PKF

Kenya Budget Review 2020/2021

CONTENTS

Cautionary statement: The taxation and miscellaneous proposals set-out in this document are based on the Budget Statement presented by the Cabinet Secretary and the Finance Bill, 2020. The changes proposed in the Finance Bill, 2020 are subject to parliamentary debate and ascent in the form of the Finance Act, 2020.

THE FINANCE BILL, 2020

The Finance Bill, 2020 (Bill) was submitted previously to the National Assembly detailing various tax and fiscal proposals. In the past, the Bill was tabled to the National Assembly on the same day as the budget speech. This has now changed and the Bill has to be tabled to the National Assembly ahead of the budget statement and must be enacted by 30 June 2020, instead of 30 September as done in the past.

The effective dates for the various proposed changes will be stipulated in the Act, although the Bill does have indicative dates.

INCOME TAX

Residential Rental Income Tax

(Proposed effective date - 1 January 2021)

The Bill proposes to increase the upper limit for residential rental income from KShs 10 million to KShs 15 million per annum. Persons earning residential rental income of between KShs 144,000 and KShs 15 million per annum will have to pay residential rental income tax at the rate of 10% as final tax unless they elect to apply the normal basis of paying full corporate tax on the taxable profit. The Treasury has found that this method of taxation of residential rental income effective and therefore increased the limits to net more landlords.

Minimum tax - overtaxing Kenyans?

(Proposed effective date - 1 January 2021)

The Bill proposes to introduce a new tax known as minimum tax at a rate of 1% on the annual gross turnover. The Cabinet Secretary attempted to justify this by insinuating that the change is targeting perpetual loss making companies. This proposal is unrealistic as it goes against the basic principle of levying taxes only when taxable income is earned. It is not clear if the intention is to allow a taxpayer to recoup this tax against future tax once the business generates income higher than the proposed minimum tax threshold.

Instalment taxes would be calculated and paid normally unless this minimum tax is higher than the instalment tax calculated. The Bill seems to have an error on the minimum tax section which is opposite to the change made for instalment tax as it seems to say that this minimum tax is payable even if the instalment tax is higher!!. This will probably get corrected when at the Committee stage.

The timing of the payment of this minimum tax is similar to that of instalment taxes. That is in the fourth, sixth, ninth and twelfth month of the year of income.

The minimum tax will not be applicable on:

- incomes that is exempt from tax;
- employment income;
- income subject to turnover tax;
- residential rental income;
- gains from property transfers that are subject to Capital Gains Tax; and
- income earned from the extractive industry.

Taxation of e-commerce - chasing an illusory goal?

(Proposed effective date - 1 January 2021)

The Bill proposes to introduce digital service tax for persons earning income through the digital market place. The tax will be payable at the rate of 1.5% of the gross transaction value at the point of transferring payment to the service providers. Resident persons and Permanent Establishments of non-resident persons will offset the digital service tax against income tax payable for that particular year of income.

Whereas this is a noble change, the administration of this tax remains a challenge due to the nature of digital services. For example, subscriptions to digital TV services from a non-resident supplier through a credit card system for the mass market would be very difficult to be taxed under this digital service tax. Currently, a global conversation is ongoing through the OECD on the best way of taxing digital services. Due to the complexity involved, no consensus has been reached yet.

Although the Finance Act, 2019 introduced the provision to tax income earned through a digital market place, there was no clarity on how non-resident persons would be taxed. The proposed introduction of the 1.5% tax rate on gross transaction value is intended to bring non-residents to the tax net and also get advance taxes from resident persons and Permanent Establishments of non-resident persons in Kenya.

In an effort to address the envisaged administrative challenges, there is a proposal to grant the Commissioner powers to appoint digital service agents for purposes of collection of the digital service tax.

Is Caesar targeting more than his rightful share? (Proposed effective date - 1 January 2021)

The Bill proposes to disallow the following expenses that are currently allowable deductions for tax purposes:

- Registration and annual subscription fees for trade associations;
- Capital expenses incurred on legal costs and incidental expenses relating to:
  - authorisation and issue of shares, debentures and other securities for purchase by the general public
  - listing on a securities exchange operating in Kenya without raising additional capital
- Capital expenses incurred on rating for purposes of listing on any securities exchange in Kenya;
- Club subscriptions paid by an employer on behalf of an employee; and
- Capital expenditure incurred, upon approval by the Minister, on construction of public school, hospital, road and similar social infrastructure.

This proposal demonstrates a clear intent by the government to shore up tax collection to tame the increasing budget deficit. The proposal to restrict deduction of expenses incurred on social infrastructure might lead to corporates slowing down on corporate social responsibility projects that provide necessary social infrastructure mainly to the less privileged members of the society. Further, restricting deductibility of expenses incurred towards listing and capital raising at the Nairobi Securities Exchange (NSE) will raise the cost associated with such activities, which might further reduce activity at the NSE.

Registered Home Ownership Savings Plans - killing the Big 4 Agenda? (Proposed effective date - 1 January 2021)

The Bill proposes to scrap the provision on registered Home Ownership Savings Plan (HOSP), which allows depositors to enjoy a tax deduction of up to KShs 96,000 per annum (KShs 8,000 per month) on deposits placed with an approved institution. Additionally, the Bill proposes to get rid of the income tax exemption enjoyed by a registered HOSP. These proposals are against the government's big four agenda on affordable housing which is aimed at ensuring Kenyans have access to affordable houses.

Income tax exemptions scrapped - twisted logic? (Proposed effective date is 1 January 2021)

The Bill proposes to scrap the following tax exemptions:

Exemption	Implication
Income of the National Social Security Fund (NSSF) provided that the Fund complies with such conditions as may be prescribed	NSSF income will be subject to corporate income tax at the rate of 25%. This will have a negative impact on interest earned on employees' savings because NSSF might consider adjusting or reducing the interest accrued to members' accounts with the tax paid
Monthly pension granted to a person who is sixty-five years of age or more	This will discourage savings into pension plans and the long-term effect would leave aged members of the society with little or no income
Income from employment paid in the form of bonuses, overtime and retirement benefits; provided that this paragraph shall only apply to employees whose taxable employment income before bonus and overtime allowances does not exceed the lowest tax band provided under Head B of the Third Schedule	Bonuses, overtime and retirement benefits paid to persons earning income that does not exceed the lowest tax band will no longer be tax exempt if the Bill is passed into law. However, the recent introduction of exemption from Pay As You Earn for employees earning less than KShs 24,000 should take care of this to some extent.

VALUE ADDED TAX CHANGES

Streamlining deductibility of input VAT - (Proposed effective date would be the date of assent)

The Bill proposes to introduce stringent restrictions on deductibility of input VAT by taxpayers. The amendment seeks to bar taxpayers from claiming input VAT on purchases if suppliers have not declared output VAT on the sales invoices in their VAT returns. This is in addition to the previous condition where taxpayers are not allowed to claim input VAT if they are not in possession of supporting documents. It is a double edged sword on the purchaser as they would have not only made payments for the VAT but are now also not allowed to claim back the same. The six-month period for claiming input VAT remains unchanged.

This proposal is not practical since it would introduce administrative challenges where purchasers would have to keep checking with suppliers before they can claim input VAT. It completely goes against the basic principles of VAT and provided purchasers are allowed to claim input VAT within six months there will always be cases of mismatch.

This proposal is forcing both suppliers and purchasers to match their output and input VAT declarations each month, which practically and legally is not reasonable. It overlooks the six-month period within which purchasers can claim input VAT and the inability by certain suppliers to declare output VAT on an invoice by invoice basis. This is all linked to ongoing VAT Auto Assessments being issued to all taxpayers. It is high time KRA streamlined the Tax Invoice Management System (TIMS) which is supposed to deal with all these VAT inconsistency issues including easing the administrative burden on taxpayers.

Reclassification of goods and services from VAT exempt status to standard rated - (Proposed effective date would be the date of assent)

If this proposal is enacted the following goods and services would be subject to VAT at the rate of 14%:
Helicopters of an un-laden weight not exceeding 2,000 kgs of tariff 8802.11.00
Helicopters of an un-laden weight exceeding 2,000 kgs of tariff 8802.12.00
Aeroplanes and other aircraft, of un-laden weight not exceeding 2,000 kgs of tariff 8802.20.00
Other parts of aeroplanes and helicopters of tariff 8803.30.00
Aircraft launching gear and parts thereof; deck-arrestor or similar gear and parts thereof of tariff 8805.10.00
Air combat simulators and parts thereof of tariff 8805.21.00
Other ground flying trainers and parts thereof of tariff 8805.29.00
Specialized equipment for the development and generation of solar and wind energy, including deep cycle batteries which use or store solar power
Tractors other than road tractors for semitrailers
Goods of tariff 4011.30
Taxable goods locally purchased or imported by manufacturers or importers of clean cooking stoves for direct and exclusive use in the assembly, manufacture or repair of clean cook stoves
Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating) barbeques, braziers, gas-rings, plate warmers and similar nonelectric domestic appliances, and parts thereof, or iron or steel of tariff numbers 7321.11.00, 7321.12.00, 7321.19.00, 7321.81.00, 7321.82.00, 7321.83.00 and 7321.90.00
One personal motor vehicle, excluding buses and minibuses of seating capacity of more than eight seats, imported by a public officer returning from a posting on a Kenyan mission abroad and another motor vehicle by his spouse
Plant, machinery and equipment used in the construction of a plastics recycling plant
Hiring, leasing and chartering of helicopters of tariffs 8802.11.00 and 8802.12.00

These proposed amendments touch on some key sectors of the Kenyan economy, notably agriculture, aviation and renewable energy. Whilst standard rating the above items will allow the suppliers to claim input VAT on purchases it is still expected that the end customers will bear additional costs associated with VAT charged making these items more expensive. It also means that taxpayers whose output is zero rated would be in a refund position because of this input VAT.

Reclassification of goods and services from standard rate to exempt status - (Proposed effective date would be the date of assent)

Item reclassified	Implication
Maize/corn seeds under tariff no. 1005.10	Increased maize production resulting from cheaper inputs
Ambulance services	Enhanced affordability of health services

The government's intention is to make the above items affordable but there is need to analyse if the impact on input VAT on purchases that cannot be claimed could have an impact on the costs to the end consumer.

Reclassification of zero-rated supplies to standard rate - (Proposed effective date would be the date of assent)

Item reclassified	Implication
Supply of liquefied petroleum gas (LPGs) including propane	Increased cost to the final consumer, possibly pushing the use of unclean energy which the government has been trying to avert
Inputs or raw materials for electric accumulators and separators including lead battery separator rolls whether or not rectangular or square supplied to manufacturers of automotive and solar batteries in Kenya	This will result in more revenue for the government, however the products will be more expensive

VAT on e-commerce

Further to the proposed Digital Service Tax under the Income Tax proposal, the Government has drafted Value Added Tax (Digital Marketplace Supply) Regulations, 2020. These will deal with levying of VAT on these e-commerce transactions. The main points from these draft regulations are:

- The VAT will apply to taxable services supplied in Kenya through a digital marketplace
- The scope of this charge provides a large non-exhaustive list of items that fall in the scope – digital content; e-books; subscriptions; software; films, music, games; tickets for events; e-learning; digital content; etc
- Simpler mechanism introduced with no input claims allowed and no need for ETR invoices but normal invoice will be needed
- Determination of supply will be based on:
    - Recipient must be based in Kenya
    - Payment proxy (credit card or bank account) must be in Kenya
    - Residence proxy (billing, home or IP address; mobile country code) must be in Kenya
- The time of supply will be the earlier of payment or invoice issuance

EXCISE DUTY

Definition of "Licence" expanded - (Proposed effective date would be the date of assent)

The definition of licence has been expanded to capture all activities i.e. services, goods and any other activity that require excise duty licensing in Kenya. This change clarifies and removes ambiguity on the licence requirements for excise duty purposes in Kenya.

Excise duty on alcoholic drinks enhanced - (Proposed effective date would be the date of assent)

Currently, alcoholic beverages i.e. beers, cider, perry etc. with an alcohol strength of 10% or less attract excise duty of KShs 105.20 per litre. On the other hand, spirits and spirituous beverages with an alcoholic strength exceeding 10% attracts excise duty at KShs 253 per litre.

The proposed change amends the alcoholic strength threshold in both cases from 10% to 8% and therefore, alcoholic beverages and spirits with an alcoholic content of above 8% will now attract excise duty at the higher rate of KShs 253 per litre.

This is expected to increase government revenue from alcoholic beverages and spirits.

TAX PROCEDURES ACT

Finally! A local tax amnesty

(Proposed effective date - 1 January 2021)

The Bill proposes to introduce a Voluntary Tax Disclosure Programme. Under this programme, taxpayers would be required to disclose their past tax liabilities to the Commissioner in exchange for relief from penalties and interests accrued on the disclosed principal taxes. The programme is for a period of five years prior to 1 July 2020, which seems to be aligned to the five-year period taxpayers are required to maintain records. The programme will commence from 1 January 2021 and will be available for uptake for a period of three years.

In addition, taxpayers qualifying for relief of penalties and interest under the proposed programme would not be prosecuted with respect to the tax liability disclosed if the bill is passed into law as is currently drafted.

Notably, the extent of the remission of the penalties and interest due would be dependent on the year the disclosure and principal tax is paid under the programme as follows:

- If disclosure and payment of the principal tax is in the first year, taxpayers who qualify would be granted 100% waiver of the resultant penalties and interest;
- If in year two, the waiver would be 50%; and
- If in year three, the waiver would be 25%.

