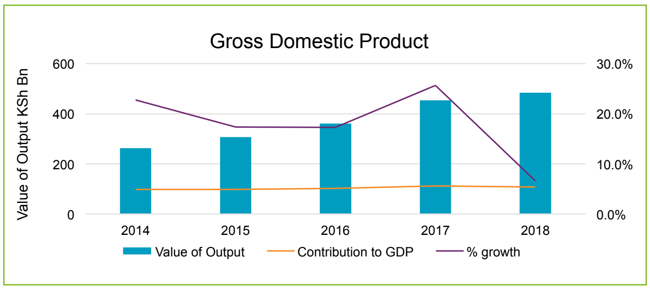
Titanium ore mineral mine was shut down in March 2018 to allow for the completion of final equipment and piping installations for the second phase of the project dubbed KP2 but the operations are set to commence in the second half of 2019. The titanium ore market is set to increase following demand for ilmenite in China and reduced production in western markets.

The mining of fluorspar was not undertaken in 2018 due to closure of Kenya Fluorspar Mining Company. The lease for its operations expired and the government declined to grant a renewal.

Increased exploration is expected to lead to new mineral discoveries with new oil, copper and gold deposits identified in Turkana, Pokot and Kakamega respectively and could see Kenya's promising mining industry finally blossoming.

7. Building and Construction

The graph below shows the comparison of the sector's output and contribution to GDP over the last five years:



Source: Kenya National Bureau of Statistics 2019

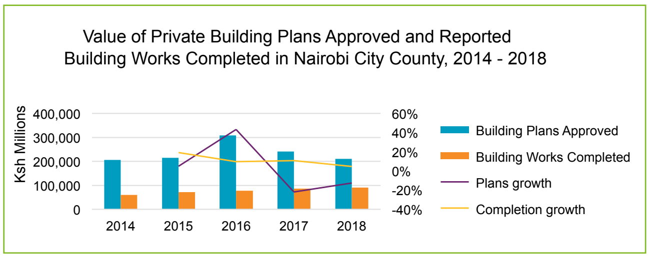
The government identified affordable housing among the key pillars that will move Kenya closer to vision 2030. The construction sector registered a slowed growth of 6.3% compared to a revised growth of 8.5% in 2017. This is attributed to the:

- High inflation rate in 2018 that led to increased prices of construction material which contributed to weakening growth.
- The construction sector lacks building professionals. Kenya relies heavily on contracted workers from abroad, which increases the wage bill and the overall cost of construction. The problem is compounded by the low enrollment in the country's vocational and technical training institutes.

The value of building plans approved decreased by 12.7% from KShs 240.8 billion in 2017 to KShs 210.3 billion in 2018. On the other hand, the value of completed buildings issued with certificate of occupancy in Nairobi City County increased by 5.2% to KShs 90.6 billion in 2018.

Tough policies caused drastic action taken on buildings that were built on riparian land, this led to a decrease in the building plans approved. However, with an attractive offering for businesses, people have been flocking to the city in search of jobs thus residential construction has seen particular strength as the city has grown to accommodate the rapid urbanization of the population.

The chart below shows the value of private building plans approved and reported building works completed in Nairobi City County over the period 2014 – 2018:

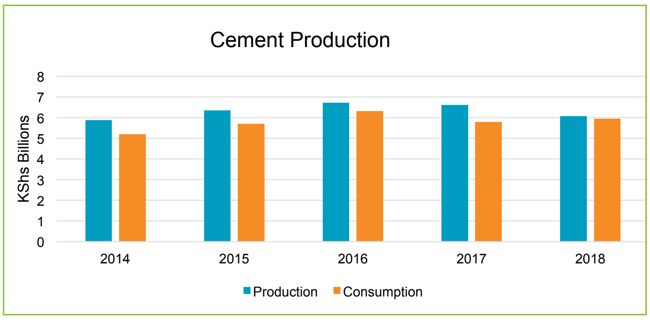


Source: Kenya National Bureau of Statistics 2019

Cement production decreased for the second year in a row by 2.6% while consumption increased by 1.6%. The decrease is mainly attributable to weaker performance of businesses as a result of contraction of the cement market attributed to poor private sector credit growth, drought conditions together with effects of prolonged election campaigns. Further, there has been stiff competition from cheaper cement imports from Pakistan, India and China which have flooded the regional market.

Cement companies Bamburi Cement, East Africa Portland Cement, Athi River Mining Cement and other big cement manufacturers in Kenya have been performing poorly in the recent years and posted losses in 2018.

