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Budget 2016

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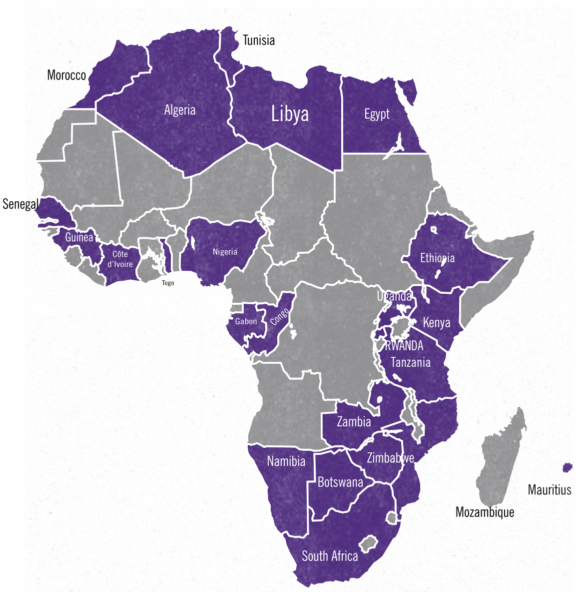

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Kenya

Budget 2016 / 2017

The Kenya Budget Statement for the Fiscal Year 2016/2017 was presented to Rev. Mutava Musyimi, the Chairman of the Budget and Appropriation Committee of the National Assembly, by Mr. Henry K. Rotich, Cabinet Secretary for Finance on 8th June 2016 under the theme *"Consolidating Gains for a prosperous Kenya."*

Analysts have projected that the Kenyan economy grew by 5.6% in 2015, in turn generating about 841,600 new jobs in the market, 42,600 more than in the previous year. Projections indicate a 6.0% long term growth and a 7.0% medium term growth in 2016. This strong growth is attributed to the ongoing infrastructural investments, increased investor and consumer confidence coupled with improved agricultural development. This has seen Kenya register stronger growth than its peers in sub Saharan Africa, seeing it ranked one of the 7 best countries to invest in and 2nd best market for retail investors in Africa. This is quite a commendable fete.

This years' budget also aims at improving the revenue collections by the KRA while at the same time, improve revenue administration. The introduction of a modern Excise Duty Act and Tax Procedure Act are also intended in yielding further revenue to the exchequer. On that note, the 2016/2017 financial year will see the Government expend and lend a projected Kshs. 2,264.8 Billion (30.6%) of the GDP, approximately 23% more from the previous FY where 1,842.7 Billion was expended. These figures for the FY 2016/2017 do however include externally funded development projects amounting to 413.6 Billion (5.6%) of the GDP. The targeted collections by the KRA stands at 1,332 billion (revised) as compared to 1,142 billion for the FY 2015/2016.

The Budget looks into furthering the gains made in the previous years to align itself with the onerous task to achieve Kenya's Vision 2030. The Budget then seeks additional tax measures in the following areas:

1. Promoting growth of industries and employment creation
2. Facilitating Infrastructure Development
3. Enhancing equity and fairness in the tax system and tax administration
4. Cushioning household budgets to ease the cost of living

Most noticeably in this Budget is the push to complete the already continuing infrastructural projects as opposed to new projects. It seeks to complete the Standard Gauge Rail as per schedule, complete existing roads projects, improve modernize security apparatus in line with the evolving technological advancement in security surveillance and most importantly, improve governance and eliminate the punitive high costs of doing business by increasing efficiency and effectiveness in service delivery.

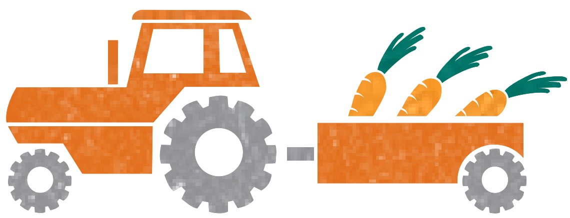
In this year's budget, resources have been allocated notably to infrastructure, agriculture, security, health, education, social protection and youth empowerment, small and micro enterprises for the youth and women, tourism recovery, sports, culture and arts, environmental conservation and devolution. These measures are intended to act as a stimulus to the economic growth of the country which will help boost growth and in turn create jobs.

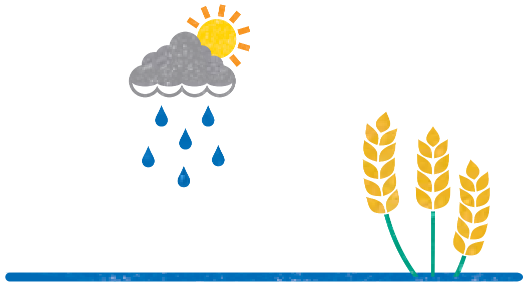
The FY 2016/2017 budget has prioritized the following areas;

- **Modernizing security apparatus** by the continued installment of security cameras, street lights and the establishment of the command and control center. Additionally, more police vehicles and bikes shall be acquired enhancing the capacity of the police force. This will then in turn increase the confidence by foreign investors and the private sector.

- **Improving Governance and Facilitating business** by taming corruption. The budget allocated more resources to the Department of Public Prosecutions (DPP), Ethics and Anti-Corruption Commission (EACC) and the Financial Reporting Center (FRC) in keeping its promise to weed out corruption.

- **Public Finance Management and Resource Management;** Regulations have been put in place to ensure a standardized financial management system to ensure accountability, transparency, effective, economic and efficient collection and utilization of public resources.





- **Business regulatory reforms and private sector development;** This is in the aim of reducing costs of doing business and encouraging private sector innovation, entrepreneurship and business expansion leading to high economic growth and consequently, the reduction of the poverty levels.

- **Infrastructure development and growth;** The government is keen on ensuring that the on-going projects are completed on schedule an at the same time embarked on rehabilitation of the already existing access roads and LAPSSET project. Road expansions in the city, SGR, development of Industrial Parks, expansion of container terminals and rehabilitation of 5 major airstrips. This is also expected to create jobs for the youth.

- **Public Private Partnerships;** The government is keen on using the PPP arrangement in accelerating infrastructure development by the use of the annuity approach, development of geothermal power, development of a sea port at Kisumu. Expansion of the Mombasa - Nairobi – Malaba Highway and construction of the second Nyali Bridge in Mombasa.

- **Youth development;** The government is cognizant of one of its greatest assets – the youth. The revamped National Youth Service has been used as an avenue of inculcating the culture of patriotism, service, civic competence and social cohesion. In line with this, and in addressing youth unemployment, the government shall be implementing the Youth Empowerment Programme, which is funded by the World Bank.

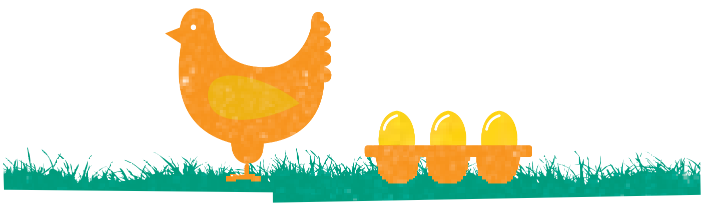
- **Use of ICT to enhance efficiency;** This will go a long way in improving service delivery and minimize transactional costs. Various government departments have been digitalized and available online. In addition, all payments to the government have been moved to the digital platform reducing the queuing time and other incidental costs. Notably, more than 1.7 million Kenyans are registered under the eCitizen payment platform with access to over 115 services from different government agencies.

- One of the key drivers of economic growth being the **manufacturing sector,** the government is keen to promote industrialization by establishing industrial and technological parks. These shall also be located along the SGR path way, within the proximity of the geothermal wells etc.

- Committing more resources towards a**gricultural transformation for food security** to reduce the reliance on rain fed agriculture so as to build resilience in the economy and ensure food security. The ripple effect of this will be lower food prices, increase quality and diversification of exports, accelerate inclusive growth, create jobs and reduce poverty;

- Continuous allocation of resources to enhance the quality of **education and health care systems.** This will be done with a view to having a more productive population with higher productivity for sustained growth. Hospitals have been better equipped with programmes like the free maternal care and preventive health care programmes being yielding significant success.

This budget seeks to consolidate the previous gains already made in the past, making Kenya among the fastest growing economies, whilst trying to achieve the vision 2030. It aims at creating a better business environment for all and increase investor confidence as it embarks in unlocking the full potential of the economy and achieve prosperity for all Kenyans whilst trying to achieve an upper middle income status. Despite this, very little has been mentioned on how to broaden the tax net from the existing 2 Million income tax payers supporting a 40 Million population. This is one of the measures of easily increasing the revenues by ensuring that not only do we rely on income tax from formal sector but also capture the informal sector to pay tax on income and not only VAT.

