

## **SURVEY REPORT**

# **PROPOSALS FOR KENYA'S ECONOMIC RECOVERY PLAN AFTER COVID-19 CRISIS**

**MARCH 2020**

# EXECUTIVE SUMMARY



**93**

*Respondents*

**61%**

*of the respondents ranked "supply chain distributions" as a factor to severely affect household and business economies.*

**69%**

*of the respondents felt there is a high likelihood of a global recession after COVID-19 pandemic.*

**1 YEAR**

*majority of the respondents estimate the global recession recovery period will last for upto one year.*

**75%**

*of the respondents propose that the Government should invest more in the healthcare sector and prioritise research and innovation in the healthcare sector for pandemic preparedness.*

## **Other Proposals to cushion the Kenyan economy during the crisis period**

- *Current Financial Budget review*
- *Reallocation of resources to the most affected sectors*
- *Providing subsidies to MSMEs*
- *Trading in short-term securities to increase money supply*
- *Investing heavily in the manufacturing sector to boost local production*
- *Further reduction of the Central Bank Rate*
- *Price controls to prevent inflation due to reduced supply*

# SURVEY OVERVIEW

## Introduction

The Institute of Certified Investment and Financial Analysts ("ICIFA"), established under the Investment and Financial Analysts Act (No.13 of 2015) ("IFA Act"), is the only body mandated by law in Kenya to regulate and grant practising licences to Certified Investment and Financial Analysts (CIFAs) in sectors such as investment and financial, capital markets, insurance, retirement benefits, trusts, saccos, wealth management and financial and investment advisory.

As part of an ongoing obligation, ICIFA recently conducted a survey from its membership to assess their understanding of the impact of the COVID-19 pandemic on the economy and to seek their views on the government intervention measures that could lead to Kenya's economic recovery plan after the COVID – 19 crisis.

The survey was deemed necessary following the World Health Organization (WHO) categorizing COVID-19 as a pandemic, and the confirmation of the first case in Kenya by the Ministry of Health on 13th of March, 2020.

## Objectives of the Survey

The overall objective of the survey was to seek proposals for Kenya's economic recovery plan after the COVID-19 pandemic. In this context, the report covers a wide range of proposals and opinions on Kenya's economic recovery path and begins with a background, summary of the key findings drawn from the survey analysis, as well as recommendations and conclusions based on members' responses. The specific objectives for the survey were as follows:

- 1.To evaluate factors that would have effects on business investment, household consumption and international trade on the economy.
- 2.To seek proposals for actions that the Government of Kenya can take in order to mitigate the negative impacts; in short, medium and long term.
- 3.To evaluate Investment proposals to the Government aimed at improving pandemic preparedness.
- 4.To seek radical proposals that would ensure that the Kenyan economy is cushioned during the crisis periods.

# Government of Kenya Interventions

As at 25th March 2020, and at the time of preparing this report, the Government of Kenya proposed certain measures to protect business investments and household consumption in the economy. These measures include:

## Tax Measures

- 100% tax relief for persons earning gross monthly income of up to Ksh. 24,000 with effect from 1 April 2020.
- Reduction of PAYE from 30% to 25% with effect from 1 April 2020.
- Reduction of Resident Income Tax (Corporation tax) from 30% to 25% with effect from 1 April 2020.
- Reduction of the turnover tax from 3% to 1% for all MSMEs with effect from 1 April 2020.
- Reduction of the standard Value added Tax (VAT) to 14% from 16% with effect from 1 April 2020.

## Non-Tax Measures

- Flexible provisioning requirements for banks for loans that were performing at March 2020 but subsequently go into distress as a result of the pandemic.
- Temporary suspension of listing with Credit Reference Bureaus for persons who default on their loan obligations with effect from 1 April 2020.
- Settlement of Ksh. 13 billion of verified pending bills end of April 2020.
- Appropriation of Ksh. 10 billion through cash transfers to the vulnerable members of the society.
- Voluntary reduction of salaries for top public servants.

## Central Bank of Kenya Measures

- Lowering of the Cash Reserve Ratio (CRR) to 4.25% from 5.25% which will provide additional liquidity of Kshs. 35 Billion to commercial banks to directly support borrowers that are distressed as a result of the effects of COVID-19 pandemic.
- Lowering of the Central Bank Rate (CBR) to 7.25%, which signals commercial banks to lower their lending and deposit rates.

# SUMMARY OF FINDINGS

As at Friday, 27 March 2020, ninety three (93) members responded which represented 46.5% of the targeted responses.