The graph below shows the cement production trend over the last five years



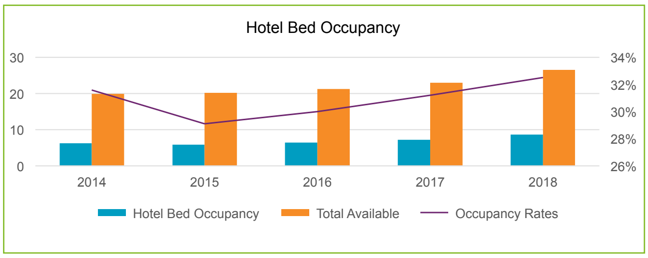
Source: Kenya National Bureau of Statistics 2019

The rapid growth in population and urbanization is a key driver in the construction sector. Currently, Kenya has over 40 million people with 30% of the total population living in urban areas.

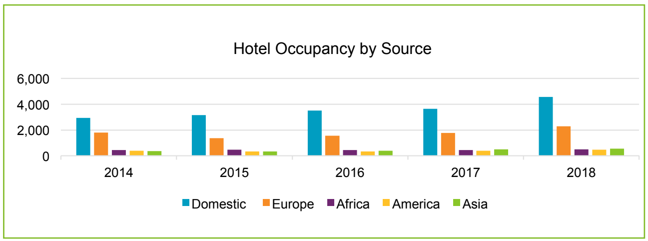
The government has committed to building up to 500,000 affordable housing units by 2022, a goal that will require buy-in and investment from various private sector developers. The extension of the Standard Gauge Railway (SGR) line from Nairobi to Naivasha will make Naivasha accessible in a few minutes from Nairobi and this is expected to drive a shift in residency arrangements for Nairobi workers and an increase in domestic and foreign tourists.

8. Tourism

Tourism sector contributed 8.8% of the Country's GDP in 2018. Tourism earnings increased by 31.2% from KShs 119 billion in 2017.



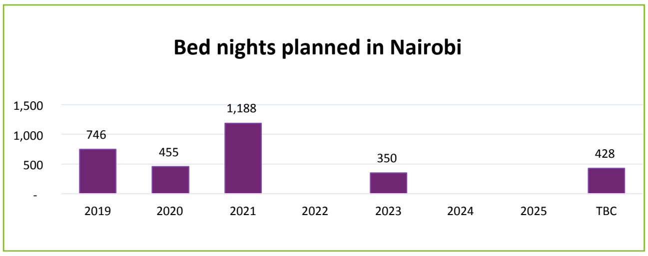
Tourism in Kenya is expected to increase at a 6.9% compound annual rate. Visitors into game lodges are expected to increase with the Maasai Mara building on its stellar performance in 2018 to remain a key destination.



In 2018, Kenya reached a new peak with of 2.025 million visitor arrivals, surpassing its previous peak in 2011 of 1.823 million visitors.

Kenya is one of the most developed tourism destinations in Sub-Saharan Africa. However, its share of global arrivals averaged 0.13% during the 10 years to 2018 and was 0.14% in 2018. Tourism in Kenya is primarily based on its natural attractions with a focus on wildlife in its natural habitats as well as idyllic beaches. Other drivers include:

- Domestic tourism which has grown to account for more than 50% of occupancy at 3.67 million beds in 2017 and 3.97 million beds in 2018
- Business and conference tourism with the number of business travellers accounting for 13.3% of international arrivals in 2018 (2017: 13.1%)
- Improved security and political stability that led to the lifting of negative travel advisories. Performance in the Tourism industry continued to improve in 2016 and 2017 despite an extended campaign process and repeated general elections
- Revitalized and aggressive marketing efforts by the Kenya Tourism Board

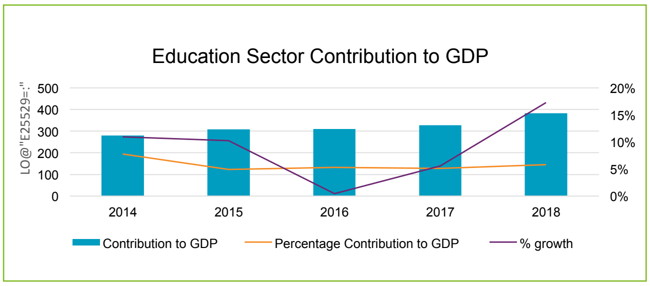


27 global hotel brands have announced plans to open new or additional hospitality facilities in Kenya over the next four years and this will bring to the market 4,232 new hotel rooms by 2023, of which 3,167 (74.8%) will be in Nairobi, according to disclosures made in the 2019 report of Hotel Chain Development Pipeline in Africa. 67% of the proposed rooms are under construction and 33% are in planning stage.

There was no sufficient information at the time of this review to analyse the reasons behind the interest shown in the country by global brands while bed occupancies averaged 33%. It is possible that there is significant variation in occupancy among different classes of hotels.

