

REPUBLIC OF KENYA



TWELFTH PARLIAMENT (FOURTH SESSION)

THE SENATE

AD HOC COMMITTEE ON THE COVID-19 SITUATION IN KENYA

.....

5TH PROGRESS REPORT

Thematic Area 2: Economic and Finance Issues

.....

*Clerk's Chambers,
First Floor,
Parliament Buildings,*

NAIROBI.

12TH MAY, 2020

PREFACE

Mr. Speaker,

The Ad Hoc Committee on the COVID-19 Situation was established by the Senate on Tuesday, 31st March, 2020, with the mandate to oversight actions and measures taken by the national and county governments in addressing the spread and effects of COVID-19 in Kenya.

The Committee is mandated to address the following, among other matters-

- (a) provision of testing and medical equipment, including adequate ventilators in referral hospitals and in at least one public hospital in each county;
- (b) provision of adequate isolation centres and Intensive Care Unit (ICU) facilities in each county;
- (c) measures to ensure continuous supply of food and other essential commodities at affordable prices;
- (d) measures to enable learners in educational institutions to continue with their studies;
- (e) measures to ensure protection, safety and well-being of healthcare and other frontline workers;
- (f) enhancement of capacity and flexible deployment of healthcare staff;
- (g) financial assistance to vulnerable persons and groups;
- (h) protection of residential and commercial tenants;
- (i) establishment of a stimulus package for the Micro, Small and Medium sized Enterprises;
- (j) easing of legislative and regulatory requirements for doing business;
- (k) measures to protect employees from retrenchment and job losses; and
- (l) uniform policies and procedures aimed at slowing and eventually stopping the spread of the virus.

The Committee is comprised of the following members: -

- 1) Sen. Johnson Sakaja, CBS, MP - Chairperson
- 2) Sen. (Arch.) Sylvia Mueni Kasanga, MP - Vice Chairperson
- 3) Sen. (Dr.) Michael Maling'a Mbiti, MP - Member
- 4) Sen. Abshiro Soka Halake, MP - Member
- 5) Sen. Mithika Linturi, MP - Member
- 6) Sen. Erick Okong'o Mogeni, SC, MP - Member
- 7) Sen. Mwinyihaji Mohamed Faki, MP - Member

Mr. Speaker,

The Ad Hoc Committee on the COVID-19 Situation has, to date, held a total of **49 Sittings**. Save for the first sitting of the Committee which was held in the Senate Chamber, the other 37 sittings, including with stakeholders, have been held virtually.

As noted in the previous Progress Reports of the Committee, during the initial stages of its work, the Committee clustered all emerging issues arising from the COVID 19 outbreak situation in Kenya into five thematic areas, as provided below:

- a) *Health Issues* – including community health, testing, quarantine, isolation centres, ICU facilities, human resources for health, drugs and supplies, role and engagement of county governments, and mental health;
- b) *Economic and Finance Issues* – including macro-economic effects, impact on businesses, trade facilitation, and measures to cushion borrowers and financial institutions;
- c) *Social, Public Order and Human Rights* – including protection for vulnerable persons and groups, protection of women and girls at risk of domestic abuse, measures to enable learners to continue with their studies, enforcement of the nationwide curfew, access to justice, and decongestion of prisons and remand facilities;
- d) *Access to Food, Water and other Basic Commodities* – including measures to ensure the continuous production and supply of food, water and other essential commodities; and
- e) *Support Services and Cross-Cutting Issues* – including awareness creation on measures to prevent infection and combat stigmatization, and the role of ICT in combating the COVID-19 pandemic.

Having already reviewed best practice from comparative jurisdictions and analyzed key issues and concerns arising from the five thematic areas, the Committee resolved to focus on one thematic area at a time, for purposes of facilitating a more in-depth analysis of the issues arising thereon. The 3rd Progress Report of the Committee, tabled on 28th April, 2020, covered thematic area 1, namely Health Issues.

The focus of this 5th Progress Report of the Committee is on the second thematic area, namely, Economic and Finance Issues. Subsequent progress reports will focus on the remaining thematic areas as captured above.

Mr. Speaker,

In relation to the thematic area of Economic and Finance Issues, the Committee deliberated extensively on issues relating to: -

- i) Impact of COVID-19 on businesses, particularly micro, small and medium enterprises (MSMEs);
- ii) Trade aspects, including easing of legislative and regulatory requirements for doing business; impact of the closure of retail markets by county governments; and protection of residential and commercial tenants;
- iii) Measures to cushion borrowers, through moratorium on repayment of loans, interests and penalties; freeze on execution for borrowers who have defaulted on their loans due to the COVID-19 situation; and freeze on listing by Credit Reference Bureaus (CRBs); and
- iv) Macro-economic effects, including addressing economic shocks arising from loss of export markets for commodities as well as drop in tourist numbers; the drop in remittances by Kenyans living abroad, and in foreign direct investments (FDI); and fiscal space for additional government borrowing.

Mr. Speaker,

Having analysed the issues and concerns raised by the public under thematic area 2, the Committee met and deliberated on the matters with the following stakeholders: -

I. Government Agencies and Independent Offices

- a) The Cabinet Secretary for the National Treasury and Planning.
- b) The Cabinet Secretary for Industrialization, Trade and Enterprise Development.
- c) The Council of Governors.
- d) The Controller of Budget.
- e) The Governor of the Central Bank of Kenya.

II. Private Sector

- a) Kenya Bankers Association (KBA)
- b) Kenya Union of Savings and Credit Cooperatives Limited (KUSCCO)
- c) The Kenya Association of Manufacturers (KAM)
- d) The Small and Medium Enterprises Federation (SMEF)
- e) International Budget Partnership (IBP)
- f) Institute for Public Finance Kenya (IPF)
- g) The Institute for Social Accountability (TISA)

Mr. Speaker,

Based on its analysis of the written memoranda received from members of the public, and on the submissions made by the key stakeholders in the Economic and Finance thematic area, the Ad Hoc Committee on the COVID-19 Situation is pleased to table before this House its 5th Progress Report with substantive observations and recommendations for adoption by the House.

The COVID pandemic situation is still evolving. As such, the observations and recommendations contained in this report reflect the situational context, and information that was available to the Committee at the time of the writing of this report. Accordingly, some of the Committee's observations and recommendations on the second thematic area may be reviewed as the Committee continues with its consideration of the matter.

