

DOING BUSINESS IN KENYA

REVIEW OF 2024 BUDGET POLICY STATEMENT

MSMEs & STARTUPS PERSPECTIVE



BACKGROUND

- SECTION 25 OF THE PFM ACT, 2012, PROVIDES THAT THE NATIONAL TREASURY SHALL PREPARE AND SUBMIT TO THE CABINET THE BPS FOR APPROVAL.
- THE APPROVED BPS IS SUBMITTED TO THE PARLIAMENT, BY THE 15TH OF FEBRUARY EACH YEAR. PARLIAMENT SHALL, NOT LATER THAN 14 DAYS AFTER THE BPS IS SUBMITTED, TABLE AND DISCUSS A REPORT CONTAINING ITS RECOMMENDATIONS AND PASS A RESOLUTION TO ADOPT IT WITH OR WITHOUT AMENDMENTS.
- THE CABINET SECRETARY, THE NATIONAL TREASURY AND PLANNING SHALL CONSIDER RESOLUTIONS PASSED BY PARLIAMENT IN FINALIZING THE BUDGET FOR THE FY 2023/24.
- ACCORDING TO SECTION 25 OF THE PUBLIC FINANCE MANAGEMENT ACT, 2012, THE BUDGET POLICY STATEMENT FOR FY 2023/2024 SHOULD BE SUBMITTED TO PARLIAMENT BY THE 15TH FEBRUARY 2024.

2024 BUDGET POLICY STATEMENT

- BPS IS A POLICY DOCUMENT THAT SETS OUT THE BROAD STRATEGIC PRIORITIES AND POLICY GOALS THAT WILL GUIDE THE NATIONAL AND COUNTY GOVERNMENTS IN PREPARING THEIR BUDGETS FOR THE FINANCIAL YEAR AND OVER THE MEDIUM TERM.
- THE 2024 BPS, THE SECOND UNDER THE KENYA KWANZA ADMINISTRATION, REAFFIRMS THE PRIORITY POLICIES AND STRATEGIES UNDER THE BOTTOM-UP ECONOMIC TRANSFORMATION AGENDA (BETA) AND PRIORITISED IN THE FOURTH MEDIUM TERM PLAN OF THE VISION 2030.
- FURTHER, THE 2024 BPS PREPARED AGAINST THE FOLLOWING REPORTED EXTERNAL SHOCKS; GLOBAL SUPPLY CHAIN DISRUPTIONS DUE TO ONGOING CONFLICTS IN EASTERN EUROPE AND THE ISRAELI-PALESTINIAN WAR; HIGH INTEREST RATES LIMITING ACCESS TO CREDIT AND EXACERBATING DEBT SERVICING COSTS; SIGNIFICANT LOSSES AND DAMAGES DUE TO FREQUENT EXTREME WEATHER EVENTS; AND ELEVATED COMMODITY PRICES SUCH ON PETROLEUM PRODUCTS ON ACCOUNT OF INCREASED GEOPOLITICAL FRAGMENTATION AND GLOBAL OIL SUPPLY CUTS.
- THE BUDGET POLICY STATEMENT HAS TARGETED THE FOLLOWING FIVE CORE PRIORITY AREAS:
 1. AGRICULTURAL TRANSFORMATION AND INCLUSIVE GROWTH
 2. MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) ECONOMY
 3. HOUSING AND SETTLEMENT;
 4. HEALTHCARE
 5. DIGITAL SUPERHIGHWAY AND CREATIVE INDUSTRY.

2024 BUDGET POLICY STATEMENT

- THE AGENDA PLACES SPECIAL FOCUS ON INCREASED EMPLOYMENT, MORE EQUITABLE DISTRIBUTION OF INCOME, AND SOCIAL SECURITY WHILE ALSO EXPANDING THE TAX REVENUE BASE, AND INCREASING FOREIGN EXCHANGE EARNINGS.
- THE GOVERNMENT HAS TARGETED 9 VALUE CHAINS WITH THE LARGEST IMPACT ON JOB CREATION AND ECONOMIC RECOVERY AS FOLLOWS:
 1. LEATHER
 2. COTTON
 3. DAIRY
 4. EDIBLE OILS
 5. TEA
 6. RICE
 7. BLUE ECONOMY
 8. NATURAL RESOURCES (INCLUDING MINERALS & FORESTRY)
 9. BUILDING MATERIALS

