The Simba ERA

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

Report

ROUNDTABLE ON ENABLING BUSINESS ENVIRONMENT HELD ON 8TH MAY 2025 AT THE NAIROBI SERENA HOTEL

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BACKGROUND

On 8th May 2025, the Serena Hotel in Nairobi hosted a pivotal Roundtable on Enabling Business Environment, organised by the Kenya Investment Authority (KenInvest) in collaboration with the Kenya Private Sector Alliance (KEPSA). The event brought together key stakeholders from the government, private sector, and development partners, including the World Bank Group, to address critical challenges hindering Kenya's investment climate and economic growth. The roundtable was convened against the backdrop of rising concerns over investment outflows to neighbouring countries, unpredictable regulatory frameworks, and fiscal constraints impacting the business environment. With Kenya's GDP growth outpacing global and regional averages, the discussions focused on sustaining this momentum through strategic reforms, enhanced Public-Private Dialogue, and robust policy interventions. The event aimed to foster collaborative solutions to strengthen fiscal policies, streamline regulations, and enhance Kenya's competitiveness as a regional investment hub, aligning with national development goals and global economic trends.

INTRODUCTION

Mr. John Mwendwa, Chief Executive Officer of KenInvest, started his remarks by reaffirming KenInvest's dedication to addressing investment barriers through consistent and progressive solutions. He highlighted the strategic partnership with the Kenya Private Sector Alliance (KEPSA) as a cornerstone for facilitating investment growth and fostering a conducive business environment in Kenya.

Remarks by Kenya Private Sector Alliance CEO - Ms. Carole Kariuki, EBS

Ms. Kariuki emphasised the organisation's role in convening diverse sectoral stakeholders to promote constructive dialogue. Reflecting on the previous year, she stressed the urgent need for Kenya to implement decisive measures to curb investment outflows to neighbouring countries. Ms. Kariuki called for a reassessment of the roles of the government, private sector, and development partners to strengthen fiscal policy and regulatory frameworks. Identifying the unpredictable and burdensome regulatory environment as a primary challenge for businesses, she underscored the importance of the roundtable as a platform for collaborative discussions to advance Kenya's economic interests.

Remarks by The World Bank Group - Ms. Elizabeth Kibaki

Ms. Elizabeth Kibaki outlined the institution's commitment to facilitating private capital mobilisation through three key pillars:

1. Dialogue: Promoting enhanced governance and the rule of law to foster a dynamic and enabling business environment amid evolving global and local landscapes.
2. Knowledge Sharing: Conducting a comprehensive Public Financial Management Review to guide both the private sector and government in strengthening fiscal practices collaboratively.
3. B-Ready Reforms: Implementing structured stakeholder engagement to assess and enhance Kenya's investment climate index.

She concluded by reaffirming the World Bank's commitment as a development partner in ensuring an enabling business environment and investment climate in Kenya.

Remarks by Principal Secretary, State Department for Investment Promotion - Abubakar Hassan Abubakar, CBS

PS Abubakar began by highlighting the role of the State Department of Investment Promotion in unlocking private sector issues, evidenced by the Business Laws (Amendment) Bill, 2025, currently tabled at the Senate. However, he noted, a significant gap in implementation tracking which the government and private sector need to actively work on together.

While addressing investment challenges, he highlighted some of the progress made by the government, which includes;

- **Payment of Pending Bills** – The National Treasury paid 400B out of the 600B owed to private sector members, and are working to pay the pending 200B.
- **VAT Refunds** – The provisions in the Finance Bill 2025, provide an offset mechanism for these refunds.
- **Illicit and Counterfeit Risks** – Strengthening of the Anti-Counterfeit Authority, and the introduction of an import levy to uphold standards and protect legitimate businesses.
- **Regulatory Overreach:** Review of regulatory obstacles by a CS appointed taskforce. A comprehensive report is expected.
- **Cost of Doing Business:**
    - *Energy:* Time-of-Use (ToU) tariffs are under review. Captive power generation is being encouraged in Export Processing Zones (EPZs) and Special Economic Zones (SEZs), with subsidised 10kWh tariffs.
    - *Capital:* Measures are underway to reduce interest rates and curb inflation.
    - *Taxation:* A new tax policy framework has been introduced to provide predictability.

As he concluded, he re-emphasised the State Department's commitment to ensuring a sustainable and predictable business environment.

Keynote Address by Principal Secretary, the National Treasury - Dr. Chris Kiptoo, CBS

Dr. Chris Kiptoo, Principal Secretary for the National Treasury, delivered a keynote address outlining Kenya's economic performance, fiscal challenges, and policy priorities. He provided a detailed assessment of the country's economic achievements and ongoing efforts to address fiscal constraints.