It is imperative for taxpayers to disclose all material facts otherwise they would risk not getting approvals or KRA would demand the penalties and interest even if approval for the waiver had previously been granted. The programme would not be applicable to persons who end up in refund positions after taking it up. In summary, this points to a tax amnesty that seeks to waive penalties and interest up to 100% if disclosure and payment is made in the first year. The proposed tax amnesty only grants relief for accrued penalties and interests but principal tax has to be paid. This is unlike the foreign tax amnesty introduced in 2016 which had no taxes or penalties and interest cost levied.

Through this proposed amnesty, the government would collect untaxed incomes dating back five years while also securing revenues for the future from non-compliant taxpayers. This should ultimately widen the tax net though the economic challenges imposed by COVID-19 would interfere with realization of increased tax collections in the short-term.

We implore the government to give favourable payment plans to taxpayers willing to take up the local amnesty and offer 100% remission on penalties and interests despite the year of settlement of the principal taxes.

MISCELLANEOUS FEES AND LEVIES

Under the Bill, Import Declaration Fee (IDF) and Railway Development Levy (RDL) charges are proposed to be amended as follows:

IDF - (Proposed effective date would be the date of assent)

Item	Current Rate	Proposed Rate
Goods imported under the East African Community Duty Remission Scheme	KShs. 10,000	1.5% of the customs value
Additional import duty payable in respect of goods entered for home use from an export processing zones enterprises	N/A	2.5% of the customs value
Aircraft of un-laden weight not exceeding 2,000 kgs and Helicopters of tariffs 8802.11.00 and 8802.12.00	Exempt	3.5%
Goods as the Cabinet Secretary may determine are in public interest, or to promote investments which value shall not be less than KShs 200 million	Exempt	3.5%
Goods imported for implementation of projects under special operating framework arrangement with the Government	Exempt	3.5%
Goods including materials supplies, equipment, machinery and motor vehicles for the official use by the Kenya Defense Forces and National Police	3.5%	Exempt

RDL - (Proposed effective date would be the date of assent)

Item	Current Rate	Proposed Rate
Currency notes and coins imported by the Central Bank of Kenya	3.5%	Exempt
Goods, including materials supplies, equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces and National Police	3.5%	Exempt
Goods as the Cabinet Secretary may determine are in public interest, or to promote investments whose value exceeds KShs 200 million	Exempt	3.5%

These proposed changes are intended to generate more revenues for the government. These seem to be long-term plans but are not sensible during these difficult times under COVID-19.

TAX APPEALS TRIBUNAL

Expanded tax appeals procedures

(Proposed effective date would be the date of assent)

The Bill proposes to introduce a provision that would allow an appellant to rely on grounds stated in its documents and not only on the grounds stated in the appeal. This proposed amendment will ensure fair hearing to appellants at the Tax Appeals Tribunal since all material facts will be considered.

KENYA REVENUE AUTHORITY

Proposed introduction of time limits to sue KRA (Proposed effective date would be the date of assent)

This proposed change will enable KRA effectively manage its disputes; consequently, preventing persons from lodging suits against KRA after a specified timeline. In our view this is a retrogressive proposal in an era where KRA should be promoting and facilitating trade to enable taxpayers to comply with their obligations. The legality and constitutionality of this proposal can also be challenged.

Capacity building and training of KRA officers (Proposed effective date would be the date of assent)

There is a proposal to introduce a legal framework for the establishment of an institution to offer capacity building and training on tax, customs and revenue administration. This proposal will enable KRA to streamline its capacity building and training programs. With the existence of KESRA and the programs it offers, it is expected that KESRA is already a registered institution under the TVET Act. This proposal, therefore, raises questions on the legality of KESRA.

CUSTOMS DUTIES

The customs duties changes agreed at the East African Community level and that are expected to take effect from 1 July 2020 are as follows:

Item	Proposed Amendment
Imported iron and steel products	35% import duty for another year
Paper and paper board products	25% import duty for another year
Inputs for manufacture of baby diapers	Exempt from import duty
Inputs for use in manufacture of new clothing and apparel	Exempt from import duty
Inputs for assembly or manufacture of mobile phones	Exempt from import duty
Imported leather and footwear	25% import duty for another year
Imported electrical parts and accessories	Import duty increase from 25% to 35%
Raw materials and inputs for manufacture of masks, sanitizers, ventilators and personal protective equipment	Import duty remission
Supplies for diagnosis, prevention, treatment and management of epidemics, pandemics and health hazards	Exempt from import duty

These proposed changes are aimed at protecting the local industries and for current and future epidemic preparedness.

MISCELLANEOUS PROPOSALS

The CS to the National Treasury proposed changes to various other legislation with an aim of strengthening legislation and adding clarity.

The Public Road Tolls Act - back to the late-80's to mid-90's

The CS has proposed various changes to the Public Road Tolls Act giving clear indication of what lies ahead for public road users in the country.

A National Road Toll Fund will be established under the Public Finance Management Act, 2012 to collect and administer the toll collected.

In line with the theme of enhancing Public Private Partnership (PPP), the proposals also allow private companies (duly registered under the Act) to be toll collectors including providing enhanced rights to collect tolls from defaulters.

If managed well this is likely to enhance the quality of roads in the country, it is important to note that motorists are already levied a Road Maintenance Levy on every litre of fuel purchased. The collection of both the road toll and maintenance levy will increase operating costs for all road users.

Road Maintenance Levy Fund Act

Further to the amendments proposed to the Public Road Toll Act, the CS has proposed to move all transit tolls collected to the National Roads Toll Fund. These were previously collected under the Road Maintenance Levy Fund.

The Capital Markets Act - enhancement of regulatory oversight

The CS has proposed to bring private equity and venture capital firms that access public funds under the regulatory oversight of the Capital Markets Authority.

Payment of unclaimed dividends to beneficiaries when they resurface has now been moved to the Unclaimed Financial Assets Authority from the Investor Compensation Fund. This change is to align the functions of unclaimed assets to the right authority.

The Retirement Benefits Act – enhancement of supervisory role

The CS proposes to empower the Retirement Benefit Authority to charge penalties of KShs 100,000 and an additional daily penalty of KShs 1,000 per day for failure to submit actuarial valuation reports as required.

The Insurance Act – M&A activity likely to increase

The CS proposed an amendment to clarify the time limit of 30 days to make an appeal to the Insurance Tribunal by a dissatisfied party on a decision by the Commissioner of Insurance.

No extensions or repeal of the new Risk Based Capital guidelines (effective from 1 July 2020) introduced in 2015 was proposed. This is likely to lead to a flurry of M&A transactions and market consolidation in the insurance industry.

The Insolvency Act – KRA given priority

Amendment of the Act to include KRA amongst preferential claimants to reduce risk of exposure on tax revenues held by commercial banks at the point of receivership or liquidation of the bank.

The Standards Act

Changes to the definition of a 'consolidator' so as to facilitate visibility of individual consignees for the purposes of customs declaration.

The effective dates for the above ammendments will be specific on enactment.

Other provisions in the speech

The CS made several other proposals in his speech:

- The National Treasury along with other stakeholders will conduct Kenya's first National Risk Assessment on Money Laundering and Terrorism Financing. This is likely to lead to a strengthening of legislation around Anti Money Laundering in the future
- Operationalisation of the Nairobi International Financial Centre with a view to strengthen Kenya's position as financial hub
- Development of a Special Economic Zone Textile Park, a Leather Park in Naivasha and the Athi River Textile Hub with an aim of creating employment and pushing the Buy Kenya, Build Kenya initiative
- Public pension reforms aimed to give retirees a monthly pension rather than a monthly salary as has been the case in the past. In addition to this, the CS has indicated plans are in place to clear pension payment backlogs by the end of 2020 to pave way for a modernised pension management system, incorporating the formal and informal sectors
- Development of a National Retirement Benefits Policy to secure the rights of pension contributors and beneficiaries. The Government is also working on the establishment of a National Micro-Pension Scheme to create a model that combines long term savings with short-term needs

- Regulations have been published for the Public Procurement and Asset Disposal Act, 2015 and await Parliamentary Approval and an e-Government Procurement Strategy is being formulated for roll out by December 2020
- Fast tracking the establishment of the Konza Technopolis City to position Kenya as a world class ICT hub.

ECONOMIC OUTLOOK 2020

SUB SAHARAN AFRICA

Sub-Saharan Africa's real GDP growth slowed slightly to 3.1% in 2019 from the 3.3% growth reported in 2018. This loss in growth momentum was attributed to weakened external demand, increased trade tensions, low commodity prices compounded by subdued agricultural output due to drought in some countries in the region.

Inflationary pressures eased up slightly in 2019 with average inflation estimated at 8.1% down from 8.5% recorded in 2018 reflecting the decline in global energy prices. The low inflationary pressures and slow economic growth in the region provided room for accommodative monetary policies including policy rate cuts in more than 10 countries including Kenya, South Africa and Angola amongst others. The current account deficit widened in 2019 estimated at 7.3% of GDP from 6.6% of GDP in 2018 mainly reflecting a larger deficit in non-resource-intensive countries and oil exporting countries owing to the low oil prices.

Moving forward, the region is projected to slip into recession with real GDP projected to contract by 1.6% in 2020. This is on the backdrop of deteriorated external demand following a sharp contraction in output growth among the region's key trading partners (China and Europe), a fall in commodity prices (oil and metals), reduced tourism receipts, as well as the effect of measures taken to contain the spread of COVID-19 pandemic.

2019 IN AFRICA AT A GLANCE

COVID-19

The first COVID-19 case globally was reported to the World Health Organization (WHO) on 31 December 2019 as a pneumonia of unknown cause detected in the Wuhan City, Hubei Province of China. There were no reported cases in the continent in 2019. The first case in Africa was recorded in Egypt on 14 February 2020. While the virus was slow to reach the continent as compared to other parts of the world, infections have grown exponentially.

Cyclones

Cyclone Idai and Kenneth hit Mozambique and Southern African countries in March and April 2019, in succession. The two cyclones destroyed both physical infrastructure and farmlands across Malawi, Mozambique and Zimbabwe estimated at USD 2 billion leaving more than 2.6 million people in need. The cyclones weakened the economic activity by disrupting the functionality of major ports and added pressure to inflation, fiscal balances and trade balances.

Elections

In 2019, four countries in Sub-Saharan Africa held elections including Malawi, Mozambique, Nigeria and South Africa. In Malawi, the incumbent president Peter Mutharika of the Democratic Progressive Party (DPP) was re-elected, with his party remaining the largest in the National Assembly. In Nigeria, the incumbent president Muhammadu Buhari from the All Progressives Congress (APC) was re-elected. In Mozambique, the incumbent president Filipe Nyusi of the Mozambique Liberation Front (FRELIMO) was re-elected with 73% of the votes. In South Africa, the African National Congress (ANC) led by the incumbent President Cyril Ramaphosa won both the national assembly and provisional legislatures.

Locust Invasion

East Africa experienced a locust invasion that has spread across the Middle East, North Africa and South Asia caused by effects of climate change. The desert locusts which are the world's most destructive migratory insects have infested 23 countries. The World Bank estimates the locust invasion could cause damages and loses of about USD 8.5 billion by 2020 if control measures are not effective.

Ebola and Malaria Outbreak

The Ebola outbreak reported in earlier years in the Democratic Republic of the Congo worsened in 2019. As of September 2019, about 3,000 cases had been reported, of which 2,000 were fatal. This prompted the WHO to declare a public health emergency of international concern. In Burundi, the outbreak of malaria affected half the population, killing about 1,800 people.

AFRICA EUROBOND ANALYSIS

In 2019, four countries in the Sub-Saharan Africa (Ghana, Kenya, Benin and South Africa) raised USD 10.7 billion in the international markets through Eurobonds. The Eurobonds in 2019 attracted a lot of interest evidenced by the oversubscription rates, with Ghana recording the highest oversubscription of over 7 times, underlining the sustained investor confidence in the African debt market.

Kenya raised USD 2.1 billion through a dual tranche Eurobond in May 2019. The issuance was oversubscribed by 4.5 times reflecting a strong investor confidence in the Kenya economy. The proceeds were earmarked for financing infrastructural development, general budgetary expenditure and active debt management.

Public debt vulnerability remains elevated in the region with average public debt estimated at 56% of GDP in 2018. According to the International Monetary Fund (IMF) 16 countries in the region are at high risk of distress (Burundi, Cameroon, Cabo Verde, Central African Republic, Chad, Ethiopia, Ghana, Sierra Leone and Zambia) or being in debt distress (Republic of Congo, Eritrea, Gambia, Mozambique, Sao Tome and Principe, South Sudan and Zimbabwe).

EAST AFRICAN COMMUNITY

The economy of the East African Community (EAC) expanded by 5.9% in 2019, a deceleration from the 6.6% growth reported in 2018. Rwanda recorded the strongest GDP growth of 10.1% while Burundi recorded the slowest growth in the region at 3.3%.