PERFORMANCE OF KENYA'S ECONOMY

- ALTHOUGH KENYA'S GDP GROWTH HAS BEEN STABLE OVER THE LAST DECADE AT AN AVERAGE OF 5 PERCENT LARGELY DRIVEN MORE BY PUBLIC INVESTMENT IN INFRASTRUCTURE WITH TRADE AND FOREIGN INVESTMENT UNDERPERFORMING IT STILL LAGS BEHIND ITS LOWER MIDDLE-INCOME COUNTRIES SUCH AS INDIA AND BANGLADESH.
- KENYA'S GDP GROWTH INCREASED FROM 4.8 PERCENT IN 2022 TO AN ESTIMATED 5 PERCENT IN 2023 SUPPORTED BY A REBOUNDED AGRICULTURAL SECTOR AND CONTINUED STRENGTH AND RESILIENCE OF THE SERVICE SECTOR.
- THE MANUFACTURING SECTOR UNDERPERFORMED UNDERPINNED ON;
 1. INCREASED PRODUCTION COST COMPRISING INPUT AND COST OF BORROWING
 2. WEAKENING SHILLING
 3. HEIGHTENED POLITICAL TENSION
 4. SHORTAGE IN FOREIGN CURRENCY (REDUCED IMPORT OF INDUSTRIAL SUPPLIES)
 5. SLOWED GLOBAL ECONOMY
- REAL GDP IS PROJECTED TO GROW BETWEEN 4.5-5.2 PERCENT IN 2024 ACCORDING TO THE WORLD BANK DRIVEN BY IMPROVED CREDIT TO PRIVATE SECTOR UNDERPINNED ON REDUCED DOMESTIC BORROWING BY THE GOVERNMENT, NEW TAX ADMINISTRATION SUCH AS TAX ON EMPLOYMENT INCOME ABOVE KSH 6 MILLION, VAT ON PETROLEUM PRODUCTS AND WITHHOLDING TAX ON DIGITAL CONTENT AMONG OTHERS

RECOMMENDATIONS FOR BUDGET POLICY STATEMENT 2024

- THE PROPOSED RECOMMENDATIONS ARE BASED ON; REVIEW OF BPS 2021 TO 2023 TAKING COGNISANT OF PAST SUCCESS AND CHALLENGES, REVIEW OF RECOMMENDATIONS FROM MULTILATERAL ORGANIZATIONS, MSME, STARTUP AND INNOVATION ECOSYSTEM ASSOCIATIONS AS LISTED IN THE APPENDIX

1-MSMEs

- BUDGET POLICY STATEMENT 2024 ASSERTS THAT THE ECONOMY IS PROJECTED TO REMAIN STRONG AND RESILIENT IN 2023, 2024 AND OVER THE MEDIUM TERM SUPPORTED ON THE **DEMAND SIDE** BY AMONG OTHERS BEING **HUSTLERS' FUND** THAT WILL STRENGTHEN MSMEs THEREBY CORRECTING MARKET FAILURES FOR THE VAST MAJORITY OF KENYA'S AT THE BOTTOM OF THE PYRAMID. THIS WILL STRENGTHEN THE PRIVATE SECTOR LED GROWTH OPPORTUNITIES

