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The Cheese Has Moved

How Should Accountants Respond to The US Aid Freeze?

By CPA Dr. Eric Sambu

Donald Trump took over as the President of the United States this year. No sooner had he settled on his seat than a flurry of Presidential decrees and executive orders were issued. Amongst these is the United States Agency for International Development (USAID) reformation. USAID was created via Congress's Foreign Assistance Act in 1961. That law mandated a government agency to be set up and tasked with administering overseas spending. Designed to offer foreign aid and development assistance, USAID has supported several projects globally, and the drastic move to curtail its operations has left many beneficiaries at a crossroads. It has had a profound effect on many humanitarian programmes globally. Indeed, the cheese has moved.

The Trump administration intends to merge USAID with the US Department of State. The intention is to align foreign spending with Trump's "America First". The US government spent US\$ 68 billion in aid in 2023. USAID spent over half of this - US\$40 billion – the majority of which went to Asia, sub-Saharan Africa and Europe – to support Ukraine's humanitarian efforts. USAID's budget mostly goes to health programmes like polio eradication and helping stop the spread of viruses that can potentially cause pandemics. The Trump executive order put almost all international spending on hold for 90 days pending a review. Exceptions were later granted for specific humanitarian programmes.

According to USAID Kenya, the agency has partnered with the Kenyan government, the private sector and the civil society for over 50 years to:

- Advance access to education;
- Improve quality healthcare through nutrition, family planning, and maternal and child health, malaria, tuberculosis, HIV/AIDS and strengthening health programs;
- Lay a foundation for long-term economic growth through trade, agriculture, and infrastructure programs; and
- Make devolution work for the benefit of all Kenyans through democracy, governance and conflict programs.

The Nation reported that USAID has disbursed over KES—1 trillion in the last 24 years. If injected now, this could account for a third of the current fiscal year's budget. This is twice the amount the government expects to spend on development. USAID disbursed KES.84.1 billion to over 230 institutions in Kenya for fiscal year 2024. Key sectors that benefited are health, education, agriculture and governance. The disruption is expected to affect the supply of essential medical supplies and medications, affecting millions of beneficiaries. The economic sector is expected to suffer, with programmes targeting poverty alleviation and economic empowerment put at risk. It may reverse gains made over the years.

The suspension or restriction of financial assistance provided by the U.S. government to other countries or organizations may have an impact on the financial operations of the relevant

With ACOA 2025 fast approaching, all eyes are on how Africa can harness its resources, expertise, and collaborations to create long-term value. The conversations initiated at ACOA will extend beyond Kigali, influencing the continent's trajectory for years to come.

entities, and accountants need to respond appropriately.

Here are some suggestions:

- **Understand the Policy:** Accountants should first thoroughly understand the specific content and scope of the US aid freeze, including which funds are affected, the duration of the freeze, and any possible exceptions. If there is room to motivate your project to be considered as an exception, identify the rationale to use that will be acceptable.
- **Assess Impact:** Evaluate the impact of the aid freeze on the organization's financial situation, including cash flow, budget execution, and project progress. All stakeholders need to understand, and you are the centrepiece of this. Consider all the scenarios in a brainstorming session. Then, develop an action plan to manage the drastic changes. Assign tasks and timelines, then monitor. Remove emotions from the decisions. Some, unfortunately, will affect you, but you have to focus anyway. Whereas some contracts have clauses with financial implications to exit, these need to be assessed, and a complete impact picture given to the donors. Potential litigation and contingent liability need to be considered. Remember, even if funds are not forthcoming, litigants may opt for organization assets.
- **Adjust Budget:** Based on the assessment results, adjust the budget plan in a timely manner to ensure the organization's financial stability. You are responsible for compliance with budgets and donor requirements. Cut the suit from the size of the cloth you have. Assess the contracts you have committed to and how to renegotiate to fit the new situation. Some actions cannot wait. Make quick, calculated decisions. Your communication and negotiation skills will come in handy here.
- **Seek Alternatives:** Look for other funding sources, such as domestic funding, private sector support, or international organization assistance. In a similar move to that of the US government, another key donor - the UK government - announced plans to cut the international aid budget from 0.5% of GNI to 0.3% by 2027, ostensibly to fund defence spending. This reduction amounts to about 6 billion pounds per year. The focus of the budget is war-torn areas like Ukraine, Sudan, South Sudan, Gaza and the West Bank. The UK and the US governments are the biggest funders of multilateral agencies such as the UN bodies. This will, therefore, have a ripple effect, and accountants need to understand the connection as they seek alternatives. Understanding geopolitics and especially the response from the East is imperative, given that the West focuses on hard military power

more than the soft power that the aid brings.

1. **Communicate with Stakeholders:** Maintain communication with donors, partners, and beneficiaries to explain the impact of the aid freeze and the organization's response measures. Begin this with the staff affected. Many have been forced to take 90-day unpaid leave, which is taking a toll on them, given that it came without notice, yet they had commitments. Some countries' legislation is silent about leave without pay, but case law has given guidance on such options during hardships. The process must be humane, and evidence of consultation and employee consent must be kept. Mutual separation is also an option, but adequate consultation and informed consent are still required. Retrenchment becomes the last resort when an employee has refused either unpaid leave or mutual separation due to economic reasons. This must follow due process as spelt out in the labour laws. Time is of the essence, given that the executive order was abrupt. Non-adherence to the law will result in potential suits. Accountants need to discuss this closely with legal and HR teams.
2. **Comply with Regulations:** Ensure that all financial activities comply with relevant laws and regulations, including international trade and

financial regulations. There is a tendency to assume that some expenditure by nature of work is pre-approved and committed and hence proceed. The 90-day freeze affects the spending, and all programmes must comply. However, given the necessity of some services like rent, security, and related services, which cannot be stopped as they will endanger the assets without staff, this must be addressed in advance to ensure payment is within the directives.

3. **Risk Management:** Strengthen risk management, assess potential risks arising from the aid freeze, and develop corresponding response strategies. The exposure to legal and compliance risks has increased significantly. Where the full extent of potential risks cannot be fairly assessed, consider using experts in each area. To mitigate these risks, negotiate with the affected parties. Liaise with the local, county, and central government to assess the full impact of project suspension and how to seek alternative avenues to minimize the impact on the beneficiaries.
4. **Report and Disclosure:** Financial reports disclose the impact of the aid freeze and the measures taken by the organization to comply with accounting standards and regulatory requirements.

5. **Professional Advice:** If necessary, seek advice from financial and legal experts to ensure that the organization's response measures are appropriate and effective. You will never have a monopoly of knowledge. There is always a view that only an expert can give based on experience.

10. **Monitor Developments:** Pay attention to changes in US policy, as the aid freeze may be temporary. Adjustments should be made promptly based on the latest developments. Also, monitor the shift in the policies of the US-allied nations.

Accountants play a crucial role in this process, ensuring the organization maintains financial stability and continues its operations while adhering to all legal and regulatory requirements. However, they do not work in isolation. They must collaborate with executives, discuss proposed options, and lead initiatives to ensure their organizations remain resilient despite the shifts experienced.

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