Mr. Speaker,

For the current situation however, in relation to the thematic area of Economic and Finance Issues, the Committee observes that:

- a) There is significant negative impact of the Covid-19 pandemic on key sectors of the economy, including trade, tourism, agriculture, manufacturing, and other related sectors due. The preliminary growth for Kenya in 2020 is projected to decline to around 3.0 percent. If the extreme shock persists, growth is likely to drop further to below 2.5 per cent as global demand remains weak. In Fiscal years, growth is estimated at 4.4 percent for FY 2019/20 and 4.6 percent in FY 2020/21.
- b) The agricultural sector has been heavily affected by the pandemic resulting to reduced export earnings and loss of income due to low global demand for agricultural exports especially horticulture, tea, and coffee, among others. The foreign exchange market however remains stable supported by a continued narrowing in the current account deficit.
- c) Reduced demands for Kenya exports and declining prices for commodities in the international markets compounded with drop in tourist arrival in the country has led to revenue loss, hence lowering the country's foreign reserve and exerting pressure on the shillings. The official foreign exchange reserves held by the Central Bank stood at US\$ dollar 8,251 million (5.01 months of import cover) in February 2020 down from US\$ 8,573.5 million (5.4 months of import cover) in February 2019.

- d) The ordinary revenue collection amounted to Ksh.1,215.8 billion (11.7 per cent of GDP) against a target of Ksh.1,348.1 billion, recording a shortfall of Ksh.132.3 billion from target. Ordinary revenue grew by 14.2 per cent during the period to March 2020, compared to 9.1 per cent growth over the same period in previous year. The shortfall in ordinary revenue collection from the target of Ksh.132.3 billion was recorded in all broad categories with excise taxes recording a shortfall of Ksh.35.2 billion. Other categories of taxes that performed below target were: Income tax (Ksh.39.2 billion), import duty (Ksh.17.8 billion) and VAT (Ksh.34.8 billion).
- e) There is declining foreign remittance by Kenyans living abroad which has reduced the foreign currency inflow occasioning the exchange rate depreciation against major international currencies. As at 12th May, 2020, the Kenya Shilling was exchanging 107.06 against the US Dollar.
- f) Overall, fiscal deficit including grants for the period ending March 2020, was Ksh.449.6 billion (4.3% of GDP) funded through Net Foreign Financing of Ksh.87.0 billion; Net Domestic Financing of Ksh.360.4 billion and Other Domestic Financing (Loan Repayment receipts) of Ksh.2.2 billion. The National Treasury continues to engage multilateral and bilateral partners on funding the interventions to fight COVID-19. These negotiations are bearing fruit with Ksh.5.0 billion received from the World Bank.
- g) The current account deficit is projected to range between 4.0 and 4.6 percent of GDP in 2020 compared to 4.6 percent of GDP in 2019. As a result of the lower international oil prices, the oil import bill is expected to be low and will counterbalance the impact of reduced exports particularly horticulture, tea, coffee, transport, tourism services as well as impact of other imports.
- h) There is need for the government to put in place measures to cushion Micro-Small and Medium Enterprises (MSMEs) and the *Jua-Kali* businesses from the effect of the pandemic as a high percentage of the population are employed in these sectors leading to loss of livelihood.
- i) Disruption of supply chain has increased the prices of basic commodities depleting the household disposable income and increasing vulnerability among low income earners.
- j) Businesses that mostly rely on import have scaled down their activities due to closure of borders by some of the global economies leading to the loss of business revenue and employment.

- k) The loss of income on account of job losses has reduced household expenditure on goods and services, affecting the level of private consumption and, consequently, the Gross Domestic Product (GDP) growth in the country.
- l) The payment of pending bills by county governments does not reflect business growth in the counties, as most of the businesses are struggling with liquidity challenges to spur economic activities.
- m) There is lack of timely exchequer releases to the counties although the law requires that the county's share of revenue shall be transferred to the county without undue delay. This has resulted in accumulation of pending bills and stalled projects.
- n) As of 30th April, 2020 the county governments had settled Kshs.35.15 billion of the eligible pending bills reported by the OAG with an outstanding balance of Kshs.16.13 billion. The national government had eligible pending bills paid as at 20th April 2020, Kshs.34.9 billion (68.1 percent of eligible pending bills) leaving an outstanding balance of Kshs.16.3 billion.
- o) There is lower budget absorption rate on the part of development budget mainly attributed to delay in exchequer releases to the counties.
- p) Kenya's debt remains sustainable at the current level estimated at Kshs.6.2 trillion (58% of GDP) which is below the IMF and World Bank Debt Sustainability Assessment (DSA) threshold of 74% of GDP. Kenya continues to meet its debt obligations as they fall due and has not at any time defaulted on its debt obligations
- q) There is noted importation of goods that can be produced locally, therefore necessitating the need to upscale local production.
- r) In light of the funding made available for emergency procurement of COVID-19 related goods and services, including personal protective equipment (PPEs) and face masks, this might pave way for non-observance, by the national and county governments, of the legal requirements and procedures set out in the Public Procurement and Asset Disposal Act.
- s) The Committee noted and commends measures taken by commercial banks, SACCOs and other financial institutions to cushion borrowers from the adverse effects of COVID-19, including through entering into agreements for deferred payments of loans and interests.

Mr. Speaker,

Based on its these observations, the Ad Hoc Committee on COVID-19 makes the following recommendations:

- a) The Cabinet Secretary for Industrialization, Trade and Enterprise Development gazettes regulations establishing the Micro and Small Enterprises Development Fund, established under section 51 of the Micro and Small Enterprises Act (No. 55 of 2012), and present a report to the Senate within sixty (60) days.
- b) To enhance accountability for and oversight over the COVID-19 Emergency Fund, and other funds established at the national and county level, the National Treasury, and the County Treasuries to submit monthly income and expenditure reports to Parliament and the respective County Assemblies. Community level monitoring and evaluation frameworks should also be put in place to ensure proper oversight of emergency COVID-19 funds at both the national and county levels.
- c) To hasten disbursement of funds to counties the counties should comply to rules and regulations set by the oversight bodies to facilitate funds disbursements. Further the counties with pending bills to adhere to agreements made with COB and National Treasury on payments of verified bills; to ensure the pending bills are settled as per the verified bills a specific AIE with clear bills to be settled with the released funds to be sent to Counties.
- d) To support MSMEs to continue with their businesses during the Pandemic the government to hasten the planned liquidity support for the small and medium enterprises through credit to banks and other financial institutions. To further promote MSMEs emphasis to be made to government agencies to procure available items from the local firms as much as possible.
- e) To reduce on disruption of supply chain counties to facilitate retail markets by adherence to Ministry of Health requirements such as ensuring Social Distancing and provision of the necessary sanitary facilities in the market areas.
- f) On the underperformance of own source revenue affecting the credibility of the county budget; promotion of automation of own source revenue collection stream to be done to curb on revenue leakages, consideration of

legislation especially on land valuation laws to improve on revenue collection, Increase public sensitization on the need to pay taxes and enhanced enforcement of the payment of taxes.