Dr. Kiptoo reported that Kenya had achieved a GDP growth rate of 5.7%, which had surpassed the global average of 3.3% and the Sub-Saharan African average of 3.7–3.8%. He noted that inflation had been managed effectively, having stabilised at 3.6%, within the government's target range of 5% (±2.5%). He also highlighted that foreign exchange reserves had increased to five months of import cover, and the Kenyan Shilling had stabilised at approximately 129 to the dollar. Dr. Kiptoo added that a Eurobond issuance, which had been oversubscribed at 400%, had strengthened market confidence.

However, Dr. Kiptoo acknowledged fiscal challenges, stating that revenue collection had reached only 95% of targets, contributing to a budget deficit of 5.3% of GDP, against a target of 3.5%. He mentioned that budget cuts of 344 billion shillings and a supplementary budget had been implemented, though constitutional obligations had limited further reductions. He outlined that upcoming priorities included tax reforms, which were expected to generate 70 billion shillings annually, and a debt management strategy to reduce vulnerabilities while maintaining public services.

Dr. Kiptoo stated that the government had introduced an e-procurement system for all the ministries, departments, and agencies, effective from July 1, 2025. He explained that this system had reduced transaction costs, enabled electronic bid submissions, and increased transparency for suppliers, while improving government compliance checks and procurement visibility, leading to cost reductions through competition. He added that accrual accounting, a Single Treasury Account, zero-based budgeting, and digital asset management had been planned to enhance financial efficiency.

Dr. Kiptoo announced that VAT for all exports had been zero-rated to boost competitiveness, though some items had been considered for exempt status, requiring careful implementation to avoid public misunderstanding and address tax fraud. He stressed that a comprehensive industrial policy had been urgently needed to guide tax regimes and economic decisions, calling for immediate collaboration to address past inconsistencies. He reported that 42 state-owned enterprises had been planned for merger into 18–19 entities to reduce duplication, with some reintegrated into ministries. He also stated that PPPs had been prioritised for infrastructure, citing the Nairobi Expressway's success and plans for a Mombasa-to-western Kenya road.

Dr. Kiptoo outlined that tax reforms through the upcoming Finance Bill, expected to generate 70 billion shillings annually, had been designed to be equitable and sensitive to economic impacts. He emphasised that a debt management strategy aimed to reduce vulnerabilities while ensuring public service delivery, supported by fiscal consolidation efforts, including a recent primary surplus. He also noted reforms in technology and human capital development, with positive CBK performance.

In conclusion, Dr. Kiptoo's proposed tax reforms and debt management strategies underscored the government's commitment to sustainable growth, ensuring Kenya could continue delivering public services while enhancing economic resilience.

PLENARY SESSION & Q&A ON THE BUSINESS ENVIRONMENT ISSUES:

Moderated by Ms. Susan Maingi, Chair KEPSA Trade and Industry Sector Board

Introduction

Ms. Susan Maingi, Chair of the KEPSA Trade and Industry Sector Board, moderated a plenary session of questions and answers involving stakeholders from various sectors and government representatives, including Dr. Chris Kiptoo, Principal Secretary for the National Treasury, and Mr. Joseph Ngugi from the National Treasury. The session focused on Kenya's proposed tax policy changes, fiscal consolidation efforts, and strategies to address economic challenges. This report summarises the key points discussed, presented in reported speech as conveyed during the session.

Dr. Chris Kiptoo and Mr. Joseph Ngugi reported that the government had aimed to reduce tax expenditures from 500 billion to 400 billion shillings by rationalising incentives and aligning with international taxation principles to boost revenue collection. They acknowledged concerns raised by stakeholders from the housing, telecom, energy, manufacturing, and education sectors regarding specific tax proposals, including the removal of incentives for affordable housing, restrictions on capital expenditure deductions for telecom, VAT on electricity, and taxation of education benefits. Dr. Kiptoo emphasised that collective effort had been essential to support fiscal consolidation and avoid debt default risks, committing to ongoing stakeholder engagement and transparent communication about the proposed tax bill.

Specific Sector's concerns:

Affordable Housing Policy

Ms. Rose Kananu from the Kenya Property Developers Association (KPDA) expressed concerns about the proposed removal of the 15% corporate incentive for affordable housing developers. She reported that, since 2022, KPDA had collaborated with the state department of housing, with 19 developers interested in delivering 13,000 housing units and 23 more expressing interest. She argued that retaining the incentive had been crucial to encourage private sector participation. She also highlighted a proposal to impose VAT on construction materials for affordable housing, which could increase costs.

Dr. Kiptoo responded that the government had sought to balance incentives with ensuring benefits reached intended recipients. He cautioned that blanket exemptions on construction materials had been difficult to enforce, as it had been challenging to verify their use solely for affordable housing projects.