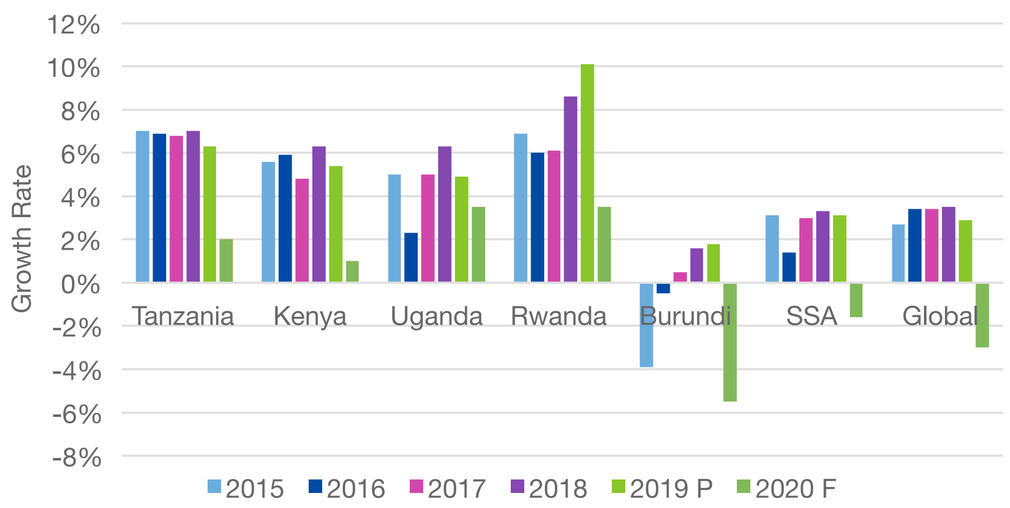
Rwanda's Real GDP grew by 10.1% in 2019 supported by strong private sector growth and infrastructural investment. Growth was mainly in services (7.6%) and industry (18.1%), particularly construction (30%). Investment drove growth, led by public investment in basic services and infrastructure. Uganda's Real GDP grew by 4.9% in 2019 compared to a growth of 6.1% in 2018 supported largely by the expansion of services. Growth in services averaged 7.6% in 2019 and industrial growth registered 6.2%, driven by construction and mining.

Tanzania recorded a decelerated growth of 6.3% in 2019 compared to a 7% growth in 2018. The economy was characterised by robust private consumption, substantial public spending, strong investment growth and an upturn in exports.

Burundi's economy expanded in 2019 with Real GDP growth of 3.3% albeit slower compared to a 3.8% growth recorded in 2018. This growth was supported by higher coffee exports, a slight increase in public investment, and a particularly good year for agricultural production.

South Sudan's Real GDP is estimated at 5.8% in 2019, from 0.5% in 2018 supported by resumption of oil production following the reopening of some oil fields following a peace agreement signed in September 2018. The oil sector remains the key driver of the economy, followed by services and agriculture.

The graph below shows Tanzania's, Kenya's, Uganda's, Rwanda's, Burundi's, Sub-Saharan Africa's and Global growth rate over the period 2015-2020.



Source: KNBS Economic Survey, 2020

LOOKING FORWARD

The EAC is expected to post significantly slower growth in 2020 due to the COVID-19 pandemic. As of 5 June 2020, the number of COVID-19 cases in the Community were distributed as follows: Kenya (2,872), Rwanda (439), Uganda (646), Tanzania (509), and Burundi (83). Countries have adopted various strategies of containing the spread of COVID-19 including a ban on international flights, closure of schools, barring large gatherings, night curfews and outright lockdowns. Tanzania has imposed the least stringent measures of social distancing, while Rwanda and Uganda have introduced the most restrictive containment measures, including complete lockdowns. The combination of a severe external demand shock and domestic demand shocks associated with the public health measure taken to contain the spread of COVID-19 are expected to reduce growth to an average of 0.9% in 2020, down from about 5.7% in 2019.

KENYA OUTLOOK

THE GDP OF KENYA

The GDP of Kenya is estimated to have expanded by 5.4% in 2019 as compared to 6.3% in 2018. This was mainly attributable to reduced agricultural production on account of suppressed long rains that disrupted the normal planting season in key agricultural zones and decline in manufacturing activities in the wake of constrained supply of raw materials from agricultural activities. However, the service activities recorded increased performance in the period under review fostered by accelerated growths in financial, insurance and real estate activities.

The table below shows the growth rates of the key sectors:

Industry	2015	2016	2017	2018	2019
Agriculture, forestry & fishing	5.3%	4.7%	1.9%	6.0%	3.6%
Manufacturing	3.6%	3.1%	0.5%	4.3%	3.2%
Electricity supply	11.5%	9.5%	8.9%	10.5%	7.9%
Wholesale and retail trade, repairs	5.9%	3.7%	5.7%	6.9%	6.4%
Transportation and storage	8.0%	6.5%	7.2%	8.5%	7.8%
Financial and insurance activities	9.4%	6.9%	2.8%	5.3%	6.6%
Real estate	7.2%	8.8%	6.1%	4.1%	5.3%
Education	4.9%	5.3%	5.1%	5.8%	5.4%
Information and Communication	7.4%	9.9%	11.0%	11.3%	8.8%
Overall GDP	6.1%	5.4%	4.8%	6.3%	5.4%

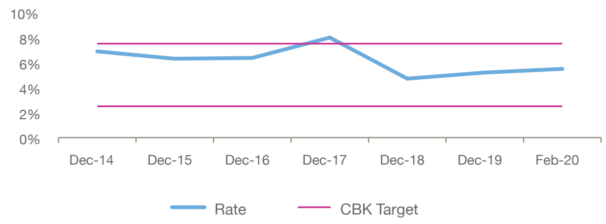
Source: KNBS, Economic Survey, 2020

The slowdown in the economy was also reflected in the current account balance that worsened to a deficit of KShs 567 billion in 2019 from KShs 511.3 billion in 2018.

INFLATION

The annual inflation as measured by the Consumer Price Index (CPI) increased to 5.2% in 2019 from a 4.7% recorded in 2018. The increase was mainly attributable to increased transport costs as well as food and beverage prices resulting from constrained domestic supply resulting from suppressed long rains in the period under review. The food and non-alcoholic beverages index, which has the largest weight in the CPI basket, recorded an increase of 6.43% in 2019 from a 1.37% in 2018. The highest year on year inflation of 7.75% was recorded with respect to alcoholics, beverages, tobacco and narcotics. This increase was driven particularly by a rise in prices owing to a hike in taxes in the year under review.

Inflation Rate



Source: Central Bank of Kenya

Looking forward, Kenya's inflation is expected to stand at 5.7% by the end of 2020, which is within the Government's target band of 2.5% to 7.5%. In 2021, it is projected to trend around 5.3%.

INTEREST RATES

With the aim of boosting economic growth, the Government through the Central Bank of Kenya (CBK) reviewed the Central Bank Rate (CBR) downwards from 9% in July 2018 to 8.50% in November 2019.

In the same period, the capping of bank interest rates previously stipulated in Section 33B of the Banking Act of 2016 was repealed through enactment of the Finance Act, 2019. The repeal is expected to enhance access to commercial bank credit by the private sector.

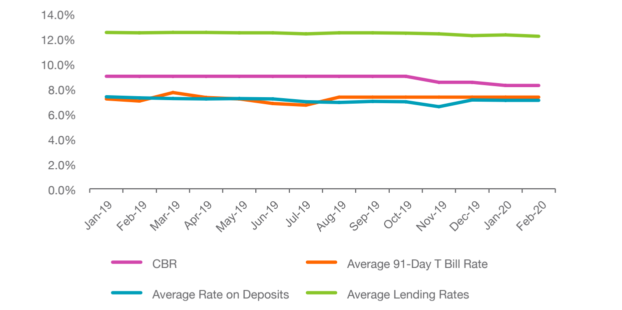
Overall, the nominal and real interest rates reduced in 2019 with the 91-Day Treasury bill decreasing to 7.17% from 7.34% as at December 2018. Similarly, the inter-bank, savings and lending rates declined by 2.12, 1.11 and 0.27 points respectively, over the same period.

In response to the COVID-19 crisis, CBK implemented the following:

i) Lowering of the CBR to 7.25%, signals commercial banks to lower their lending and deposit rates
ii) Lowering of the Cash Reserve Ratio (CRR) to 4.25% will provide additional liquidity of KShs 35.2 billion to commercial banks

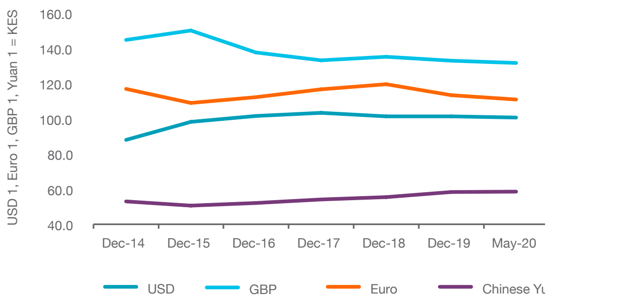
The graph above shows interest rates recorded within the economy as from January 2019 to February 2020.

Interest Rate (%) Jan 2019 - Feb 2020



Source: Central Bank of Kenya

Exchange Rates Versus Kenya Shillings



Source: Central Bank of Kenya

EXCHANGE RATES

The Kenya Shilling gained against major trading currencies as reflected in the Overall Trade Weighted Index, which stood at 115.7 in 2018 to 113 in 2019. This was occasioned by the Kenyan Shilling strengthening against the Euro, Pound Sterling, Chinese Yuan and the Indian Rupee by 4.6%, 3.8%, 3.7% and 2.4% respectively. In the same period however, the Kenyan Shilling weakened against the Japanese Yen, the US Dollar, UAE Dirham and Saudi Riyal by 2.0%, 0.7%, 0.7% and 0.7% respectively.

In the EAC region, Rwanda Francs and the Tanzania Shilling depreciated against the Kenyan Shilling by 3.7% and 0.7% respectively, while the Uganda Shilling gained against the Kenyan Shilling by 1.3%.

The graph below shows the exchange rates versus the Kenyan Shilling across various countries between January 2019 and May 2020.

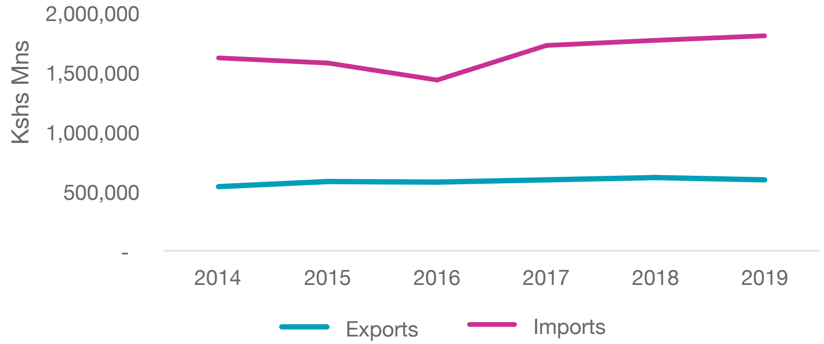
INTERNATIONAL TRADE

According to the Kenya National Bureau of Statistics (KNBS) report 2020, the volume of trade rose by 1% to KShs 2.40 trillion in 2019 from KShs 2.38 trillion in 2018 with the value of total exports declining by 2.9% to KShs 596.7 billion in 2019 from KShs 614.3 billion in 2018. This decline was as a result of a 4.1% decrease in the value of domestic exports to KShs 520.8 billion.

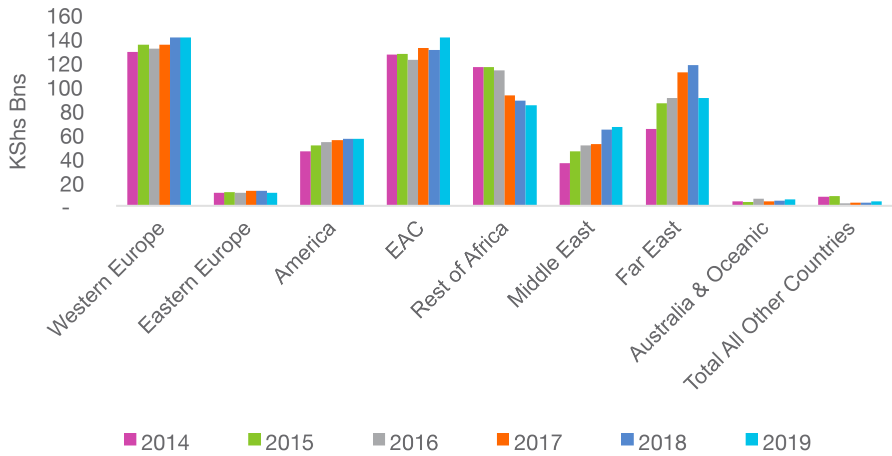
On the other hand, total value of imports increased by 2.4% to KShs 1.8 trillion in 2019 from KShs 1.76 trillion in 2018. This resulted to worsening of the trade balance from a deficit of KShs 1.15 trillion in 2018 to a deficit of KShs 1.21 trillion in 2019.

The graph below shows the total value of exports and imports for the period 2014-2019:

Exports vs Imports

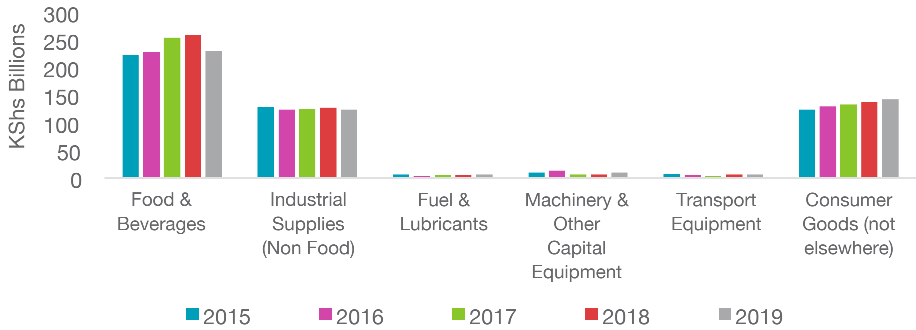


Major Destinations of Domestic Exports



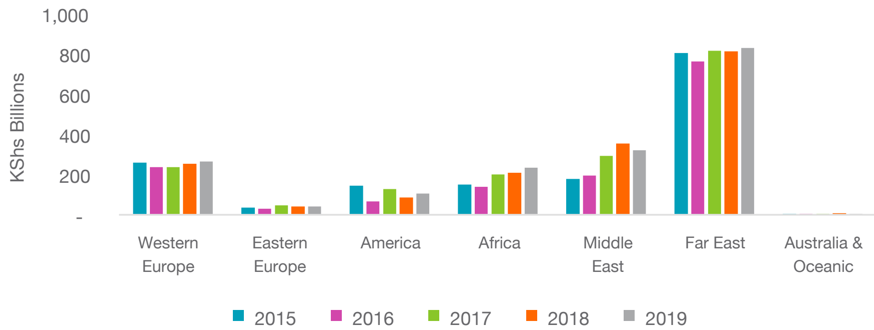
Western Europe, the Rest of Africa, the East African Community and the Far East remain the biggest markets for Kenya's exports representing a combined 76% of the total exports in 2019.