- g) To cushion the people who have lost jobs due to COVID-19 government to consider promotion of fiscal stimulus package and/or consideration of wage subsidy especially in hospitality and tourism sector.
- h) To contain the public debt at sustainable levels, the Committee recommends that the National Treasury: -
 - i) takes decisive actions to curtail spending through austerity measures in order to reduce the size of the fiscal deficit;
 - ii) reduce to the extent possible, commercial borrowing by gradually shifting to concessional loans;
 - iii) implement domestic debt reforms to lower cost and risk of domestic borrowing by shifting away from Treasury bills to Treasury bonds;
 - iv) cancel or re-allocate non-disbursing external loans (dormant loans) to priority projects;
 - v) strengthen the capacity of the Public Debt Management Office and implement Debt and Borrowing Policy anchored on best practice to improve on the effectiveness of Public Debt Management Office;
 - vi) spread out or stagger contracting of the current external loans in the pipeline over the financial years 2019/20 and 2020/21;
 - vii) re-finance high cost external debt estimated at US dollar 3 billion;
 - viii) negotiate with key creditors (Exim-Bank of China) to re-structure on bi-lateral basis specific debts, and debt-for-development swaps;
 - ix) negotiate on bi-lateral basis swapping of debt service for grants financing key development projects (Agenda 4 and Climate Change); and
 - x) strengthen coordination of Government securities issuance with Central Bank's policy actions. For instance, sharing of information on the government's current and future liquidity needs.
- i) On debt issues negotiations to be considered on debt swaps to re-direct payments for funding operational and development activities in health and other sectors adversely affected by COVID-19.
- j) On transparency and accountability, the Committee recommends the strict enforcement of procurement rules as contained in the Public Procurement and Asset Disposal Act, as well as the various guidelines and protocols issued thereon.

- k) On support to women, the youth, persons with disability and other vulnerable groups, the Committee recommends the upscaling of skills training to enable these groups start and operate businesses efficiently. Additionally, that these groups be prioritised for award of business stimulus funding, and opportunities to supply goods and services to the national and county governments.
- l) That, where international markets have reopened in Europe and Asia, the government to support Kenya Airways in operating cargo flights to and from these destinations, to facilitate the import and export of goods to these destinations.
- m) Community level monitoring and evaluation frameworks be considered to ensure proper oversight of emergency COVID-19 funds at both the national and county levels.
- n) That when distributing money through cash transfer, proper targeting of beneficiaries be done by giving preferences to their identification using the existing structures and databases.

Mr. Speaker,

As I conclude, the Committee wishes to thank the Offices of the Speaker and the Clerk of the Senate for the support extended to it in undertaking this important assignment.

Further the Committee wishes to thank the members of the public who sent their submissions to the Committee, as well as the stakeholders who have appeared before and engaged with the Committee.

I thank you, Mr. Speaker.



12th May, 2020

Signed.....

Date.....

**SEN. JOHNSON SAKAJA, CBS, MP,
CHAIRPERSON,
SENATE AD HOC COMMITTEE ON COVID-19**

ADOPTION OF THE 5TH PROGRESS REPORT OF THE SENATE AD HOC COMMITTEE ON THE COVID-19 SITUATION IN KENYA

We, the undersigned Members of the Senate Ad Hoc Committee on the COVID-19 Situation in Kenya, do hereby append our signatures to adopt the 5th Progress Report-

Sen. Johnson Sakaja, CBS, MP -Chairperson



Sen. (Arch.) Sylvia Kasanga, MP -Vice-Chairperson



Sen. (Dr.) Michael Mbito, MP -Member



Sen. Abshiro Soka Halake, MP -Member



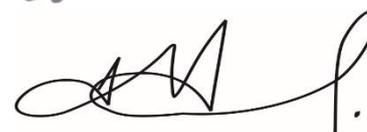
Sen. Mithika Linturi, MP -Member



Sen. Erick Okong'o Mogeni, SC, MP -Member



Sen. Mwinyihaji Mohamed Faki, MP -Member



CHAPTER ONE: INTRODUCTION

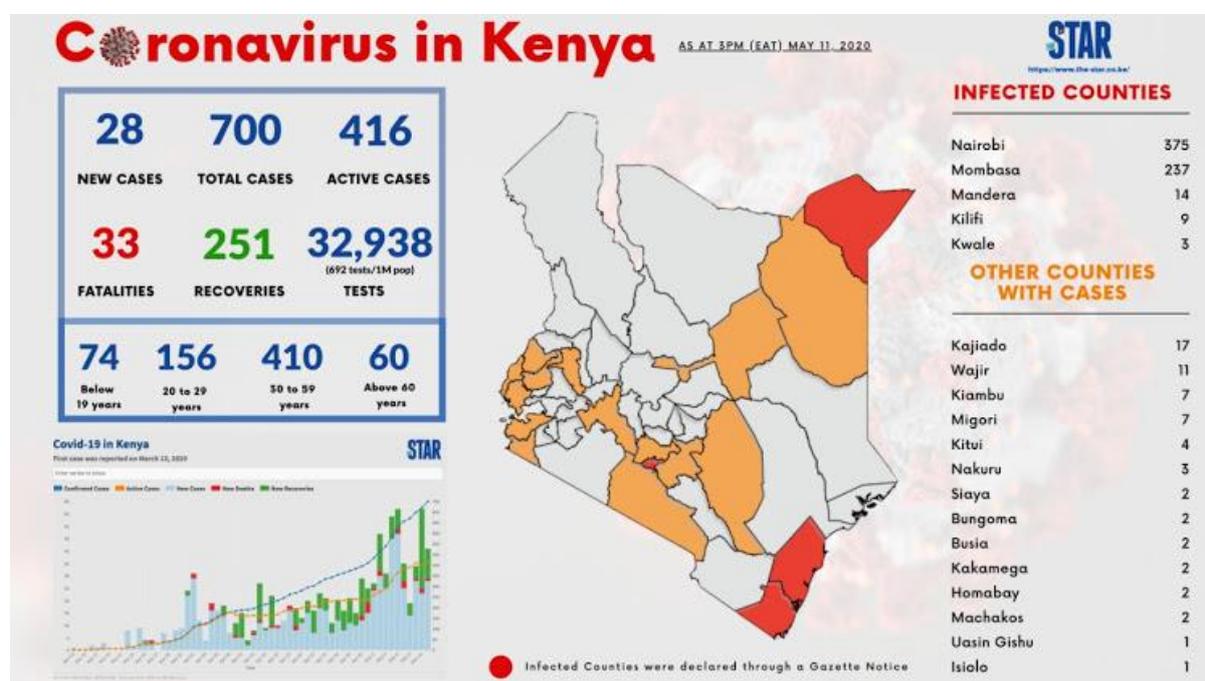
1. Background to the COVID-19

Coronaviruses are a large family of viruses that are known to cause illness ranging from the common cold to more severe diseases, such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). A novel coronavirus (CoV) is a new strain of coronavirus that has not been previously identified in humans.