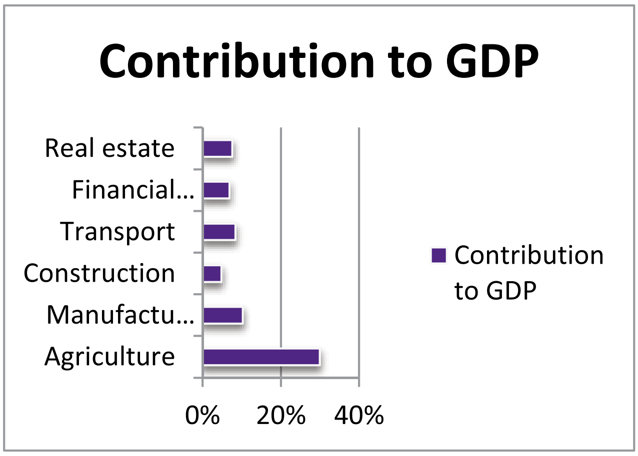


Economic Review
Kenya

Kenya Economy

The Gross Domestic Product (GDP) grew by 5.6% in 2015 compared to 5.3% growth in 2014. The GDP is projected to grow at 6.8% in 2016. World real GDP grew at 3.1%.

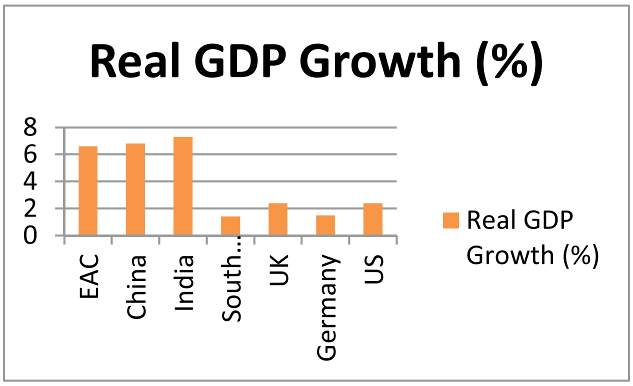
This expansion was as a result of significant growth in some key sectors among them agriculture; construction; real estate; and financial and insurance. However, growths in mining and quarrying; information and communication; and wholesale and retail trade decelerated during the same period.



Accommodation and food services was the only sector whose growth contracted by 1.3% which was however an improvement from the previous year decline of 16.7%.

Other key drivers included lower energy and transport prices which also saw inflation easing from 6.9% in 2014 to 6.6% in 2015.

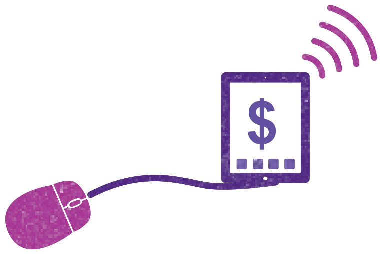
The current account deficit as a percentage of GDP narrowed from 14.5% in 2014 to 11.4% in 2015. This was due to a substantial growth in export of goods and services and a reduction in the import bill. The Kenyan Shilling depreciated against its major trading currencies during the review period but appreciated against the Euro, South Africa Rand and the Japanese Yen, respectively. Despite the monetary authorities adjusting the Central Bank rate (CBR), the weighted average interest rates on commercial banks loans and advances rose by 1.40 percentage points to 17.45 % in December 2015 compared to a rise of 15.99 % in December 2014. The volume of stocks traded at the Nairobi Securities Exchange (NSE) declined significantly from a high of 5,346 points in the first quarter of 2015 to 4,040 points in December 2015.



Real Estate

Several listed companies are diversifying into real estate to boost their earnings. This is due to a tough operating environment that has seen many of them record lower profits or losses all together. A good example is Express Kenya, which broke ground on a 15.8 acres' project in Nairobi's industrial area. Other listed companies that have diversified into real estate include, Eveready Kenya and Car & General. In addition to the tough economic environment, many companies are diversifying their business lines into real estate sector due to:

i. High returns – The real estate sector registered on average more than 20.0% in annual returns in the last 5 years as compared to the traditional investments with a 10.0% average annual return in the same period.
ii. Real estate hedge inflation – Rental rates and home prices rise with inflation
iii. Housing demand- Currently the Kenyan housing demand is approximately 250,000 houses per annum targeting the middle and low income earners hence creating an opportunity for institutions to venture into real estate to curb it.



Kenyan Economic growth in 2015

5.6%

Banking

In 2015 the Central Bank of Kenya (CBK) undertook several policies to support price stability and economic growth. Through the Monetary Policy Committee (MPC), it focused on achieving and maintaining stability in the general price levels and raised the Central Bank Rate (CBR) from 8.5 % to 10.0 % in June, and further to 11.5 % in July, 2015 to contain incipient inflationary pressures and stem exchange rate volatility.

Agriculture

Performance of the agricultural sector in 2015 improved against a backdrop of good weather and abundant rainfall, hence Gross Value Added improved from 3.5% in 2014 to 6.2% in 2015. This was largely achieved through improved crop and livestock production over the review period. Maize production increased by 9.0 % from 39.0 million bags in 2014 to 42.5 million bags in 2015. Sugar cane production increased by 4.6 % from 6.5 million tonnes in 2014 to 6.8 million tonnes in 2015. The quantity of horticultural exports increased by 8.4% from 220.2 thousand tonnes in 2014 to 238.7 thousand tonnes in 2015. Export earnings from horticulture rose by 7.6% to KES 90.4 billion in 2015.

The volume of marketed milk increased by 10.9% from 541.3 million litres in 2014 to 600.4 million litres in 2015. Earnings from milk sales during the review period rose by 10.0% to KES 20.7 billion in 2015. However, tea production declined by 10.3% from 445.1 thousand tonnes in 2014 to 399.1 thousand tonnes in 2015. However, the crop earnings increased by 39.5 % from KES 84.9 billion in 2014 to KES 118.4 billion in 2015. Coffee production declined by 16.0 % from 49.5 thousand tonnes in 2013/14 to 41.6 thousand tonnes in 2014/15. Coffee earnings also declined from KES 16.6 billion in 2014 to KES 12.1 billion in 2015.

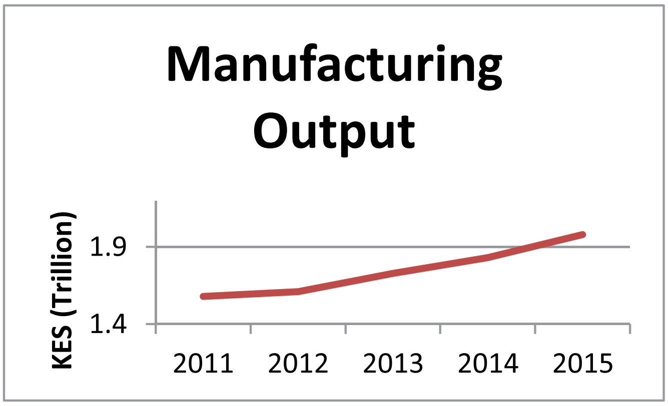
Energy

In 2015, the energy sector witnessed a steady rise in global crude oil and other liquid inventories. Murban crude prices decreased to an average of USD 52.53 per barrel in 2015, from an average of USD 99.45 per barrel in 2014. The volume of petroleum product imports increased marginally from 4,409.0 thousand tonnes in 2014 to 4,431.7 thousand tonnes in 2015. However, the total import bill for petroleum products declined by 32.6 % to KES226.1 billion during the same period.

Total installed electricity capacity increased by 6.3 % to 2,333.6 MW, while total electricity generation expanded by 4.1 % to 9,514.6 GWh in 2015. Demand for electricity increased from 7,415.4 million KWh to 7,826.4 million KWh during the same period.

Manufacturing

The sector's real output grew by 3.5 % in 2015 compared to a slower growth of 3.2 % in 2014. This was attributed to reduced production costs arising from lower cost of petroleum and electricity inputs. The manufacturing quantum index recorded a slower growth of 3.9% in 2015 compared to 6.3 % registered in 2014. This increase was mainly driven by increased production of pharmaceutical products; beverages; meat and meat products; and non-metallic minerals and plastic products. Producer Price Index (PPI) increased by 3.91% in 2015 compared to an increase of 3.03% in 2014, mainly due to high cost of imported raw materials arising from depreciation of the Kenya Shilling against major currencies.



Formal employment in the sector rose by 2.7 % from 287.4 thousand persons in 2014 to 295.4 thousand persons in 2015. The Export Processing Zone (EPZ) program recorded improved performance in employment, exports, imports, and expenditure on local goods and services, with total sales increasing by 12.1 % to KES 64.1 billion in 2015. Export of apparel under the African Growth and Opportunity Act (AGOA) increased by 14.4 % to KES 34.6 billion in 2015.

Building and Construction

The country witnessed a thriving building and construction sector in 2015 registering a growth of 13.6 % in value added. Formal employment in the sector grew by 11.4% to stand at 148.0 thousand in 2015 up from 132.9 thousand in 2014. Total proposed development expenditure on roads increased by 79.2 %. Consequently, the index of Government expenditure on roads increased from 263.4 in 2014 to 386.7 in 2015 to support projects being undertaken during the year.

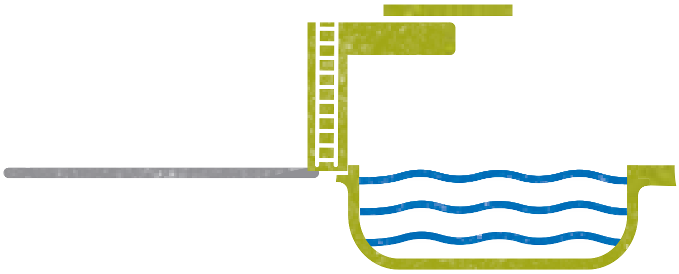
Cement consumption went up by 9.9 % in 2015 in tandem with the growth in the building and construction sector. Total construction cost index increased by 4.9 % compared to an increase of 10.1 % in 2014, mainly attributable to the fall in fuel prices, a key input component of the index. The index of reported private building works completed in major towns rose from 341.4 in 2014 to 367.1 in 2015. In addition, the index of reported public building works completed in main towns registered an increase from 106.1 in 2014 to 116.2 in 2015. Loans and advances to the sector increased by 32.3 % from KES 80.4 billion to KES 106.4 billion in 2015.