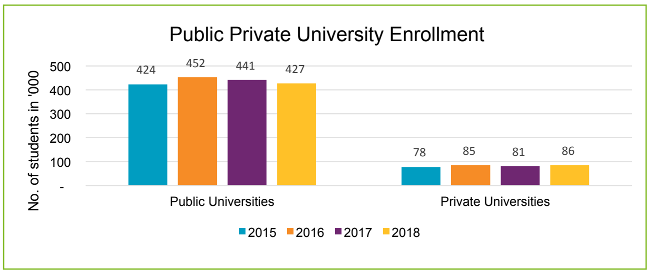
9. Education

The graph below shows the contribution of the education sector to GDP. Growth in the education sector improved to 5.8% as compared to 5.1% in 2017.



Source: Kenya National Bureau of Statistics 2019

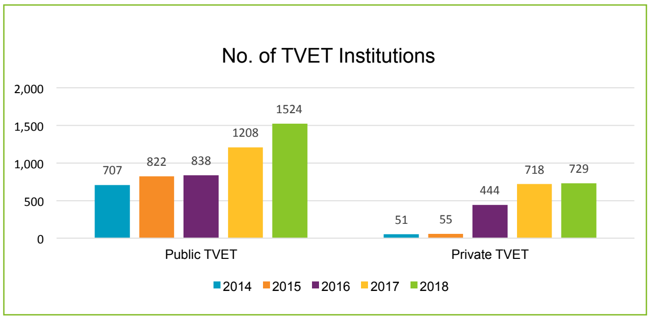
The transition rate from Primary School to Secondary Schools improved from 81% in 2016 to 85% in 2019. In 2018, an estimated 1 million pupils sat for the Kenya Certificate of Primary Education (KCPE) and it is expected that 1.3 million will sit in 2019.



Over the last 3 years, 12.5% of the total students who sit for Kenya Certificate of Secondary Education (KCSE) attain the minimum university mean grade (C+). This is a significant drop from 2014 and 2015 with 30.8% and 31.52% of candidates respectively attaining this grade, following reforms in the examining body and process.

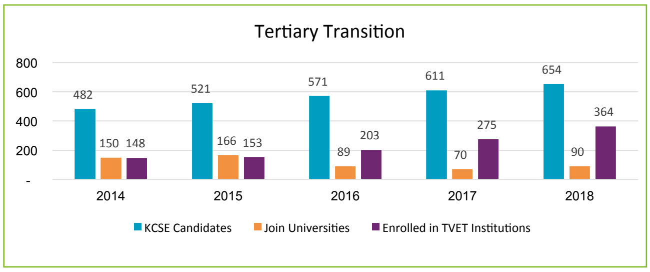
The lowering of university mean grade from B plain to C+ in 2016 briefly reduced the number students enrolling to private universities that used to enrol most students who scored below the Public University cut off points.

The education system is still undergoing a comprehensive transformation with plans in motion to replace the existing theory and test based system to a skills based system. Funding is deepening as the state boosts access and as the private sector seeks investments that promise social impact returns.



The government is set to increase its budget allocation to Technical and Vocational Education and Training (TVET) institutions for tertiary level learning. Unlike in the primary and secondary levels of education, where there is little but growing demand for private investment in schools, there is substantial demand for services at the tertiary level.

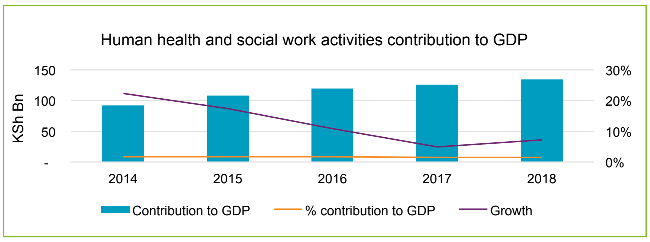
Investing in innovative research and adopting of entrepreneurial culture by universities is a key driver in the education sector.



With high demand for services and a focus on employability, there are increasing opportunities for private providers at the tertiary level and given the underlying conditions, these investment opportunities are likely to stay available.

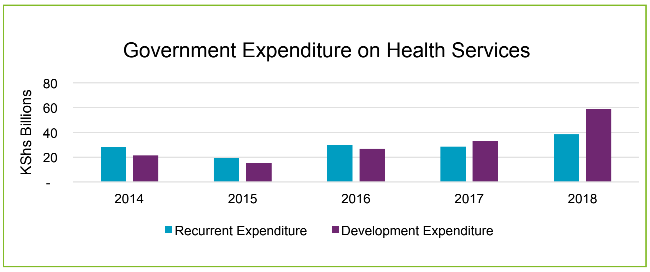
10. Health

Human health and social work activities contributed 1.5% of the Kenyan GDP in 2018 registering a 1.3% growth from the previous year.



Private investment in the sector has been vibrant driven by:

- a growing middle class;
- growing insurance coverage;
- expansion of the NHIF's scope of cover and growing membership capturing members of the informal sector; and
- deepening availability of funding with investors seeking social impact investments.