Coronaviruses are common in animals and, occasionally, people get infected with these viruses which may then spread to other people. For example, SARS-CoV was associated with civet cats and MERS-CoV was associated dromedary camels. Possible animal sources of COVID-19 have not yet been confirmed.

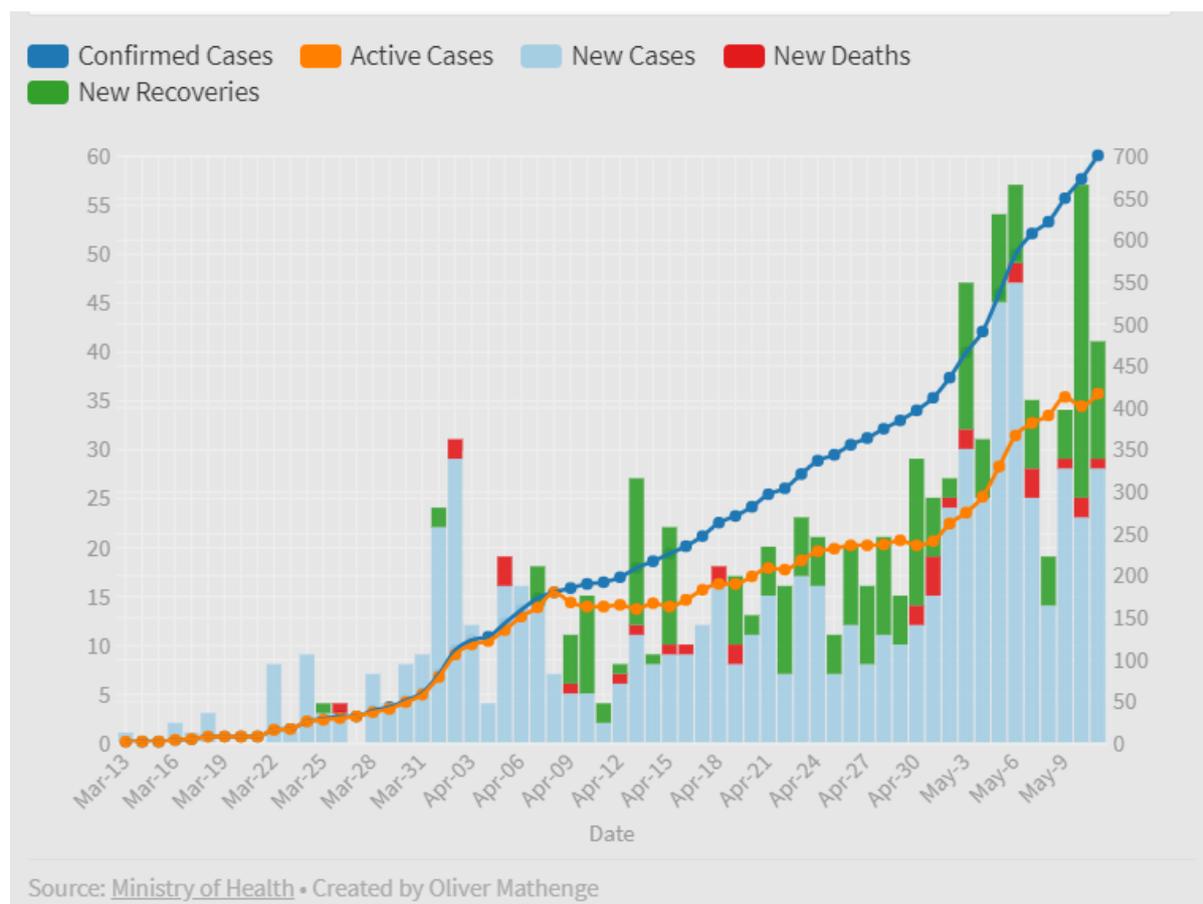
Corona Virus Disease 2019 (COVID-19) is a new respiratory illness that began in Wuhan, China, in December 2019. As at **11th May, 2020**, the virus had resulted in more than **4.01 million infections** and **278,933 deaths** globally, with cases reported on every continent except Antarctica. In Kenya, a total of **700 cases** had been confirmed, by the said date, with 251 patients having fully recovered, and 33 patients having succumbed to the illness.

The chart below shows the prevalence and distribution of COVID-19 cases in Kenya as at 11th May, 2020¹: -



¹ <https://www.the-star.co.ke/news/2020-05-11-kenya-records-28-new-virus-cases-total-hits-700/>

The chart below further shows the changes trend in new infections and recoveries, since the first COVID-19 case was reported on 13th March, 2020 until 11th May, 2020²: -



The COVID-19, which has since been declared a global health pandemic by the World Health Organization (WHO), can easily be spread from person to person, through contact with droplets produced by a person who is sneezing or coughing or contaminated surfaces or objects. COVID-19 causes severe symptoms like fever, cough, headache, body aches and difficulty in breathing.

2. Establishment, mandate and membership of the Ad Hoc Committee

During the sitting of the Senate held on Tuesday, 31st March, 2020, the Senate, by Resolution, established the Ad Hoc Committee on the COVID-19 situation, with the mandate to oversight actions and measures taken by the national and county governments in addressing the spread and effects of COVID-19 in Kenya

This action was taken in recognition of the need for an integrated and multi-sectorial intervention towards a harmonized comprehensive response to the

² <https://www.the-star.co.ke/news/2020-05-11-kenya-records-28-new-virus-cases-total-hits-700/>

pandemic, and of the need to complement the efforts of the national and county governments in containing the spread of the pandemic and cushioning Kenyans from the shocks arising thereon.

The Ad Hoc Committee on the COVID-19 Situation is mandated to address the following, among other matters-

- (a) provision of testing and medical equipment, including adequate ventilators in referral hospitals and in at least one public hospital in each county;
- (b) provision of adequate isolation centres and Intensive Care Unit (ICU) facilities in each county;
- (c) measures to ensure continuous supply of food and other essential commodities at affordable prices;
- (d) measures to enable learners in educational institutions to continue with their studies;
- (e) measures to ensure protection, safety and well-being of healthcare and other frontline workers;
- (f) enhancement of capacity and flexible deployment of healthcare staff;
- (g) financial assistance to vulnerable persons and groups;
- (h) protection of residential and commercial tenants;
- (i) establishment of a stimulus package for the Micro, Small and Medium sized Enterprises;
- (j) easing of legislative and regulatory requirements for doing business;
- (k) measures to protect employees from retrenchment and job losses; and
- (l) uniform policies and procedures aimed at slowing and eventually stopping the spread of the virus.