Tourism

Tourism earnings went down to KES 84.6 billion in 2015 compared to KES 87.1 billion in 2014. Similarly, international visitor arrivals declined by 12.6 % from 1,350.4 thousand in 2014 to 1,180.5 thousand in 2015. The suppressed performance was on account of security concerns, particularly in the coastal region and restrictive travel advisories from some European source markets. Bed-nights occupancy decreased by 6.4 % from 6,281.6 thousand in 2014 to 5,878.6 thousand in 2015. However we still saw growth in the number of new International hotels opening up in the country.

Transport and Storage

The Transport and Storage sector output expanded by 6.4 % from KES 894.1 billion in 2014 to KES 951.4 billion in 2015. The road transport sub-sector posted a growth of 4.5% in output to KES 613.9 billion in 2015. The performance of the Port of Mombasa improved further during the period under review with the total



cargo throughput handled increasing from 24,875 thousand tonnes in 2014 to 26,732 thousand tonnes in 2015. Total container traffic handled rose by 6.3 %.

The air transport sub-sector recorded a growth of 1.3 % in total commercial passengers handled during the period under review compared to a growth of 7.9 % in 2014.

The performance of the freight transport segment of the railway transport sub-sector has been on the upward trend for the third consecutive year. Total cargo traffic grew from 1,509 thousand tonnes recorded in 2014 to 1,575 thousand tonnes in 2015. Similarly, the revenue earned from freight transport increased from KES 6.1 billion in 2014 to KES 6.2 billion in 2015. Passenger journeys and revenue from passenger traffic stream however declined further during the reference period.

Newly registered motor vehicles increased by 5.0% to 107,761 units in 2015. On the other hand, total motor cycles registered increased by 20.8% to 139,420 over the same period.

Information and Communication Technology

The value of Information Communication Technology output expanded by 8.1 % from 259.0 million in 2014 to KES 280.0 million in 2015. Digital TV stations increased from 36 in 2014 to 62 in 2015 following successful completion of the digital migration.

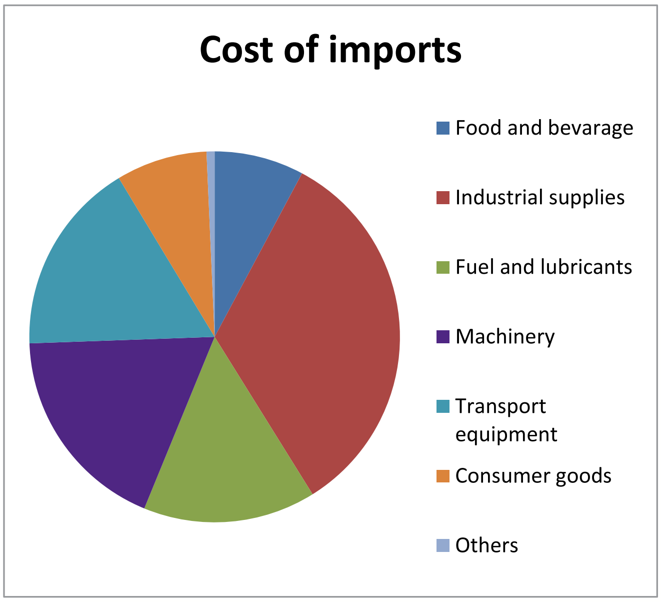
In 2015, mobile telephone subscriptions increased to 37.7 million subscribers, resulting to penetration rate of 85.4 %.
Internet subscriptions increased significantly from 16.4 million in 2014 to 23.9 million in 2015. The number of licensed Internet Service Providers (ISPs) increased from 177 in 2014 to 221 in 2015. Data speed for computer modems and transmission carriers increased by 66.9% to 20,293 bits per second per capita (BPs/person) owing to accessibility of fiber optic.

The number of mobile money transfer service subscribers grew to 26.8 million in 2015. Total amount of money transacted through mobile money platform expanded by 18.7 % to KES 2,816 billion over the review period.

International Trade and Balance of Payments

Total exports rose by 8.2% to KES 581 billion in 2015, while total imports declined by 2.5% to KES 1,578 billion. This resulted to the balance of trade improving from a deficit of KES 1,081 billion in 2014 to a deficit of KES 997 billion. The volume of trade increased marginally from KES 2,156 billion in 2014 to KES 2,158 billion in 2015.

Africa remained the leading destination of the country's exports accounting for 41.7% of the total exports at KES 242 billion, with exports to EAC partner states accounting for 52.3% of the total exports to Africa. Europe was the second leading destination of exports, accounting for 25.1% of the total exports at KES 146 billion. Asia was the main source of imports in 2015, accounting for 62.2 % of the total value of imports, with China being the main source of imports.



Income Tax
Kenya

To facilitate the income tax reform agenda, the Cabinet Secretary in his budget speech made a few proposals ahead of the complete Income Tax Act review expected in the coming financial year.

Incentive to employers engaging the services of apprentices

Last year there was a tax incentive for employers who engage apprentices (interns). The Cabinet Secretary has now proposed to gazette clear regulations that will facilitate implementation of this incentive.

An employer who engages at least 10 graduates will be allowed an extra 50% cost of the apprentice emoluments in addition to the normal allowable emoluments.

This is in a bid to encourage corporate entities to pass on relevant skills by training and developing fresh graduates to enable them to acquire appropriate job skills and alleviate the current unemployment situation among the youth.

Tax incentive for housing developers

Given the increase in the demand for decent low cost housing in urban centers, the Cabinet Secretary has proposed an incentive to encourage investors to venture in this sector by reducing the rate of corporate tax from 30% to 20% for developers who construct at least 1,000 units annually.

This will go a long way in improving this sector by bridging the gap between the demand and supply of the low cost housing.

Administration of the new rental income tax regime

A simplified taxation regime of rental income was introduced in the last financial year. The Cabinet Secretary has now proposed to Gazette rules to facilitate the implementation of this law. The CS has proposed to introduce a minimum taxable rental income of KES 12,000 per month in order to reduce the administrative cost of revenue collection.
In addition, the Cabinet Secretary proposes to empower the Commissioner to appoint withholding tax agents for rental income taxation.

These measures are meant to encourage landlords to fully disclose their rental income and to streamline the implementation of the residential rental income tax regime.

Regarding the proposal by the CS to legislate rules around the taxation of residential income tax; we expect that these will bring clarity on certain grey areas such as:

- What exactly constitutes gross rent
- What penalties and(or) interest are chargeable for non-compliance
- Whether or not the tax charged on residential rental income is final tax
- Mechanisms for handling disputes between the taxpayers and the tax authority

Tax amnesty for income earned and assets held overseas

For the taxpayers who have investments outside the country and are unwilling to reinvest it in Kenya, the Cabinet Secretary has proposed to declare an amnesty for such taxpayers provided they submit their returns and accounts for the year of income 2016 between 1 January 2017 and 31 December 2017.

The principal tax, penalties and interest for the year of income 2016 and prior years will be waived. This will encourage investors to declare their income earned.

Exemption on bonuses and overtime to low income earners

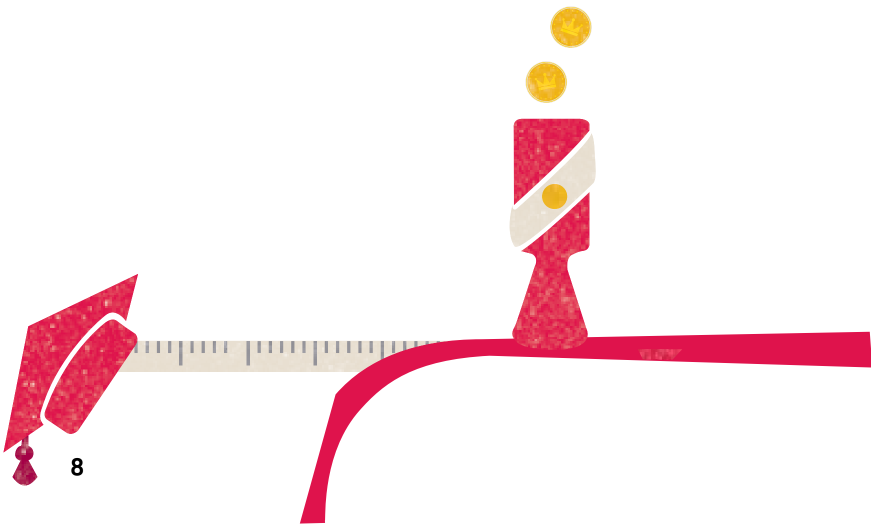
The Cabinet Secretary proposes to exempt tax on bonuses, overtime and retirement benefits paid to workers in who fall under the lowest income tax band.

The proposal is meant to cushion the low income earners from the high cost of living and demonstrate the government commitment to sharing the growth of our economy with the common mwananchi.

Expansion of Tax bands and increase in Tax relief
The highly anticipated expansion of tax bands has finally seen the light of day! The Cabinet Secretary has proposed to expand the tax bands and increase personal relief by 10%.