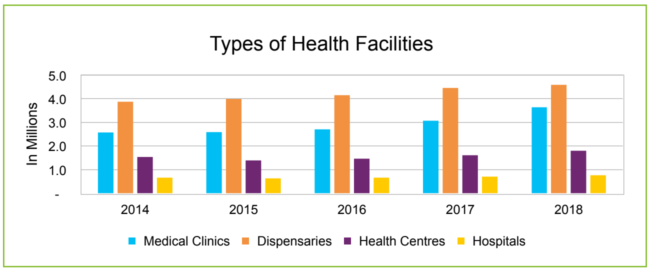


The Managed Equipment Services (MES) project which equipped 98 hospitals with modern diagnostic machines for theatre, sterilisation, imaging, renal dialysis units, Intensive Care Unit (ICU) and MRI centres is successfully ongoing with targeted completion in 2022. All the hospitals in the country have benefitted from modern equipment and are able to provide good healthcare facilities to the citizens.

The Universal Health Coverage (UHC) is being piloted in 4 counties i.e. Kisumu, Machakos, Nyeri and Isiolo. Upon success of the pilot project a countrywide roll out is expected in 2022.

The Kenyan government signed a contact with Cuba for a doctors' exchange programme in April 2018 which saw 100 doctors arrive in the country in June. Through this programme, 50 Kenyan doctors secured a chance to study in Cuba which is known to have a World Class Healthcare System.

The number of health facilities in the country increased by 62,000 with 42% of the total health facilities being dispensaries.

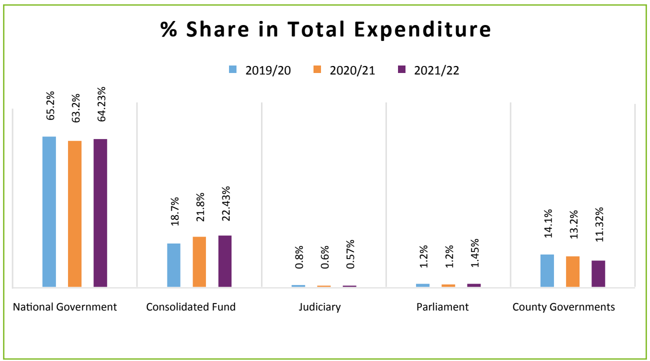


Source: Kenya National Bureau of Statistics 2019

During the 2019/20-2021/22 MTEF period, the government intends to expand health infrastructure including: expanding specialized medical equipment and establish centres of excellence in health, health commodity storage centres, new specialized health facilities and laboratories throughout the country.

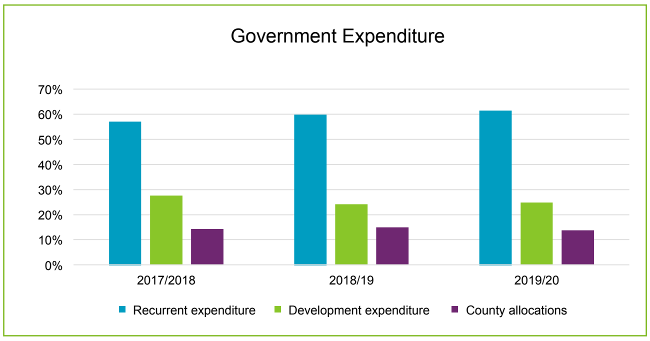
11. 2019-2022 Budget Allocations

The government has proposed the following summary budget allocations over the next three years to the different arms of government and the county governments as shown below:



Source: 2019 Budget Policy Statement

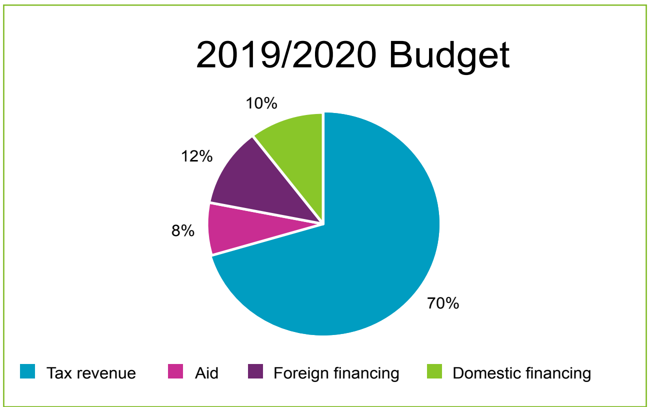
Where is the Money going?