Domestic Exports by Broad Economic Category



Domestic exports declined by 4% in 2019 and mainly as result of decline in both food & beverages and non-food industrial supplies by 11% and 2% respectively.

Origins of Imports

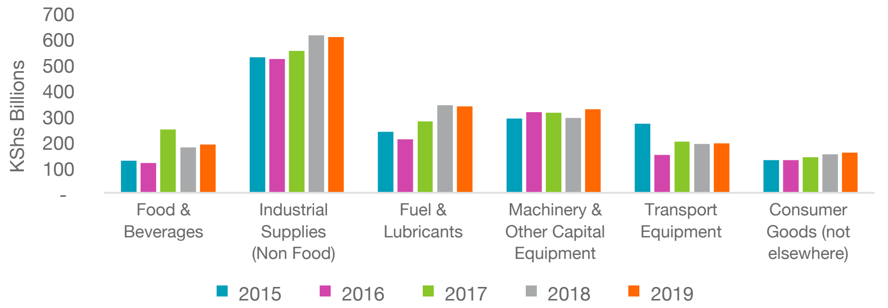


Kenya's imports continue to be dominated by the Far East countries, which accounted for 46% of total imports representing a value of KShs 829.06 billion.

Imports increased by 2% in the period under review with a significant increment of 12% being recorded for machinery and other capital equipment.

Notably, food and beverages imports in the same period increased as a result declined domestic supply attributable to unfavourable weather conditions experienced in key agricultural zones in the country.

Imports By Broad Economic Category



PUBLIC DEBT

Kenya's external debt hit USD 31.5 billion in 2018, a growth of 17% from the previous year. This was 36% of the total gross national income recorded under the same period.

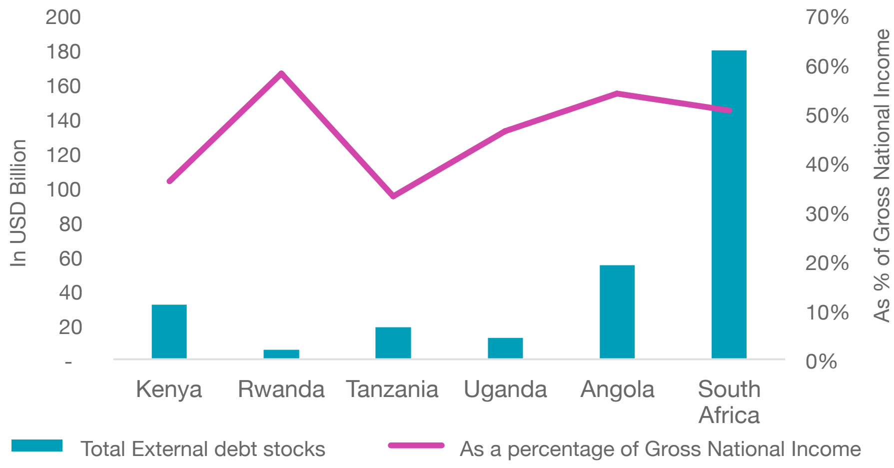
The graph below shows Kenya's external debt between 2015 and 2020.

Public Debt

Source: KNBS Report 2020 and budget statement 2020

In comparison to Tanzania, Uganda and Rwanda, Kenya had the highest external debt with Tanzania coming second. Rwanda had the lowest external debt recording USD 5.4 billion in the same period.

External Debt



Source: World Bank International Debt Statistics

As at June 2020, Kenya's external debt stands at USD 54.7 billion and a report produced by the World Bank warns that Kenya is drifting towards debt distress, owing to the government's borrowing policies.

It is also reported in the same period, Kenya's public debt stands at 62% of the GDP. Going forward, it is important for the Government to adopt measures that ensure debt is not accelerating as well as develop policies that create an enabling environment for the private sector in increasing revenue collection. This will reduce over-reliance on public investments in infrastructure and agricultural sector to spearhead the country's economic growth.

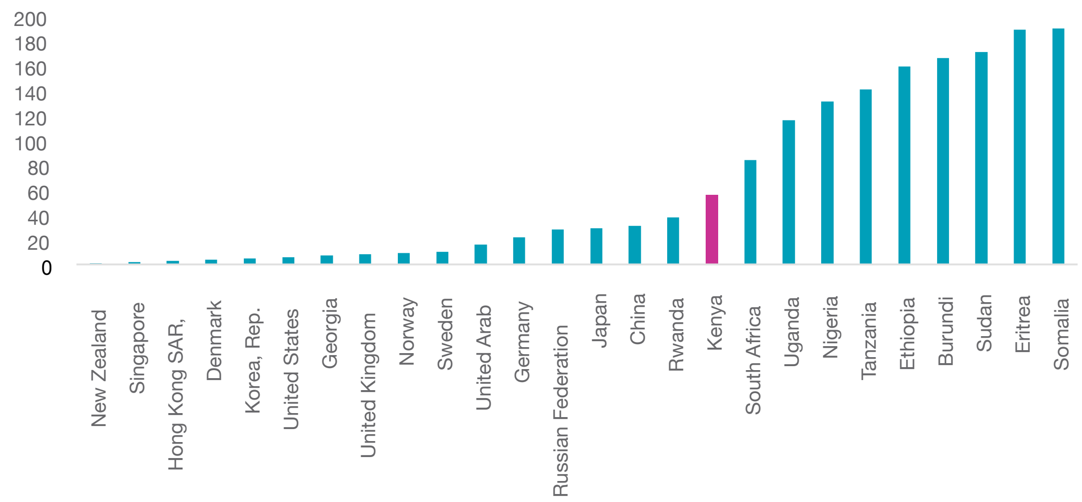
FOREIGN DIRECT INVESTMENT

FDI inflows to Kenya in the period under review decreased by 22.3% to KShs 386.8 billion. Going forward the International Finance Corporation, forecasts that Kenya is likely to experience a further decline in FDI estimating a drop of at least 40% in 2020 and 2021. This decline in foreign direct investments in the country could lead to job losses as private firms are unable to cope with the serious effects of the COVID-19 pandemic.

EASE OF DOING BUSINESS

According to World Bank's Ease of Doing Business Index, Kenya moved up 5 places to stand at position 56 out of 190 surveyed countries. Kenya strengthened its access to credit, protection of minority investors and ease of paying taxes by implementing an online filing and payment system for social security contributions. Kenya also made resolving insolvency cases easier by facilitating the continuation of the debtor's business during insolvency proceedings, providing for equal treatment of creditors in reorganization proceedings and granting creditors greater participation in the insolvency proceedings. However, the country still struggles with trading across borders as well as registering of property, which remains a cumbersome process in Kenya.

Ease of Doing Business, 2019



Source: World Bank Report on Doing Business 2019

The country was ranked fourth in the continent behind Mauritius, Rwanda and Morocco.

SECTORAL ANALYSIS

The Kenya economic growth prospects have been dampened by the negative impact of the COVID-19 pandemic, which has disrupted the global supply chains as well as revenue base collections in the country. Kenya remains vulnerable to a decline in global economic slowdown and trading partners notably China, Europe and USA. Further, expected reduced tourism earnings in 2020 tourist arrivals and a slowdown in remittance inflows is expected to dampen the economy further.

However, the pandemic presents a mixed impact to the manufacturing sector with some subsectors such as manufacturers of electronics and chemicals likely to suffer due to unavailability of raw materials.

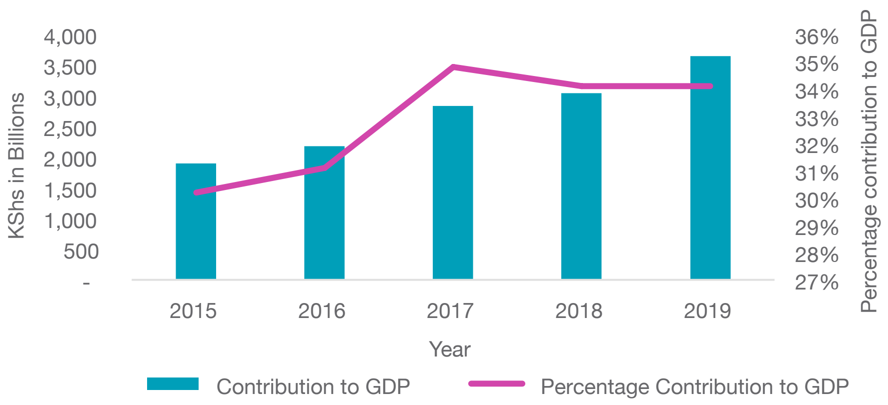
AGRICULTURE

2019 at a Glance

Being the highest contributor to the Kenya's GDP, the sector's percentage contribution to the GDP stood at 34.1% in 2019. However, the sector grew by 3.6% in 2019 compared to 6% in 2018. This was as result of suppressed rainfall that led to decline in agricultural production in key agricultural zones in the country.

The sector's contribution to GDP over years is as shown in the graph below.

Agriculture, Fishing and Forestry Contribution to GDP



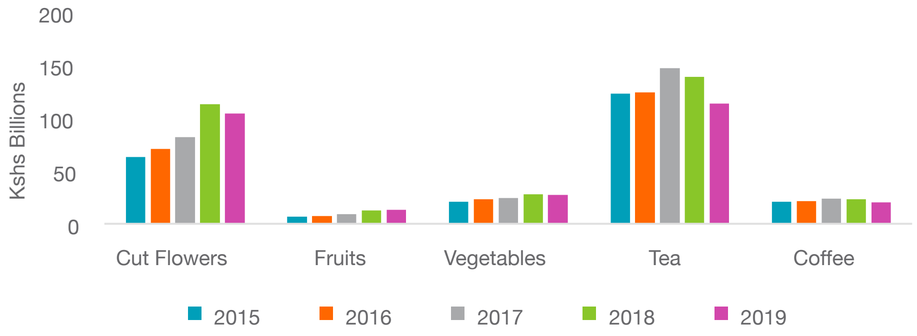
Source: KNBS, Economic Survey, 2020

There was a reduction in production (maize, tea, cane) occasioned by an extreme weather phenomenon characterized by drought during the first half of the year, followed by high rainfall in the second half of the year.

The value of horticulture exports decreased by 5.9% to KShs 144.6 billion in 2019 from KShs 153.7 billion in 2018. This was attributable to lower prices offered in the international market.

Specifically, the value of cut flowers exported declined by 8% to KShs 104.1 billion while that of vegetables declined by 1.7% to KShs 27.2 billion in 2019. However, the value of fruits exported increased by 3.1% to KShs 13.2 billion in 2019.

Value of Horticultural Exports



Source: KNBS, Economic Survey, 2020

There was also a general decline in market volumes of coffee and tea over the period under review. The decline was a result of reduced export prices following a higher production of the two crops globally.

Recent Developments in the Sector

Ongoing privatization of five state owned sugar mills i.e. Sony, Chemelil, Nzoia, Muhoroni and Miwani. This transaction will be fulfilling conditions required by the Common Market for East and Southern Africa (COMESA) and will ensure that the country is self-sufficient and competitive in sugar production by 2021 on a cost effective basis.

Liquidation of the Kenya Planters Co-operative Union (KPCU) due to mismanagement, corruption and failure to comply with the provisions of the Cooperatives Act on proper management of coffee farmers' assets.

New regulation in the Dairy Industry. The Dairy Industry Act (Cap. 336), 2020 is set to improve the mechanisms for rendering returns, reports and estimates by dairy business operators to the Kenya Dairy Board. This will provide mechanisms for the Board to receive data and information for planning purposes.

Looking Ahead

In September 2019, Kenya exported its first batch of avocados to China after President Kenyatta and his Chinese counterpart signed a deal in April allowing Kenya to export Hass avocadoes. This made Kenya the first African country to export avocadoes to China and fifth in the world after Chile, Mexico, Peru and New Zealand. According to the Trade Permanent Secretary, earnings of Kenyan Avocado farmers are set to increase following the slashing of export duty levy from 30% to 7% by the Chinese government. However, farmers have been required to observe strict guidelines in the handling of avocadoes which include peeling and freezing to temperatures of about negative 30° Celsius.

The desert locust outbreak in the country since December 2019 is seen to affect shortfall in localized production in certain affected counties due to the large scale control operations carried out by the government and Food and Agriculture Organisation (FAO) to mitigate the impact of locusts on the crops. However, production is set to improve due to adequate rainfall in the first half of 2020 in areas producing food.

Abundant rains in the first quarter of 2020 is likely to boost agricultural performance as it contributed to establishment of long rain crops in high potential cropping areas critical in feeding the country.

The COVID-19 pandemic has greatly affected the agricultural sector especially the flower and horticulture sector whose main markets are currently inaccessible due to flight shortages and low demand. This has resulted in curtailment of operations by most farms as they wait for the international markets to reopen.

To this effect, the government through an economic stimulus programme allocated KShs 3 billion to be used in the supply of farm inputs targeting 200,000 small scale farmers. In addition, another KShs 1.5 billion has been allocated to the flower and horticultural sector to facilitate access to the international markets.