MSME FINANCE SUPPORT

- THE GOVERNMENT ESTABLISHED THE FINANCIAL INCLUSION FUND, OR THE HUSTLERS FUND IN NOVEMBER 2022 TO CUSHION THE MSMEs AGAINST HIGH COST OF CREDIT. BY THE END OF OCTOBER 2023, THE FUND HAD DISBURSED **KSH 36.6 BILLION** AND REALIZED **KSH 2.3 BILLION** IN SAVINGS, BEFITTING **21.3 MILLION** CUSTOMERS WITH **7.5 MILLION** REPEAT BORROWERS WHOSE OVERALL REPAYMENT RATE IS AT **73 PERCENT**.
- THE HUSTLER FUND HAS ALSO LAUNCHED A GROUP PRODUCT, WHICH HAS ATTRACTED **50,000** ACTIVE GROUPS TO THE PLATFORM, OF WHICH **20,000** HAVE RECEIVED **KSH 151 MILLION {7,550 KSH AVERAGE PER GROUP}**
- WHIST THE FUND IS COMMENDABLE THERE IS NEED FOR A CRITICAL REVIEW OF THE MODEL WITH AN OUTCOME THAT TRULY SETS **KENYAN SMEs** ON A SUSTAINABLE AND SIGNIFICANT GROWTH TRAJECTORY RATHER THAN KEEPING THEM ON A RAT RACE.
- **OVER 70% OF MSMEs** OPERATE WITHIN THE WHOLESALE RETAIL SECTORS WHICH AS HIGHLY SUSCEPTIBLE TO EXTERNAL SHOCKS, HAVE LOW BARRIERS TO ENTRY AND EXIT AND HAVE NO REAL COMPETITIVE EDGE LEADING TO RAZOR THIN MARGINS HENCE THE PERPETUAL DEPENDENCE ON CASH FLOW FINANCING.
- THE GOVERNMENT MUST TAKE STOCK OF ALL PREVIOUS FINANCIAL ACCESS INTERVENTIONS SUCH AS AFFIRMATIVE ACTION FUNDS, CREDIT GUARANTEE SCHEME AND **MOVABLE PROPERTY SECURITY RIGHTS ACT** ETC COMBINED WITH ACCESS TO NEW LOCAL AND EXPORT MARKET THROUGH PARTNERSHIP WITH PRIVATE SECTOR TO UNLEASH THE FULL POTENTIAL OF **SMEs** BY SUPPORTING INVESTMENT IN ASSETS AND OTHER LONG TERM ASSETS THAT CAN UNLOCK SIGNIFICANT VALUE
- GOVERNMENT MUST ADDRESS THE ISSUE OF CROWDING OUT **SMEs** FROM ACCESSING LOCAL CAPITAL THROUGH BANKS BY PRACTICALLY ADDRESSING ITS LOCAL BORROWING PRACTICE

MARKET ACCESS

- THERE IS NEED FOR A CLEAR AND LOGICAL ACCESS TO MARKET PLAN FOR SMEs IN TERMS OF IDENTIFIED PRIORITY MARKETS BE IT EAC, AFCFTA AMONG OTHERS, HOW MSMEs ARE GOING TO BE ORGANISED IE IS IT THROUGH CIDs AND KYEOP-MSEA OR COUNTY AGGREGATION AND INDUSTRIAL PARKS (CAIPs) OR DEVELOPMENT CENTRE IN EVERY WARD OR INDUSTRIAL PARK AND BUSINESS INCUBATION CENTRE IN EVERY TVET INSTITUTION
- GOVERNMENT MUST IDENTIFY AND DEVELOP REGIONAL AND INTERNATIONAL MARKETS AND LINKED TO THE CAIPs
- THE GOVERNMENT MUST GIVE AN EVALUATION REPORT OF THE ACCESS TO GOVERNMENT PROCUREMENT OPPORTUNITY (AGPO) PROGRAM TO DETERMINE THE EXTENT TO WHICH YOUTH LED SMEs ARE SUPPORTED