Source: 2019 Budget Policy Statement

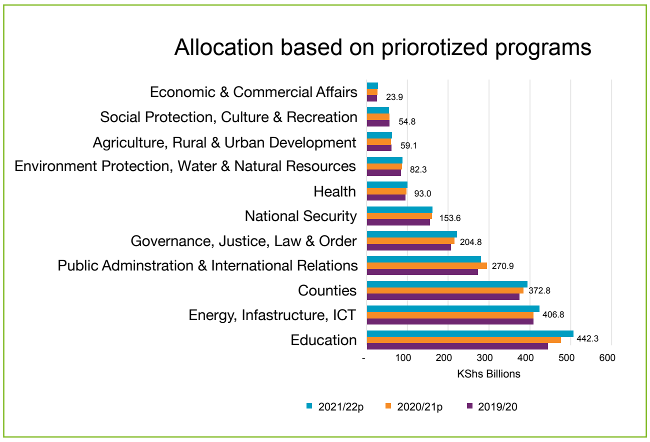
2019/2020 Budgetary Expenditure Allocations

In the 2019 Budget Policy Statement, the Cabinet Secretary has set out proposals to incur a total of KShs 2.8 trillion in expenditure and net lending for the 2019/2020 fiscal year. He intends to finance this through a combination of tax revenues, aid and debt as shown in the chart below:



Source: 2019 Budget Policy Statement

The principal beneficiaries of the budget are as follows:



Source: 2019 Budget Policy Statement p – Projected

Tax Measures and Proposals

Effective dates: Other than the proposals related to turnover tax, taxation of the National Housing Development Fund and income earned under the Ajira Programme which are effective on 1 January 2020, all other proposals are effective on 1 October 2019.

Taxation proposals

The Cabinet Secretary highlighted a number of proposals related to overall strengthening of the tax regime and administration. These range from the renewal of the Income Tax Act with an Income Tax Bill, 2019 expected to be tabled in parliament as well as other changes including:

- Enhancement and upgrade of ICT systems including a fully integrated customs management system;
- Enhancement of information sharing with other jurisdictions to fight against cross border tax evasion;
- Sustaining the fight against illicit and counterfeit trade; and
- Cargo tracking and scanning systems.

Income Tax Changes

Capital gains tax

Sections 34(1)(j) of the Income Tax Act has been amended to increase the capital gains tax rate from 5% to 12.5%. No allowance has been given for indexation allowances to compensate for inflationary gains.

CGT exemption from capital gains on restructuring of businesses

The exemption provided under paragraph 13 of the Eighth Schedule to the Income Tax Act has been amended to expand the criteria for the exemption where a transfer of propriety results from incorporation, recapitalization, acquisition, amalgamation, separation, dissolution or similar restructuring of corporate entities where such a transfer is either:

- a legal or regulatory requirement;
- a result of directive or compulsory acquisition by the government;
- an internal restructuring within a group which does not involve transfer of property to a third party; or
- in public interest and approved by the cabinet secretary.

In order for the exemption to apply, any group restructuring should not result in a change in beneficial ownership. Further, the proposed amendment re-instates previous exemptions related to compensation arising from property acquired by the government.

Taxing e-commerce

The law has been amended by proposed introduction of Section 3(3)(d) to the Income Tax Act to bring to tax income accrued through a digital market place. This has been defined as a platform that enables, by electronic means, direct interaction between buyers and sellers of goods and services. This is likely to have far reaching consequences particularly for international digital/e-commerce platforms, whether resident or not, that generate income from Kenya.

Taxation of non-resident shipping lines

Sections 2, 10, 34, 35 and the Third Schedule of the Income Tax Act have been amended to remove demurrage charges from the ambit of withholding tax. However, scope of Section 9(1) has been expanded to introduce corporation tax on all income including income from delay in taking delivery of goods or returning equipment used for transportation derived from Kenya by non-resident shipping companies. Such tax shall be administered by their agents.

Withholding tax base expanded for services

Sections 10, 35 and the Third Schedule of the Income Tax Act have been amended to include security, cleaning and fumigation, catering services outside hotel premises, transportation of goods (excluding air transport), sales promotion, marketing and advertising services in the withholding tax category at a rate of 5% for residents and 20% for non-residents. This is aimed at expanding the tax net.

Clarification on taxation of dividends

Section 7A of the Income Tax Act has been amended to clarify that income exempt from tax is excluded from further tax on distribution. However, little clarity has been provided on distribution of profits on which no tax is payable by virtue of tax losses, either brought forward, or arising in the current period through tax allowances/incentives.

Taxation of non-resident insurance premiums

Withholding tax on non-resident insurance premiums provided for under Sections 10(1) (j) and 35(1) (n) has been amended to include reinsurance premiums.

Withholding tax on branch expenditure paid to its head office

Proviso (ii) to Section 10(1) of the Income Tax Act has been amended to exclude the exemption from withholding tax on branch expenditure in cases where a double tax treaty has allowed for deductibility of such expenditure for tax purposes in Kenya.

Re-introduction of turnover tax

Section 12(C) of the Income Tax Act has been amended to reintroduce turnover tax at a rate of 3% of gross business income payable on a monthly basis by resident persons whose turnover does not exceed KShs 5 million during a year of income. Effectively, presumptive tax introduced last year has been maintained as basis for information gathering by the state to expand the tax net. Ideally, any presumptive tax paid would be offset against the turnover tax and will act as a minimum tax.