According to FAO, going forward, there is a risk of food shortage and the institution calls for responses that will keep food supply chains alive and mitigate the pandemic's impact across the food system. The resurgence of the pandemic is still a global problem that requires a global response and there is no certainty about when or how fast COVID-19 will retreat.

A campaign dubbed Komesha Fruit Fly Campaign was launched in Makueni County early this year. The main aim of the campaign was to eradicate fruit flies in Kenya which cause damage to mangoes by piercing them in order to lay eggs leading to Kenya imposing a self-ban on mango exportation after consignments were seized between 2010 and 2014 by the EU authorities. The campaign is a partnership between various stakeholders including the National and the County government, development partners, financial institutions among others. It aims to employ various strategies such as creating awareness among farmers about the negative effects of fruit flies and the introduction of the integrated pest management technologies. With this campaign, Kenya has taken the first steps towards re-entering the international mango market. The total value of mangoes in Kenya is estimated at KShs 11.9 billion which represents 21% of the total value of fruits produced in Kenya.

A leading Moroccan phosphate company OCP and the Kenya National Trading Corporation (KNTC) have established a partnership to improve access to fertilizers at affordable prices for farmers. Under the partnership, farmers will be able to buy fertilizers for a 50 kg bag at around USD 23 across the country, compared to previous prices of around USD 28 to USD 32 per bag.

Agriculture has not been left behind by technology. Young African adults are starting to shift their focus to agriculture, more so in the digital space. Various applications and innovations have sprung up in the sector an example being DigiCow Dairy App which helps smallholder farmers better keep and manage their dairy data, like feeding, insemination and milking records. Irri-Hub Limited is also another start-up that offers irrigation services to farmers through irrigation as well as advising them on ways to harvest water during the rainy season to be used during dry spells.

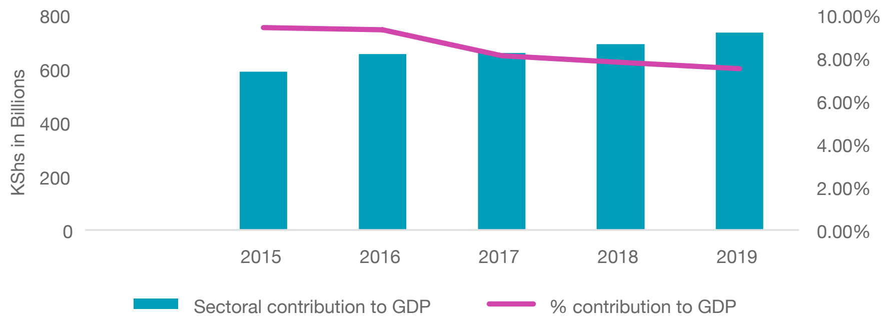
MANUFACTURING

2019 at a Glance

As this sector continues to be one of the pillars of the government's "Big 4" agenda, there has been major emphasis and concentration devoted to the manufacturing sector over the past year. According to the goals of the "Big 4" agenda, the manufacturing sector is projected to contribute 15% of GDP by 2022.

According to the KNBS Economic Survey, 2020, manufacturing sector's contribution to the GDP reduced from 7.8% in 2018 to 7.5% in 2019. The decline was due to reduced production in some sectors such as tea, processed fish and fruits.

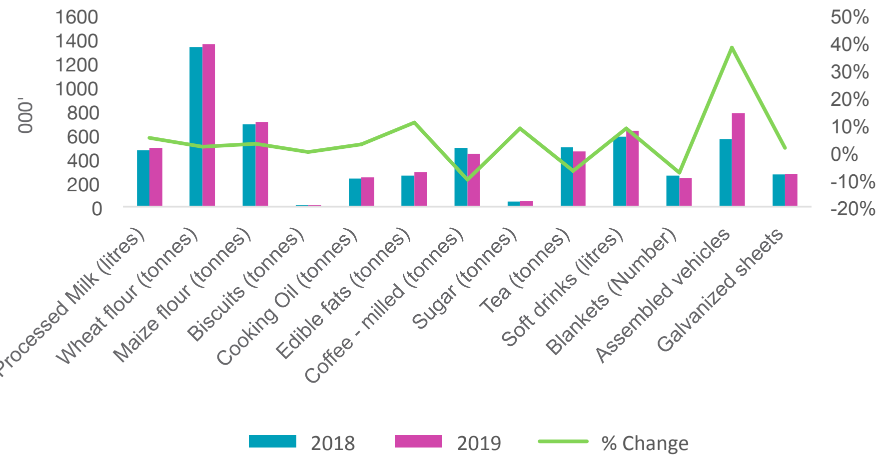
Contribution to GDP



From 2018 to 2019, the sector has seen an overall increase in total production with the largest growth coming from assembled vehicles and edible goods. The largest decline came from tea and sugar. According to the Kenya Association of Manufactures, export value of Kenyan manufactured goods has been on a decline, dropping from KShs 132.3 billion in 2017 to KShs 106.2 billion in 2019. This was partly attributed to a drop in Kenyan Export market share in the EAC market.

The table below shows selected commodities and their production values.

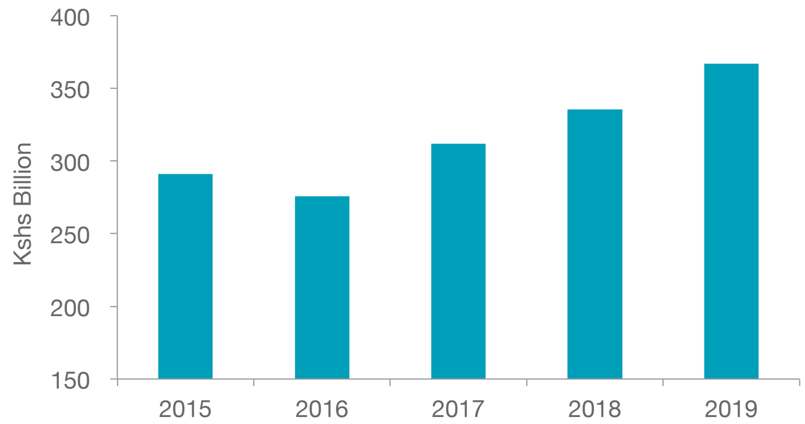
Total production of selected commodities



Credit advanced to the sector by commercial banks and industrial financial institutions rose from KShs 335.7 billion in 2018 to KShs 366.9 billion in 2019. The amounts advanced was used for funding the following: -

- Three start-up projects in energy briquetting, leather and paper processing
- The expansion of five existing projects in the processing of textiles, tea, and food processing activities
- Four start-ups and two existing manufacturing projects in food and pharmaceutical processing activities
- Expansion project whose principal activity was the manufacture and installation of heavy steel components and structural steelwork for power generation plants, cement production plants and steel production plants.

Loans advanced to the manufacturing sector



Total sales by Export Processing Zone (EPZ) enterprises went down by 0.12% to KShs 77.1 billion in 2019 from KShs 77.2 billion in 2018. This minor decrease in EPZ production was attributed to a fall in export sales from EPZ enterprises, which declined by 5.4% from KShs 72.3 billion in 2018 to KShs 68.5 billion in 2019. However, domestic sales from EPZ enterprises almost doubled within the year hence allowing the total sales to remain relatively the same compared to 2018.

The Kenyan manufacturing sector has managed to achieve a few milestones over the past 2 years in its strive towards the “Big 4” agenda. The following progress has been made so far:

- Enactment of the Energy Bill, 2018 which came into effect in March 2019
- Fast tracking of the Development of National Strategy for combating illicit trade in Kenya launched in July 2019

Looking Ahead

The garment/apparel industry is predicted to grow with a focus on shoe production. As the African Growth and Opportunity Act (AGOA) treaty remains intact, Kenya seeks to produce 20 million shoes by 2022 in the leather industry in order to reduce the current import of finished shoes. Additionally, the agenda seeks to boost the cotton industry using improved hybrid cotton varieties that will boost production volumes.

With the growth of e-commerce, manufacturing firms will consider collaborating with players like Jumia, Amari, DHL and GroFin among others. This will enable them to gain access to global markets and new international customers and reinventing their business models to align with changing technologies.

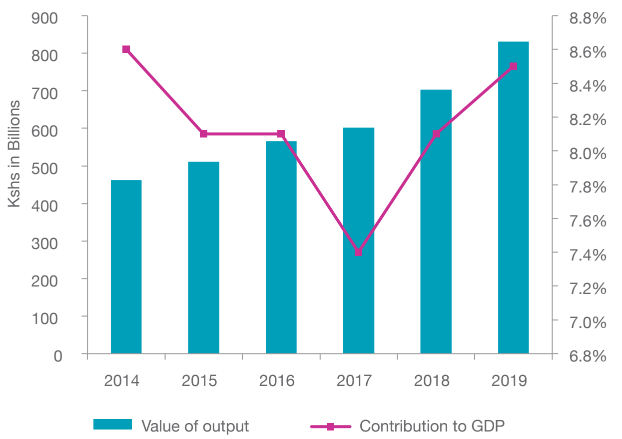
Manufacturers have had to rapidly change focus. The top three priorities for the majority of businesses before COVID-19 were to increase profitability, increase revenue and increase domestic market share. These strategies have now been pushed down the agenda and are overtaken by reducing costs, retaining jobs, and improving cash flow. Production is shutting down for non-essential goods such as textile and apparel, timber and furniture, and automotive sectors and rapidly accelerating for essential goods such as pharmaceutical and food. Pharmaceutical manufacturers recorded rises in revenues over the month of March 2020 due to demand following anti-COVID-19 measures. Food and beverage manufacturers will also continue to have strong revenues until household consumption begins to fade with stretched out incomes.

Many companies will not be able to replenish their inventories if lockdown measures currently in force are not lifted in the short term. This is because majority of raw materials and machinery come from countries such as China, Germany, India and Egypt.

TRANSPORT, LOGISTICS AND ICT SECTOR

2019 at a Glance

During the year under review, transportation and storage sector expanded by 7.8% in 2019 compared to 8.5% growth in 2018. This performance was attributed to low international oil prices and the continued expansion of transportation infrastructures such as roads, railways and ports.



Source: KNBS, Economic Survey, 2020

Transport

Total passenger traffic by air increased from 11.7 million in 2018 to 12.1 million in 2019. Introduction of new routes, business-related travel mostly to the Far East countries, the rise in the number of chartered flights from Europe to the Kenyan Coast, and an increase in tourism-related activities during the review period partly explain the increase.

Revenue earned from the Standard Gauge Railway (SGR) freight transport increased significantly from KShs 4.1 billion in 2018 to KShs 11.9 billion in 2019, which was a result of a 43.5% increase in the volume of freight transported through the SGR. Additionally, the increase is partly explained by the use of normal tariffs in 2019 compared to promotional tariffs in 2018 and the increased uptake of first-class tickets in 2019 compared to 2018.

Total pipeline throughput increased by 11.1% attributable to the completion of the new Nairobi-Mombasa 20-inch multi-product pipeline in 2018. The volume of exports through the pipeline increased by 20.4%; this was mainly driven by a 22.7% increase in the volume of light diesel exports.

Kenya National Highways Authority estimates to spend KShs 620.5 billion implementing the 2018/2019-2020/2023 Strategic Plan.

Logistics and storage

Total cargo throughput and the number of ships docking at the port of Mombasa increased by 11.3% and 4.4%, respectively, in 2019. Container traffic handled increased from 1.3 million Twenty-foot Equivalent Units (TEUs) in 2018 to 1.4 million TEUs in 2019. This was attributable to 8.2% and 4.9% increase in imports and exports respectively. Some of the notable developments in 2019 include:

- Completion and commissioning of the construction of phase 2A (Nairobi – Naivasha) of the Standard gauge railway in October 2019
- Kenya Ports Authority completed the development of the Cruise Ship Terminal, which is expected to attract more tourists into the country
- Completion of the first 3 berths of Lamu port awaiting commissioning
- Construction of the Kiev Oil Terminal was started in 2019 and is expected to be completed in 2022. The terminal will enhance the capacity of the Mombasa Port handling bulk liquids
- Development of the Second Container Terminal Phase II and is expected to be completed by the end of 2021.

Due to the COVID-19 pandemic, there have been measures implemented by the government on the movement of goods and services.

Looking Ahead

The transport and logistics sector is estimated to hit KShs 500 billion by 2023 mainly driven by expansion of roads and railways networks, harmonized levies for foreign investors, increasing retail and e-commerce space and Kenya's strategic location. To make the mobility system resilient during and post COVID-19, there will be revision to the investment projections in transport and logistic sector in an effort to reverse the interruptions experienced recently to the supply chain.

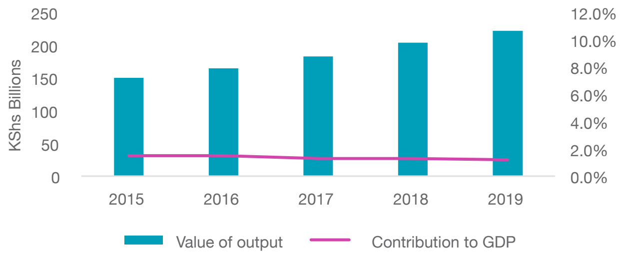
Information and Communication Technology (ICT)

2019 at a Glance

The ICT sector contributed 1.2% of the Kenyan GDP in 2019.

The table below shows the contribution to GDP and growth rate.