The Committee is comprised of the following members:-

- 1) Sen. Johnson Sakaja, CBS, MP - Chairperson
- 2) Sen. (Arch.) Sylvia Mueni Kasanga, MP - Vice Chairperson
- 3) Sen. (Dr.) Michael Maling'a Mbiti, MP - Member
- 4) Sen. Abshiro Soka Halake, MP - Member
- 5) Sen. Mithika Linturi, MP - Member
- 6) Sen. Erick Okong'o Mogeni, SC, MP - Member
- 7) Sen. Mwinyihaji Mohamed Faki, MP - Member

At the time of adopting the 5th Progress Report, the Committee had held a total of **49 sittings**. The Minutes of the 49th Sitting are attached to this Report as **Annex 1**.

CHAPTER TWO

REPORT FOR THEMATIC AREA 2: ECONOMIC AND FINANCE ISSUES

2.1 Introduction

As noted in the previous Progress Reports of the Ad Hoc Committee on the COVID-19 Situation, the Committee clustered emerging issues arising from the COVID 19 outbreak situation in Kenya into five thematic areas, namely:

- a) *Health Issues* – including community health, testing, quarantine, isolation centres, ICU facilities, human resources for health, drugs and supplies, role and engagement of county governments, and mental health;
- b) *Economic and Finance Issues* – including macro-economic effects, impact on businesses, trade facilitation, and measures to cushion borrowers and financial institutions;
- c) *Social, Public Order and Human Rights* – including protection for vulnerable persons and groups, protection of women and girls at risk of domestic abuse, measures to enable learners to continue with their studies, enforcement of the nationwide curfew, access to justice, and decongestion of prisons and remand facilities;
- d) *Access to Food, Water and other Basic Commodities* – including measures to ensure the continuous production and supply of food, water and other essential commodities; and
- e) *Support Services and Cross-Cutting Issues* – including awareness creation on measures to prevent infection and combat stigmatization, and the role of ICT in combating the COVID-19 pandemic.

Subsequently, pursuant to Article 118 of the Constitution and the Senate Standing Orders, the Committee invited stakeholders and members of the public to submit written memoranda arising from, or related to the COVID-19 pandemic, under any of the five thematic areas. The Committee received a total of 160 submissions from stakeholders and members of the public.

Consequently, the Committee identified and analysed the various issues and concerns raised under each thematic area and held meetings with key stakeholders. These meetings have been held **virtually**, on the Zoom meeting platform.

Under the **economic and finance thematic area**, the Committee met with the following: -

I. Government Agencies and Independent Offices

- a) The Cabinet Secretary for the National Treasury and Planning.
- b) The Cabinet Secretary for Industrialization, Trade and Enterprise Development.
- c) The Council of Governors.
- d) The Controller of Budget.
- e) The Governor of the Central Bank of Kenya.

II. Private Sector

- a) Kenya Bankers Association (KBA)
- b) Kenya Union of Savings and Credit Cooperatives Limited (KUSCCO)
- c) The Kenya Association of Manufacturers (KAM)
- d) The Small and Medium Enterprises Federation (SMEF)
- e) International Budget Partnership (IBP)
- f) Institute for Public Finance Kenya (IPF)
- g) The Institute for Social Accountability (TISA)

These engagements are covered in this 5th Progress Report of the Committee, while the remaining thematic areas will be covered in the subsequent progress reports.

2.2 Meetings with Government Agencies and Independent Offices

The following section provides a summary of the submissions presented before the Committee by the various stakeholders.

2.2.1 Cabinet Secretary for the National Treasury and Planning

The Committee held a virtual consultative meeting with the Cabinet Secretary for the National Treasury and Planning, Amb. Ukur Yatani Kanacho, EGH, on **Wednesday, 29th April, 2020**.

Key highlights of the presentation and written submissions by the Ministry are provided below:

a) Macroeconomic effects of the Covid-19 Pandemic on the Kenyan economy

The measures necessary to contain the virus have triggered a social economic downturn and there is still great uncertainty about its severity and length. The latest IMF Global Financial Stability Report shows that the financial system has already felt a dramatic impact, and a further intensification of the crisis could affect global financial stability. As a result of the adverse effects of Covid-19 Pandemic, the IMF in its April 2020 report downgraded the global growth for 2020 to -3.0 per cent down from the 3.3 per cent projection in January 2020.

The outbreak of the COVID-19 Pandemic in the World has had a significant negative impact on the Kenyan economy in 2020. This followed the closure of borders by world economies impacting on trade, tourism, agriculture, manufacturing and other related sectors.

With regard to the exchange rate, the Shilling weakened against the US dollar to exchange at an average of Ksh.103.7 in March 2020 from an average of Ksh.100.3 in March 2019 and by April 23, 2020.

However, inflation remained low, stable and within the Government target range of between 2.5 to 7.5 percent. Additionally, short-term Interest Rates remained low and stable where the Central Bank Rate was reduced from 8.25 percent to 7.25 percent in March 2020, a signal for lower interest rates to allow commercial banks room to enhance support to distressed individuals and firms.

b) Fiscal Performance: July 2019– March 2020

While implementation of the FY 2019/20 budget is progressing, the National Treasury noted reduced revenues due to the impact of Covid-19 Pandemic and lower budget execution considering the containment measures announced by the Government.

Revenue performance for FY 2019/20 is being impacted by the low import related taxes (import duty, VAT on imports, import declaration fees and railway development levy). At the same time, other domestic taxes have shrunk due to declined incomes and depressed consumption as the

Government enhanced Covid-19 containment measures that restricted movements of persons within four counties and the rest of the Country.

c) Servicing of Public Debt

Kenya's debt remains sustainable at the current level estimated at Kshs. 6.2 trillion (58% of GDP) as it remains below the IMF and World Bank Debt Sustainability Assessment (DSA) threshold of 74% of GDP. Kenya continues to meet its debt obligations as they fall due and has not at any time defaulted on its debt obligations.

The National Treasury further submitted that prior to the coronavirus pandemic, the Government had already introduced measures to contain public debt at sustainable levels including actions to curtail spending through austerity measures in order to reduce the size of the fiscal deficit and pursuing a fiscal consolidation plan which aims at lower fiscal deficit from a high of 8.9% in FY 2016/17 to 3.5% by FY 2022/23 among other measures.

d) Implementation of the Directive on Payment of all Pending Bills

The National Treasury Submitted that Special audit by Office of the Auditor General (OAG) as at 30th June, 2018 indicated that out of a total Kshs.88.98 billion pending bills presented for audit to the OAG, bills amounting to Kshs.51.2 billion (58 percent) were reported as payable while Kshs.37.7 billion (42 percent) lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment.