Exemption on Taxation of REITS expanded

Sections 21(c) of the Income Tax Act has been amended to exempt income of investee companies in a REITS from tax. Previously the exemption only applied to the primary REIT entity and not its investees.

Additional exemption from corporation tax

The First Schedule to the Income Tax Act has been amended to exempt income of the National Housing Development Fund and income earned by individuals under the Ajira Digital Programme.

Tax incentive for plastic recycling

The Third Schedule to the Income Tax Act has been amended to reduce the corporation tax rate from 30% to 15% for companies that recycle plastics for the first five years of such business. This complements the government's environmental protection efforts and incentivises the establishment of plastic recycling plants.

Relief for affordable housing

Paragraph 3 of the Third Schedule of the Income Tax Act has been amended to change the base on which affordable housing relief is calculated to be the employee contribution instead of employee gross emoluments as earlier provided.

Value Added Tax (VAT) Changes

Reverse VAT

The scope for reverse vat has been reinstated to include both registered and non-registered persons.

Tax relief for suppliers of zero rated goods & services

In a bid to ensure that suppliers of both zero-rated and standard rated supplies are able to fully recover the portion of input tax relating to zero rated supplies, amendments have been proposed to the formula for determination of VAT refundable to such suppliers in consultation with business community. This is likely to be effected through publication of new VAT Regulations.

VAT Withholding tax headache

VAT withholding tax has been reduced from 6% to 2% to mitigate the ever piling up of refunds. Whilst the concept of withholding VAT is often seen as punitive, the lower proposed rate will reduce its burden and at the same time continue to meet the government's objectives of tracking suppliers for enforcement purposes. Additionally, the Cabinet Secretary has indicated that soon a legal regime will be put in place to address backlog of VAT withholding tax which have never been refunded or offset due to lack of an enabling regime.

Closing loopholes for VAT exemption on official aid funded Projects

A concessional loan has now been defined to mean a loan with at least a 25% grant for a project to qualify for VAT exemption.

Tax cuts for technology evolution

VAT on locally manufactured motherboards and all inputs used in their manufacture have been exempted from VAT to create a stimulus environment for the growth of technological capacity in Kenya and harness the talent of our youth. This is in addition to the VAT exemption granted to parts imported or purchased locally for the assembly of computers in 2018. The tax measures are geared towards transforming Kenya to a manufacturing hub for electronics and computers in East Africa.

Export of services

The VAT regulations have been amended to provide clarity on the definition of exported services. Previously the definition made reference to whether the person paying for the service was resident or not. This has been changed such that the determination is no longer based on residence of the payer.

Environmental conservation

Plant, machinery and equipment used in the construction of plastic recycling plants have been exempted from VAT.

Applicability of VAT on e-commerce

The law has been amended to clarify that value added tax is applicable on a supply made through a digital market place. As commented on under the income tax section, this is likely to have significant impact on international e-commerce platform providers.

PKF

Revamping the VAT exemption/zero-rating regime

The law has been amended to revamp the VAT exemption regime as follows:

- Only specialized equipment for the development and generation of solar and wind energy approved by Cabinet Secretary for Energy will be exempted from VAT
- Inputs or raw materials for electric accumulators and separators have been reclassified from zero rate to exempt category and will now require approval by Cabinet Secretary responsible for Industrialisation
- Denatured ethanol is now zero rated
- Road tractors for semi-trailers have been excluded from VAT exemption. Thus only tractors used for agricultural purposes are exempt
- Agricultural pest control products have been exempted.

Tax Procedures Act

Introduction of Amnesty to SME's listing under Growth and Enterprise Segment (GEMS) of the Nairobi Securities Exchange

An amnesty has been proposed for companies that are listing under the GEMS segment of the securities exchange. This is to encourage SMEs to take up listing and clear any back taxes. The amnesty will only be applicable to any penalties and interest incurred two years prior to listing.

Transactions for which a PIN is required

The Commissioner has been granted the power to give exemptions to persons from the PIN requirement when opening a bank account. This is geared at providing an enabling investment environment for foreign investors to ease doing business in Kenya.

However, the following transactions will now require a PIN:

- Registration and renewal of membership by professional bodies and other licensing agencies; and
- Registration of mobile cellular paybills and till numbers by telecommunications operators.

Recovery of taxes upon failure to deduct or withhold

Proposals have been made to allow the recovery of taxes including penalties and interest from persons who fail to deduct or withhold taxes. Prior to this proposal, there was no provision empowering the Commissioner to recover taxes from such persons. This is geared to increase revenue collection.

Departure Prohibition Order (DPO)

Proposals increase the number of persons who can be included in the issue of this order to include the tax representatives of a company. This would comprise the CEO, managing director, company secretary, treasurer, trustee, resident director or other similar officer. This poses risk to the tax representatives and is aimed at creating responsibility for tax compliance across the senior leadership of corporations.