Contribution of ICT Sector to GDP



Source: KNBS, Economic Survey, 2020

The sector's growth slowed to 8.8% in 2019 from 11.3% in 2018 as mobile-cellular penetration edged closer to saturation levels while mobile and fixed broadband uptake declined marginally for the first time due to the slow growth in uptake of ICT services. Mobile cellular penetration increased by 7.9% to 114.70 per 100 inhabitants in 2019 registering a slower growth compared to 12.3% growth registered in 2018.

The value of investment by the telecommunication operators increased by 38.6% to KShs 57.5 billion while investments by Internet Service Providers (ISPs) increased by 19.2% to KShs 3.1 billion. Annual revenue recorded by Telecommunication and ISPs increased by 7.5% and 22.1% to KShs 290.9 billion and KShs 36.5 billion in 2019, respectively.

The increasing demand for fiber optic with high-speed bandwidth calls for high bandwidth capacity. The undersea bandwidth infrastructure has been increasing over the last five years with its capacity augmented by 36.9% growth from 4.6 million Mbps in 2018 to 6.2 million Mbps in 2019. Fixed broadband especially the fibre optic has continued to expand in the last four years due to its growing preference among businesses and homes.

Looking Ahead

The Government launched the ICT Authority Strategic Plan 2019 – 2023, Kenya Digital Economy Blueprint 2019, the Cyber Security Strategy, the Data Protection Act was signed to law, among others.

The Government continues to digitize the provision of service on online platforms and this expected to continue in the near future as we await the actualization of the National Integrated Identity Management System or Huduma number.

According to the Ministry, the government has provided land, clean water and high voltage power connection to Konza city as incentives to attract investors and demonstrate commitment to the development of Konza Technopolis. An estimated investment of KShs 600 billion will be applied in Phase 1 extending to 2022, by both government and private sector.

With continued rollout and expansion of 3G, 4G and fibre optic infrastructure, more Kenyans especially in rural areas are going to be connected to higher quality broadband services. Kenya telecommunication companies are expected to explore the fifth-generation (5G) mobile internet services targeting major urban centres. This is informed by their attempts to further expand its data business to counter slower growth in voice calls revenue offering much faster data download and upload speeds that ultimately ease network congestion.

The ICT sector as an enabler of other sectors in the economy has a critical role in responding to the COVID-19 pandemic. Some of the notable examples include:

Teleconferencing platforms such as Zoom and Google Meet have facilitated working and communication remotely
Various companies have introduced delivery services such as Uber Eats, Jumia Foods, Dial a Delivery and Glovo by partnering with local eateries and supermarkets to do home deliveries hence reducing human contact
E-commerce platforms such as Jumia, Kilimall, Pigiame and Copia have supported the social distancing and staying home measures with online shopping
The Kenya Association of Manufacturers launched a digital directory in March 2020 to help customers shop online
Hospitals such as the MP Shah launched and adapted the virtual consultation through telemedicine platform

FINANCIAL SERVICES

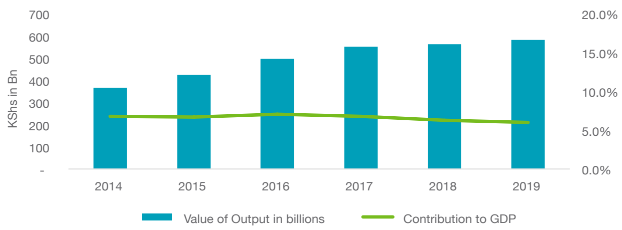
Banking

2019 at a Glance

In 2019, listed banks showed improved performance, which was largely attributable to persistent revenue diversification evidenced by the 17.4% growth in non - funded income (NFI) in 2019 from 3.8% growth in 2018. Growth in NFI was attributable to the growth in fees and commissions which recorded an 18.4% growth in 2019. Consequently, there was a marginal increase of 1% in loans, after the interest rate cap repeal, reveal that the sector was plagued by stringent regulations.

The table below shows the contribution of financial and insurance services to GDP over the last six years.

Gross Domestic Product



Source: KNBS, Economic Survey, 2020

The banking sector has seen significant changes over the last year:

i In 2019, the CBR was reviewed downwards from 9.0% to 8.5% in November 2019 to ease monetary policy. This was aimed at boosting economic growth and enhance access to commercial bank credit by the private sector

ii The interest rate cap, imposed by the Central Bank of Kenya in September 2016, was finally removed in November 2019. This was to help strengthen the effectiveness of monetary policy and increase credit to the private sector

iii Interest on loans and advances by commercial banks reduced to 12.24% in December 2019 compared to 12.51% in December 2018. This is because the CBR was reduced to 8.5% in November 2019

iv Interest rates on saving deposits also reduced to 4.02% in 2019 compared to 5.13% in December 2018

v Commercial banks liquidity ratio rose from 50.6% in December 2018 to 52.6% in December 2019.

vi As at December 2019, total deposit liabilities increased by 10.8 % to KShs 657.6 billion due to growth in deposit liabilities of government and local banks

vii The currency outside banks dropped to KShs 157.7 billion in September 2019 from KShs 196.9 billion in June 2019. This was attributed to demonetization of one-thousand-shilling note by end September 2019

viii The merger of CBA and NIC banks created the third largest Bank with 9.9% market share in Kenya's financial services sector and a customer base of over 40 million in four East African countries.

Following the Presidential address on the state interventions, the new measures were implemented by CBK to help alleviate the adverse effects of COVID-19, enhance liquidity management by banks, and strengthen the resilience of the financial sector.

The lowering of the Central Bank Rate (CBR) to 7.25%, signals commercial banks to lower their lending and deposit rates
The lowering of the Cash Reserve Ratio (CRR) to 4.25% will provide additional liquidity of KShs 35.2 billion to commercial banks

To provide flexibility on liquidity management facilities provided to banks by CBK, the maximum tenor of Repurchase Agreements (REPOs) is extended from 28 to 91 days
To provide flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing on 2 March 2020 and whose repayment period was extended or were restructured due to the pandemic
Removal of charges for mobile money transactions up to KShs 1,000
The transaction limit for mobile money increased to KShs 150,000
The daily limit for mobile money transactions increased to KShs 300,000
The mobile money wallet limit increased to KShs 300,000
The monthly total limit for mobile money transactions was eliminated
The current tariff for mobile money transactions for KShs 70,000 will apply for transactions up to KShs 150,000
Banks will seek to provide relief to borrowers on their personal loans based on their individual circumstances arising from the pandemic
Medium-sized enterprises (SMEs) and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic
Banks will meet all the costs related to the extension and restructuring of loans
To facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry

Looking Ahead

According to the Changing Face of Banking Survey, 2019, digital platforms are expected to attract increased uptake from the market. Their forecast for future likelihood of using mobile banking is 67% for Apps and 71% for Unstructured Supplementary Service Data (USSD). Usage of these channels is expected to be higher among the youth (18-34 years old) and university graduates due to their familiarity with technology.

According to the Kenya Bankers Association, the restructuring of loans by Kenya's banking sector is likely to affect flow of cash in the industry by an estimated amount of KShs 10 billion. It will further affect the credit portfolio with the non-performing loan group increasing by 2%.

As the COVID-19 pandemic persists, we anticipate that SMEs will continue to experience supply and demand reduction, diminished confidence from the financial markets and a reduction of credit.

There has been increased mergers and acquisition in the banking sector in 2019 and 2020. The following table shows the details of deals in the said period.

Acquirer	Bank Acquired	Date
Co-operative Bank	Jamii Bora Bank	March 2020
Access Bank PLC (Nigeria)	Transnational Bank PLC.	January 2020
Commercial International Bank	Mayfair Bank	December 2019
Oiko Credit	Credit Bank	August 2019
KCB Group	National Bank of Kenya	September 2019
CBA Group	NIC Group	September 2019

This increased bank consolidation has heightened employment crisis in a sector that is grappling with high cost of operation. While strong institutions will be created, jobs in the banking sector, which has for long been among the highest employers in the country, will put at risk existing opportunities and dampen new prospects.

Insurance

2019 at a Glance

In 2019, the financial services and insurance sector registered growth of 2.1% points from 4.6% in 2018 to 6.7% in 2019. This was attributed but not limited to operational efficiency through adoption of alternative channels for both distribution and premium collection such as Bancassurance and improved agency networks. Advancement in technology and innovation made it possible to make premium payments through mobile phones, and; a growing middle class, which has led to increased disposable income, thereby increasing demand for insurance products and services.

Under life insurance, gross premium income increased by 11.7% in 2019 to KShs 97.7 billion, total liabilities grew by 13.9% while that of assets grew by 15.2% in 2019
Under reinsurance life business, gross premium income grew by 16.5% in 2019 compared to 17.4% in 2018
Under general insurance, gross premium income increased by 1.5% in 2019 to KShs 129.4 billion indicating a slight drop from 2.2% in 2018, total liabilities grew by 2.8% while that of assets grew by 2.4% in 2019
Under reinsurance general business, gross premium income grew by 18.6% in 2019 from 1.1% in 2018

The year 2019 has seen key industry players increasing adoption of digital technology in a bid to drive growth and deepen penetration in Kenya. The year has also seen a boom in Mergers and Acquisitions as the insurance sector becomes more competitive and the need to cut operational costs becomes more urgent. Some of the deals include the acquisition of a 13.8% stake in Britam by Swiss Re, acquisition of Kenya First Assurance by Barclays Africa Group for USD 29 million and Africa Merchant Assurance seeking to raise USD 5 million - USD 7 million through equity sale.

Looking Ahead

Due to the impact of COVID-19, the insurance sector will record declining margins and falling return on assets and equity.

In June 2019, Insurance Regulatory Authority (IRA) made amendments undervaluation of technical provisions for life insurance business and capital adequacy guidelines. The assumption under interest rate risk for life valuation was revised from 20% to 10%, and the insurance risk factors relating to interest rate risk margin for capital adequacy was revised from 10% to 18%. In that case, insurers will have to watch out for and manage interest rate stress factors to remain well within the assumptions laid out in the guidelines. IRA has been implementing a risk-based supervision through guidelines that require insurers to maintain a capital adequacy ratio of at least 100% of the minimum capital by 2020. This regulation requires insurers to monitor the capital adequacy and solvency margins on a quarterly basis, with the main aim being to safeguard the insurer's ability to continue as a going concern and provide shareholders with adequate returns.

The increasing digitization will help to curb insurance frauds that have been robbing the industry of millions. A working example is the virtual motor insurance certificate introduced by the Association of Kenya Insurers (AKI) to curb insurance fraud schemes through multiple claims.

Pension

2019 at a Glance

In 2019, there were 24 fund managers, 31 administrators and 11 custodians registered by the Retirement Benefits Authority to offer services to registered pension schemes. Assets of pensions grew by 13.6% from KShs 1.166 trillion in December 2018 to KShs 1.32 trillion in December 2019. The increase was attributable to major holdings of government securities. Currently, 42.5% of pension scheme funds are held in government securities, 18% in immovable assets and 17.7% in quoted equities.

Looking Ahead

The pension sector will be negatively impacted on growth in assets due to exposure of its assets to excessive stock market volatility and off-shore investments as a result of COVID-19.

The Retirement Benefits Act was amended to allow pensioners to use their savings to purchase a residential house and withdrawal taxation rate in line with the Big 4 agenda to promote housing.

A successful strategy has been adopted by Retirement Benefit Authority (RBA) to work with the sponsors and Trustees of the pension schemes that did not meet the prescribed minimum solvency standard for defined benefit plans of an asset coverage of at least 80% of a scheme's liabilities.

Capital Markets

2019 at a Glance

The table below shows an overview of the equity market:

	2017	2018	2019
Total Number of Shares Traded (million)	7,065	6,336	4,832
Total Value of Shares Traded (KShs billion)	172	176	154
NSE 20 Share Index (Base Jan 1966=100)	3,712	2,834	2,654
Market Capitalization (KShs billion)	2,522	2,102	2,540
Total bond Turnover (KShs billion)	429	558	652

Some of the notable developments in 2019 include;

i Launch of green bonds in January 2019 and its first issuance that raised KShs 4.3 billion

ii Launch of the Nairobi Securities Exchange derivatives market (NEXT) in July 2019, to facilitate the trading of the futures contract on the Kenyan market

iii The Nairobi Securities Exchange registered 22 firms under the Ibuka Incubation programme

Looking Ahead

The Nairobi Securities Exchange is targeting to list at least one firm from its Ibuka incubation programme on the main market by end of 2020.

When COVID-19 was first reported in Kenya, trading was halted at the Nairobi Securities Exchange (NSE) after the NSE 20 index dropped more than 5% with highly performing stocks declining.

In March 2020, due to COVID-19, NSE opened a remote access to its platforms. Access to bonds and derivatives Automated Trading System is provided over the internet. As such, users of these platforms can access the said applications from any location that has a stable internet link.

Most investors have since the onset of the pandemic indulged in a net selling position with a preferred option of purchasing fixed income securities due to uncertainty in the market.

Deposit Taking, Savings, and Credit Cooperatives (DTSs)

Directly and indirectly, co-operatives account for 45% of Kenya's GDP and 30% of national savings and deposits. According to Sacco Societies Regulatory Authority (SASRA), there were 163 licensed deposit taking SACCOs in 2019 which represents a marginal drop from 166 in 2018. Total assets increased by 11.8% from KShs 497 billion to KShs 555 billion total liabilities in form of deposits increased by 11.3% from KShs 342.3 billion in 2018 to KShs 381.1 billion in 2019 due to increased borrowing from banks to meet credit needs of members. Loans and advances increased by 12.1% to KShs 402.0 billion in 2019. On the other hand, capital reserves increased sharply by 63.5% to KShs 175.2 billion in 2019.