**55%**

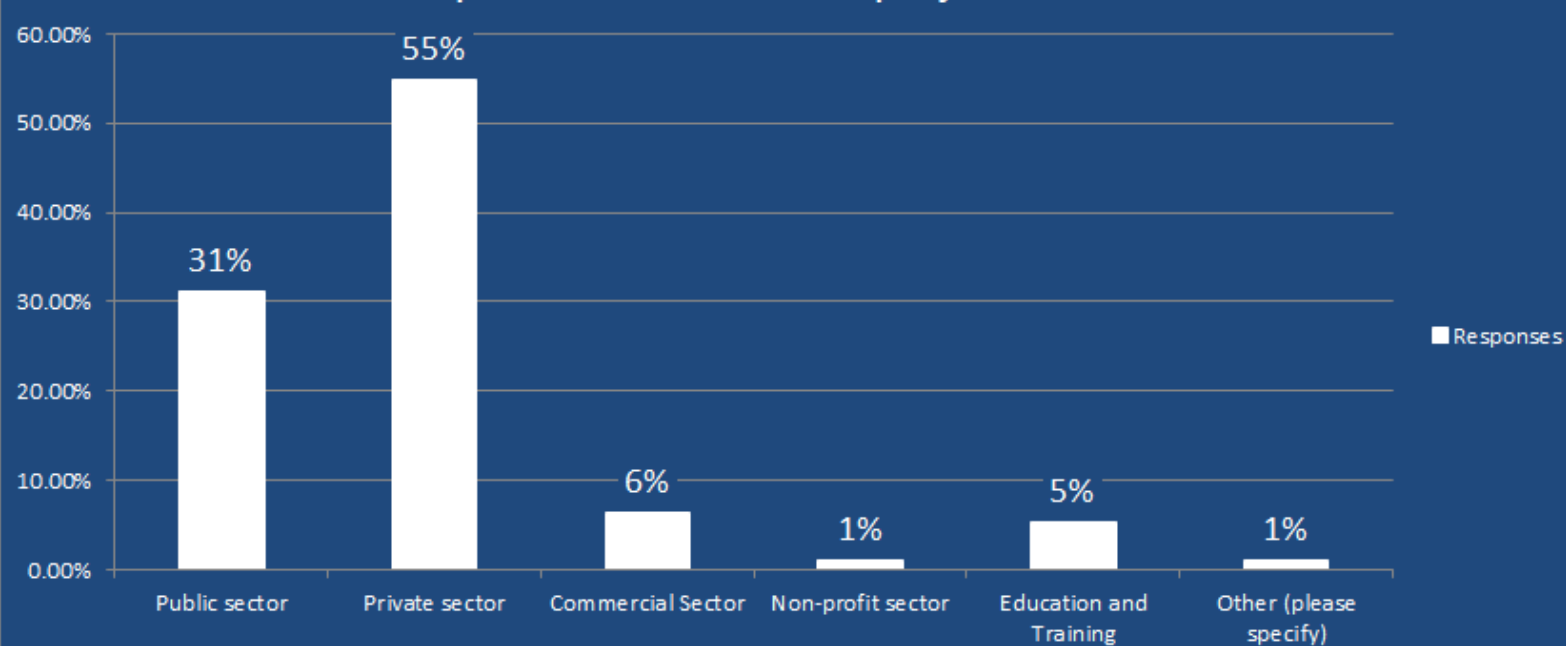
*of the respondents from private sector*

**31%**

*of the respondents from public sector*

## 1. Employment Sector

Respondents current employment sector:

