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KENYA PRIVATE SECTOR ALLIANCE
The Voice of the Private Sector in Kenya

Report

KEPSA-NATIONAL ASSEMBLY FINANCE & NATIONAL PLANNING, BUDGET & APPROPRIATIONS AND TRADE, INDUSTRY & COOPERATIVES COMMITTEES TRIPARTITE MEETING ON FISCAL POLICY HELD ON 25TH APRIL 2025 AT WINDSOR GOLF HOTEL

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1. Executive Summary

The KEPSA–National Assembly Tripartite Meeting brought together Members of Parliament, private sector leaders, and technical experts to co-develop forward-looking, pro-growth fiscal and trade policy recommendations for inclusion in the Finance Bill 2025. The forum addressed Kenya's industrial vulnerability to global trade shifts, weak private sector engagement in fiscal planning, and an unpredictable tax environment that deters investment. Through collaborative dialogue, the participants emphasized the urgency of aligning taxation, industrial strategy, and budget policy to support local value addition, fiscal sustainability, and a more competitive economic model.

The meeting underscored the critical role of Parliament in anchoring sound fiscal governance and the private sector's role in shaping practical reforms. Key takeaways included the need for targeted incentives, coherent trade policy, improved VAT refund systems, robust impact assessments of fiscal measures, and earlier private sector input in the budget cycle. These discussions aim to inform a responsive Finance Bill that goes beyond revenue collection to promote industrial resilience, economic diversification, and inclusive growth.

2. Acknowledgement

The Kenya Private Sector Alliance (KEPSA) extends its sincere appreciation to all partners and stakeholders who contributed to the success of the KEPSA–National Assembly Tripartite Retreat on Fiscal Policy. We are especially grateful to the Members of Parliament from the Finance and Planning Committee, the Budget and Appropriations Committee, and the Trade, Industry and Cooperatives Committee for their active participation, open dialogue, and commitment to co-creating a more inclusive and investment-friendly fiscal framework.

We also thank the private sector representatives, technical experts, and development partners whose insights, experience, and proposals enriched the discussions and helped shape a forward-looking agenda. Special thanks go to the session moderators and panelists for their leadership in guiding constructive deliberations.

KEPSA further acknowledges, with deep gratitude, the generous support of the **Konrad Adenauer Foundation Kenya**, whose partnership and funding made this important dialogue possible. Their continued commitment to democratic governance, economic reform, and institutional development in Kenya remains invaluable.

This retreat would not have been possible without the collaborative spirit and shared vision of all involved. We look forward to continued partnership in translating the outcomes of this engagement into actionable reforms that will drive Kenya's economic transformation and sustainable growth.

3. Background and Context

This meeting was convened as part of KEPSA's ongoing collaboration with the National Assembly to ensure structured engagement in fiscal policy and budget-making. With Kenya facing fiscal pressure, policy unpredictability, and declining manufacturing output, there was a shared recognition of the need for a stable and coherent fiscal framework to underpin economic transformation. The Finance Bill 2025 presents a critical opportunity to anchor such reforms.

4. Objectives of the Retreat

- To strengthen public-private collaboration in shaping the Finance Bill 2025.
- To identify legislative, administrative, and institutional reforms for a more predictable and efficient fiscal environment.
- To ensure trade and tax policies support local industry, value addition, and export competitiveness.
- To promote inclusive, structured engagement in fiscal governance processes.

5. Session Summaries and Deliberations

1. Key Messages from the Opening Remarks and Scene Setting

Eng. James N. Mwangi, EBS. CE. FIEK. MEI. MACEK. MKIM – Director, KEPSA

Eng. Mwangi emphasized the urgent need for public-private collaboration to address rising trade protectionism and unpredictable fiscal policy, which are straining Kenya's open economy. He underscored the opportunity to co-create a pro-business legislative environment through the Finance Bill 2025 by aligning fiscal incentives, closing institutional gaps, and advancing actionable reforms that support industrial growth, investment, and export diversification.