Presumptive Income Tax

The Cabinet Secretary has proposed re-introduce presumptive tax in a bid to net the informal sector. These are estimates of tax payable that are used in dealing with incomes or activities that are hard to tax. More details need to be shared on the modalities of this.



Value Added Tax

Kenya

Rates of VAT

The changes proposed in the VAT regime are seemingly focused on improving the cost of living of the common Kenyan.

VAT Exemption on clothing items from EPZs

The cabinet secretary has proposed to exempt from VAT garments and leather shoes sold locally from the export processing zones. This will enable Kenyans afford new clothes and shoes. However, EPZs can only sell a maximum of 20% of their production in the local market.

The change is a double-edged sword that one hand is favorable to the average Kenyan who wants to move from second hand clothing commonly known as “mitumba” to brand new clothing and at the same time reducing the income of the “mitumba” dealers and possibly loss of employment.

Entry fees to national parks and Commissions earned by tour operators to be exempt from VAT

The tourism sector has been adversely affected by the travel advisories issued towards Kenya by various nations. In an effort to revamp the sector, the Cabinet Secretary proposed to exempt the park fees and commissions to tour operators.

The exemption will definitely reduce the cost of tourism and encourage more Kenyans to participate in local tourism. The players in the tourism industry including travel agents will enjoy more business with the reduced costs.

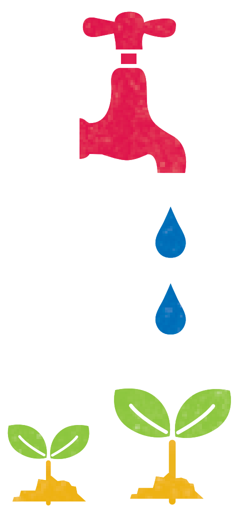
Increase in Air Passenger Service Charge

The Cabinet Secretary has proposed Increase in Air Passenger Service charges from USD 40 to USD 50 for international travel and KES 500 to KES 600 for local travel. The increase will be channeled into a special Tourism Promotion Fund to be used specifically for promotion of the tourism industry.

The proposed increase in fares is rather insignificant hence no foreseen reduction in demand is expected. The government will be able to collect significant amount of revenue which will be used for promotion of our tourism sector and consequently more business.

VAT exemption of service charge in the hotel industry

The exemption of service charge from VAT is a welcomed change in the hotel industry. VAT on service Charge was introduced by the VAT Act 2013 whether distributed to employees or not. In the previous VAT regime, VAT was chargeable only on the portion of service charge that was not distributed to the employees.



Kenya Union of Domestic, Hotels, Educational Institutions, Hospital and Allied Workers (KUDHEIHA) lost a case against the KRA, Commissioner of Domestic Taxes and the Attorney General in February 2014 at the high court challenging the legality of VAT on service charge. The workers complained of reduced income as a result of the introduced VAT. The exemption must be a huge relief to the industry.

Withholding VAT Agents

In the current year, some tax payers received notification from KRA appointing them as withholding VAT agents. The move was met with a lot of criticism as the newly enforced Tax Procedures Act had deleted the section of the VAT Act 2013 that effected the appointment of the Withholding VAT agents.

We expect amendments of the Tax Procedures Act to reintroduce the section which will explicitly give the KRA the mandate to appoint withholding VAT agents. The KRA may issue new letters to the already appointed agents which will be in tandem with the expected change.

VATable goods now exempt

The below goods were subject to VAT at 16% but now proposed to be exempt:

1. Liquefied Petroleum Gas - The Cabinet Secretary has proposed exemption of VAT on Liquid petroleum gas. This will make it an affordable, clean, safe and efficient household energy for Kenyans.

2. Animal feeds – The Cabinet Secretary has proposed to exempt from VAT all the raw materials used in the manufacture of animal feeds. The overall effect of the proposed change will be a reduction in the price of animal feeds. This will be a relief to the animal farmers and is expected to result in cheaper meat & milk produce for the population.

Customs & Excise
Kenya

The cabinet secretary in his budget speech for the year 2016 / 2017 proposes to introduce the below measures in a bid to encourage local manufacturers, create incentives in the agriculture subsector and protect our local industries from unfair competition.

Customs Duty

Amendments to the common external tariff (CET)

- In order to protect the local manufacturers of Iron and Steel Products the finance ministries increased the import duty rate

a) From 0% to 10% on Flat-rolled products or non-alloy steel.

b) From 10% to 25% on bars and rods, hot rolled, in irregularly wound coils, of iron or non-alloy steel and other alloy- steel

- c) From 10 to 25% on finished products Structures (including prefabricated buildings) and parts of structures (for example, bridges and bridge-sections, lock-gates, towers, lattice masts, roofs, roofing frame-works, doors and windows and their frames and thresholds for doors, shutters, balustrades, pillars and columns), of iron or steel; plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of iron or steel and screw, nuts and bolts.

- Due to global drop in prices for Steel and Iron products as a result of excess supply of the same, the Cabinet Secretary has introduced a specific duty at the rate of USD 200/MT specific products therefore attracting a duty of 25% or USD 200/MT for a period of one year pending a review of the decision.

- Made up Fishing nets – Import duty has been increased from 10% to 25% on a certain tariff in order to protect and incentivize local manufacturers.

- The increase in the above import duties was done after a study conducted by the EAC Secretariat establishing that there was sufficient local capabilities to manufacture the above products highlighted, therefore protecting local manufacturers.

- Smart Cards and Sim Cards – In order to promote local manufacturing, the Secretariat has increased import duty from 10% to 25%. Smart / Sim modules currently attract import duty at the rate of 10%.

- Worn Clothes and Other Worn garments – Specific duty on worn garments has been increased from USD 0.20 per kg to USD 0.40 per kg which is equivalent of the current advalorem rate which was maintained at 25%.

- The minister of finance further split the tariff 6309.00.00 for Worn Articles into worn clothes, worn footware and other worn articles.

- Aluminum Cans- Import duty on cans has increased to 25% from 10%. This is as a measure to encourage local manufacturing of aluminum cans.

- Oil or Petrol Filters for Engines – The rate of import duty has been increased from 10% to 25% on Oil or Petrol Filters and Air Filters. This is a result of the Secretariat establishing that there is sufficient capacity in the region to produce the same locally which will also attract investors in this sector.

Reduction in Duty Rates

- Energy Efficient Stoves – The Minister of Finance has reduced import duty on Energy Efficient Stoves that use solid fuels from 25% to 10%. This reduction in duty is for stoves that use gas, electricity or other fuel. This is to encourage usage of energy efficient stoves.

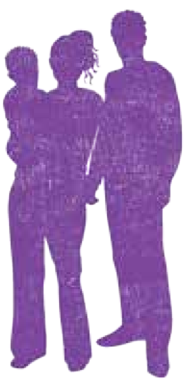
Duty Remissions (EACCMA)

- Inputs for the manufacture of matches – The Council reduced import duty on inputs used in the manufacture of matches to allow gazetted manufacturers in the region to permit imports of the input at a rate of 0% under the duty remission scheme.

- This is to encourage investment in this sector which will then create local employment and protect low forest cover in the region.

- Nylon Yarn – Import duty on inputs of Nylon Yarns has been reduced to 0% from 25% for gazetted manufacturers in the region, mainly those manufacturing socks. This is to encourage local manufacturers in the region and create employment also attracting investment in the sector.

- Trigger Sprays and Lotion Pumps – Import duty has been reduced to 10% from 25% for gazetted manufacturers in the region. The import duty has been reduced to cater for spray cans for lotions and similar products as the same is not available locally.



- Inputs for Manufacture of Solar Equipment – Inputs used to for the manufacture of Specialized solar equipment and deep cycle batteries will attract duty of 0% while the import of Specialized Solar Equipment and Deep Cycle batteries remain to be exempt from import duty. This is to encourage local manufacture of the same.

- Bars and Rods for Manufacture of Automobile Accessories – Import duty on raw materials for manufacture of bolts, nuts and leaf springs has been allowed at a rate of 0% under the duty remission scheme for gazette manufacturers for the specified accessories. This is to encourage local production of bolts, nuts and leaf springs as import of the same has increased duty.

- Aluminum Plates and sheets for manufacture of Cans – The council has agreed to remit import duty on Aluminum plates and sheets to allow gazetted manufacturers in the region to import the inputs at a duty rate of 0% from 25%. This is to encourage local manufacture of the cans and attract investment in the sector.

- Motor Cycle Kits – Gazetted Motor Cycle Assemblers were granted duty remission to import motor cycle kits at an import duty rate of 10% for a period of one year.

- Wheat Grain – Kenya has been granted a duty remission on import duty at a rate of 10% from 35% for gazetted millers for a period of one year. This is due to low production of wheat in the country. This amendment is as a measure to protect local millers in the country, however, affecting local producer of wheat.

- Inputs for Agricultural Equipment - Imports of agricultural equipment were previously deleted from the exempt schedule. The council has now decided to allow gazetted manufacturers to of Agricultural Equipment in the region to import inputs of the agricultural equipment to be imported at a rate of 0%. This will encourage assembling of the equipment to be done locally.

