# Vellum Weekly

FRIDAY, 22ND MAY 2020

OXYGÈNE

OXYGÈNE

## Disclaimer

# CHASING DOWN THE WOUNDED

Murang'a Senator Irungu Kang'ata has emerged as an effective Whip for the Jubilee Party faction allied to President Uhuru Kenyatta.

Kang'ata has the canny ability to switch between being a serious lawyer and a relatable representative and the former has been on show over the past two weeks as he implemented changes to the Senate with a calm but serious demeanour.

When he was making the decision to run for the Senate seat, part of Kang'ata's strategy was to be among William Ruto's point men for 2022 in Central Kenya, but something changed along the way and he is now the President's discipline master in the Senate.

The changes in the Senate have effectively shut out the Deputy President's men and although the impact on a political scale is yet to be seen, the President's resolve to deal with detractors has been well communicated.

The attack on the Deputy President has also gone to the underground networks, with a propaganda video with a Kikuyu voiceover in circulation seeking to portray Ruto as an enemy of the Central Kenya community.

It traces his comments as the violence raged early 2008, and mentions the touchy issue of the people burnt in a church in Kiambaa in Eldoret, to his making inroads in Central Kenya by linking up with politicians and attending numerous church fundraisers.

It would be difficult to tell if the underground propaganda would have an overt effect, though, but it is a sign of the lengths some in power are prepared to go to stop the Deputy President in his tracks.

**It would be difficult to tell if the underground propaganda would have an overt effect, though, but it is a sign of the lengths some in power are prepared to go to stop the Deputy President in his tracks.**

This week, there were signs of renewed political activity in the reaction to Raila Odinga's assertion that the report of the Building Bridges Initiative would soon be ready.

A report that Kieni MP Kanini Kega has a motion for the impeachment of the Deputy President in the works has also created a stir.

The reaction of the Tangatanga wing was ferocious, with Gatundu South MP Moses Kuria saying at Parliament: "Ruto was fired by Uhuru Kenyatta a long time ago...He is not involved even in matters of governance. William Ruto has agreed and he is waiting for his term to end and we can move on to other things."

The Deputy President's supporters are also keen on attacking the Building Bridges Initiative, with Kuria warning that the suggestion that there would be a referendum before the General Election would be thoroughly contested.

With revenues squeezed and emergency loans being taken, the administration would have a hard time convincing Kenyans of the need for a referendum before the elections, especially if Tangatanga goes out to create the impression that it is all meant to kill the presidential ambitions of their principal, William Ruto.

An administration already burdened by the likely recession brought about by the coronavirus crisis also risks placing too much on its shoulders if it decides on having a heated political contest ahead of the main election.

Given that the economy slows down whenever political activity heats up, the increased maneuvering evident over the last two weeks would not bode well for businesses.

# CBK UPDATE

## STATUS AND OUTLOOK OF KENYA'S BANKING SECTOR


On 21st May 2020, CBK Governor Dr. Patrick Njoroge gave a presentation on the status and outlook of Kenya's Banking Sector. According to the Governor:

### Banking Remains Stable & Resilient

The banking sector remains stable and resilient with strong liquidity and capital adequacy ratios as at the end of April 2020:

- Capital adequacy ratio was 18.43 % (statutory minimum of 14.5 %).
- Liquidity ratio stood at 51.17 % (statutory minimum of 20 %).
- The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.1% in April compared to 12.5 5 in March 2020.

Private sector credit grew by 9.0% in the 12 months to April, with strong growth in credit observed in manufacturing, trade, transport and communication, building and construction, and consumer durables.

### Effect of COVID-19 Mitigation Measures

Following negative economic effects from the current Pandemic, CBK has taken various monetary policy decisions to help mitigate the effect of COVID19 on the banking sector and the economy. Interventions in the banking sector have yielded different results highlighted below:

### Personal/Household Loans Extended – April 30, 2020

The extended Personal/Household loans at the end April 2020 were 39,725 loan accounts from 6,430 loan accounts in March, worth Ksh.102.5 billion (April) from Ksh.9.9 billion in March.

- There was an increase of 13.1% of Personal/Household gross loans at Ksh.780.0 billion, from 1.2 % in March.
- There was an increase of 3.6% in the total banking sector loan book as at April (Ksh.2,868.05 billion) from 0.35% in March 2020 (Ksh.2,847.44 billion).

Most of the loans extended were for 9-12 months, which accounted for 47.7% of the Personal/household sector loans extended.

26 out of 39 banks reported having extended Personal/Household loans in April 2020, an increase from 13 banks in March 2020.

The loan extensions provide some relief to personal households enabling them to meet the cost of living even within these harsh economic times.

### Restructured Loans in Other Sectors - April 2020

In April 2020, the restructured loans in the other ten (10) sectors were worth Ksh.170.6 billion, which accounted for 5.95 %. In the same month there was an increase of 45,537 loan accounts from 1,841 loan accounts restructured in March.

In value terms, the sectors that recorded the highest restructuring in April 2020 are:

- Trade (26.3%).
- Real Estate (18.6%).
- Tourism, Restaurants and Hotels (13.6%).
- Manufacturing (13.6%).

The total restructured loans in April 2020 amounted to Ksh.273.1 billion or 9.6% of the total banking sector loan book of Ksh.2.8 trillion. This is an improvement from last March 2020. We expect to see more restructuring as more borrowers reach out to lenders to re-negotiate debt.

### Impact of Reduced Cash Reserve Ratio

As at 15th May 2020, 18 commercial banks and 2 microfinance banks had been granted approval to access Ksh.29.08 billion freed from the reduction in CRR. This accounted for 82.61% of the Ksh.35.2 billion freed by the 1 percent reduction in CRR.

The main sectors funded are:

- Tourism (34.51%),
- Transport and Communication (13.76%),
- Trade (12.38%),
- Real Estate (12.37%),
- Manufacturing (11.77%), and
- Agriculture (10.91%).