The amount of eligible pending bills paid as at 20th April 2020 is Kshs.34.9 billion (68.1 percent of eligible pending bills) leaving an outstanding balance of Kshs.16.3 billion.

e) Status of Cash Disbursements to Counties

The National Treasury submitted that from July 2019, significant resources have been made available to the County Governments to clear pending bills.

As at 24th April, 2020, National Treasury has cumulatively released to County Governments Kshs.208.75 Billion (66 percent) as their equitable share of revenue raised nationally and Kshs.12.29 Billion as conditional grants in the FY 2019/2020.

f) Enhancement, Management of and Accountability for the Covid-19 Emergency Response Fund

In order to enhance the capacity of Government to mobilize resources for emergency response towards containing the spread, effect and impact of the COVID-19 pandemic, the Government has established a COVID-19 Emergency Response Fund.

The management of the Fund is comprised of a Board comprised of private sectors members, national and county governments officials to provide oversight of the Fund. The Fund Administrator is the Principal Secretary / Accounting Officer of the National Treasury, who will be supported by a Secretariat from the National Treasury.

With regard to accountability of the Fund, Parliament shall provide oversight of the Fund, given this is a National Public Fund under the National Government. The Auditor-General shall audit the expenditure of the Fund and the Board shall approve all reports before submission to various oversight bodies including in year reports.

A copy of the written submissions received from the National Treasury and Planning is attached to this Report as **Annex 2**.

2.2.2 Cabinet Secretary for Industrialization, Trade and Enterprise Development

The Committee held a virtual consultative meeting with the Cabinet Secretary for Industrialization, Trade and Enterprise Development, CS Betty C. Maina, CBS, on **Monday, 27th April, 2020**.

Key highlights of the presentation and written submissions by the Ministry are provided below:

a) Impact of COVID-19 on businesses, including manufacturing, wholesale, retail and MSMEs

The Ministry developed protocols to support businesses to continue with their marketing activities within the framework of the health guidelines of maintaining social distance and practicing the hygiene standards required.

With support from DFID through McKinsey & Company, the Ministry commissioned a Business Emergency Response Center (BERC). Our dedicated teams at the BERC provide 24hr support/assistance to all businesses that want to register issues/complaints relating to the partial lockdown or curfew.

b) Disruptions on business supply chain, especially those that rely on imports

Global supply chains have been disrupted. This means that our usual sources of supplies required particularly for the medical emergency would not be attained in the usual way.

In response the Ministry assessed current manufacturing capacity to make various Personal Protective Equipment (PPEs) and have encouraged manufacturers to begin to look at bridging the gap based on the projection from our health counterparts. The requirements for PPEs, testing kits, surgical masks, hospital beds and ventilators as critical supplies has been assessed and established capacity.

Government has also facilitated the process by working to develop standards where they were absent and to facilitate manufacturers to acquire these standards. Where necessary we waived some government taxes and this created the means for swift provision of the supplies i.e. KEBS have waived fees for purchase of Standards and testing fee for medical surgical face masks have been waived during this period.

c) Measures proposed to cushion businesses against adverse effects of COVID-19;

The Ministry submitted that in conjunction with the private sector, the Ministry developed a list of essential products which was gazetted and distribution networks including essential manufacturers. The Ministry has also been monitoring prices and have not reported huge changes.

The Ministry has further continued to pursue a proactive approach to ensure local movement of essential goods and services as well as maintaining exports to our traditional markets Working closely with the Ministry of Transport and Infrastructure, Kenya Airways in the last month flew out 40 tonnes of fresh fruit, vegetables and spices to the UK.

Ports have remained open for delivery of cargo especially for other essential businesses but they must abide with all the protocols in the Health Act and guidelines on transportation of goods.

Additionally, at the East African Community (EAC), the government negotiated for intraregional mobility and are facilitating movement of cargo with essential goods cross-border early in the wake of the pandemic. This entails support to logistics for imports to countries that are landlocked and have to use the support of Mombasa port to access the Cargo that lands by ship.

Through the Trade and private sector Donor Group, the Ministry is in discussion with the Development Partners who are ready to support the Government in mitigating adverse effects of Covid19

d) Closure of retails markets in some counties and its impacts on small scale traders.

Closure of retails markets in some counties and its impacts on small scale traders. However, disregarding crucial Health guidelines to allow them operate will also jeopardize our safety in combating COVID-19.

The Ministry engaged County Governments to effect various mitigation measure including fumigation; sensitization on COVID-19; waive of levies charged on traders and SMEs. Reduction of VAT; abolition of taxes on basic commodities among others.

e) Measures to protect distressed Commercial tenants, particularly MSMEs

The Ministry submitted that it had submitted the reduction of Value Added Tax (VAT) and Excise Duty (where applicable) for MSMEs importing raw materials to manufacture products like ventilators, hospital beds, textile and garments making industries.

Further, that utility providers i.e. Kenya Power and Water Boards/providers to consider waivers in lowering the billing rates except for what is owed to them. They should also devise flexible payment terms for electricity bills and other utility providers.

A copy of the written submissions received from the Cabinet Secretary for Industrialization, Trade and Enterprise Development is attached to this Report as **Annex 3**.

2.2.3 The Controller of Budget

The Committee held a virtual consultative meeting with the Controller of Budget, Dr. Margaret Nyakang'o, on **Tuesday, 5th May, 2020**.

Key highlights of the CoB presentation and written submissions are provided below:

a) The status of pending Bills payments to date by Counties

The Controller of Budget submitted that County Government have accumulated pending bills since the advent of devolution in 2013 amounting to Kshs.108.4 billion as of 30th June 2018. The Office of the Auditor General (OAG) undertook a special audit of all the 47 county governments pending bills which indicated that the total pending bills submitted for verifications of Kshs.88.98 billion of which Kshs.51.2 billion was eligible for payment while pending bills worth Kshs.37.7 billion were found to be ineligible.

As of April 30th 2020, the county governments had settled Kshs.35.15 billion of the eligible pending bills reported by the OAG with an outstanding balance of Kshs.16.13 billion.

A total of 23 counties have so far cleared their eligible pending bills as reported by the OAG while 8 counties have disputed some of the eligible pending bills amounting to Kshs.819.6 million however these counties have advised to formally lodge their complaints with the OAG for investigation and further directions. Its however important to note that a total of nine (9) counties have huge pending bills amounting to Kshs.13.4 billion representing 83 % of the total outstanding eligible pending bills as of 30th April, 2020.

b) Status of Disbursements to Counties (Equitable Shares)

Counties were allocated Ksh.316.5 billion during the FY 2019/20 as an equitable share of revenue raised nationally. the total releases of the equitable share to various CRF as at 4th May 2020 amounts to Ksh.226.59 billion representing to 72 % of their allocated equitable share of revenue for FY 2019/20. A total of 20 counties received a higher percentage of releases to their allocated equitable share as a result of demonstrating progress in their payment of pending bills and making timely returns.

c) County Budget Implementation Status –half year FY 2019/20

The total expenditure by county governments amounts to Ksh.143.3 billion representing an absorption rate of 29.5 % of the annual county government budgets out of this Ksh.120.5 billion was incurred on recurrent expenditure while Ksh.22.8 billion on development activities.