- Raw Sugar for Refining into Industrial Sugar – Under the duty remission scheme raw sugar will now be imported at a rate of 0% for a period of one year with a condition that the refined sugar will be sold only to manufacturers in the region except Tanzania. This is a result of existing capacity in the sugar factories in the region to refine raw sugar into quality grades suitable for industries currently importing the same.

- Duty Remission for Industrial Sugar – The council has decided to reduce the duty remission progressively on imports of industrial sugar as follows:

Financial Year	Duty Remission	Import Rate
2016/17 (Current)	85%	15%
2017/18	80%	20%
2019/20	75%	25%

- Currently manufacturers in the region are enjoying a duty remission of 90% which has increased dependency on imports and discouraged local manufacture. The above will eventually encourage local manufacture and reduce reliance on imports.

- Palm Stearin, RBD – The council has now removed Palm Stearin from the duty remission scheme as partner states are now no longer requesting for duty remission on this product.

STAY OF APPLICATION FOR THE CET (CUSTOMS EXTERNAL TARIFF)

The below table shows the items which have stay of application:

Item	Previous Duty Rate	Revised Duty Rate	Tariff Code	Specific Period (years)	Impact
Rice	75% or USD 345/ MT	35% or USD 200/ MT	1006.10.00,1006.20.00, 1006.30.00, and 1006.40.00		To encourage more importation of rice to meet demands
Revenue Stamps	0%	25%	4907.00.90		Protection of domestic manufacturers
Iron & Steel Structures	25%	25% or $ 250/MT whichever is higher	7308.90.99	1	Protection of domestic manufacturers
Screws, Bolts & Nuts	25%	25% or $ 250/MT whichever is higher	7318.15.00,7318.16.00 and 7318.19.00		Protection of domestic manufacturers
Paper & Paper Board Products	10%	25%	4805.19.00, 4805.91.00, 4805.92.00 and 4805.93.00	1	Protection of domestic manufacturers
Gas Cylinders	0%	25%	7311.00.00	1	Protection of domestic manufacturers, as Kenya is the only gas cylinder producer in the EAC

CHANGES TO THE 5TH SCHEDULE OF EACCMA

The following items have been exempted under the 5th schedule:

- Incinerators for use in hospitals to dispose hospital waste
- Blood collection tubes to make it affordable for hospitals and medical laboratories.
- Refrigeration equipment for use in hospitals mortuaries and county mortuaries including funeral homes for keeping dead bodies to make it affordable to the funeral homes and mortuaries in the region.
- HVAC Air conditioning equipment for use by pharmaceutical manufacturers

Other changes to the 5th schedule of the EACCMA:

- The term 'Spare parts and accessories' have now been deleted so as to disallow radios, television sets, laptops etc to be exempted for purposes of duty free importation
- Inputs for use in manufacture of agricultural equipment's were previously under EACCMA and now will be catered under the EAC duty remission scheme for gazetted manufacturers.
- In order to create jobs for local garment manufacturers, the 5th schedule was amended in relation to uniforms to encourage stitching of the uniforms locally for hospitals staff

EXCISE DUTY ACT 2015

COSMETICS
The first schedule of the excise duty act, 2015 has been amended by introducing duty on cosmetics and beauty products of specific tariffs at the rate of 10%.

MOTOR VEHICLES
In order to benefit first time car buyers the excise duty act, 2015 was amended by deleting specific duty rate and introducing advalorem rate of 20% on motor vehicles.

PLASTIC BAGS
The excise duty act, 2015 has been amended to increase the excise duty on all plastic bags of certain tariffs. However, vacuum bags for packing foods, juices, tea and coffee are excluded from the excise duty.

MINERAL WATER
The excise duty act, 2015 has been amended to clarify the definition of water for excise duty purposes. Hence ordinary water has been excluded from payment of excise duty.

ILLUMINATING KEROSENE
The First Schedule of the Excise Duty Act, 2015 has now been amended to include illuminating kerosene at the rate of Ksh. 7,205 per 1,000 litres @ 20 degrees centigrade.

OFFICIAL AID FUNDED PROJECT
The second schedule of the Excise Duty Act, 2015 was amended by including a provision for materials; equipment and motor vehicles imported or purchased locally for the implementation of the official aid funded projects.

Miscellaneous
Kenya

A. Financial Sector Reforms

The Cabinet Secretary in his Budget Policy Statement has proposed a raft of measures cutting across the various sections of the Financial Sector as detailed below.

Banking Sector

- The Government has drafted the Moveable Property Security Bill 2016 which provides for a legal framework for borrowing using moveable assets as collateral. This Bill is geared towards expanding access to credit in the economy. Section D below provides key highlights of this Bill.

- There is also development of the Electronic Collateral Registry where lenders are able to lodge their security rights on specific collateral through an online platform.

- Strengthen corporate governance in banks by proposed increase in monetary penalties from max Kshs 5m to max Kshs 20m, and allow for additional penalties for each day the violation continues.

- Facilitate cross border credit information sharing between Banks via proposed amendments to the Banking Act.

- Proposed strengthening of Central Bank of Kenya supervisory function and capacity building.

SACCOs

- Differentiate deposit taking SACCOs from the rest via proposed amendment to the SACCO Societies Act that will allow licensed deposit taking SACCOs to use the acronym Deposit Taking SACCO Society (DTS) or DTS-SACCO

- Facilitate cross border credit information sharing between SACCOs via proposed amendments to the SACCO Societies Act.

Capital Markets Sector

According to the Budget Paper, there is need to strengthen both primary and secondary markets for Government securities which constitute a major component of our capital markets. Proposed measures include:

a) Government Securities

- Introduction of electronic bond auctions which will spare investors from the current manual process of submitting paper bids

- Separating the retail and wholesale components of the market.

- Introduction of primary dealers and market makers.

- Introduction of mobile technology platform enabled M- Akiba Government Bond

b) Other measures

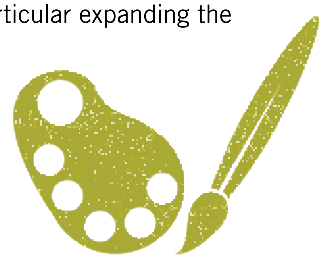
- Establishing an efficient horizontal repo market in the interbank funding market.

- Proposed gazetting of relevant regulations for effective and secure online forex trading by Kenyans

Insurance Sector

- Insurance players are expected to benefit from increased business following the Cabinet Secretary's directive for the enforcement of Section 20 of the Insurance Act which expressly prohibits placement of "Kenyan Business" with non-Kenyan or foreign insurance markets except under certain circumstances. Despite the existence of the law, imports into Kenya continue to be on a Cost, Insurance and Freight basis instead of the Cost and Freight Basis thus denying local insurance companies substantial business.

- To enhance the adoption of risk based solvency framework, the Cabinet Secretary further proposes additional amendments in particular expanding the



allowable forms of capital and reflecting the new gross premium valuation methodology across different classes of business

- Proposed reduction in settlement of insurance claims from 90 days to 30days

- Proposed inclusion of Shariah compliant products in the Insurance Regulations

Retirement Benefits Sector

- The Cabinet Secretary has proposed that the National Treasury as the Ministry charged with pension policy shall be working with all stakeholders so as to come up with a compelling framework that will ensure maximization of the benefits of pooling staff pension assets, facilitate mobility of staff across county governments and between national and county governments and bring on board universal norms and standards.

- In addition, Treasury is proposing facilitative amendments to the Retirement Benefits Occupational and Individual Regulations to allow for establishment of medical schemes that employees can access at retirement.

- Proposed legislative amendments to facilitate investment in new products such as exchange-traded derivative and listed REITS approved by Capital Markets Authority.

- Proposed extension of perpetual licenses framework to institutions licensed by the Retirement Benefits Authority

Regulatory/ Oversight matters

- The tabling of The Financial Services Authority Bill, 2016, which provides for much more than a simple merger of the existing non-banking regulators by encompassing issues of market conduct, financial services consumer protection and addressing regulatory gaps such as regulation of credit provision

- The Cabinet Secretary has availed for public scrutiny the Nairobi International Financial Centre Bill, 2016 which has already undergone extensive stakeholder consultation.

Key points of the above two bills are detailed in Section D below.

Affordable Housing

- Special focus has been placed on the provision of affordable housing to Kenyans.

- On the demand side, the Cabinet Secretary has gazetted a legal notice to provide a window for the National Security Fund to invest in prescribed financing vehicles for development of affordable housing. The Government is also working to put in place a mortgage Liquidity Facility which will provide long term funding to financial institutions e.g SACCOs

- On the Supply Side, the Government intends to operationalize incentives to facilitate developers of low cost housing.

Competition Authority

- The Cabinet Secretary has proposed that the Competition Act be amended so as to make it obligatory for stakeholders to provide information when requested to.

- He has further proposed that the Competition Act be amended to specify the financial penalty to be a maximum of 10% of the gross annual turnover which is in line with the international best practices and also regional competition agencies.

- An additional proposal is that the Act be amended so as to set a threshold in order to exclude mergers whose effect has no great impact on competition on restrictive trade practices from the provisions of the Act. This will greatly aid in reducing the closing period for Mergers and Acquisitions transaction that fall below the threshold to be set.

B. National Government Reforms

The Cabinet Secretary, in his Budget Policy Statement has made the following key pronouncements:

- All Public Finance Officers to serve in new stations for a maximum of three years and Procurement officers to undergo vetting

- Treasury has issued a notice directing all Public Entities to establish Internal Audit Committee with effect from 1st July 2016

- To operationalize parastatal reforms, the Government Owned Entities Bill is currently before Cabinet on its way to Parliament

- Allocate financial resources towards provision of decent housing to disciplined forces and enhancement of the security modernization program.