### Impact of Emergency Measures on Mobile Money Transactions

CBK noted that mobile money transaction value bands of Ksh.101-500 and Ksh.501-1000 have recorded increased transaction volumes and values. This shows that the waiver of fees for up to Ksh. 1,000 has encouraged more mobile money transactions.

The new Ksh. 70,001 - Ksh. 150,000 band recorded an average 5,457 transactions worth Ksh.564.48 million per day.

In the last two months, this has been an average of 19,949 transactions per week worth an average of Ksh.339 million over the last two months. This justifies the introduction of the higher limit for mobile money as part of the emergency measures.

Except for bands 10001- 35,000 and 35001-70000, all the other bands recorded increased volume and value of transactions. The increase in values of bank to e-wallet transfers may imply some success in the measure of reducing use of physical cash by Kenyans.

### COVID-19 Response Support by Banking Sector

Despite the tough economic times, CBK noted that players in the Banking Sector are playing a part in national COVID response efforts through various means including:

- Cash contributions to COVID-19 Emergency Response Fund.
- Donation of critical medical equipment in particular ventilators.
- In kind contributions of items such as Personal Protective Equipment, face masks and gloves.
- COVID-19 awareness and sensitization.
- Support of community initiatives on promoting sanitization-handwashing.

Most importantly, banks have continued to provide services in the pandemic period even in locked down areas while ensuring health and safety of staff and customers.

# CBK GOVERNOR'S VIEW ON KENYA'S MOST RECENT MOODY'S OUTLOOK RATING.

The Central Bank of Kenya (CBK) Governor Patrick Njoroge commented on the recent Moody's rating during a joint KEPSA-CBK webinar on the economic outlook.

The Governor stated that CBK's main concern is in the interpretation and explanation of Moody's recent action. He explained that Moody's rating was made in the context of the COVID pandemic, the outlook becoming worse is not a surprise as the economy is doing worse. He however explained that what was adjusted was the outlook and not the rating. The rating was affirmed as B2 which is not a downgrade of the rating, while the adjustment of the outlook was moved from neutral to negative in the context of COVID-19.

In the CBK Governor's view the explanation by Moody's was comprehensive. On the outlook adjustment for two of the local banks, the adjustment of the banks ratings to negative was dependent on their holding of government securities. Therefore, Moody's having adjusted the outlook of government it then moved to adjust the banks' outlooks.

The governor stated that this action was a bit harsh since Kenya has never defaulted on payments since independence - one thing the country takes pride in.

He also stated that the CBK is working to ensure debt sustainability limit is maintained. Moving forward, there will be a focus on concessional loans as opposed to Eurobond commercial types of loans.


## CURRENT EXTERNAL BALANCE AND FOREX RESERVES

As per the Budget documents submitted to parliament, Kenya's current account deficit is projected to worsen slightly and is estimated at -5.1%. This comprises the trade balance as well as net factor income from abroad.

Exports remain among the hardest hit on account of the covid-19 pandemic.

Cut flower exports have suffered significant losses and it is estimated that the sector may lose approximately Kshs. 60 billion by end of 2020.

Coffee, tea, fruits exports are also likely to record dismal performance which is worsened by decline in most commodity prices.

The tourism sector has suffered significant losses due to ban on international travel and restriction of movement.

Imports are also likely to decline moderately due to reduced global oil prices as well as reduction in importation of industrial supplies.

As a result, foreign exchange reserves may decline slightly in the future. Over the past year, forex reserves have largely depended on remittances. However, with the ongoing crisis – reduced economic activity declining incomes and uncertainty over the future – remittances are expected to decline as the year progresses. A major decline in external receipts, remittances and exports, will dangerously expose the country to external debt repayment challenges. To avoid such unprecedented occurrence, the government should expeditiously seek moratoriums on debt repayment for at least one year.

### Paying off & Renegotiating Debt

By end of December 2019, Kenya had paid Sh30.6 billion to bilateral creditors in both principal and interest, with more than half of the money -Sh17.8 billion- going to China as part of budgeted payments.
The total external debt stock, including Eurobond, stood at Sh3.1 trillion by the end of December 2019. The debt comprised of multilateral debt (33.4 per cent), commercial debt (33.1 per cent including the International Sovereign Bond), bilateral debt (33 per cent), and suppliers' credit (0.5 per cent).

According to the World Bank, Kenya will save $675 million (Sh71.5 billion/0.8% of GDP) in case of suspension of debt payments by official bilateral creditors. The negotiation of terms and conditions of suspension is however currently proving problematic. But even if Kenya and other African countries were to successfully renegotiate debt forgiveness at the bilateral/multilateral level – a huge task on its own, Countries would still have to deal with commercial debt.

### Financing of the 2020/2021 Budget

The revenue targets set by the National Treasury in the budget estimates continue to be unrealistic. The ordinary revenue target as per the 2019/20 printed estimates was Kshs.1.88 trillion. The target was revised down to Kshs.1.64 trillion in supplementary estimates II. However, as at 31st March 2020 ordinary revenue receipts stood at Kshs.1.2 trillion, consequently, the revenue target for the FY 2019/20 is unlikely to be achieved.

The Covid-19 pandemic is expected to have a negative impact on tax receipts in both the 2019/20 FY and 2020/21 FY.

- Reduced demand for non-essential goods and services,
- limited international trade and travel,
- the shutdown in the accommodation and restaurant sector
- are some of the factors that are expected to contribute to reduced revenue collection.

The National Treasury projects that ordinary revenue will decline from Kshs. 1,643.4 billion (16.1% of GDP) billion in 2019/20 (revised estimates II) to Kshs. 1,621.4 billion (14.4% of GDP) in 2020/21.

One of the main drivers of the nominal decline in ordinary revenues is a decline in income tax as below.