Objection Decision

The period of issuing an objection decision has been amended to 60 days from the later of the date of the objection or the date the commissioner receives additional requested information. This may delay the time taken to resolve tax assessments.

Late submission penalty

Penalties on late submission of returns will be charged on the balance of tax that remains unpaid after factoring in withholding tax credits and payments.

Excise Duty Changes

Cashing on betting activities

Excise tax has been introduced at a rate of 10% on all bets placed with betting companies. The time of supply of such transactions has also been defined to be the time a person stakes money on a betting platform or other medium. Whilst the main reason for this tax is to discourage the negative effects of betting on youth, the government is also keen to cash in on the rapid growth witnessed in this industry in recent years.

Driving green

Excise duty on motor vehicles that are fully powered by electricity has been reduced from 20% to 10%. This proposal is aimed at promoting clean environment.

Sin taxes on the rise!

Excise tax on cigarettes, wines and spirits has generally been increased by 15%.

Adjustment for annual inflation

The date for publishing annual inflationary adjustments for excise rates has been moved from 1 July to 1 October to allow for consultations.

Motor vehicle taxes raised to protect local assembly

Excise tax for certain imported motor vehicles have been raised to promote local assembly of motor vehicles.

General penalty for non-compliance

A general penalty of KShs 2 million or an imprisonment term not exceeding two years or both has been introduced to cover areas of non-compliance which do not otherwise have a prescribed penalty.

Customs Duty Changes

The CS proposed to amend the import duty rates for a number of goods as tabulated below:

Item	Old duty rate	New duty rate	Objective
Raw timber	10%	0%	To protect the forests and ensure that manufacturers of furniture and other timber products have access to raw materials. However, the rate of 25% on importation of finished timber products has been retained
Wheat grain (tariff 1001.99.10 and 1001.99.90)	35%	10% (for one year)	To promote local manufacturers
Motor cycle CKD kits	10%	10% (for one year)	To promote growth in the sector
Industrial sugar (tariff 1701.99.10)	10%	10%	There is no local investor manufacturing the product. Maintaining the levels of taxes ensures continued investing in the importation. Increasing the rates would unnecessarily burden importers.
Rice 1006.10.00 1006.20.00 1006.30.00 1006.40.00	75% or USD 345/MT (CET rate)	35%or USD 200/MT (further one year)	To promote food security
Paper and Paper Boards 4805.19.00 4805.91.00 4805.92.00 4805.93.00	10% (CET rate)	25% (for one year)	To protect local manufacturers of paper and paper products

Miscellaneous Proposals

Banking Act

- Amendments to the Banking Act by repealing Section 33B of the Banking (Amendment) Act, 2016. This effectively removes the interest capping that was brought in a few years back. This reform is expected to unlock credit access to the private sector.

Capital Markets Authority (CMA) Act

- Amendments to Section 11(3)(cc), Section 25A and Section 34A of the CMA Act to empower the Authority to enforce penalties and sanctions on market players who violate laid down rules and procedures. This will give CMA powers to deal with players in the market in case of a default. The penalties shall be recovered summarily by the Authority as civil debts.

Retirement Benefit Schemes

- Section 37 has been amended to clarify that where scheme assets are invested in a guaranteed fund asset class, the approved issuer shall, upon termination of the relevant agreement, transfer funds out of the asset class within a maximum of 12 months. This is aimed at allowing members access to better returns.
- Section 45A has been amended to mandate the liquidator (in the event of a scheme being wound up) where a member of the scheme cannot be traced, within 2 years, to remit the funds to the Unclaimed Financial Assets Authority.
- Exiting members to receive their equitable share of reserve balances. Previously, the schemes were not required to make provisions for distribution of the reserve funds.
- Amendments to the Umbrella Retirement Benefit Schemes Regulations to allow members to contribute towards a post-retirement medical fund. This aims to enable scheme members to contribute to a medical scheme to be accessed after retirement.

Proceeds of Crime and Anti-Money Laundering (POCAML) Act, 20119

- Amendments to Section 2 of the POCAML, to now loop in advocates, notaries and other independent legal professionals who are sole practitioners, partners or employees within professional firms, to be amongst reporting entities to whom Anti-Money Laundering/ Combating Financing of Terrorism obligations shall apply.

Insurance Act and other insurance sector proposals

- Proposed amendments to the Insurance Act and Regulations to bring clarity to enable the Policy Holder's Compensation Fund pay out claimants.
- Amendments to the Insurance (Motor Vehicle Third Party Risks) (Certificate of Insurance) Rules to require passenger carrying motor cycles ('boda-bodas' and 'tuk-tuks') to have an insurance cover for passengers and pedestrians.