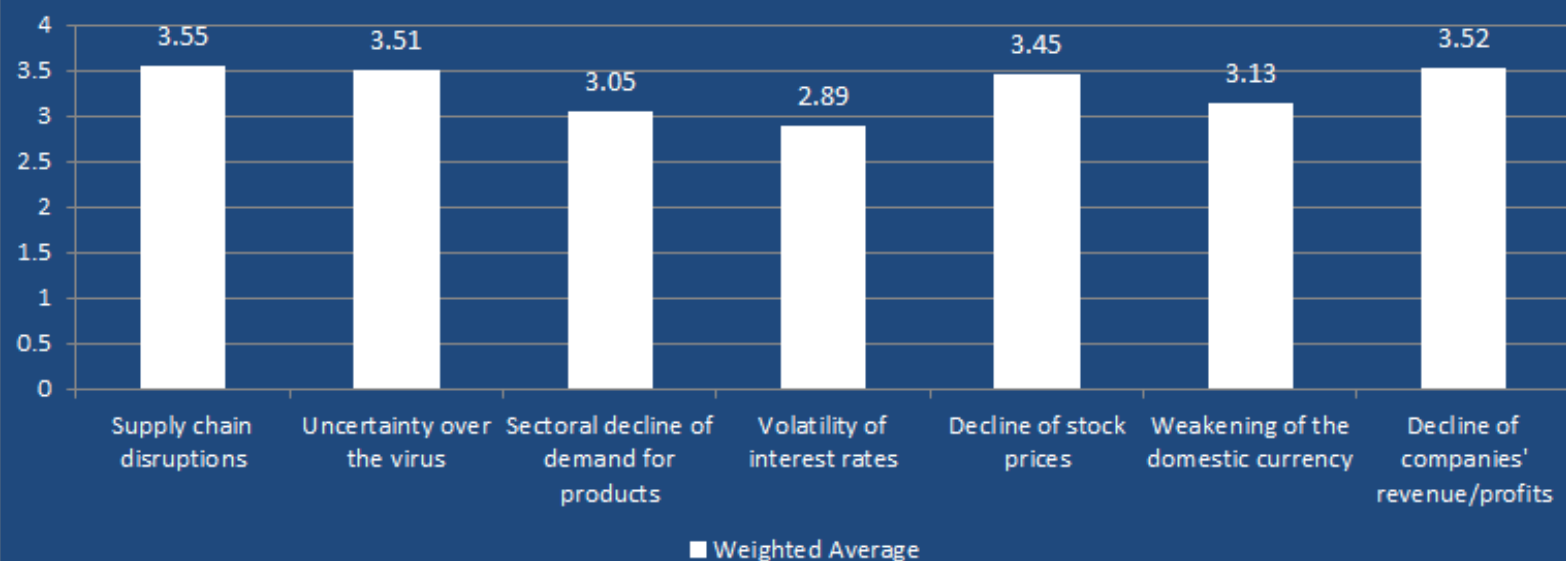


More than half of the respondents (55%) work in the Private sector while a third work in the Public sector. Other employment sectors such as Commercial, Education & Training and Non-profit sector formed a small proportion of respondents of about 12%.

# SUMMARY OF FINDINGS

## 2. Effects on business investment, household consumption and international trade on the economy

### Factors that will have an effect on business investment, household consumption and international trade



Respondents were asked to rank the level of effect that some specific factors would have on business investment, household consumption and international trade on the economy on a scale from 0 (No effect) to 4 (Severe/Very high effect). The factors identified are as follows:

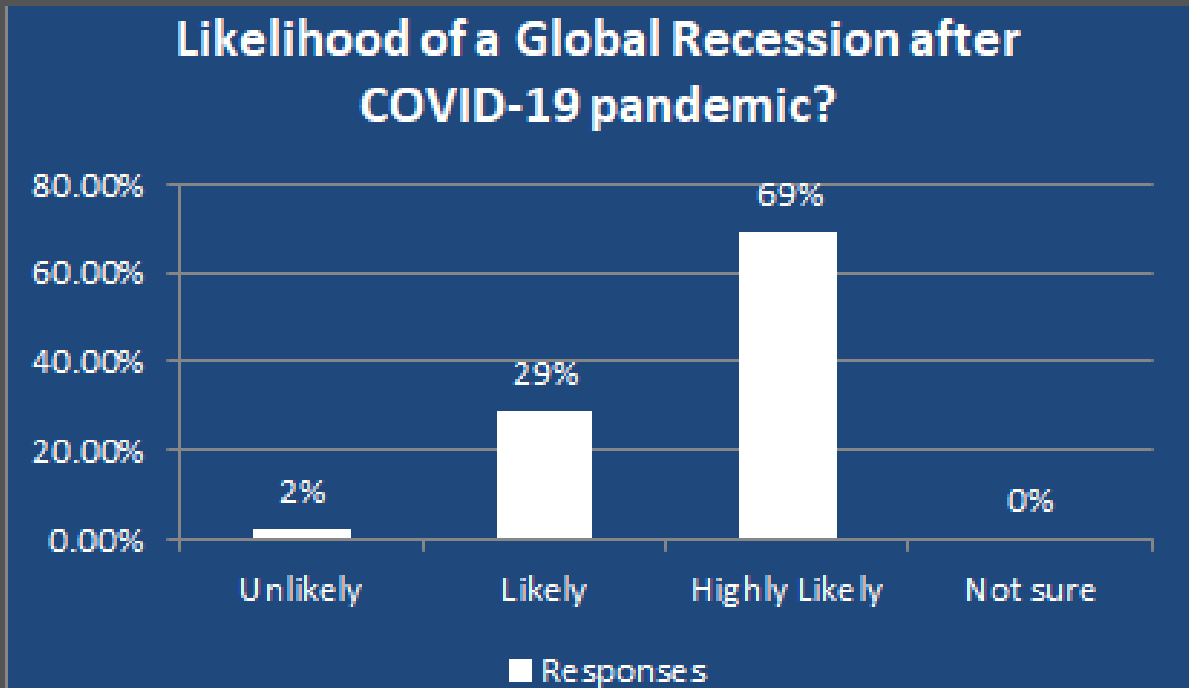
- Supply chain disruptions
- Uncertainty over the virus
- Sectoral decline of demand for products
- Volatility of interest rates
- Decline of stock prices
- Weakening of the domestic currency
- Decline of companies' revenue/profits