## Revenue projections

| | Actual (Ksh million) | | | | | National Treasury projections (Kshs. Million) | | |
|---|---|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| **Revenue and grants** | **1,284,388** | **1,463,610** | **1,548,903** | **1,690,772** | **1,927,400** | **1,906,700** | **2,185,200** | **2,414,800** |
| **Total Revenue** | **1,254,791** | **1,439,506** | **1,522,419** | **1,671,070** | **1,892,900** | **1,870,600** | **2,139,100** | **2,367,900** |
| **Ordinary Rev** | **1,152,544** | **1,306,504** | **1,365,063** | **1,496,930** | **1,643,400** | **1,621,500** | **1,871,700** | **2,077,900** |
| Tax revenue | 1,069,825 | 1,219,501 | 1,259,113 | 1,400,566 | 1,443,500 | 1,514,800 | 1,759,000 | 1,953,600 |
| Income tax | 560,762 | 625,050 | 640,546 | 685,389 | 736,300 | 685,000 | 776,600 | 846,500 |
| VAT | 289,213 | 339,034 | 357,129 | 413,186 | 412,600 | 481600 | 567,700 | 635,300 |
| Import duty | 79,638 | 89,943 | 93,685 | 107,702 | 93,400 | 106,800 | 137,400 | 159,000 |
| Excise duty | 140,212 | 165,474 | 167,753 | 194,289 | 201,200 | 241,400 | 277,300 | 312,800 |
| Other | 82,719 | 87,003 | 105,950 | 96,364 | 199,900 | 106,700 | 112,700 | 124,300 |
| Appropriation-in-Aid | 102,247 | 133,002 | 157,356 | 174,140 | 226,800 | 221,900 | 237,000 | 255,800 |
| Rail levy | | | | | 22,700 | 27,200 | 30,400 | 34,200 |
| Grants | **29,597** | **24,104** | **26,484** | **19,702** | **34,500** | **36,100** | **46,100** | **46,900** |
| o/w project grants | | | | | | 33100 | | |

- The measures taken in response to the Covid-19 pandemic are expected to contribute to a decline in taxes on income, profits and capital gains (income tax).
- Reduced demand for nonessential goods and services is expected to contribute to reduced income and profits of both small and large businesses. For instance, businesses in the accommodation, restaurant and tourism sector are expected to continue accruing losses and shedding staff for the better part of 2020/2021.
- Subdued exports of major cash crops are expected to dampen incomes of farmers and businesses in the agricultural sector.

## Expected declines

Income tax revenue is also expected to decline as a result of the tax measures taken to cushion Kenyans against the impact of the pandemic. These measures which included a reduction in the top tax rates for individuals from 30% to 25% and the reduction of the corporate income tax rate from 30% to 25% are expected to directly contribute to a decline in income tax collection in 2020/2021. Consequently, the Parliamentary Budget Office projects that **income tax revenue will decline from about 7.2% of GDP in 2019/20 to between 5.8% and 6% of GDP in 2020/2021.**

Reduced consumption and the reduction of the Value Added Tax (VAT) rate from 16% to 14% could dampen VAT collection in 2019/2020 and 2020/2021. This is however dependent on how demand for the consumption of VATable goods and whether it increases or decreases. Lower prices could trigger increased demand but on the other hand, declining incomes may dampen this demand. VAT on imports is further expected to be negatively impacted by the resulting slowdown in international trade volumes due to the COVID-19 pandemic. As a result, the Parliamentary Budget Office projects that the **VAT revenue as a share of GDP will decline from about 4% in 2019/20 to 3.8% in 2020/21.**

## Worse Fiscal Deficits Loading

The projected decline in ordinary revenue receipts is expected to contribute to a worsening fiscal deficit.

- The fiscal deficit (excluding grants) as a share of GDP, is expected to worsen from - 7.3% in 2017/18 to -7.6%in 2020/2021.
- At -7.3% of GDP, the projected deficit (inclusive of grants) in FY 2020/21 is above the EAC convergence criteria of not more than -3%.

Further, a large fiscal deficit implies that Kenya will have limited room for a fiscal response to the impact of the Covid-19 pandemic on poor and vulnerable households, especially if the measures adopted to fight the pandemic remain in place for an extended period.

## Financing Of The Fiscal Deficit

The 2020/21 fiscal deficit (inclusive of grants) of Kshs. 823.2 billion will be financed by foreign and domestic borrowing.

A breakdown of the financing of the fiscal deficit is presented in below.

| In Kshs. Billion | | | | |
|---|---|---|---|---|
| | **2017/2018** | **2018/2019** | **2019/2020** | **2020/2021** |
| Fiscal Balance (commitment basis excl. grants) | -623.9 | -732 | -874.2 | -859.3 |
| Grants | 27.6 | 19.7 | 34.5 | 36.1 |
| Of which: Project grants | 22.9 | 15.4 | 22.8 | 33.1 |
| Fiscal Balance (incl. grants) | -596.3 | -712.3 | -839.7 | -823.2 |
| Adjustment to Cash Basis | -34.7 | 8.7 | 0 | 0 |
| **Fiscal Balance (incl. grants) Cash Basis** | **-631** | **-703.6** | **-839.7** | **-823.2** |
| **Financing** | **631.2** | **721.2** | **839.7** | **823.2** |
| Net Foreign Financing | 354.9 | 414.6 | 349.9 | 349.75 |
| Project loans | 180.8 | 222.3 | 219 | 241.55 |
| Programme and other concessional Loans | 8.5 | 84.8 | 246.2 | 152 |
| O/W: Programme Loans | 8.5 | 8.2 | 96.2 | 2 |
| Rapid Credit Facility from IMF | | | 74.4 | |
| DPO (WB & ADB) & Other Concessional Loans | | 76.6 | 150 | 150 |
| Commercial Financing | 304 | 373.7 | 6.2 | 6.2 |
| Semi concessional Loans | | | | 124.1 |
| Repayments due | -138.4 | -266.2 | -121.5 | -174.1 |
| Other Domestic Financing | 2.6 | 2.9 | 152.1 | -12.6 |
| Net Domestic Financing | 273.7 | 303.7 | 337.8 | 486.2 |
| Financing gap | 35 | 8.7 | | |

- Net foreign financing is projected to be Kshs. 350billion in 2020/21 which is similar to FY 2019/20.
- A decrease in Programme and concessional loans in FY 2020/21 will be replaced by more expensive semi concessional loans which may result in higher debt service expenditure in the medium term.
- There is currently no clear definition of what constitutes a semi concessional loan.