- To unlock accessibility of rural areas and farmlands, Treasury has earmarked for construction of 3,800km low volume seal roads

- Establishment of green industrial parks under the Special Economic Zones along the Standard Gauge Railway line from Mombasa to Western Kenya and within the proximity of geothermal wells

- Roll out the 10,000 acres Galana- Kulalu irrigation pilot model in the wider Galana –Kulalu area and other suitable areas countrywide.

- Entrench Buy Kenya Build Kenya in all procurement by enforcing the min 40 % local content rule.

- The Government Digital platform service offering to be enhanced and eCitizen payment platform to include assessment and payment of stamp duty, application for Identity Cards and inspection of Company files. Moreover, roll out of the Huduma Centres in the county and implementation of the Kenya National Electronic Single Window System are both 85% complete.

- To reduce the cost and improve the ease of doing business in Kenya, an Inter-agency Business Environment Delivery Unit has been established to coordinate business processes re-engineering for 6 out of 10 World Bank Doing Business Indicators.

- To enhance transparency, accountability and efficiency of social safety net programs, the Government has set up a single registry for the National Safety Net Program. In addition, there are plans to decentralize the registry to county level and empower persons with disabilities through training.

C. County Government Reforms

The Cabinet Secretary has also proposed in his Budget Policy Statement the following key initiatives:

- To enable County Government attract private sector funding, the Public Private Partnership Act is to be amended so as to recognize County Government as an independent procuring entity.

- To guide revenue raising measures, the National Treasury, jointly with all the relevant State agencies as well as the Council of Governors, has commenced a process to develop a National Policy and Legal framework.

D. Key Bills

The Nairobi International Financial Centre (NIFC) Bill, 2016

Summary:

The Bill is geared towards consolidating Kenya's position as a financial hub in the region by formulating framework for addressing bottlenecks and creating market infrastructure and fostering development. According to the provisions of the Bill, an entity which intends to operate as an NIFC firm shall apply to the proposed Nairobi International Financial Centre Authority, in the prescribed form so as to be considered.

Regulatory authorities includes but not limited to

- Central Bank of Kenya

- The Capital Markets Authority

- The Insurance Regulatory

- The Retirement Benefits Authority

- Sacco Regulatory Authority

The Financial Services Authority Bill, 2016

The Act is being established to provide uniformity in norms and standards in relation to the conduct of providers of financial products and services, In addition the Bill covers the establishment of the Financial Services Authority, the Financial Sector Ombudsman and the Financial Sector Tribunal, the promotion and maintenance of a fair and efficient financial sector in Kenya, and for connected purposes.

The National Treasury proposed the merger of the four regulators in the market namely; the Capital Markets Authority (CMA), the Retirement Benefits Authority (RBA), the Insurance Regulatory Authority (IRA) and the Sacco Regulatory Authority (SASRS) to be referred to as the Financial Services Authority (FSA). The main reason for the merger would be to strengthen supervisory ability, safeguard stability and enhance efficiency of financial sector regulators.

The Financial Services Authority will supervise the conduct of all financial markets players. This helps to ensure that industry players do not get opportunities to exploit gaps in regulations. The various Acts; (CMA, RBA, IRA, SASRS), were amended and integrated under the Financial Services Authority Act to form a standard guideline that is to be enforced.

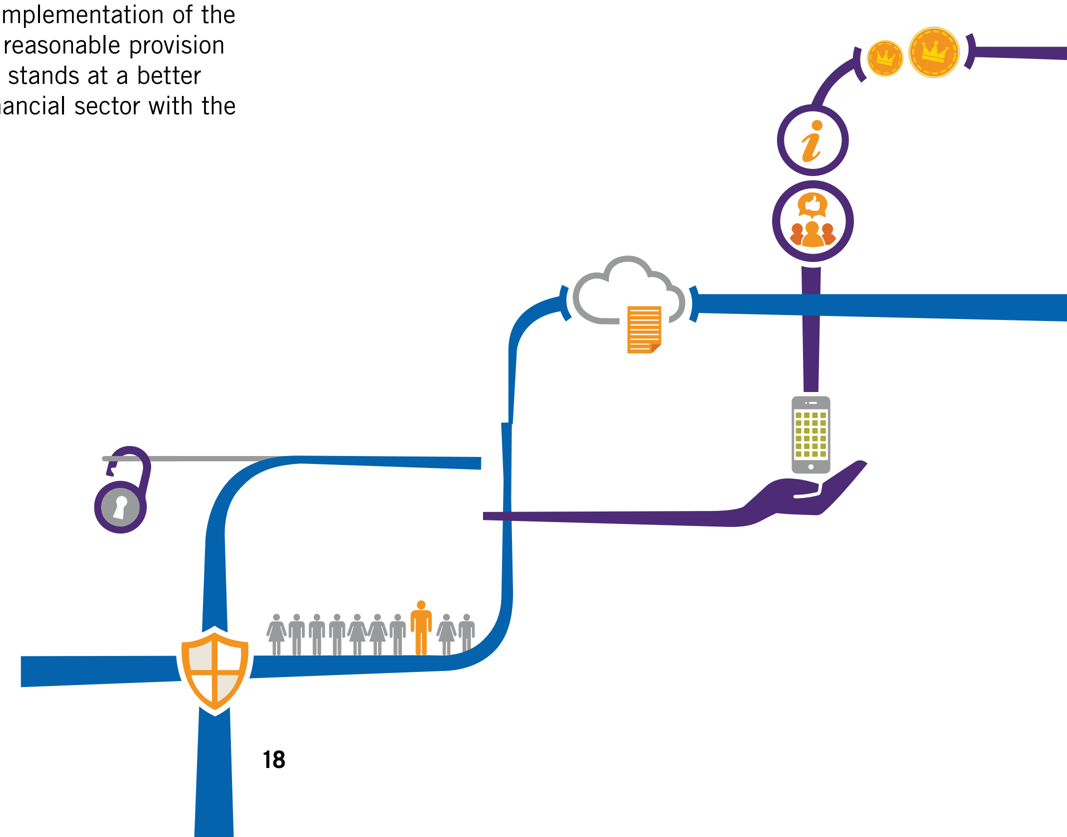
The consumers stand to gain with the implementation of the Act since it aims at promoting fair and reasonable provision of services. The Central Bank of Kenya stands at a better position to regulate and monitor the financial sector with the enactment of the new Act.

The Movable Property Security Rights Bills 2016

- The purpose of this Bill is to provide for the use of movable property as collateral for credit facilities. In addition the Bill provides a framework to establish the office of the Registrar of security rights, to promote consistency and certainty in secured financing relating to movable assets, to enhance the ability of individuals and entities to access credit using movable assets and to establish a Registry to facilitate the registration of notices relating to security rights in movable assets.

- The proposed Bill intends to govern each and every transaction that secures payment or performance of an obligation without regard to its form and the owner of the collateral. The Bill shall apply to chattels mortgage, credit purchase transactions, credit sale agreements, floating and fixed charges, pledges, trust indentures, trust receipts, and any other transaction that secures payment or performance of an obligation.

- The Bill also recognizes third-party effectiveness of a security. In this case, for a security right in any movable property to be effective against a third party, a notice with respect to such security right must be registered with the Registrar of Securities (to be created by the Act on it coming to operation).



Budget Highlights
Uganda

The Ugandan Budget Statement was delivered by the Hon. Minister of Finance, Planning and Economic Development on 8th June 2016. There have been many expectations from the re-elected government by the people of Uganda. The theme of this year's budget is **"Enhanced Productivity for Job Creation"**.

A. Change in Budget Cycle

In accordance to the Public Finance Management Act 2015, and owing to it being an election year, the Budget was approved by the 9th Parliament in 3rd May 2016. The Tax Amendment Bills were circulated to the public in the month of March this year.

B. Income Tax

Following amendments have been passed in the Income Tax (Amendment) Act 2016

- Where there has been a change in control of a company, (e.g. by way of merger or an acquisition) any losses shall be carried forward after the expiry of two years after the change in control and subject to the fulfillment of certain conditions.
- Section 88(5) has been amended to limit the benefits of lower deduction of WHT available under the DTAs to the persons' residents of that contracting state and when undertaking substantive economic activity in that country. However, public listed companies are excluded from the above requirements
- The resident persons who work for diplomatic missions will now be required to file the return of income even if their income is only from single employer
- International Centre for Research in Agroforestry (ICRAF) and International Potato Centre have been included in the first schedule of Income Tax Act, which will exempt their income from taxation
- Some amendments have been made in PART IXA, of the Income Tax, related to taxation of mining and petroleum operations to streamline the provisions with the intention of the law framer.

