



STAKEHOLDERS ENGAGEMENT WORKSHOP

REFORMING THE TAX POLICY AND INSTITUTIONAL MEASURES FOR KENYA

**GOK-AERC- UCPH-DERG ECONOMIC RESEARCH AND POLICY MAKING
PROJECT**

CONCEPT NOTE

November 30, 2023

1. Introduction

Kenya has experienced relatively steady economic growth and rising per capita incomes over the past decade. However, despite becoming a lower middle-income country in 2014, poverty levels in Kenya remain high with more than a third (34%) of the population living below the poverty line. In recent years, the economy has been hit by several large external shocks, including the COVID-19 pandemic (with GDP contraction in 2020, especially due to lockdowns) and the ongoing war in Ukraine, which led to sharply increasing commodity prices and high inflation, as well as rising interest rates. In addition, the worst drought in more than 40 years hit the country with almost six million people suffering acute food shortage. The cost of living for the average Kenyan has increased, income inequality is rising, business and foreign investments are decreasing as macroeconomic conditions deteriorate, and public debt (both domestic and external) becoming increasingly difficult to service. With lower credit ratings (Kenya's credit rating was downgraded from stable to negative by Standard & Poor), borrowing on both domestic and international markets has become more expensive, and Kenya is finding it increasingly difficult to attract foreign direct investment (FDI).

The new Medium-Term Plan (2023-2027) focuses on a 'bottom up' approach to economic management. The plan themed, 'Bottom-up Economic Transformation Agenda for Inclusive Growth' aims to reduce poverty, inequality, and unemployment by financially empowering poorer segments of society and promoting investments. The plan prioritises five areas with impact at the bottom of income earnings, including agriculture; micro, small and medium enterprises (MSMEs); housing and settlement, health care, and a 'digital superhighway' and a creative economy.

Faced with the current pressures and economic deterioration, the Government of Kenya (GoK) has announced measures to help close the fiscal gap, while protecting the vulnerable. At the same time, the GoK intends to meet all debt obligations. Reducing expenditures and enhancing revenues to contain the fiscal deficit will necessarily include both short-term measures to be implemented (almost) immediately and medium-term reforms, which will be realised over several years. To support both the immediate needs in policy making and longer-term reforms by providing quality evidence from up-to-date research on selected economic issues, with support from the Royal Danish Embassy in Nairobi, the African Economic Research Consortium (AERC) in partnership with a series of Kenyan partners such as the Kenya Institute for Public Policy Research and Analysis (KIPPRA), and the Kenya Revenue Authority (KRA), among others, supported by the Development Economics Research Group at the University of Copenhagen (UCPH-DERG), is undertaking a collaborative research project to support "home-grown" Economic Research and Policy Making in Kenya (ERPMK).

2. AERC-UCPH-DERG Research on Economic Research and Policy Making in Kenya (ERPMK)

The objective of the collaboration is to generate high-quality research, which can provide policy advice to decision makers in Kenya. Research activities will focus on several key areas of concern to the Government of Kenya - which include domestic resource mobilisation (including specific issues of both tax policy and tax administration); the informal sector and employment generation (rigorous economic impact analysis); Kenya's opportunities in global green value chains; and trade and industrial policy (how to pursue economic transformation). The findings will help serve as a basis and input to policy reforms in the National Treasury, thereby enhancing the evidence base for informed economic policy making in Kenya.

3. The Stakeholders Engagement workshop

The stakeholder's engagement workshop focuses on the tax related studies that are aimed at bringing about reforms in the tax policy, the tax instruments and how to optimize them to generate revenue in an equitable and cost-effective way. It is aimed at getting more input on the studies from the relevant key stakeholders. Based on the studies, the workshop will provide the stakeholders with a platform to discuss key policy areas to assist the Government of Kenya in its pursuit of necessary economic reforms.

4. Expected Outcomes

- i.) Tangible set of tax prepositions that can be applied and implemented in the Finance Bill.
- ii.) Ensure policy reforms are practical and revenue enhancing.
- iii.) Clarity on the reforms to be undertaken to redesign Kenya's tax system.