## A closer look at the figures

A closer look at the figures reveals:

- Project loans and grants will account for almost 50% of development expenditures in FY 2020/21.
- Out of the Kshs. 583.4 billion gross development budget Kshs. 241.6 billion will be financed by project loans, while Kshs. 33.1 billion will be financed by project grants.
- Low uptake of external financing is expected to continue hampering project completion in 2020/21 and the medium term.

## Emerging Issues

- Tax receipts are expected to decline in 2020/21 due to the impact of the Covid-19 pandemic on economic activities as well as the tax measures that were implemented cushion Kenyans from the effects of the pandemic.
- The projected deficit (inclusive of grants) as a share of GDP in FY 2020/21 is -7.3%. Such a large deficit implies that Kenya will have limited room for a fiscal response to the continued impact of the Covid-19 pandemic on poor and vulnerable households, especially if the measures adopted to fight the pandemic remain in place for an extended period.
- Over 40% of the 2020/21 projected fiscal deficit of Kshs. 823.2 billion will be financed by foreign borrowing. However, relative to 2019/20, there will be a decrease in Programme and concessional loans which will be replaced by semi concessional loans.
- A clear definition of what constitutes a semi concessional loan has not been provided by the National Treasury. Despite the lack of a clear definition/terms, an uptake of semi-concessional loans in place of Programme and concessional loans is expected to result in higher debt service expenditure in the medium term.

# FINANCIAL SERVICES AND TRADE SECTOR ROUND UP

## KENYA

- The Budget Statement for the FY 2020/21 will be delivered by the Cabinet Secretary for the National Treasury and Planning in the National Assembly on Tuesday 11th June 2020 at 3:00p.m.
- The Attorney General has put a temporary halt on marriage services as they seek to develop a clear road map on re-opening the Registry with guidance from the Ministry of Health. This was after they were overwhelmed with the number of people seeking to register their marriages.
- The Cabinet Secretary for Interior and Co-ordination of National Government has gazetted a declaration making Monday, the 25th May, 2020 a Public Holiday to mark Idd-ul-Fitr.
- The Central Bank of Kenya (CBK) has announced the acquisition of 51% of the shareholding of Mayfair Bank Limited (MBL) by Commercial International Bank (Egypt) S.A.E(CIB) effective May 1, 2020. This follows CBK's approval on April 7 and approval by the Cabinet Secretary for the National Treasury and Planning on April 8,2020.
- A study titled "Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts" published in February offers details of how the Kenyan ruling political elite enriched themselves either from the foreign aid or kickbacks from State agencies that received donor funding. Kenya's political elite in the Moi/Kibaki era are accused of stashing more than Sh327.89 billion in offshore bank accounts over a two decade period when the country received billions in donor aid, the World Bank-backed research claimed.
- The World Bank has approved a Sh107 billion ($1 billion) loan for Kenya. The loan will help Kenya close its Budget deficit and tackle the economic shocks arising from the global coronavirus pandemic. The facility was initiated before the Covid-19 crisis started and it is the second ever such direct lending for the Kenyan Budget from the World Bank in decades.
- The Central Bank of Kenya published data that shows how liquidity in the market has remained stable on the back of government payments including value-added tax refunds, cutting the rate at which the lenders borrow from one another to 4.22 percent. The data also shows that the average inter-bank rate was 4.22 percent on May 14 compared to 4.05 percent on 7 May 2020 as market operations in the banking sector remain active.
- The International Monetary Fund (IMF) has warned against easing the criteria for classifying bank loan performance even as authorities up measures to cushion both borrowers and the financial sector from the coronavirus pandemic. The multilateral lender said changing the criteria would end up compromising transparency that would normally ensure accuracy and reliability of the data obtained from the financial sector.
- The World Bank on Thursday approved a KES 4.5 billion (approx. USD 42.1 million) loan to Kenya to help in combating locust swarms that are destroying crops in Eastern Africa. Kenya will get the concessional 30-year loan from the World Bank alongside Djibouti, Ethiopia and Uganda, pushing the total loan to USD 129.5 million.
- Job and pay cuts in the wake of the Coronavirus pandemic have forced workers to restructure bank loans worth KES 102 billion (approx. 953.5 million) by the end of April, highlighting the impact of the disease on the Kenyan economy. The Central Bank of Kenya. Thursday disclosed that 29 banks have reviewed the terms of personal loans equivalent to about 13 percent of credit offered to workers on the strength of their pay slips.
- The Treasury is likely to net lower revenues in the three-month period between April and June, when the fiscal year ends, resulting from reduced economic activity including trade volumes. According to an analysis by tax and financial advisory firm Deloitte, the revenues are projected to fall by USD 658 million during the period even as amounts collected between January-March remained unknown.

# ETHIOPIA

- Ethiopia has said it will continue with its plans to fill its USD 4 billion Grand Ethiopian Renaissance Dam (GERD) from July, despite Egypt's claim that the move could be lead to regional instability. GERD, locally, is expected to produce over 6,000 megawatts once upon completion.
- Ethiopia's communication Authority is now inviting applications from companies that are interested in taking part in the country's telecom sector. The Authority has launched a request for Expressions of Interest (EOI) to issue two new telecommunications licenses as part of liberalizing its telecom sector. Finance State Minister Eyob Tekalign told reporters that many operators from across the world are interested in the liberalization of Ethiopia's telecom sector.