C. Value Added Tax

Following amendments have been passed in the Value Added Tax (Amendment) Act 2016

- A person undertaking midstream operations as defined by the petroleum (refining, Conversion, transmission and Midstream storage) Act 2013 is allowed to register for VAT during the gestation period before commencement of taxable supply
- Lamps and bulbs made from Light Emitting Diodes (LED) technology for domestic and industrial use are now subject to VAT by creating exception to the automatic exemption for items specified in fifth schedule of EAC Management Act.
- the tax payable on a taxable supply made by a supplier to a contractor executing an aid funded project is deemed to have been paid by the contractor provided the supply is for use by the contractor solely and exclusively for the aid funded project
- BPO companies will be allowed to take credit of input VAT on importation of services if those services are used in the course or furtherance of their BPO services.
- Power generated by solar which was exempt earlier is now made standard rated by repealing the exemption. The companies in the business of solar power generations will therefore, be able to claim input vat on the procurement of taxable supplies.
- Supplies of goods and services to the contractors and subcontractors of solar power, geothermal power, bio gas and wind energy projects have been made exempt from VAT.
- Supply of unprocessed wheat grain has been made exempt from VAT.
- Hullers, Oil press, Tillers, grain dryers, manure spreaders, fertilizer distributor, Transplanters, Juice presses and crushers, Seed and grain shellers, Silage chopper machines, color sorters for coffee, Coffee roasters - have been added in the list of VAT exempt machineries

D. Excise Duty

Following amendments have been passed in the Excise Duty (Amendment) Act 2015

I. Excise duty were increased as follows:

- On Soft Cup Cigarettes to UGX 50,000 from UGX 45,000 per 1000 sticks
- On hinge lid Cigarettes to UGX 80,000 from UGX 75,000 per 1000 sticks
- On Cigars, cheroots and cigarillos containing tobacco to 200% from 150%
- On Smoking Tobacco whether or not containing tobacco substitutes in any proportion to 200% from 160%.
- On homogeneous or reconstituted tobacco to 200% from 160%
- On other types of Cigarettes to 200% from 160%
- On ready to drink spirits to 80% from 70%
- On Motor Spirit to UGX 1100 from UGX 1000 per litre
- On Gas oil to UGX 780 from UGX 680 per litre
- On Cane or beet sugar and chemically pure sucrose in solid form to UGX 100 from UGX 50 per 100 kg
- On motor vehicle lubricant to 10% from 5%
- On sugar confectionaries to 20% from 10%
- On specialized hospital furniture to nil from 10%

II. The amendment has been made to allow manufacturers of medical or healthcare products (which are non-excisable) to seek a refund on excisable raw materials like alcohol which are used to make the products.

E. Non-Tax Revenue

- The stamp duty rate has been increased to UGX 10,000 from UGX 5,000 while executing instruments.
- Exchange of property will attract stamp duty of 1.5% instead of 1% of the total value.
- The registration fees for personalized number plate for motor vehicle has been increased to UGX 20 million from UGX 5 million.

F. Amendments in the Finance Act, 2016

- All the tax arrears of SACCOS up to 31st December, 2015 have been waived.
- The Uganda Revenue Authority shall be responsible for issuing Certificates of Origin required by section 111(2) of the East African Customs Management Act, 2004

Budget Highlights
Tanzania

BUDGET THEME – 'INDUSTRIAL GROWTH FOR JOB CREATION'

Economic Indicators

- GDP Growth – 7% in 2015, GDP Per Capita USD 966.50 (2015), target GDP growth rate of 7.2% in 2016;
- Fiscal deficit is projected at 4.5% of GDP in 2016/17 compared to an estimate of 4.2% of GDP in 2015-16;
- Tanzania scored 3.57 points out of 7 on the 2015-2016 Global Competitiveness Report published by the World Economic Forum;
- Recorded Budget Deficit of 5.10% of GDP in 2015;
- Average Inflation rate in 2015 was to 5.6% as compared to an average of 6.1% in 2014;
- 51.42% of budgeted expenditure for 2016-17 to be funded from internal revenue collections;
- 40% of expenditure to be development expenditure;

Changes in Tax Laws

- **Value Added Tax Act**

  » Inclusion of items in the list of Exempted Items –
  » Raw Soya Beans;
  » All unprocessed vegetables and unprocessed edible animal products;
  » Vitamins and food supplements;
  » Water treatment chemicals;
  » Bitumen (HS Code 27.13 and 27.15)
  » Aviation Insurance

- **VAT introduced on fee based financial services;**
  » VAT on Tourism Services introduced;

  » Excise (Management and Tariff) Act

  » Inflation rate of 5% adjusted upwards for items with specific excise duty rates on non-petroleum products such as soft drinks, locally produced fruit juices, imported fruit juices, local and imported beer, non-alcoholic beer, wine, spirits, cigarettes, lubricating oil, lubricating greases, natural gas;
  » Excise duty on bottled water and cigar remains unaffected.

  » Excise duty increased for imported furniture from 15% to 20%;

  » Excise duty introduced at 10% on commission received from money services;

- **The Income Tax Act**

  » Final gratuity to members of parliament to be taxable;

  » Gains on trading of shares of listed companies to be taxable;

  » PAYE rate reduced from 11% to 9% for low income group resulting in reduction of TZS 3,800 per month in PAYE tax;

  » Payment to retirement funds for leasing and lending to be subjected to withholding tax at the time of payment;

  » Commissioner General of Tanzania Revenue Authority to be vested with powers to determine rental income based on minimum market value for the purposes of withholding tax;

- » Administrative measures within TRA to be introduced with the aim to enhance tax collections;
- » Country wide use of Electronic Fiscal Device propagated and stringent penalties introduced for noncompliance including forfeiture of business license for a period of two years;

- **Vocational Education and Training Act**

  - » Skills and Development Levy rate reduced from 5% to 4.5%.

- **Motor Vehicles (Tax on Registration and Transfer) Act**

  - » Motor vehicle registration fee increased from TZS 150,000 to TZS 250,000 for motor vehicles and from TZS 45,000 to TZS 95,000 for motor cycle and tricycles;
  - » Personalized registration number fee increased from TZS 5,000,000 to TZS 10,000,000 for every three years;
  - » Tanzania Revenue Authority to be empowered to estimate tax and make valuation of properties, collect property tax, institute proper procedures for remittance of property tax, set procedure for dispute resolution arising from collection of property tax and review property tax exemptions;
  - » Various changes introduced in East African Community Customs Management Act in line with similar taxes imposed in member states;
  - » Various fees / levies charged by Tanzania Food and Drugs Authority (TFDA), Cotton Board, Tea Board, Coffee Board, Cashewnut Board, abolished.
  - » Taxes on Petrol, Diesel, Kerosene remain status quo, no increase.
  - » Tax Exemption granted to Armed forces withdrawn, allowances to be granted to armed personnel instead;
  - » Stamp duty rates remain unchanged;

All changes proposed to become effective 1st July 2016, unless otherwise proposed.

Budget Highlights
Rwanda

Rwanda Budget Review 2016

The Minister of Finance and Economic Planning, Claver Gatete, today presented to a joint parliamentary session the budget statement for the year 2016-17. Minister Gatete told parliamentarians that Government will spend RWF 1949.4 billion in the 2016-17 fiscal year, RWF 140.6 billion higher than RWF 1808.8 billion spent in 2015/16.

Government will finance 62.4% of its budget through domestic revenues amounting to RWF 1216.4 billion. This represents a slight increase of RWF 40.9 billion compared to RWF 1175.5 billion spent in 2015/16.

> **"The slight increase of domestic revenues reflect the effects of slow economic growth brought about by external shocks such as low commodity prices," Minister Gatete said.**

The remainder of the budget will be funded by external resources worth RWF 733 billion (37.6% of total budget). This represents a RWF 99.7 billion increase compared to RWF 633.3 Billion in the 2015-16 revised budget. External resources will come from budgetary grants (RWF 219.3 Billion), project grants (RWF 146.0 Billion) and Foreign borrowing (RWF 367.7 Billion)

Allocations

Expenditure allocation in the 2016/17 budget and the medium term has been made according to the second Economic Development and Poverty Reduction Strategy (EDPRS2) objectives and a large share has been allocated to the EDPRS2 sectors as follows.

Thematic areas have been allocated RWF 1,071.8 Billion representing 55% of the total budget for 2016/17 fiscal year. Economic Transformation takes the lion's share with RWF 517.1 billion (27%), rural development will be allocated RWF 256.5 billion (13%), Productivity and Youth Employment gets RWF 106.0 billion (5%) and Accountable Governance takes RWF 192.2 billion (10%). The foundational Sector which comprises of health, education, justice, peace, stability, food security, macroeconomic stability and public finance management among others will be allocated RWF 877.6 Billion representing 45% of the entire budget.

The Government has enacted fiscal adjustments to reduce the fiscal deficit from 5.4% of GDP in fiscal year 2015/16 to 3.9% in 2016/17. Minister Gatete noted that in the 2016/17 budget, adequate resources for priority programs and projects have been catered for. These include vital infrastructure projects that will reduce the cost of doing business, provisions for goods and services for smooth running of Government operations, as well as safeguarding social protection projects and programs to ensure a just society.

> **"High priority will be given to economic activities which will either increase export revenues or reduce import volumes. The identified key sectors for fostering economic activity include Textiles, garments and leather industry, agriculture export crops, agri-business, construction, livestock, wood industry, minerals, tourism and ICT and trade and investment facilitation," Minister Gatete said.**

Regarding import substitution, Government has selected key sectors namely cement, sugar, rice and clothing where it believes local production can reduce current imports while on-going export promotion efforts will be supported by the export promotion fund.