On a scale from 0 to 4, Supply Chain Disruptions was considered as having the greatest effect on the economy than the rest with a weighted average of 3.55. The second ranked factor was Decline of Company Profits/Revenues with a weighted average of 3.54. The least ranked factor was Volatility of Interest Rates with a weighted average of 2.9.

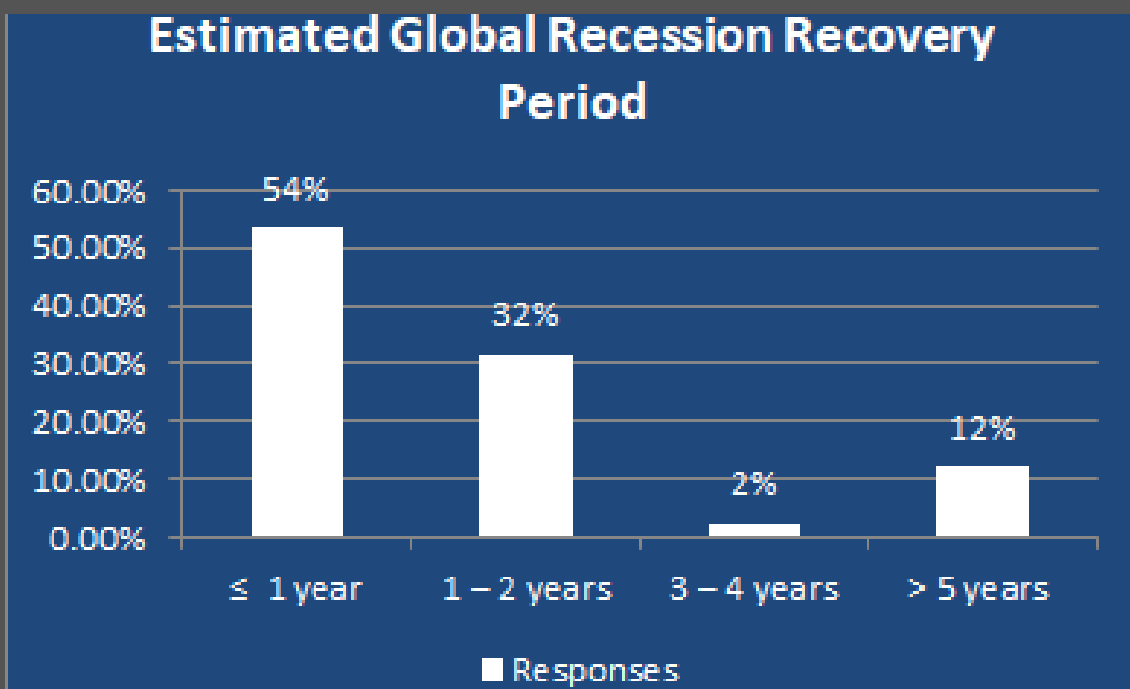
NB: From the respondent's views, there was a general concern on the supply chain disruptions that may be occasioned by the COVID – 19 crisis. The concerns raised pointed to a state whereby trade of any kind would decline due to closure of international borders thereby causing traders not to be able to access supplies or export their produce. The length and depth of the described state would further be escalated by the uncertainty of the virus by the public and Government alike.

# SUMMARY OF FINDINGS

## 3. Likelihood of a global recession after COVID-19 pandemic



More than two thirds of the respondents (68.9%) believed that there is a high likelihood of a global recession after the COVID-19 pandemic while 28.9% of the respondents chose "likely" as their preferred answer. The question recorded no respondent uncertain about the likelihood of a global recession.



More than half of the respondents (53.65%) estimated that the recovery period from the global recession would last less than one year while 31.7% of the respondents estimated a period of between 1 -2 years. Only 2.43% of the respondents estimated that the recovery period would take 3 – 4 years, which was the least ranked period.