A copy of the written submissions received from the Controller of Budget is attached to this Report as **Annex 4**.

2.2.4 The Governor of the Central Bank of Kenya

The Committee held a virtual consultative meeting with the Governor of the Central Bank of Kenya, Dr. Patrick Njoroge, on **Thursday, 7th May, 2020**.

Key highlights of the CBK presentation and written submissions are provided below:

a) Measures taken by CBK to Mitigate impact of COVID-19

The chronology of measures taken by CBK included-

- i) *Digital Platforms*: On March 16, 2020, the Central Bank of Kenya (CBK) announced a set of measures to facilitate increased use of mobile money transactions instead of cash. The objective was to reduce the risk of transmission of COVID-19 by handling banknotes.
- ii) *Bank Borrowers*: On March 18, 2020, CBK announced emergency measures to mitigate the adverse economic effects on bank borrowers from the Coronavirus pandemic.
- iii) *Monetary Policy*: On March 23, 2020, CBK's Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) and Cash Reserve Ratio (CRR) as part of policy actions to prevent the COVID-19 health crisis becoming a severe economic and financial crisis.
- iv) *Business Continuity*: On March 25, 2020, CBK instructed banks to activate their precautionary measures to ensure continuity of operations while mitigating the pandemic risk.
- v) *Pandemic Planning*: On March 27, 2020, CBK issued further guidance on pandemic planning for the banking sector that provides minimum standards for resilient frameworks to address pandemic risks.

- vi) *Monetary Policy*: On May 29, 2020, CBK's MPC lowered the CBR from 7.25 percent to 7.00 percent to signal banks to further lower their interest rates.

b) Monetary Policy Committee (MPC) Policy Actions

In order to prevent the COVID-19 health crisis from becoming a severe economic and financial crisis, the Monetary Policy Committee decided on various policy actions including:

- i) Lowered the Central Bank Rate (CBR) to 7.25 percent from 8.25 percent. This signals commercial banks to lower their lending and deposit rates;
- ii) Reduced the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent, releasing KES.35.2 billion to banks to directly support borrowers that are distressed as a result of COVID-19.
- iii) To ensure smooth functioning of the interbank market and liquidity management across the sector, CBK extended the maximum tenor of Repurchase Agreements (REPOs) from 28 to 91 days to enable banks access longer term liquidity secured on their holdings of government securities without having to discount them.
- iv) CBK shall provide flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing on March 2, 2020 and whose repayment period was extended or were restructured due to the pandemic.

c) Emergency Measures to cushion borrowers

In order to alleviate the adverse effects of COVID-19, CBK instituted emergency measures that will apply for borrowers whose loan repayments were up to date as at March 2, 2020.

Banks will provide relief to personal loan borrowers based on their individual circumstances arising from the pandemic. The relief on personal loans by banks will include review of requests from borrowers for extension of their loan for a period of up to one year.

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. Further, to facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry through digital platforms.

d) Support to Small and Medium Enterprises (SMEs)

COVID-19 has adversely affected the Micro, Small and Medium Enterprises (MSMEs). To mitigate the impact on MSMEs, CBK is working with banks, Government and development finance institutions (DFIs) on access to concessionary and affordable funds, Credit guarantee scheme to facilitate ease access to commercial credit and Finance Plus – Re-skilling and retooling of MSMEs for when the COVID-19 abates.

e) Balance of Payments

The current account deficit is projected to remain stable at 5.8 percent of GDP in 2020. This reflects offsetting effects of COVID-19 on the current account. A significant decline in horticulture exports, particularly flowers was noted, from March to mid-April 2020. This was mainly due to reduced demand in Kenya's key export market destinations. However, orders have started to return, reflecting the impact of mitigation measures put in place by the Government, particularly those targeted at maintaining cargo flights.

The imports of petroleum products is expected to decline by US\$ 1.1 billion (or 32 percent) due to low international oil prices, offsetting the decline in export earnings and remittances. Foreign exchange reserves are projected to remain adequate through 2020.

f) Regulation of Digital Lenders

Concerns on digital lenders on borrower indebtedness, financial integrity and consumer protection have been considered. The Amendments to the Central Bank of Act are currently under consideration by the National Assembly.

The proposed Central Bank (Amendment) Bill, 2019 seeks to: empower the Central Bank of Kenya (CBK) to regulate credit only entities starting with digital lenders; CBK will in regulations set out a regulatory framework for digital lenders; and focus initially on digital lenders and then extend to all unregulated credit providers.

A copy of the written submissions received from the Central Bank of Kenya is attached to this Report as **Annex 5**.

2.3 Private Sector Submissions

A summary of the private sector submissions received under Thematic Area 2 is attached to this Report as **Annex 6**.

CHAPTER THREE

COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

The COVID pandemic situation is highly evolving. The following observations and recommendations by the Committee reflect the situation, and available information at the time of the writing of this report.

3.1 Committee Observations

- a) There is significant negative impact of the Covid-19 pandemic on key sectors of the economy, including trade, tourism, agriculture, manufacturing, and other related sectors due. The preliminary growth for Kenya in 2020 is projected to decline to around 3.0 percent. If the extreme shock persists, growth is likely to drop further to below 2.5 per cent as global demand remains weak. In Fiscal years, growth is estimated at 4.4 percent for FY 2019/20 and 4.6 percent in FY 2020/21.
- b) The agricultural sector has been heavily affected by the pandemic resulting to reduced export earnings and loss of income due to low global demand for agricultural exports especially horticulture, tea, and coffee, among others. The foreign exchange market however remains stable supported by a continued narrowing in the current account deficit.
- c) Reduced demands for Kenya exports and declining prices for commodities in the international markets compounded with drop in tourist arrival in the country has led to revenue loss, hence lowering the country's foreign reserve and exerting pressure on the shillings. The official foreign exchange reserves held by the Central Bank stood at US\$ dollar 8,251 million (5.01 months of import cover) in February 2020 down from US\$ 8,573.5 million (5.4 months of import cover) in February 2019.
- d) The ordinary revenue collection amounted to Ksh.1,215.8 billion (11.7 per cent of GDP) against a target of Ksh.1,348.1 billion, recording a shortfall of Ksh.132.3 billion from target. Ordinary revenue grew by 14.2 per cent during the period to March 2020, compared to 9.1 per cent growth over the same period in previous year. The shortfall in ordinary revenue collection from the target of Ksh.132.3 billion was recorded in all broad categories with excise taxes recording a shortfall of Ksh.35.2 billion. Other categories of taxes that performed below target were: Income tax (Ksh.39.2 billion), import duty (Ksh.17.8 billion) and VAT (Ksh.34.8 billion).