Medium term macro-economic policy objectives

The 2016-17 Budget theme 'Fostering growth while increasing exports and boosting made in Rwanda goods and services' signals government's resolve to tackle diminishing commodity prices and rising import bill that have adversely affected export earnings and put pressure on foreign exchange reserves.

To this end, Government has put in place medium term policy adjustments to mitigate the effects of external pressures. It has requested financing from the International Monetary Fund's Standby Credit Facility amounting to US$ 203 million to help keep external reserves above the critical level of three months' worth of imports during this adjustment period.

While the external financing from the IMF is only temporary, it will ensure the implementation of all extensive medium term policies aimed at addressing the external imbalances as laid out in the latest national export strategy.

Budget Highlights
Burundi

Burundi Budget Review 2016

The general budget of the Republic of Burundi for the year 2016 was prepared in a context marked by a slowdown in economic activity. However, a recovery in activity is observed in the sectors of the economy that contribute to economic growth.

During the 2016 fiscal management, fiscal policy will consist of strengthening financial resources and capacity building for the staff of the Burundi Revenue Authority (OBR) in order to increase the level of recovery for internal and external resources.

These resources will be directed mainly in the priority areas of the Government while maintaining the level of achievement in the social sectors. As part of the operationalization of the decentralization policy, the

Budget Item	Billion FBU
Income	
Tax revenue excluding exemptions	613.00
Non-tax revenue	62.80
Donations Projects	382.20
Other Sources	68.60
	1,126.60
Expenditure	
Current expenditure	736.50
Investment expenditure	519.10
	1,255.60
Deficit	**129.00**

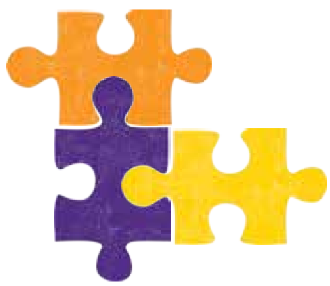
Government will provide every municipality with a grant of 500 million Burundi francs in 2016 for the implementation of the activities contained in the Municipality Plan for Community Development (PCDC).

Given the delicate situation, the Government will pursue a careful policy of austerity and for that reason; some actions will be taken into account:

- Strict management of exemptions with no public procurement to be exempted of taxes;
- As part of the implementation of the harmonization of wages policy, an equity policy involving national solidarity will be introduced. Thus, all the annals will be frozen and a amount of 20 billion Burundian francs is part of the 2016 budget;
- The Charroi Zero policy will be reviewed to improve its implementation ;
- All organizations / associations and projects receiving external support in foreign currencies will have to open their accounts at the Central Bank (BRB) and all accounts already opened at commercial banks by such organizations will be closed, etc.
- And in order to increase revenues, the Burundi Revenue Authority (OBR) will broaden the tax base, fight against fraud and tax evasion and step up the collection of arrears.

With regard to spending, the main objective of the fiscal policy will be directed to priority sectors of the Government and the maintenance of achievements in the social sectors.

The overall deficit amounting to 129 billion Burundi francs will be addressed by domestic and external financing.



Budget Highlights
East African Community

Economic Review 2016/17

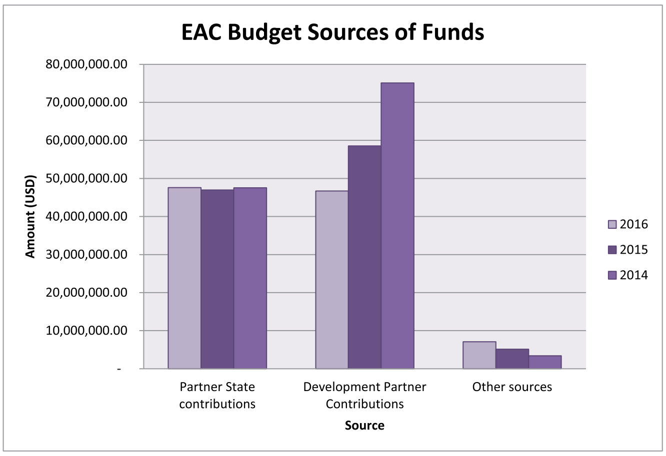
The East African Community (EAC) registered a decline in real GDP by 3.4% in 2015 compared to 5.8% growth in 2014. GDP growth fell short of the Sub-Saharan Africa average at 3.8% and was higher than the global average of 3.1%.

GDP growth was negatively impacted by uncertainty in general elections in Uganda and Tanzania as well as political instability in Burundi. Inflation eased down further to 5.5% in 2015 from 5.6% in 2014.

Budget Highlights 2016/17

The EAC Budget estimates for 2016/17 stand at US$101,374,589. This is a significant drop from the 2015/16 budget which stood at US$110,660,098. Development partner contributions fell further from US$58.6 million in the 2015/16 financial year to US$46.7 million in 2016/17. Partner state contributions stand at US$47.6 Million.

The EAC has undertaken a raft of austerity measures which has reduced expenditure. The main reason for this has been a delay by development partners in releasing funds promised from the last financial year. Only 30% of funds promised were released from budgeted amount in 2015/16.



Priority areas in the EAC 2015/2016 budget are:

1. Implementation of the EAC Single Customs Territory
2. Implementation of the EAC Common Market Protocol (especially the additional commitments on interconnectivity of border immigration systems and procedures across partner states, and enhancement of productivity and value addition in key productive sectors).

Key priority programs for 2016/17

1. Full implementation of the EAC Single Customs Territory
2. Enhanced implementation of the EAC Common Market Protocol especially in regard to: negotiating additional commitments and interconnectivity of border immigration systems and procedures across the Partner States
3. Development of cross-border infrastructure and harmonization of laws, policies and standards in the respective sub-sectors; implementation of a liberalized EAC Air Space; enhanced implementation of computerized weather prediction models; implementation of a One Network areas in Telecommunications; and convene 4th Head of State Retreat on Infrastructure, Development and Financing
4. Enhancement of productivity value addition in key productive sectors including regional agricultural and industrial value chains, and strengthen capacity for food security, natural resources, tourism and wildlife management
5. Institutional strengthening
6. Development and harmonization of policies, legislation, regulations and standards to establish an EAC Energy, Common Market, including work on an EAC Energy Exchange and finalize remaining energy interconnectors across borders
7. Implementation of EAC Peace and Security initiatives.

Amendments to the East African Community Customs Management Act, 2004

1. Increase in the import duty rate on cement from the current rate of 25 percent to 35 percent
2. Increase in the Common External Tariff (CET) rate on flat rolled products of iron or non-alloy steel from 0 percent to 10 percent
3. Increase in the import duty rate on Bars and rods of iron and steel from 10 percent to 25 percent
4. 4) Grant stay of application of CET rate of 25 percent on iron and steel products which are used in construction of bridges and bridge sections, classified under HS Code 7308.10.00 and instead apply duty rate of 0 percent for one year;
5. Grant the stay of application of CET rate of 25 percent on "automotive bolts and nuts" classified under HS Code 7318.15.00 and apply duty rate of 10 percent for one year
6. Grant duty remission to manufacturers of "bolts and nuts" classified under HS Code 7228.30.00 and 7228.50.00 by charging a duty rate of 0 percent instead of 10 percent.
7. Increase the import duty rate from 10 percent to 25 percent on made up fishing nets
8. Increase the import duty rate from 10 percent to 25 percent on "oil and petrol filters"
9. Grant duty remission of 0 percent to local manufacturers of motorvehicle "air filters".
10. Grant import duty remission of 0 percent on splints which are raw materials used in the manufacture of matches
11. Reduce progressively import duty remission levels on sugar and sugar confectionery from the current rate of 10 percent. Reduction of import duty rate will be as follows: 2016/17 the rate will be 15 percent; 2017/18 the rate will be 20 percent, and 2018/19 the rate will be 25 percent.
12. Increase the CET rate on Aluminium milk cans under HS Code 7612.90.90 from 10 percent to 25 percent
13. Grant duty remission to manufacturers of "Aluminium cans" on raw materials classified under HS Codes 7606.12.00 and HS Codes 7606.92.00 by charging a duty rate of 0 percent
14. Grant stay of application of EAC CET rate of 35 percent on Wheat (Wheat grain) under HS Code 1001.99.10 and HS Code 1001.99.90 and instead apply duty rate of 10 percent for one year
15. Increase the specific duty rate on worn clothes and shoes from 0.2 USD/Kg to 0.4 USD/kg.
16. Continue application of import duty rate of 25 percent or charge specific duty rate of USD 200 per metric tons, whichever is higher, for one year on Flat-rolled products of iron or non-alloy steel, bars, rods, sections, angles, shapes, and related products
17. Grant stay of application of CET rate under HS Code 1511.10.00 to manufacturers of crude edible oil and apply 10 percent instead of 0 percent for one year.
18. Increase Import Duty rate from 10 percent to 25 percent for one year on paper products

NOTES

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Grant Thornton wins award for best leadership development programme

Grant Thornton is honoured by this recognition," said Ed Nusbaum, Grant Thornton global CEO. "This award demonstrates that we have something special at Grant Thornton. Focusing on leadership development is a top priority as we continually look for ways to help our people unlock their potential for growth at work and in their communities. Congratulations go to all of our people globally for making us a success."

MPF Awards For Management Excellence 2015

Winner
Best Programme for Leadership Development

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“The judges were impressed with the rigour, detail and inclusiveness of the programme which sets it apart as this year's winner.”

Source – Managing Partner's Forum

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