# SUMMARY OF FINDINGS

## 4. Mitigation measures Government could consider to take against negative impacts

### SHORT-TERM MEASURES

- **Fiscal consolidation:** This refers to the policies which would be undertaken by the Government (national and country levels) to reduce its deficits and accumulation of debt. Therefore the Government could consider to engage fiscal consolidation to mitigate the risks of the pandemic, failure to which would cause a rise to the cost of borrowing for the Government. This would also undermine macroeconomic stability with widespread economic costs.
- **Restructure the prevailing Government debt:** Given the size of the Country's public debt, it should be unlikely that the whole burden should fall on taxation. The debt restructuring will depend on Government's ability to cut or at least contain current spending.
- **Reduction of Government spending on Development projects** in order to maintain positive cash flows for the country's financial budget.
- Further reduction of the Central Bank Rate.
- Price controls to prevent inflation due to reduced supply.
- Good governance and proper use of resources.

### MEDIUM-TERM MEASURES

- **Financial support to MSMEs** by ensuring that they have easy access to lending facilities at low interest rates to boost their working capital. A survey may be considered to establish the cash flow needs of the MSMEs during the pandemic period.
- **Economic stimulus:** This refers to the use of monetary or fiscal policy changes to kick-start growth during a recession. The Kenyan Government can accomplish this by instituting measures such as lowering interest rates and increasing government spending as a recovery path after COVID-19 crisis.
- Supplement the labor force of low income with food and essential supplies.
- Good governance and proper use of resources.

### LONG-TERM MEASURES

- High investment allocation in the manufacturing sector to build local production capacity and consequently reduce the over-reliance on imports at a time of crisis.
- Establish a contingency fund for pandemic preparedness.
- Good governance and proper use of resources.



# SUMMARY OF FINDINGS

## 5. Proposed Investments for the Government for Economic Preparedness

**INVEST IN LOCAL MANUFACTURING  
TO AVOID OVER RELIANCE ON IMPORTS  
ESPECIALLY AT A TIME OF CRISIS**

**INSTITUTE A ROBUST HEALTH CARE SYSTEM  
THAT IS RESPONSIVE TO ITS CITIZENRY AND IN  
CONSTANT COMMUNICATION WITH GLOBAL  
PROVIDERS**

**INVEST IN SUFFICIENTLY SKILLED  
MEDICAL PERSONNEL  
WHO ARE TO UNDERGO TRAINING ON  
PANDEMIC RESPONSE**

**INVEST IN RESEARCH AND INNOVATION  
IN THE HEALTH SECTOR**

**EFFECTIVE MONITORING OF BORDERS  
AND ENTRY POINTS**

**IDENTIFY COMMITTEE OF EXPERTS (PROFESSIONAL BODIES /  
INSTITUTES) FROM RELEVANT SECTORS TO PROVIDE  
RECOMMENDATIONS TO THE GOVERNMENT ON A QUARTERLY BASIS ON  
POTENTIAL IMPACTS OF GOVERNMENT DIRECTIVES**

# SUMMARY OF FINDINGS

## 6. Radical Proposals to put be in place to cushion Kenya's Economy after COVID-19

The main proposals emphasize that the Government of Kenya could consider to:

- At the time of the pandemic period, seek to refinance its debt cheaply in the international money markets with interest rates at 0%.
- Take prompt actions and measures on addressing emerging global issues by reducing poverty, investing in food security and growing the economy.
- Embark on public education of its citizenry on crisis management to enable the Country deal with such situations of pandemics and other crisis effectively.
- Enforce strong austerity measures through the National Treasury, to ensure the country's financial budget is balanced and surplus created.
- Play a role in creating awareness on personal budgeting and savings culture among the public.
- In the short-term, halt all development expenditure and allocate the funds to more urgent sectors such as healthcare in increasing diagnostic capacity, setting up more ICU bed capacity.

**CONTACT US:**

**INSTITUTE OF CERTIFIED INVESTMENT  
AND FINANCIAL ANALYSTS**

**KASNEB TOWER II, 5TH FLOOR**

**HOSPITAL ROAD UPPER HILL NAIROBI,  
KENYA**

**P.O BOX 48250-00100**

**PHONE NUMBER: +254 726 498698 | +254  
748 174914 | +254 786 994091**

**EMAIL: [INFO@ICIFA.CO.KE](mailto:INFO@ICIFA.CO.KE) |  
[MEMBERSHIPSERVICES@ICIFA.CO.KE](mailto:MEMBERSHIPSERVICES@ICIFA.CO.KE)**