# RWANDA

- A cabinet meeting held on Monday approved a draft law establishing the Rwanda Space Agency, signaling yet another step towards promoting advancement in earth observation technologies. Rwanda joins a few countries in Africa that have space agencies, including Algeria, Tunisia, Morocco, South Africa, Angola, Egypt, Kenya, Nigeria, and Zimbabwe.
- Rwanda's economic growth is expected to slow to two percent this year from 9.4 percent in 2019 as the COVID-19 pandemic hits tourism, transport and hospitality, the finance minister said on Thursday. Presenting the draft budget for 2020-21 fiscal year, Uzziel Ndajigimana said growth was expected to rebound next year to 6.3 percent and improve further to eight percent 2022. He said the country plans to increase government spending by 7.5 percent in the 2020/21 fiscal year to USD 3.43 billion.
- Rwanda's financial inclusion has grown to 93 percent, according to preliminary findings of a recent Finscope study soon to be launched. According to the budget framework paper presented in parliament on Thursday morning, 93 percent of Rwandans have been financially included since 2020 against a target of 95 percent by 2024. That is a growth from 89 percent in 2016 and 72 percent in 2012.

# TANZANIA

- Tanzania has produced two companies on the list of Africa's 100 most valuable firms. South Africa-based African Business disclosed in a ranking of the continent's top 250 firms that TBL Plc and Vodacom Tanzania Plc are the two most valuable firms in the country. TBL Plc's market value was placed at USD 1.396 billion while Vodacom's market value stands at USD 827 million.
- Banks have been requested to provide liquidity to enable the struggling agri-businesses to recover from the impact of Covid-19. An economic stimulus has also been proposed to help the agricultural producers hit by production and export shocks.

# UGANDA

- The Bank of Uganda has reported that a number of foreign business people withdrew billions of money from their businesses and ran to safer economic havens when the country was preparing to declare a national lockdown to control the spread of the coronavirus. Between February and March 6, 2020, the business owners withdrew at least UGX 165 billion (approx USD 43.43 million) from the country, according to latest information from the Central Bank.
- Economic growth fell sharply in April on the back of a slowdown caused by the coronavirus disease (Covid-19) pandemic, according to a just-released monthly report from the Ministry of Finance, Planning and Economic Development. Growth for the financial year ending June is now expected to be 3.9 percent, down from a pre-pandemic projection of 6 percent.

## WEST AFRICA

- The bill ratifying the end of the CFA franc was adopted on Wednesday by the French Council of Ministers. The text of the new law validates the transition of the CFA franc – used by eight French West African countries – to become the newly mooted Eco, a currency to be adopted by the entire West African bloc, ECOWAS.
- It also marks the end of the centralization of foreign exchange reserves of the eight West African states with the French Treasury. In concrete terms, the Central Bank of West African States will no longer have to deposit half of its foreign exchange reserves with the Bank of France. France will also have to withdraw its presence from the governance bodies.

OXYGÈNE

# KENYA GAZETTE

## REVIEW

## LEGISLATIVE SUPPLEMENTS

- The Customs and Excise (Railway Development Levy Fund) (Amendment) Regulations, 2020
- The Public Order (State Curfew) (Extension) Order No. 2 of 2020
- The Railway City Development Authority Order, 2020
- The Public Health (COVID-19 Restriction of Movement of Persons and Related Measures) (Nairobi Metropolitan Area) (Extension) Order, No. 2 of 2020
- The University of Embu Statutes, 2020

**Senate Bills, 2020**

- The Community Health Services Bill, 2020

**Acts, 2020**

- The Supplementary Appropriation Act, 2020
- The Small Claims Court (Amendment) Act, 2020

**National Assembly Bills**

- The Income Tax Bill, 2020

## PUBLIC SECTOR

**Appointments**

- The Cabinet Secretary for the National Treasury has appointed the following to be members of the Registration of Certified Public Secretaries Board.
  i. FCS Lewis Kamau—Chairman
  ii. CS Happi Kilongosi— Vice-chairman
  iii. FCS Benjamin Achode
  iv. CS Jeremiah Karanja
  v. Joyce M. Afanda
  vi. Robert Ng'ong'a
  vii. Isaac W. Gathirwa
  viii. Francis Mutisya

- The Cabinet Secretary for the National Treasury, with the approval of the National Assembly, has appointed Yusuf Mbuno to be the Chief Executive Officer of the Board of the National Government Constituencies Development Fund.
- The Ethics and Anti-Corruption Commission (EACC) has gazetted the Fourth Quarterly Report covering the period 1st October, 2019 to 31st December, 2019.

## FINANCIAL SERVICES SECTOR

- The Cabinet Secretary for the National Treasury has gazetted the statement of actual revenues and net exchequer issues as at 30th April, 2020. The Exchequer Balance as at 30.04.2020 is 33,161,875,896.70.

## TRADE AND MANUFACTURING SECTOR

**Insolvecy**

- The Registrar of Companies has gazetted a list of companies that will be dissolved in 90 days time.
- The Registrar of Companies has gazetted a list of companies that have been dissolved.
- The creditors of Abraaj Kenya Advisers Limited held a meeting on 4th May, 2020 where they passed a resolution to wind up the Company as a Creditors Voluntary Winding Up. Messrs Muniu Thoithi and George Weru of PricewaterhouseCoopers Limited, have been appointed Joint Liquidators.
- The members IHRC Kenya Limited held a meeting on 30th April, 2020 where a resolution was passed to wind up the company as a Members' Voluntary Winding Up. Messrs Muniu Thoithi and George Weru have been appointed Joint Liquidators.

**Proposed Development of Jevanjee Affordable Housing on Plot No. L.R. 209/5458 along Quarry Road, Nairobi City County**

- Nairobi Bachelors Jevanjee Estate Limited, is proposing the construction of development of apartment's project which is part of the Government's effort to provide low cost housing for its citizens.

**The Proposed Sabor Irrigation Flood Flow- Water Supply Transmission and Distribution Lines, Uasin Gishu County**

- The National Irrigation Board proposes to construct flood flow- water intake, install water transmission/conveyance pipelines, distribution lines, domestic water pans and infield irrigation systems.