In July 2019, the government directed the Ministry of Industry, Trade and Co-operatives to fast-track the formulation of the National Co-operative Policy and operationalize the proposed Sacco Societies Fraud Investigation Unit (SSFIU) within the Sacco Societies Regulatory Authority (SASRA). The SSFIU was to seal loopholes, ensure sustainability and enhance the sector's contributions to economic growth.

Some deposit taking SACCOs licenses were withdrawn in 2019. This includes Moi University, Transcom, Ufundi, Maono Daima, Greenhills and Nest Sacco Society Limited.

Looking Ahead

Cooperatives have a significant role to play when it comes to housing, which is one of the components of the big 4 agenda. Due to their high membership, they can mobilize substantial capital for investment. In 2019, the President noted that 12 deposit taking Sacco's had subscribed to the Kenya Mortgage Refinance Company which was recently established as a vehicle to unlock liquidity for mortgage financing under the government's affordable housing programme.

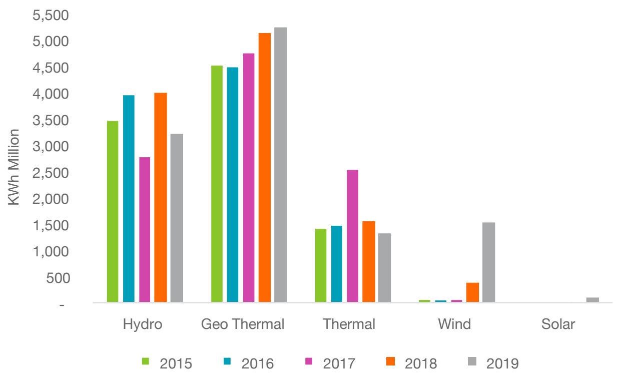
The establishment of a central liquidity facility which will enable Sacco's to participate in the national payment system and allow them to come up with more innovative products for their members is underway.

ENERGY

2019 at a Glance

Geothermal energy was the biggest contributor to the total energy generation standing at 45% of the total generation in 2019.

Local Electricity Generation by Source

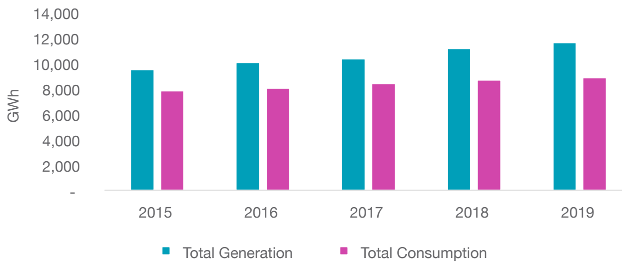


Source: KNBS, Economic Survey, 2020

In 2019, total electricity demand increased by 3.9% to 11,620.7 GWh in 2019 compared to 11,182 GWh in 2018. Wind power increased to 1,526.7 GWh compared to 375.6 GWh in the year 2018. This was due to the Turkana Wind Power Plant, which is the largest single wind power plant in Africa, being fully operationalized. Solar energy generation rose to 92.3 GWh from 13.7 GWh in 2018. Thermal and hydro generation registered a drop of 15% and 19.6% in the year 2019.

Total electricity generated including imports expanded by 3.9% to 11,620.7GWh in 2019. Geothermal capacity increased significantly by 25.0%to 828.4 MW in 2019. This was mainly as a result of Kenya Electricity Generating

Total Generation and Consumption of Electricity



Source: KNBS, Economic Survey, 2020

Company (KENGEN) adding the first unit of its new Olkaria V geothermal power plant at Olkaria to the grid in the review period.

There was increased connectivity under the rural electrification programme that saw a 5.8% rise in the number of customers in 2019. This mostly consisted of domestic units and small commercial units.

In 2019, there were lower oil prices which were attributed to increased petroleum production in the USA due to increased fracking of shale deposits. The volume of imported petroleum products increased by 5.3% to 6.4 million tons in 2019. The exports increased by 4.97% to 776.6 thousand tons in the year 2019. The total import bill decreased from KShs 327.8 billion in 2018 to KShs 316.6 billion in 2019, which was due to the significant decrease in international oil prices.

The Early Oil Pilot Scheme (EOPS) that was commissioned in 2018 achieved a milestone by having its initial 200,000 barrels' capacity of crude oil being flagged off by the president on 26 August 2019.

Looking Ahead

The new Energy Act enacted in March 2019, has several amendments to the repealed Energy Act intended as set out in its preamble, to consolidate the laws relating to energy, to properly delineate the functions of the national and devolved levels of government in relation to energy, to provide for the exploitation of renewable energy sources, to regulate midstream and downstream petroleum and coal activity and for the supply and use of electricity and other forms of electricity.

The Eastern Africa Power Pool's connection with the Southern African Power Pool (SAPP) through the under-construction Zambia – Tanzania - Kenya (ZTK) interconnection could prove a game changer.

Kenya is expected to reduce its crude oil export projections to 400,000 barrels annually between 2021 and 2023, indicating a depressive assessment on the international market. According to the Petroleum Permanent Secretary, the government will concentrate on the growth of the field and the construction of the crude pipeline, hence reductions in export plans.

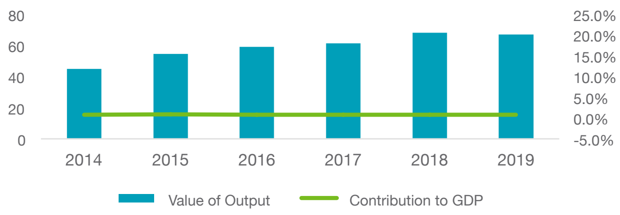
Kenya is set for a new wave of dynamism among African policymakers and business communities, with falling costs of key renewable technologies opening up new avenues for innovation and growth.

MINING

2019 at a Glance

The mining sector contributed 0.7% to the GDP and recorded a 0.4% decline in growth in 2019.

Contribution to GDP



Source: KNBS, Economic Survey, 2020

The value of mineral output declined by 5.5% from KShs 30.8 billion in 2018 to KShs 29.1 billion in the review period. This was attributable to the policies set up by the government to regulate the mining sector and the red tape that is associated with tenure administration.

Most of the major minerals recorded a decline in the quantity produced during the review period. Titanium ore minerals of Ilmenite and Rutile recorded a decline of 24% and 12% respectively. Similarly, the production of soda ash dropped from 339,000 tonnes in 2018 to 230,400 tonnes in 2019, while crushed refined soda, which has been the most important mineral in the country, recorded the third year in a row decline to stand at 388,000 tonnes in the period under review. The production of salt increased slightly by 6.3% from 28,800 tonnes in 2018 to 30,000 tonnes in 2019.

Gemstone (cut) production increased by 36.3% while that of gemstones (rough) declined by 20.7% in 2019. The volume of crude oil production from the Turkana oil field was 38.1 million litres in 2019.

The average level of capacity utilization activities relating to mining of metal ores, extraction of crude petroleum and natural gas has been very low but rising annually. The year 2019 reported the highest levels of utilization at 72.5% and 75.0%, respectively. The main reasons for capacity under-utilization include high cost of materials, high oil prices, and high cost of electricity, fuels and labour; counterfeits, poor transport facilities, competition from imports and shortage of skilled labour among others.

Looking Ahead

It is estimated that the GDP for mining in Kenya will stand at KShs 12.8 billion by the end of 2020 and KShs 13.2 billion in 2021.

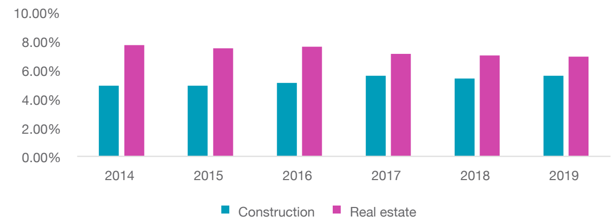
Exploration activity in western Kenya has increased significantly over the past few years, with The East African writing in November 2011 that a “gold rush” is expected in the country within the next decade. Furthermore, Kenya’s first ever large-scale mine, the Kwale mineral sands project will commence production later in 2020.

Marketing of industrial products related to mining has been on the rise over the recent past, but the availability of Internet Infrastructure which plays a key role in information access and exchange, communication, marketing channel in e-commerce and similar e-business was not well developed at all firms in the industry.

BUILDING AND CONSTRUCTION

2019 at a Glance

Contribution to GDP



According to the KNBS Economic Survey, 2020, the construction sector registered a growth of 6.4% in 2019 compared to a growth of 6.9% in 2018, largely due to stalled projects resulting from lack of funds and litigation cases with an estimated cost of KShs 1 trillion according to the IMF report (January 2020).

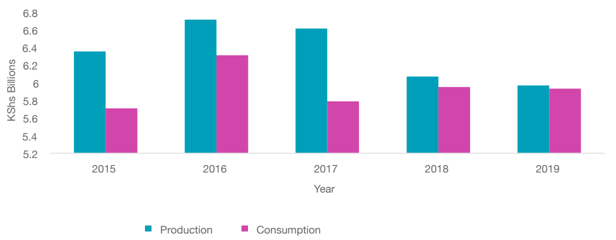
The index of reported public building works completed declined by 32.6% from 59.4 points to 39 points whereas the index of reported private building works completed in Nairobi City County (NCC) increased by 3.5% from 466.2 points in 2018 to 482.3 points in 2019. This suggests that the construction of private buildings helped to keep the construction sector afloat during the period. The number of completed public residential buildings in 2019 stood at 530 units which was higher than 430 units realized in 2018.

The value of completed buildings issued with certificate of occupancy in NCC increased by 4.3% to KShs 94 billion in 2019. On the other hand, the value of building plans approved decreased by 1.3% from KShs 210.3 billion in 2018 to KShs 207.6 billion in 2019.

Cement production decreased for the third year in a row by 1% from 6.06 million tonnes in 2018 to 5.96 million tonnes in 2019. On the other hand, consumption dropped by 0.3% from 5.948 million tonnes in 2018 to 5.93 million tonnes in 2019.

The graph below shows the cement production trend over the last five years:

Cement Production



Looking Ahead

The industry will be among the ones that will be hit hard if the COVID-19 related disruptions continue to slow down operations on building sites across the country as builders adopt social distancing measures, shorter working hours, decline in construction materials due to supply disruptions, and lower demand for housing.

Most ongoing projects will stall because of the uncertainty surrounding the completion of projects.

Cement companies have continued to perform poorly, reported a drop in sales, and profit during the first quarter. However, a quick recovery is expected after restrictions to stop the spread of the virus are relaxed.

Kenya's construction industry is projected to grow, because of increasing demand for pre-engineered building solutions that reduce construction time, cost as well as increased awareness of green buildings.

TOURISM

2019 at a Glance

According to KNBS report 2020, tourism earnings for the year 2019 stood at KShs 163.6 billion, which represented a growth of 3.9% from the previous year's earnings of KShs 157.4 billion. This performance was driven by political stability during the year resulting from notable relaxed travel advisories by governments of key tourist nations, improved infrastructure to and around tourism hotspots as well as extensive promotions and early bookings.

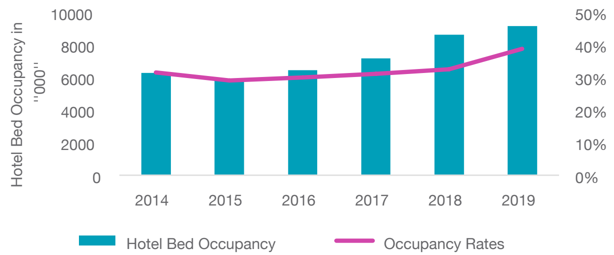
Considerable milestones that were achieved in the airline industry also contributed to the positive growth in earnings. These included: the launch of direct flights by Kenya Airways from Nairobi to New York; a move by Air France to increase flights from three to five times a week; the introduction of Doha – Mombasa flights by Qatar Airways and a move by Ethiopian Airlines to increase the frequency of flights to Mombasa from one to two flights daily.

International visitor arrivals increased by a slower growth rate of 0.4% from 2.03 million in 2018 to 2.04 million in 2019 surpassing the two million mark for the second successive year. The slow marginal growth was a result of rising geopolitical challenges, prolonged uncertainties brought about by Brexit, lower business confidence that weighed on growth in international tourism and a terrorist attack on the Dusit D2 Hotel in Nairobi in January 2019, which reinstated some travel alerts which had been lifted in 2018.

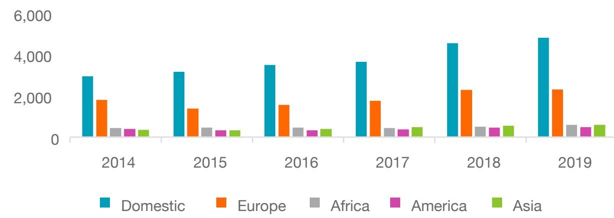
The start of the year also saw twenty-seven global hotel brands announcing plans to open new or additional hospitality facilities in Kenya over the next four years. With this kind of investment, the bulk of the hotels in the pipeline are expected to open in 2021, with 1,155 rooms scheduled to enter into the market. According to a Pipeline report, 67% of the proposed hotel rooms are already under construction with the remaining 33% in the planning stage.

Hotel bed occupancy expanded by 6.3% to 9,160,800 in 2019. This was driven by hotel bed night occupancy in game lodges which increased by 8.6%, while national parks and game reserves increased by 3.4% and 18.6% respectively. This was however, a slow increase compared to 2018 and that may be partly attributed to heavy rains, which reduced the accessibility to some national parks and game reserves as well as increased reporting on terror related alerts.