Other proposals

- Consolidation of the Uwezo Fund, Youth Enterprise Development Fund and Women Enterprise Development Fund to form Biashara Kenya Fund.
- A mobile loan product known as Swati loans has been formed to offer unsecured loans to small enterprises, as well as the 'Ajira Digital Program' whose aim is to bridge the gap between skills available and skills demand.
- Under the 'Buy Kenya Build Kenya' initiative a catalogue of locally manufactured items, assembled mined or grown will be prepared and these will be given priority in public procurement. Accordingly, no tax exemptions will be provided for importation of any items on this catalogue.
- The Government will give exclusive procurement preference on motor vehicles and motor cycles to firms that have assembly plants in Kenya.
- Amendment to the Competition Act to empower the Competition Authority to deal with the abuse of buyer power and ensure prompt payment to suppliers.
- Streamlined process of Pre-Verification of Conformity (PVOC) to be done at the point of export and the same goods will not be subjected to further inspection unless there is prior intelligence on non-compliance.
- Procurement reforms being undertaken to provide an end to end solution on all state procurement processes.
- Refund of anti-adulteration levy on illuminating kerosene for manufacturers of paint, shoe polish or resins.
- Reduction of import declaration fees (IDF) on intermediate goods and raw materials by manufacturers from 2% to 1.5%, whilst the rate on finished goods will be increased to 3.5%. An increment of the Railway Development Levy (RDL) for finished products from 1.5% to 2% has been proposed for finished goods. This is aimed at cushioning local manufacturers from imported goods.
- Imposition of export levy on tanned and crust hides and skins at 10%.
- Ban on single use plastic products, effective 5 June 2020 in National Parks, beaches, forests and conservations areas.

Regional Update

Tanzania

- Relief from the need to prepare certified annual financial statements for sole proprietors with a turnover of less than TShs 100 million, increased from TShs 20 million
- Cut in presumptive tax rates depending on threshholds and level of record keeping
- Preferential rate of corporation tax of 25% for the first 2 years for new investors manufacturing sanitary pads
- Abolishment of withholding tax on fee charged on loans by non-resident banks or international financial institutions to government
- Extension of the tax amnesty by a further 6 months to 31 December 2019
- Introduction of a tax ombudsman office
- Establishment of a customs assessment and valuation complaints dedicated desk
- Rescindment of input VAT claim restrictions imposed on exporters of raw agricultural products in 2017
- Supply of electricity from mainland Tanzania to Zanzibar now a zero rated supply compared to a supply previously VATable at the standard rate
- Changes to VAT exemption status of various products as well as changes to rates of excise and customs duties on various products
- Increased attention on gaming activities through the introduction of a system to regulate and monitor collection from operators
- Introduction of a six-month grace period on TIN registration for new investors
- Changes to various government imposed fees and levies including those charged for Road Tax and Licensing, Food and Drugs Authority, Tanzania Bureau of Standards, Government Chemist and Laboratory Authority, Ministry of Livestock and Fisheries, Ministry of Natural Resources and Tourism and Ministry of Water.

Uganda

- The Government is creating a favorable investment climate to attract and promote investment projects, thus providing tax incentives and reducing the investment capital to at least USD 10 million (from USD 15 million) in case of a foreigner or USD 2 million (from USD 5 million) in case of a citizen who meets the criteria
- Beneficial owner in the context of a legal entity or arrangement has been defined to include the ownership of a controlling interest held directly or indirectly and whether through ownership of voting securities or contract or otherwise
- The definition of a citizen clarified to include citizens of partner states of the EAC and a company or body of persons incorporated under the laws of a partner state of the EAC in which at least 51% of the shares are held by a person who is a citizen of a partner state of the EAC
- Taxation of rental income to be accounted for and paid separately for each property where persons earn such income from more than one property
- Financial institutions including those carrying on insurance business excluded from limitation of interest expense allowable provisions
- Withholding tax of 6% imposed on the acquisition of a business or a business asset by a resident person
- Agricultural supplies exempted from withholding tax
- TIN number now mandatory for any local authority, regulatory authority or government institution to issue a license or authorisation in any form
- Withholding tax rate on government securities with a maturity period of greater than 10 years reduced from 20% to 10%
- A number of items have been added to the exempt supplies list under the second schedule of the VAT Act.
- Drugs, medicines and medical sundries manufactured in Uganda now zero rated for VAT
- Significant increases in custom duties on various imported consumer goods to promote local manufacture
- Reduction in excise duty rates on non-alcoholic beverages
- Certain changes to the tax procedures code including the scoping in of stamp duty returns within the code, the provision for the Minister to gazette for write-off all unpaid taxes by Government and powers to the commissioner in respect of penalty waivers in the event of self-declaration

Rwanda

- Requirement for every invoice transaction to be carried out through the Electronic Billing Machine
- Stay of customs duty granted on a number of items
- The Minister proposed to release measures to amend the law in respect of consumption tax as a policy tool to curb consumption of harmful substances
- No significant income tax changes proposed

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“PKF is around the corner and around the world”

right people
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right solutions

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