## TECHNOLOGY SECTOR

**CA License Applications**

The Communications Authority of Kenya has gazetted a list of companies that have applied for different licenses from the Communication Authority of Kenya.

| | |
|---|---|
| Realest C.B.O | Community Free To Air Radio |
| RFM RADIO | Community Free To Air Radio |
| Rescue Media Group Services Limited - Rescue TV | Commercial Free to Air Television |
| Amazing Voice of Victory Ministries - VOV Radio | Commercial Free To Air Radio |
| Kulmiye Multimedia Centre Limited - Kulmiye FM | Commercial Free To Air Radio |
| Stix Media Limited - Jiam Broadcast Network | Commercial Free to Air Television |
| Qatken Digital Limited | Subscription Broadcasting Service |
| The Information and Communications Technology Authority | NFP(T2) |
| Apollo Express Limited | National Poster/Courier Operator |
| Expediters Cargo Logistics Limited | International Courier Operator Licence |
| Faren Limited | National Poster/Courier Operator |
| Courier International Limited | International Courier Operator Licence |
| Flashbright Contractors Limited | National Poster/Courier Operator |
| Salvet Parcel Services Limited | National Poster/Courier Operator |

# KEEPING YOUR FINGER ON THE PULSE

## CURRENT STATISTICS

### QUICK FACTS

**55,074**
samples tested so far

**1,161**
confirmed Corona Cases in Kenya

**380**
Recoveries

**50**
Deaths

As at 22/05/2020

It is understood that data represented here on Covid-19 is rapidly fluid and data may have changed at the time of its publication

# KEBS TAKES ACTION TO HELP THE FIGHT AGAINST COVID

The Kenya Bureau of Standards (KEBS) has banned eight hand sanitizer brands over the regulator's claim that the brands do not meet KEBS standard requirements.

In a statement released on 17th May 2020, KEBS maintained that it had reached the decision to blacklist the select brand of sanitizers after failing quality tests occasioning the withdrawal of standardization mark permits from the manufacturers.

The brands in question include Alphax, Clean Essentials, G& L, Gentle Care, Lili, Msiri, Shi shi Natural, and Spotless Advanced. The affected brands are manufactured by Kings Palace Ruiru, Virtuelle Products, Orange Pharma, Bidco Africa, Kenbrands International Company, Mafleva International Limited, Shishi Naturals, Havana East African Trading Limited respectively.

The manufacturers are required to recall all the substandard sanitizers from the market and institute corrective actions whose effectiveness shall be confirmed by KEBS before the suspension of permits is lifted. KEBS shall then inform the public once the products have met the requirements of the Kenya Standards to ensure they are safe and of good quality," said the quality and standards regulator.

KEBS shall continue to undertake market surveillance and factory inspections. Substandard products found will be seized for destruction at the expense of the owner in addition to any other legal action as provided under the law. Further, the regulator has appealed to Kenyans to report substandard brands in the market via KEBS' initiative dubbed Wajibika na KEBS.

# SOCIO-ECONOMIC EFFECT OF COVID 19

The novel Corona Virus Disease (COVID-19) which was declared a pandemic by World Health Organization (WHO) has had negative economic impact in many countries across the world. The inevitable measures that have been put in place to curb the spread of the highly contagious virus and the looming uncertainty about the disease have had knock-on effects on businesses and workers' incomes.

In order to enhance response to the pandemic, the Government of Kenya established the National Coordination Committee on the Response to the Corona Virus Pandemic (NCCRCP). Among the committee's tasks was to undertake a household Economic Impact Assessment to provide data to facilitate formulation of appropriate strategies to respond to economic effects of the disease. The Kenya National Bureau of Statistics (KNBS) supported the Committee to undertake the surveys whose overall objective was to assess the economic impact of the COVID-19 in Kenya.

## Key Findings:

### Effect on labor

Labour force participation rate of the population age 18 years and above in the seven days preceding the survey was 56.8%.
About two in three (65.3%) males were in the labour force while slightly more than half (51.2%) of the females were found to be outside the labour force in the reference period.
Almost half of the respondents who were absent from work said that it was due to lockout or stay away instructions as guided by the Government and/or employers.
Nine out of ten persons (90%) who were absent from work due to stay away or lockdown were not sure when they would be returning to work.

### Effect on housing

Nationally, 30.5% of households were unable to pay rent on the agreed date with the landlord.
The results show that:
at least 21.5 % of the households in Kenya who usually pay rent on the dates agreed with landlords were unable to pay rent for the month of April 2020.
Reduced income/earnings (52.9%) was the main reason for inability by households to pay rent.
Only a small proportion of households (8.7%) received waiver/relief from their landlords for the same month.

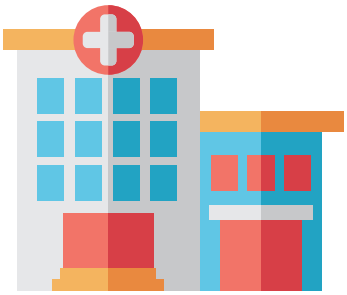
### Effect on transport

Overall, there has been a 51.7% increase in the cost of transport.

Migori County recorded the highest increase at 77.2% increase

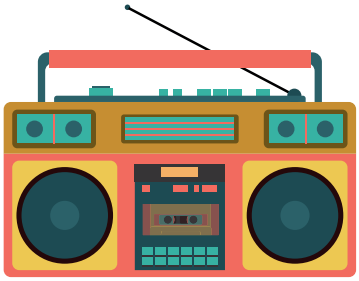
Turkana County recorded the least at 24.4% increase.

### Effect on health and healthcare services



Findings from the survey show that:
17% of the households reported having at least one member with a pre-existing medical condition.
One out of every eight households reported that a member sought health services during the period under review with majority (30.5%) seeking the services from government hospital.

### Effect on mass communication



Almost all (99.4%) adults age 18 years and above have heard about Coronavirus.

Majority of those who had heard about corona virus acquired the information through Radio and Television at 82.0% and 63.3%, respectively.

According to the survey, 97.2% of households cited soap and water for hand washing as the main method that one can use for protection against Coronavirus.

