



STAKEHOLDER'S ENGAGEMENT WORKSHOP

GOK-AERC-UCPH-DERG Economic Research and Policy Making

Economic Research and Policy Making in Kenya (ERPMK)

Concept Note

March 8, 2024

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); droughts -which have increased in frequency and severity due to climate change; and the Russia – Ukraine war that led to fuel and food shortages thereby exacerbating post-pandemic inflation (from 6.1 % in 2021 to 7.7% in 2022) as well as raising the borrowing costs and interest rates. The recent economic shocks have led to narrowed fiscal spaces resulting from shock response spending, continued public investments and bulging recurrent spending leading to high debt levels, that require proper management for the attainment of inclusive growth and development goals.

The Government is following the – Bottom Up Economic Transformation Agenda (BETA) – as the economic management model to push economic recovery and address the long-standing socio-economic inequities. The approach focuses on those at the bottom of the pyramid to empower financially and promote investments, thereby reducing inequality, poverty, and unemployment, and enabling the poor contribute to economic development. The successful implementation of BETA requires significant flow of resources to support key initiatives in Housing, Agriculture, MSMEs, digital superhighway and health care.

In this regard, the Government of Kenya has prioritized the need to enhance domestic resources in the face of high debt levels and narrow fiscal space to finance its development agenda. Innovative domestic resource mobilization is critical for inclusive growth and a successful fiscal policy will enable fiscal space targeted towards debt resolution, capital accumulation and social protection programs. Therefore, research that will generate evidence-based economic policies, is crucial in informing policies to enable Government meet its objectives while following the BETA to economic management.

Overall, public revenues remain low in Kenya in both absolute and relative terms. Ordinary revenue collection as share of GDP declined to 14.1 percent of GDP in the FY 2022/23 from 18.1 percent of GDP in the FY 2013/14. Faced with the current fiscal pressures, the 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 and the Kenyan 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).

1. 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.

2. The Stakeholders Engagement workshop

The stakeholder’s workshop focuses on the tax related studies under the ERPMK programme that aim at bringing about reforms in the tax policy and the tax instruments with a view to generate additional revenue in an equitable and cost-effective way. The workshop is meant to get more input on the studies underway 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

3. 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.) Clarify the reforms to be undertaken to redesign Kenya’s tax system.