POLICY AND REGULATORY ENVIRONMENT

- THE GOVERNMENT MUST ISSUE PROGRESS REPORT ON THE FOLLOWING PROPOSAL IN BPS 2023;
 1. END CRIMINALISATION OF WORK BY ENACTING A RIGHT TO WORK LAW, AND MAKING TRADING LICENCES AND PROVISION OF A TRADING LOCATION AN ENTITLEMENT TO EVERY CITIZEN WHO APPLIES.
 2. GOVERNMENT WILL WORK WITH COUNTY GOVERNMENTS TO PROVIDE ONE-STREET TRADING PREMISES FOR EVERY 50 URBAN RESIDENTS, WITH A VIEW TO INCREASING AVERAGE DAILY INCOME OF INFORMAL TRADERS BY KSH 200
 3. REGRESSIVE TAXATION, BUREAUCRACY AND REGULATORY COMPLIANCE COSTS: THE GOVERNMENT WILL REVIEW AND RATIONALISE ALL BUSINESS LICENCES, CAP TOTAL LICENCES AT 1.5 PERCENT OF TURNOVER AND ENACT ADMINISTRATIVE BURDEN LAW (SIMILAR TO US REDUCTION OF PAPER WORK ACT) ENSURING NO BUSINESS SPENDS MORE THAN 4 PERSON HOURS A MONTH ON TAX AND REGULATORY COMPLIANCE;
- GOVERNMENT MUST BUILD ON THE PROGRESS MADE IN THE LAST DECADE THROUGH DEVELOPMENT AND IMPLEMENTATION OF BUSINESS REGULATORY REFORMS AIMED AT REDUCING THE COST OF DOING BUSINESS AND ENCOURAGING PRIVATE SECTOR INNOVATION AND ENTREPRENEURSHIP. FOCUS MUST BE ON CUTTING DOWN THE NUMBER OF LICENSES AT BOTH NATIONAL AND COUNTY LEVELS AS WELL AS THE PROCESSING TIMES OF LICENSES AND PERMITS AND AUTOMATING BUSINESS REGISTRATION PROCESSES.
- SPECIAL FOCUS MUST BE ON HARMONIZATION OF CESS THAT CONTINUES TO BE A MAJOR STUMBLING BLOCK FOR INTER COUNTY TRADE AND AFFECTS GLOBAL COMPETITIVENESS OF SMEs
- A REPORT ON STATUS OF THE SMALL CLAIMS COURT IS ALSO NEEDED

OTHER MSME SUPPORT PROGRAMS

THE GOVERNMENT THROUGH BPS 2024 MUST PRIORITISE THE FOLLOWING

1. OUTCOME DRIVEN MSME CAPACITY BUILDING FOCUSED ON MARKET ACCESS AND BUSINESS MANAGEMENT AMONG OTHERS
2. MSME ECOSYSTEM MAPPING THAT INCLUDES UPDATED NUMBERS PER COUNTY, SECTOR FOCUS, SIZE DISTRIBUTION AND BIO DATA AMONG OTHERS TO SUPPORT FUTURE INTERVENTIONS

2-STARTUPS AND INNOVATION ECOSYSTEM

- RECOMMENDATIONS UNDER THIS SECTION ARE UNDERPINNED ON THE SCIENCE, TECHNOLOGY AND INNOVATION STRATEGY FOR AFRICA 2024, GLOBAL INNOVATION INDEX, STARTUP ECOSYSTEM INDEX AND KENYA'S STARTUP AND INNOVATION ECOSYSTEM
- THE SCIENCE, TECHNOLOGY AND INNOVATION STRATEGY FOR AFRICA 2024 MISSION IS TO ACCELERATE AFRICA'S TRANSITION TO AN INNOVATION-LED, KNOWLEDGE-BASED ECONOMY.
- SUCCESSFUL IMPLEMENTATION OF THE STRATEGY REQUIRES A MINIMUM SET OF REQUISITE OF:
 1. INFRASTRUCTURE (THIS INCLUDES RESEARCH AND INNOVATION FACILITIES SUCH AS LABORATORIES (FOR TEACHING, ENGINEERING AND CLINICAL TRIALS), TEACHING HOSPITALS, ICT EQUIPMENT AND INFRASTRUCTURE, INNOVATION SPACES, LIVING LABS AND NATIONAL RESEARCH AND EDUCATION NETWORKS (NRENs))
 2. HUMAN RESOURCES WITH NECESSARY SKILLS (EXPAND THE AVAILABILITY OF QUALITY POST-GRADUATE EDUCATION, AND IN PARTICULAR PROGRAMMES LEADING TO DOCTORAL QUALIFICATIONS. IMPLEMENT A SYSTEMATIC AND COORDINATED APPROACH TO HUMAN CAPITAL DEVELOPMENT AND POPULARISING STI RESEARCH AND INNOVATION AS POTENTIAL CAREER PATHS AT BOTH SECONDARY AND HIGHER EDUCATION LEVELS INCLUDING TVETs.)
 3. INNOVATION AND ENTREPRENEURSHIP (INCREASING NETWORKING AND COLLABORATION BETWEEN EDUCATION AND RESEARCH, PRIVATE AND PUBLIC SECTOR STAKEHOLDERS WILL FACILITATE CO-CREATION, ADAPTATION AND COMMERCIALISATION OF RESEARCH AND INNOVATION OUTPUTS)
 4. ENABLING ENVIRONMENT FOR THE ACHIEVEMENT OF AN INNOVATION-LED, KNOWLEDGE-BASED ECONOMY.
- IN LIGHT OF RECOMMENDATIONS UNDER THE SCIENCE, TECHNOLOGY AND INNOVATION STRATEGY FOR AFRICA 2024 KENYA UNDER BPS 2024 HAS LAID MUCH EMPHASIS ON INFRASTRUCTURE. BPS 2024 NEEDS TO FACTOR THE OTHER 3 FACTORS IN ORDER TO HOLISTICALLY SUPPORT THE INNOVATION ECOSYSTEM.