### Effect on Education

Nationally, more than half (57.9%) of the households have members who usually attend learning institutions.
Home schooling was reported as the main coping mechanism used by majority (42.8%) of the households to continue with learning.
Notably, 24.6% of households with members who usually attend any learning institution were not using any method to continue with learning.

There is still a lot more than needs to be done to manage the negative impact of COVID 19,

# THE IMPACT OF COVID-19 ON THE MANUFACTURING SECTOR IN KENYA

A survey was conducted by KPMG among the Kenya Association of Manufacturers (KAM) membership to uncover the challenges faced by businesses including:

- labour issues,
- financial constraints, and
- challenges in production and firm operations arising from the imposed curfew and restriction of movements.

## COVID Challenging Business Continuity

More than 90% of Manufactures who participated in the survey have adhered to the guidelines on curbing the spread of Covid-19 such as sanitization points, social distancing and providing PPE equipment.
While measures instituted to curb the spread of coronavirus are crucial in ensuring that the epidemiological curve of Covid-19 is flattened, they simultaneously hamper business continuity due to disruptions brought about by these measures.

Top priorities for manufacturers remain:

- Reducing costs (78%)
- Retaining jobs (61%)
- Improving cash flow (53%)

## Key findings

According to the results of the survey:

- 40% of manufactures have reduced their casual workforce, while 73% have retained their permanent employees
- 91% of non-essential goods manufacturers have seen a significant fall in demand compared to 74% of essential goods manufacturers
- 42% of manufactures are currently operating at less than half their production capacity, while the average utilized capacity for MSMEs is 37%.
- 76% of manufactures are having difficulties in locally sourcing or importing raw materials and 67% found access to market challenging
- 79% are experiencing cash flow constraints while 86% MSMEs are experiencing the same which is affecting their ability to meet tax obligations, pay employees or pay operating costs.
- 71% indicated that zero tax on income less than Kshs24,000 was most helpful while reducing the VAT to 14% was least helpful.

*As per the survey, the major focus of 78% of the respondents is to now look at all avenues of cutting costs. Manufacturers are also switching to survival mode and looking to maintain the status quo, downsizing or even contemplating shutting down as uncertainty looms for the foreseeable future.*

## Impact of COVID on Working Hours

- 55% of the Manufactures participating in the survey indicated that the number of hours worked in a day have gone down during Covid-19.
- Despite the directive of the Government to allow businesses to operate 24 hours, the number of manufacturers working 19-24 hours a day dropped by 28%.
- Half of the manufacturers that continue to work 19-24 hours are from the Pharmaceutical & Medical Equipment, Food & Beverage, and Paper & Paperboard sectors, as they continue to produce essential goods.
- The number of manufacturers that have reduced their operating hours to less than 6 hours a day has gone up from 2% before Covid-19 to 26% during Covid-19, while 48% have reduced the number of days they work in a week.

Despite these challenges and uncertainties, 81% of respondents say that they are not likely to collapse in the near future as a result of the impact of Covid-19 but this number reduces to 76% for MSMEs. 64% have already undertaken a risk assessment of their business and have already implemented mitigation measures and contingency plans.

## Recommendations for Government

The Manufacturing industry recommends that Government take various actions to help cushion Kenya against adverse effects of COVID and particularly:

### a. Clearing outstanding VAT refunds and pending bills

The Government should prioritize clearing all outstanding Value Added Tax (VAT) refunds and pending bills owed to the manufacturers. This is critical in order to avoid systemic bankruptcies in the private sector in general.
The government should also rely on systems put in place such as green channel, which is aimed at expediting the processing of VAT refunds.

### b. Establishing an emergency rescue fund

An emergency rescue fund could be established, supported by development partners, to identify and support the most vulnerable businesses and entrepreneurs affected by Covid-19.
This could include smaller MSME manufacturers focused on retaining employees as this will ease the liquidity challenges and consequently help employees continue to engage in full and productive employment and decent work in line with the United Nation's Sustainable Development Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

### c. Seeking additional support from lending institutions

To further enhance the liquidity of the manufacturing sector, commercial banks with the support of the Central Bank of Kenya and the national Government should consider instituting additional measures including:

- Increase moratorium for loan repayments including interest to 6 -12 months.
- Decrease interest rates further to about 8%.
- Give the entire loan and overdraft books a full waiver for the 3 months.
- Put a cap on fees for re-arranging facilities due to Covid-19 and an exemption for excise duty on those fees which is currently at 20%.

## Subsidizing the cost of Covid-19 compliance

Government is requested to Subsidize the cost of compliance to curb the spread of Covid-19 including testing employees, PPEs and sanitizers, as well as ensuring adequate supply of water.

## Developing a comprehensive rebound strategy

Government is also requested to develop a comprehensive rebound strategy for the general economy placing particular focus on the manufacturing sector.
A sector-based rebound strategy that is currently being developed by KAM could be adopted with the view of overcoming challenges associated with Covid-19. This will ensure Kenya bounces back quickly on the path towards sustainable economic growth and development.
The above enumerated policy recommendations will at best ensure survival of manufacturing enterprises and forestall total collapse of demand (consumption) and create preconditions for a robust recovery.

# PARLIAMENTARY ROUND UP

## THE REFERENDUM BILL, 2020

On 8th May 2020, Government published the Referendum Bill. As per the Kenya Gazette Version, it is a Bill for an Act of Parliament to provide for the procedure of:

- the approval of an amendment to the Constitution by a referendum,
- the conduct of a referendum,
- referendum petitions and
- for connected purposes.

**The Bill is expected to come up for first reading in the National Assembly once the House resumes.**

### Threshold for amendment

As per the Bill, an amendment to the Constitution may be proposed by a popular initiative signed by at least one million registered voters. The popular initiative may be in the form of a general suggestion or a formulated draft Bill.

### Progress Timelines

- In the case of popular initiative, the IEBC is required to **verify the registered voters**, signature and the format of the draft Bill **within 90 days of receipt of the draft Bill.**
- If the Commission is satisfied that the initiative meets the requirements of the Constitution and the Referendum Act, the Commission will then **submit the draft Bill to each county assembly** for consideration **within 3 months** after the date it was submitted by the Commission.