Telecom Sector Concerns

A representative from Airtel Kenya, speaking on behalf of Airtel, requested tax deductions for capital expenditure on spectrum spending, noting that such allowances had been common globally. They raised concerns about a proposal to restrict loss carry-forward to five years, explaining that the telecom sector's large capital investments had required longer payback periods.

Energy and Manufacturing Issues

Mr. George Aluru from the energy sector highlighted that the proposed VAT on electricity, including solar power, had increased production costs. He suggested that essential inputs like electricity should have been considered for tax relief to support manufacturing growth and economic development.

A representative from Tononoka Group, a manufacturing company, emphasised the need to align policies on import levies for manufacturing inputs. They argued that the 17.5% export and investment promotion levy on raw materials should have been removed, as it had not protected local manufacturers of those inputs.

Education Sector Concerns

Ms. Jane Mwangi from the Kenya Association of International Schools (KAIS) requested reconsideration of the proposed taxation of education benefits provided to teachers for their children's schooling. She explained that this taxation had made it difficult for schools to attract high-quality local and expatriate staff. She also raised concerns about new regulations requiring charitable trusts and schools to provide 10% free education to maintain tax-exempt status, requesting further dialogue to potentially relax these requirements.

Government's Tax Policy Rationale

Mr. Joseph Ngugi from the National Treasury explained that the government had aimed to reduce tax expenditures from 500 billion to 400 billion shillings by rationalising incentives. He reported that this had involved moving some items from exempt to taxable status and others from zero-rated to exempt, with the goal of increasing revenue collection. He emphasised that the government sterned to align with international taxation principles, particularly by zero-rating exports while ensuring locally consumed goods were appropriately taxed, aligning with global standards.

Dr. Kiptoo stressed that supporting the proposed measures had been critical to avoid debt default risks, warning that the current economic trajectory could have led to severe consequences without collective effort. He acknowledged that not all stakeholders had been satisfied with the proposals but urged tolerance and collaboration to address the fiscal challenges.

Dr. Kiptoo committed to continued engagement with stakeholders on tax and industrial policy. He reported that the government had planned to explain the tax bill in simple language to ensure transparency and accountability. He announced that further engagements, including sessions with universities and other stakeholders, would have been held to address concerns and refine policies.

Mr. Daniel Munda, CEO of the Nairobi International Financial Centre Authority, was introduced during the session. He announced that plans had been made to develop Nairobi as a major financial hub for Africa, with initiatives starting that year, supported by provisions in the finance bill.

WAY FORWARD / NEXT STEPS & PLAN OF ACTION

Dr. Vimal Shah KEPSA Trustee

Dr. Vimal Shah in his remarks stressed the urgent tax reforms needed to enhance Kenya's competitiveness. He criticised classifying VAT refunds as income or tax expenditure, proposing that KRA should have digitised refund verification. He had argued that incentives for long-term investments, like infrastructure, should not have been labelled tax expenditures, warning that current policies risked driving industries to neighbouring countries.

Dr. Shah had called for a multi-agency task force revival with KRA, KEBS, and anti-counterfeit agencies to curb illicit trade and boost tax collection. He had suggested zero-rating export levies to improve competitiveness, leveraging EAC, COMESA, and AfCFTA agreements.

Dr. Shah had voiced concern that Kenya's export competitiveness had been eroding due to increasing excise taxes and levies. He had proposed that all levies and excise taxes on exports should have been zero-rated to improve Kenya's position in global markets. He had also emphasised that leveraging regional trade agreements, such as the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the African Continental Free Trade Area (AfCFTA).

The following were the agreed action points;

1. The Kenya Private Sector Alliance (KEPSA), the Ministry of Investments, Trade, and Industry (MITI), and the National Treasury resolved to collaborate in developing a comprehensive industrial policy to guide Kenya's economic strategy and enhance competitiveness.

2. It was agreed that the National Treasury would organise sector-specific engagements with:

    - The manufacturing sector to address competitiveness challenges and streamline tax policies.
    - The education sector to review and refine the incentive framework for educational institutions.
    - The ICT sector to explore leveraging existing ICT infrastructure for economic efficiency.

3. Stakeholders committed to fostering collaboration to implement equitable tax reforms and a robust debt management strategy, aimed at reducing fiscal vulnerabilities while ensuring the continuity of essential public services.

4. The government resolved to fully implement the e-procurement system across all state entities to enhance transparency, reduce wasteful expenditure, and optimise public resource management.

ANNEX

- Dr. Chris Kiptoo's presentation: https://drive.google.com/file/d/1epaohsSLiAaNCbJ92PYFm9ec5wBW3rND/view?usp=sharing