Hon (Dr.) Wilberforce Ojiambo Oundo, M.P. – Member Trade, Industry & Cooperatives Committee

Dr. Wilberforce commended KEPSA's consistent advocacy and reaffirmed the National Assembly's commitment to meaningful public-private collaboration. He emphasized the legislature's readiness to take concrete steps toward implementing inclusive and pro-growth policies, positioning Parliament as a proactive partner in co-creating a fiscal and policy framework aligned with national development goals and private sector needs.

Scene Setting- Dr. Jaswinder Bedi, Chairman, KEPSA

Dr. Bedi reflected on Kenya's economic progress and challenges, underscoring the private sector's pivotal role in shaping fiscal and policy reform. He highlighted the need for stable, growth-oriented fiscal policies, aligned trade and industrial reforms, and inclusive economic strategies to address inequality and spur competitiveness. Stressing persistent challenges like policy instability, industrial underperformance, and fiscal deficits, he called for coordinated government-business action—anchored in a shared vision—to drive sustainable development, investment, and Kenya's global economic positioning.

2. Key Deliberations and Insights from the Panel Sessions

SESSION I: SAFEGUARDING LOCAL INDUSTRY: SMART FISCAL & TRADE RESPONSES TO GLOBAL SHIFTS

About the Session

This session aimed to address policy and regulatory weaknesses that have left Kenya's industrial sector increasingly vulnerable to global trade shocks and protectionist measures. With rising import costs, shrinking export margins, and a burdensome tax regime, the session focused on identifying fiscal and trade policy reforms that can revitalize manufacturing, promote local value addition, and enhance Kenya's global competitiveness. The goal was to develop forward-looking proposals to inform a Finance Bill that balances revenue generation with robust industrial support and sustainable economic growth.

Key Deliberations and Insights

1. **Declining Industrial Output and the Need for Strategic Focus:**

The session noted with concern that manufacturing's share of GDP has dropped to just 6%, far below the 20% target set for 2030. This trend, driven in part by an unpredictable and overburdening tax regime, calls for Kenya to decisively define its economic model—whether trade-led or manufacturing-driven—and tailor policy accordingly.

2. **Inconsistent and Costly Fiscal Environment:**

Participants cited high wage taxes, excessive input taxation, and regulatory unpredictability as key deterrents to investment and productivity. Although Kenya has numerous supportive laws and agencies, their underfunding and weak implementation continue to limit impact.

3. **Limited Private Sector Involvement in Policymaking**

The lack of private sector input during both policy formulation and execution was flagged as a critical gap. Drawing on Egypt's co-creation model, panelists recommended formalizing mechanisms for joint development and monitoring of trade and fiscal policies.

4. **Misaligned Tax Policy and Ad Hoc Tariff Adjustments**

The tendency to raise tariffs arbitrarily through Finance Bills was seen as disruptive. Calls were made to align tax policy with Kenya's industrial vision and to adopt predictable, long-term measures that incentivize value addition and exports.

5. **Weak Enforcement and Regulatory Gaps**

While many pro-business laws exist, enforcement remains inconsistent. Panelists emphasized the need to close institutional coordination gaps, particularly across revenue, trade, and industry agencies.

6. **Counterfeit Goods and Sector Vulnerability**

Specific concerns were raised from the health sector regarding counterfeit imports, especially drugs, which not only result in business losses but also compromise patient safety. Participants urged the government to institute stronger pre-import verification and quality assurance mechanisms.

SESSION II: STRENGTHENING PRIVATE SECTOR ENGAGEMENT IN BUDGET-MAKING TO INFORM A RESPONSIVE FINANCE BILL

About the Session

This session aimed to deepen understanding of how the private sector can play a more structured and strategic role in Kenya's national and county budget-making processes. Recognizing that budgets are a critical tool for driving economic development and resource allocation, the session focused on identifying gaps in current fiscal planning, the impact of public debt trends, and opportunities to align budget priorities with private sector growth drivers. The goal was to generate actionable proposals for more inclusive budget formulation and the co-creation of fiscal policy that supports competitiveness, fiscal discipline, and sustainable development.