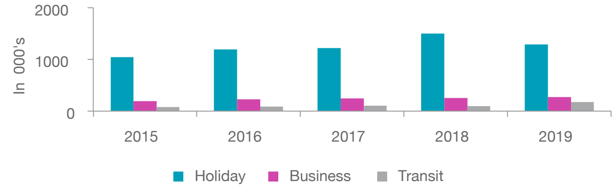
Hotel Bed Occupancy



Hotel Occupancy by Continental Arrivals



Tourists by Purpose of Visit



Looking Ahead

The performance of the sector has been adversely affected by the COVID -19 pandemic which will significantly reduce the earnings in the sector. This would be as a result of the slowed local economic activities which saw grounding of all passenger travel, precautionary cessation of movement within the country and a nationwide dusk to dawn curfew. The performance will further be affected by the weakening of global economy.

In an effort to ensure the recovery of the sector, the government is developing a Tourism Rescue and Recovery Strategy. The resumption of the previously prohibited local flights will also encourage domestic tourism. The current pandemic has also seen the government cushion the sector through capital injection in a bid to protect the jobs in the industry. The Ministry of Tourism and Wildlife has also set aside funds with the goal of boosting the image of the country as a tourist destination.

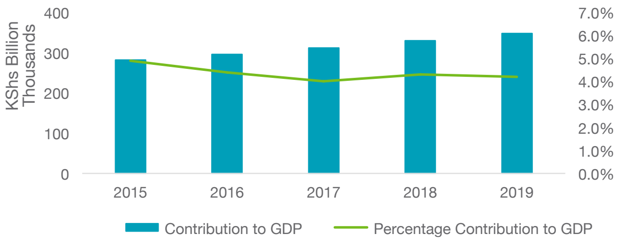
The Ministry has also issued guidelines to ensure gradual reopening of the tourism related establishments which include the formulation standards operating procedures for businesses, to provide guidance on the compliance to protocols published by the Ministry of Health. To further cushion investors in the sector, the government has also allowed subsidies on costs related to meeting the statutory, medical and inspection requirements as well as shortening the processing time for issuance of compliance permits.

EDUCATION

2019 at a Glance

The graph below shows the contribution of the education sector to the GDP. Growth in the education decelerated to 5.4% from 5.8% reported in 2018.

Contribution of Education Sector to GDP



Source: KNBS, Economic Survey, 2020

In 2019, the number of pre-primary schools increased by 10% due to the policy change that required every primary school to have an Early Childhood Development Education (ECDE) Center.

In the same period, the number of primary and secondary schools reduced by 14.7% and 8.2% respectively due to the increased inspection by the Ministry of Education which resulted in the closure of the institutions that did not meet the Ministry's requirements.

The number of Teacher Training Colleges decreased from 406 in 2018 to 384 in 2019 due to a decreased number of candidates scoring C plain in secondary education, which is the minimum required-entry score for P1 certificate in teacher's education and for diploma courses in TVET institutions. The number of universities remained constant at 63 institutions.

The total number of candidates who sat for the Kenya Certificate of Primary Education in 2019 increased by 2.7% to 1,088,989 while those who sat for the Kenya Certificate of Secondary Education increased by 6.1% to 693,770. The Government has since implemented the 100% transition of all pupils from primary to secondary schools.

Looking Ahead

The education sector has unfavorably experienced the pandemic effects stemming largely from extended school closures.

Despite the low rates of infection among children, school closures are a critical pillar in social distancing tools to mitigate the spread of the disease as well as serve as makeshift hospital in the event, cases of infection strain the existing health facilities in the country. A good example is the Kenyatta University.

On the other hand, extended interruption in the education sector has the potential to reverse gains in learning results. An even higher cost comes from the disengagement of students with learning challenges who may not effectively cope with remote learning strategies or cannot access the information. In secondary schools, longer school closures could result in an increased risk of dropout for youth, particularly from lower income groups. Further, school closings could also have a significant impact in labor supply in the country.

To mitigate some of the challenges, the government has asked key stakeholders in this sector to adapt distance learning to mitigate loss of learning. This has been working for some groups in the country who have access to internet services as well as the required devices. However, a significant number of students have not been able to adapt this, owing to low income experienced by many households both in the rural and urban areas.

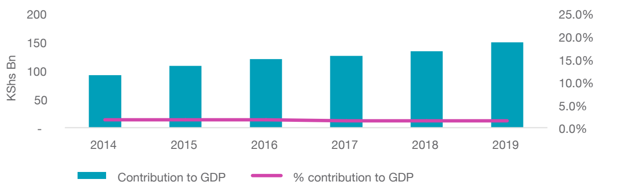
Going forward, the government proposes to open schools in September 2020. However, there is need for the government to lay out a roadmap for this sector to ensure the right measures are in place to avoid putting strain on the already strained health sector as well as ensure there is continuity in learning.

HEALTH

2019 at a Glance

Human health and social work activities contributed 1.5% of Kenya's GDP in 2018 registering a 11.6% growth from the previous year.

Human health and social work activities



Source: KNBS, Economic Survey, 2020

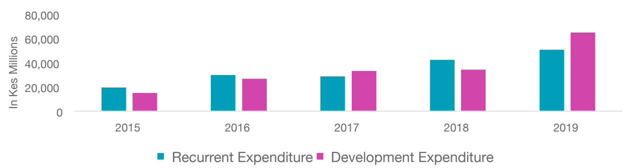
The growth in the sector is mainly driven by increased investments supported by the following factors:

- i increased public-private partnerships
- ii growing middle class
- iii increased insurance penetration
- iv expansion of National Health Insurance Fund (NHIF) scope of cover and membership
- v government initiatives such as Universal Health Coverage (UHC)
- vi innovation and technology.

The NHIF membership rose by 10.57%. The informal sector registered a higher increase of 12.60% while the formal sector membership increased by 8.67%. The increase in membership is attributed to UHC/NHIF campaigns being headlined across the country.

The government expenditure on health services increased by KShs 39.06 billion from KShs 76.68 billion in 2018; a 51% increase. The county governments' spending increased by 25% from KShs 92 billion to KShs 114.6 billion in 2019. The increased expenditure is attributed to programmes and projects that the government plans to implement towards the UHC.

Government Expenditure on Health Services



Source: KNBS Economic Survey, 2020

The number of health facilities in the country increased by 677 with 41% of the total health facilities being dispensaries. The increase is attributed to the efforts being made by the government to ensure all Kenyans access healthcare services and efforts to achieve of universal healthcare.

Looking Ahead

The first case of COVID-19 was reported in Kenya on 12 March 2020. Moving forward, government efforts are focused on combating the COVID-19 pandemic. The following factors remain key to overcoming this health crisis:

a) Investment in hospital infrastructure. The government can strengthen the healthcare system by increasing the number of intensive care beds, temporary isolation facilities respiratory-support machines, and procure medical testing kits and preventive kits

b) Enhanced contact tracing and testing capacity as well as monitoring of active cases. The government should encourage self-isolation and voluntary testing

c) Hand hygiene, respiratory etiquette, wearing of masks as well as practicing social distancing particularly in informal settlements

d) Prepare for surge in health care facility needs, including respiratory support and personal protective equipment (PPE).

SUMMARY BUDGET ALLOCATIONS

The national government will receive the highest share of the budget followed by consolidated government and county governments at 65.0%, 20.2%, and 12.9% respectively. The table below shows a summary of budget allocations over the next three years to the different arms of government and the counties.

% Share in Total Expenditure

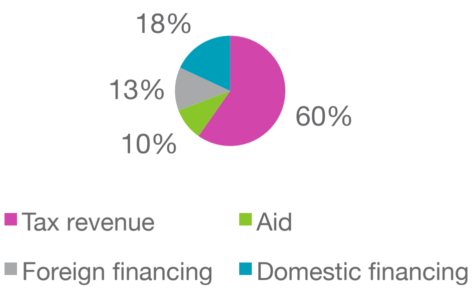
	National Government	Consolidated Fund	Judiciary	Parliament	County Governments
2020/21	65.0%	20.2%	0.6%	1.3%	12.9%
2021/22	65.16%	22.15%	0.47%	1.27%	10.95%
2022/23	63.57%	23.77%	0.46%	1.28%	10.91%

Source: 2020 Budget Policy Statement

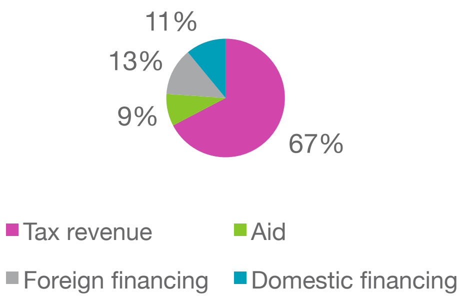
2020/2021 BUDGETARY EXPENDITURE ALLOCATIONS

In the 2020 Budget Policy Statement, the Cabinet Secretary has set out proposals to incur a total of KShs 2.8 trillion in expenditure and net lending for the 2020/2021 fiscal year. Tax revenue has reduced from 67% in 2019 to 60% in 2020 owing to reduction in tax rates. Domestic financing and aid percentage share is expected to increase in 2020/2021. He intends to finance this through a combination of tax revenues, aid and debt as shown in the chart below:

2020/21 Budget



2019/20 Budget

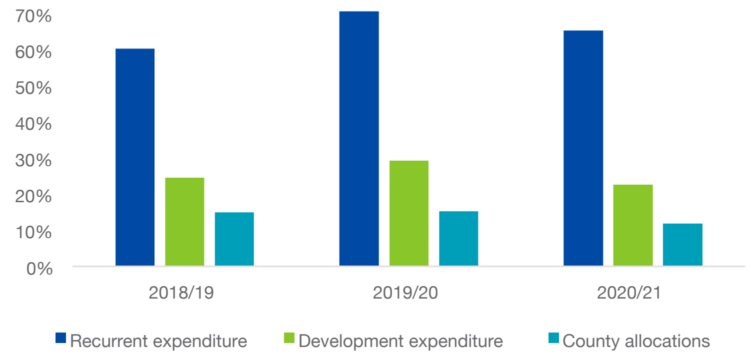


Source: 2020 Budget Policy Statement

Where is the Money going?

The gap between recurrent and development spending continues to widen with recurrent. The Public Management Act 2012 provides for development spending at a minimum of 30% of total expenditure.

Government Expenditure

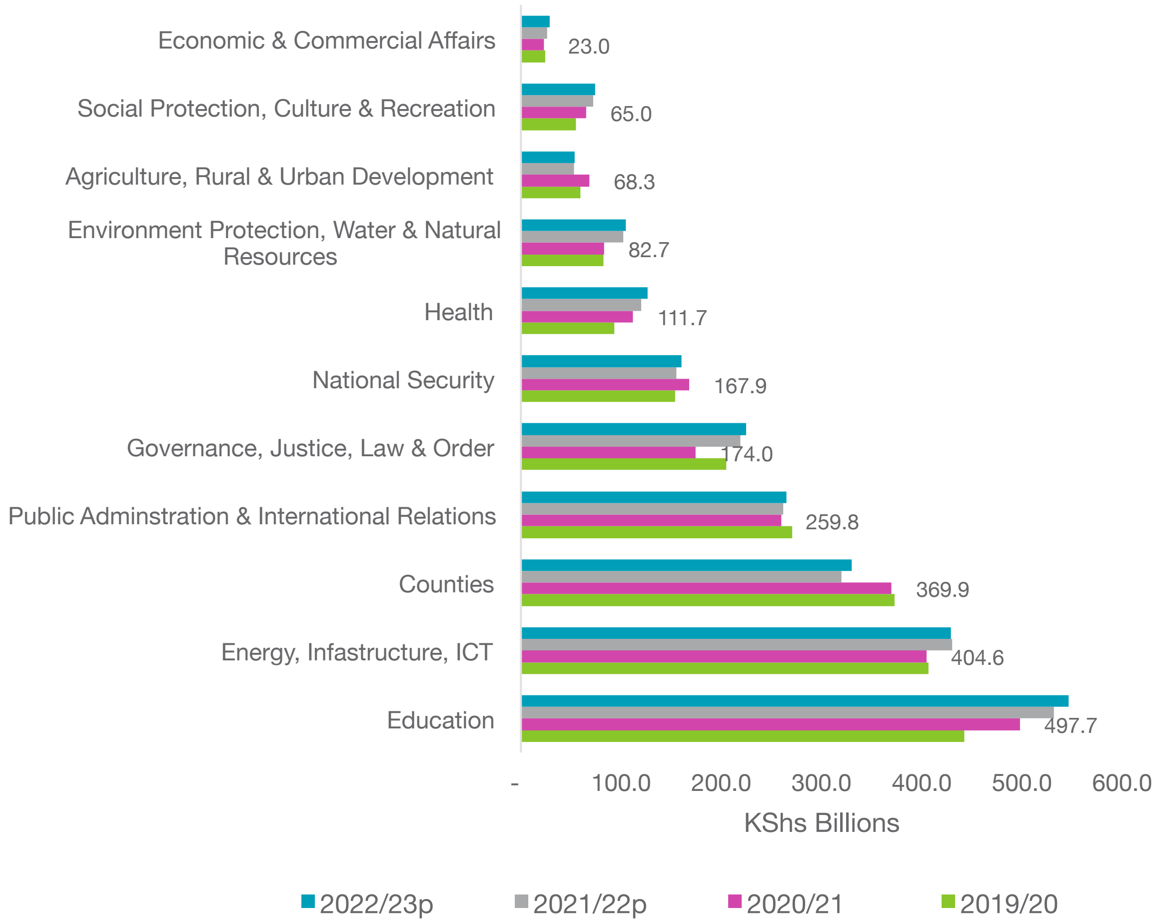


Source: 2020 Budget Policy Statement

PRINCIPAL BENEFICARIES

The principal beneficiaries of the budget are as follows:

Allocation based on priorotized programs



Source: 2020 Budget Policy Statement

right people
right size
right solutions

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