INNOVATION DRIVERS

- BPS 2024 MUST TAKE COGNIZANT OF INNOVATION SYSTEM GROWTH PARAMETER UNDER GLOBAL INNOVATION INDEX AND STARTUP ECOSYSTEM INDEX (TABLE 3: INNOVATION DRIVERS INDEX COMPARISON MATRIX) IN CRAFTING PROPOSED PROGRAMS

INNOVATION DRIVERS INDEX

1-HUMAN RESOURCE

| Global Innovation Index | Startup Ecosystem Index Parameters | STISA parameters |
|---|------------------------------------|--|
| <p>Human capital and Research</p> <ul style="list-style-type: none"> • Education expenditure % of GDP • Pupil teacher ratio-secondary • Research & Development • University ranking | | <p>Human resources with necessary skills (expand the availability of quality post-graduate education, and in particular programmes leading to doctoral qualifications. Implement a systematic and coordinated approach to human capital development and popularising STI research and innovation as potential career paths at both secondary and higher education levels including TVETs.)</p> |

2-INFRASTRUCTURE

| Global Innovation Index | Startup Ecosystem Index Parameters | STISA parameters |
|---|---|---|
| <p>Infrastructure -Electricity Output</p> | <p>Quantity No of co-working spaces No of accelerators</p> <p>NB: Government can establish co working spaces and incubators in partnership with entrepreneur support organizations which has correlation to No of startups and No of start-up related meetups. This can be done through retrofitting of existing underutilised spaces</p> | <p>Infrastructure (This includes research and innovation facilities such as laboratories (for teaching, engineering and clinical trials), teaching hospitals, ICT equipment and infrastructure, Innovation Spaces, Living Labs and National Research and Education Networks (NRENs)</p> |

3-BUSINESS ENVIRONMENT

| Global Innovation Index | Startup Ecosystem Index Parameters | STISA parameters |
|--|---|--|
| <p>Business Environment</p> <ul style="list-style-type: none"> • Ease of getting credit • Microfinance gross loans, % GDP} • Ease of protecting minority investors} • Venture capital recipients • Ease of solving insolvency | <p>Business Environment</p> <ul style="list-style-type: none"> • Ease of Doing Business & registering companies • Internet Speed • Internet Freedom • R&D investment • Availability of various technological services (payment portals, ride-sharing apps) • Number of patents per capita • Level of English proficiency | <p>Enabling environment For the achievement of an Innovation-led, Knowledge-based Economy.</p> |

4-STAKEHOLDER COLLABORATION

| Global Innovation Index | Startup Ecosystem Index Parameters | STISA parameters |
|--|--|--|
| <p>Stakeholder Collaboration</p> <ul style="list-style-type: none"> • Innovation linkages {University-industry R&D collaboration} • Knowledge absorption {Intellectual property payments, % total trade} | <p>Quality of startups and related organizations</p> <ul style="list-style-type: none"> • Traction of over 70,000 entities in all ecosystems • Presence of branches & R&D centers of International Technology Corporations • Branches of multinational companies • Total private sector investment in thousands of startup ecosystems • Number of employees per startup • Presence of Unicorns, • Exits & Pantheon companies • Presence of Global Startup Influencers • Global startup events | <p>Innovation and Entrepreneurship (Increasing networking and collaboration between education and research, private and public sector stakeholders will facilitate co-creation, adaptation and commercialisation of research and innovation outputs)</p> |

THE END



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