Key Deliberations and Insights

1. **Fiscal Imbalance and Crowding Out of Private Investment**

The discussion highlighted the rising cost of foreign debt due to negative credit ratings, which has led to increased reliance on domestic borrowing. While necessary, this shift has unintentionally crowded out private sector access to credit, undermining business expansion and investment. There was consensus on the need to manage debt prudently and explore alternatives that support both fiscal stability and private sector financing.

2. **Limited Private Sector Involvement in Budget Planning**

Participants emphasized that meaningful private sector input must begin early in the budget cycle—at the stages of the Budget Review Outlook Paper (BROP), Budget Policy Statement (BPS), and MTEF hearings—not just during the Finance Bill review. Early engagement would allow the business community to help shape realistic budget ceilings and influence allocations toward high-impact sectors.

3. **Promotion of Zero-Based Budgeting (ZBB)**

Zero-Based Budgeting was supported as a tool for improving public expenditure efficiency. By requiring every budget item to be justified from scratch, ZBB can help eliminate non-essential spending and redirect resources to development priorities such as infrastructure, agriculture, and SME support.

4. **Need for Clear Fiscal Governance Frameworks**

The session highlighted the importance of institutionalizing transparent and well-structured fiscal governance mechanisms. This would reduce ambiguity in how budget decisions are made, improve accountability, and provide a platform for consistent engagement between Parliament, the private sector, and the Treasury.

5. **Rethinking Kenya's Economic Identity and Comparative Advantage**

Panelists called for a reassessment of Kenya's comparative advantage across sectors such as agriculture, digital services, manufacturing, and logistics. A clearer national economic vision—reflected in budget priorities—would help sharpen the country's competitiveness and attract targeted investments.

SESSION III: ENHANCING FISCAL PREDICTABILITY AND TAX EFFICIENCY FOR INVESTMENT CONFIDENCE

About the Session

This session aimed to examine the gaps and inefficiencies in Kenya's fiscal policy framework—particularly the exclusion of public-private dialogue—and propose practical reforms to support a more inclusive, transparent, and investment-friendly fiscal environment. By convening legislators and private sector stakeholders, the session sought to generate actionable proposals for improving tax policy, addressing systemic issues such as the VAT refund system, and contributing to the development of a Finance Bill that promotes business growth and economic stability.

The session concluded with a strong call for systemic fiscal reform. Panelists agreed that greater transparency, efficiency, and accountability in tax and fiscal management are essential to supporting private sector growth and national competitiveness. Strengthening public-private dialogue, institutionalizing impact assessments, and addressing longstanding inefficiencies like VAT delays and government arrears are key steps toward building a business-enabling fiscal ecosystem in Kenya.

Key Deliberations and Insights

1. **Lack of Policy Impact Assessment**

A strong consensus emerged on the need for robust impact analysis of both the national budget and tax legislation. The collapse of the Finance Bill 2024 was cited as a warning signal—largely attributed to limited stakeholder engagement, poor communication, and inadequate understanding of the proposed measures. The panel stressed that future fiscal proposals must be preceded by data-driven assessments and transparent dissemination to avoid misinformation and build public trust.

2. **Delayed Government Payments to Suppliers**

One of the most pressing concerns was the accumulation of unpaid debts by government institutions to private sector suppliers. These delayed payments have severely strained cash flows and disrupted business operations. Panelists called for the development and enforcement of clear policy guidelines to ensure timely settlement of government obligations, which would help restore confidence and financial stability across the private sector.