Upon receipt of a Referendum Bill submitted to a county assembly, the county assembly shall notify the public of the Bill by notice in the Gazette and in two newspapers of national circulation.

The notification in subsection shall contain all relevant details including:

- a summary of the proposed amendments to the Constitution;
- the timelines within which the public may submit views on the Bill; and
- the timelines within which the county assembly shall consider the Bill.

If a county assembly approves the draft Bill within 3 months after the date it was submitted by the Commission, the speaker of the county assembly shall deliver a copy of the draft Bill jointly to the Speakers of the two Houses of Parliament, with a certificate that the county assembly has approved it.

The Speakers of the two Houses of Parliament may designate officers to whom the speaker of a county assembly shall deliver a copy of the draft Bill jointly.

### Procedure at County level

A draft Bill referred to a county assembly under Article 257(5) of the Constitution shall be introduced for consideration by the county assembly by the chairperson of the relevant committee as a motion.

The motion shall be debated and approved or rejected by a county assembly within 3 months after the date it was submitted by the Commission.
The threshold for voting in a county assembly in respect of a draft Bill shall be a majority of the members of the county assembly.

A county assembly shall not amend the draft Bill under its consideration. Where a county assembly fails to obtain a simple majority, the draft Bill shall fail and the Speaker of a county assembly shall communicate the failure to obtain a simple majority in writing.

If a draft Bill has been approved by 24 county assemblies, it shall be introduced in the two Houses of Parliament within fourteen days of such approval.

Where a county assembly fails to consider a draft Bill, the draft Bill shall fail and the Speaker of a county assembly shall communicate the failure to consider the draft Bill in writing.

A Referendum Bill referred to Parliament of the Constitution shall be introduced in Parliament by the chairperson of the relevant committee of each House of Parliament.

### Referendum timelines

Under the Bill, **IEBC is expected to conduct a referendum within 90 days** of receipt of a notice from Parliament.

As per the Bill, IEBC shall within 7 days of receipt of the notice publish a question to be determined during a referendum in the Gazette and in electronic and print media of national circulation.

The Commission may assign such symbol for each answer to a question to be determined during a referendum as it may consider necessary. Any symbol assigned shall not resemble that of a political party or of an independent candidate.

### House To Decide

At this point, we await resumption of the National Assembly for debate on the Bill to begin.

## NATIONAL ASSEMBLY ROUND UP

The National Assembly is on recess.

## SENATE ROUND UP

**Papers Laid**

- The SACCO Societies (Specified Non-Deposit Taking Business) Regulations, 2020.
- The Traffic (Driving Schools, Driving Instructors and Driving Licenses) Rules 2020.
- The Public Health (COVID–19 Restriction of Movement of Persons and Related Measures)(DaadabRefugeeComplex and Kakuma Refugee Camp) Order,2020.
- The Commissionon Administrative Justice "Office of the Ombudsman" Bi-annual Report for the period January to June, 2019.
- The Commission on Administrative Justice "Office of the Ombudsman" Bi-annual Report for the period July to December, 2019.
- The Report of the Standing Committee on Agriculture, Livestock and Fisheries on Locust invasion in parts of the country.
- The Sixth Progress Report of the Ad hoc Committee on COVID-19 situation in Kenya.

**Motion**

Adoption of the Fourth and Fifth Progress Reports of the Ad-hoc Committee on COVID –19 Situation in Kenya

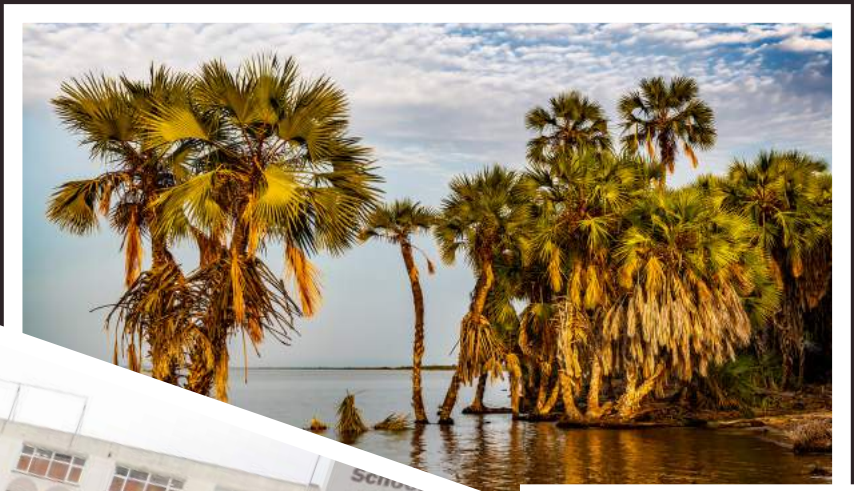
**Notice of Motion.**

That this Senate resolves that Sen. (Prof.) Kindiki be removed from the Office of the Deputy Speaker of the Senate.

# COUNTY ROUNDUP

# COUNTY ROUNDUP

| | |
|---|---|
| **TANA RIVER** | The Governor has appointed members of the Tana River County Locust Effects & Covid-19 Emergency Resource Mobilization Committee. |
| **NAROK** | The Governor has appointed members of the Narok County Budget and Economic Forum. |
| **ISIOLO** | The Governor has appointed the members of the Isiolo County Budget and Economic Forum. |
| **NAKURU** | The County Executive Committee Member for Finance, Nakuru County Government has appointed the Nakuru County Government Receiver of Revenue. |
| **KITUI** | The County Assembly of Kitui shall have Special Sittings on Wednesday, 27th May, 2020 at 9.30 a.m. and 2.30 p.m. and Thursday, 28th May, 2020 at 9.30 a.m. and 2.30 p.m. at the County Assembly Chambers, County Assembly Buildings, in Kitui town. |




# Vellum Weekly

OXYGÈNE