3. **VAT Refund Inefficiencies**

Participants criticized the inefficiency of the current VAT refund process, pointing to procedural bottlenecks at KRA and chronic underfunding by the National Treasury. Businesses—particularly exporters and SMEs—continue to suffer due to these delays. The panel proposed an automated, transparent VAT refund and relief system that would minimize human discretion, reduce turnaround time, and provide reliable liquidity support to businesses.

4. **Advance Pricing Agreements (APAs) as a Compliance Tool**

The adoption of Advance Pricing Agreements was recommended as a way to reduce tax disputes and foster compliance certainty, particularly for multinational and large domestic

6. Recommendations by Session

Session I Recommendations

- ✓ Clearly define Kenya’s economic model—whether trade- or manufacturing-driven—and align fiscal and trade policy accordingly.
- ✓ Avoid ad hoc tariff increases; instead, develop a predictable, stable taxation framework that supports long-term industrial growth.
- ✓ Incentivize local value addition and export diversification through strategic tax and trade instruments.
- ✓ Strengthen enforcement of existing pro-business laws and harmonize agency mandates for more efficient policy implementation.

- ✓ Develop stronger regulatory controls and quality assurance systems to protect local industries—particularly in sectors like health—from the impact of counterfeit imports.

Session II Recommendations

- ✓ Ensure early and consistent private sector participation in all phases of the budget cycle—BROP, BPS, and Finance Bill development.
- ✓ Promote adoption of Zero-Based Budgeting (ZBB) to eliminate wasteful expenditure and improve spending efficiency.
- ✓ Reassess and leverage Kenya's comparative advantages to guide public investment and budget prioritization.
- ✓ Improve scrutiny of budget assumptions to enhance realism, fiscal discipline, and developmental impact.
- ✓ Create a formal institutional framework for structured dialogue between Parliament and the private sector on budget planning and execution.

Session III Recommendations

- ✓ Institutionalize structured public-private dialogue in fiscal policy formulation to ensure inclusivity, transparency, and relevance.
- ✓ Establish clear impact assessment mechanisms for proposed tax and budget policies to evaluate their effects on businesses and citizens.
- ✓ Digitize and automate the VAT refund system to improve efficiency, reduce delays, and support business liquidity.
- ✓ Develop a binding policy for timely government payments to suppliers to restore financial trust and reduce the buildup of public sector arrears.
- ✓ Introduce Advance Pricing Agreements (APAs) to reduce tax-related disputes and foster a predictable tax environment for investors.
- ✓ Prioritize R&D and human capital productivity by increasing fiscal support for innovation, research, and skills development as core drivers of industrial competitiveness and long-term economic growth.

7. Conclusion and Way Forward

Ms. Carole Kariuki, CEO of KEPSA, Dr. Jas Bedi and Hon. Kimani Kuria closed the one-day retreat.

The retreat marked a pivotal step toward building a more inclusive, coordinated, and forward-looking fiscal and trade policy framework for Kenya. Discussions throughout the sessions reaffirmed a shared understanding that addressing the country's current economic challenges requires more than short-term fiscal fixes—it demands long-term structural reforms, stronger institutional coordination, and predictable policy instruments that support investment, competitiveness, and inclusive growth.

Participants agreed that the forthcoming Finance Bill 2025 presents a critical window to translate dialogue into action. This will require timely, sustained collaboration between Parliament, the private sector, the National Treasury, and development partners. Specifically, the implementation of the 19 priority recommendations captured during the retreat will serve as a practical roadmap to guide fiscal reforms, trade competitiveness, and budget alignment.

Going forward, it is essential to establish a structured mechanism for monitoring the adoption of these proposals, institutionalize impact assessments in the fiscal process, and ensure early, continuous private sector participation in budget and policy formulation. These steps are vital to ensuring that Kenya's fiscal environment is not only responsive to current realities but also adaptive to future economic shifts—positioning the country for resilience and sustained prosperity.

8. Annexes

1. Concept Note
2. Program
3. Issue Matrix
4. Picture Collage