- e) There is declining foreign remittance by Kenyans living abroad which has reduced the foreign currency inflow occasioning the exchange rate depreciation against major international currencies. As at 12th May, 2020, the Kenya Shilling was exchanging 107.06 against the US Dollar.
- f) Overall, fiscal deficit including grants for the period ending March 2020, was Ksh.449.6 billion (4.3% of GDP) funded through Net Foreign Financing of Ksh.87.0 billion; Net Domestic Financing of Ksh.360.4 billion and Other Domestic Financing (Loan Repayment receipts) of Ksh.2.2 billion. The National Treasury continues to engage multilateral and bilateral partners on funding the interventions to fight COVID-19. These negotiations are bearing fruit with Ksh.5.0 billion received from the World Bank.
- g) The current account deficit is projected to range between 4.0 and 4.6 percent of GDP in 2020 compared to 4.6 percent of GDP in 2019. As a result of the lower international oil prices, the oil import bill is expected to be low and will counterbalance the impact of reduced exports particularly horticulture, tea, coffee, transport, tourism services as well as impact of other imports.
- h) There is need for the government to put in place measures to cushion Micro-Small and Medium Enterprises (MSMEs) and the *Jua-Kali* businesses from the effect of the pandemic as a high percentage of the population are employed in these sectors leading to loss of livelihood.
- i) Disruption of supply chain has increased the prices of basic commodities depleting the household disposable income and increasing vulnerability among low income earners.
- j) Businesses that mostly rely on import have scaled down their activities due to closure of borders by some of the global economies leading to the loss of business revenue and employment.
- k) The loss of income on account of job losses has reduced household expenditure on goods and services, affecting the level of private consumption and, consequently, the Gross Domestic Product (GDP) growth in the country.

- l) The payment of pending bills by county governments does not reflect business growth in the counties, as most of the businesses are struggling with liquidity challenges to spur economic activities.
- m) There is lack of timely exchequer releases to the counties although the law requires that the county's share of revenue shall be transferred to the county without undue delay. This has resulted in accumulation of pending bills and stalled projects.
- n) As of 30th April, 2020 the county governments had settled Kshs.35.15 billion of the eligible pending bills reported by the OAG with an outstanding balance of Kshs.16.13 billion. The national government had eligible pending bills paid as at 20th April 2020, Kshs.34.9 billion (68.1 percent of eligible pending bills) leaving an outstanding balance of Kshs.16.3 billion.
- o) There is lower budget absorption rate on the part of development budget mainly attributed to delay in exchequer releases to the counties.
- p) Kenya's debt remains sustainable at the current level estimated at Kshs.6.2 trillion (58% of GDP) which is below the IMF and World Bank Debt Sustainability Assessment (DSA) threshold of 74% of GDP. Kenya continues to meet its debt obligations as they fall due and has not at any time defaulted on its debt obligations
- q) There is noted importation of goods that can be produced locally, therefore necessitating the need to upscale local production.
- r) In light of the funding made available for emergency procurement of COVID-19 related goods and services, including personal protective equipment (PPEs) and face masks, this might pave way for non-observance, by the national and county governments, of the legal requirements and procedures set out in the Public Procurement and Asset Disposal Act.
- s) The Committee noted and commends measures taken by commercial banks, SACCOs and other financial institutions to cushion borrowers from the adverse effects of COVID-19, including through entering into agreements for deferred payments of loans and interests.

3.2 Committee Recommendations

Based on the foregoing, the Committee recommends as follows: -

- a) The Cabinet Secretary for Industrialization, Trade and Enterprise Development gazettes regulations establishing the Micro and Small Enterprises Development Fund, established under section 51 of the Micro and Small Enterprises Act (No. 55 of 2012), and present a report to the Senate within sixty (60) days.
- b) To enhance accountability for and oversight over the COVID-19 Emergency Fund, and other funds established at the national and county level, the National Treasury, and the County Treasuries to submit monthly income and expenditure reports to Parliament and the respective County Assemblies. Community level monitoring and evaluation frameworks should also be put in place to ensure proper oversight of emergency COVID-19 funds at both the national and county levels.
- c) To hasten disbursement of funds to counties the counties should comply to rules and regulations set by the oversight bodies to facilitate funds disbursements. Further the counties with pending bills to adhere to agreements made with COB and National Treasury on payments of verified bills; to ensure the pending bills are settled as per the verified bills a specific AIE with clear bills to be settled with the released funds to be sent to Counties.
- d) To support MSMEs to continue with their businesses during the Pandemic the government to hasten the planned liquidity support for the small and medium enterprises through credit to banks and other financial institutions. To further promote MSMEs emphasis to be made to government agencies to procure available items from the local firms as much as possible.
- e) To reduce on disruption of supply chain counties to facilitate retail markets by adherence to Ministry of Health requirements such as ensuring Social Distancing and provision of the necessary sanitary facilities in the market areas.
- f) On the underperformance of own source revenue affecting the credibility of the county budget; promotion of automation of own source revenue collection stream to be done to curb on revenue leakages, consideration of

legislation especially on land valuation laws to improve on revenue collection, Increase public sensitization on the need to pay taxes and enhanced enforcement of the payment of taxes.

- g) To cushion the people who have lost jobs due to COVID-19 government to consider promotion of fiscal stimulus package and/or consideration of wage subsidy especially in hospitality and tourism sector.
- h) To contain the public debt at sustainable levels, the Committee recommends that the National Treasury: -
 - i) takes decisive actions to curtail spending through austerity measures in order to reduce the size of the fiscal deficit;
 - ii) reduce to the extent possible, commercial borrowing by gradually shifting to concessional loans;
 - iii) implement domestic debt reforms to lower cost and risk of domestic borrowing by shifting away from Treasury bills to Treasury bonds;
 - iv) cancel or re-allocate non-disbursing external loans (dormant loans) to priority projects;
 - v) strengthen the capacity of the Public Debt Management Office and implement Debt and Borrowing Policy anchored on best practice to improve on the effectiveness of Public Debt Management Office;
 - vi) spread out or stagger contracting of the current external loans in the pipeline over the financial years 2019/20 and 2020/21;
 - vii) re-finance high cost external debt estimated at US dollar 3 billion;
 - viii) negotiate with key creditors (Exim-Bank of China) to re-structure on bi-lateral basis specific debts, and debt-for-development swaps;
 - ix) negotiate on bi-lateral basis swapping of debt service for grants financing key development projects (Agenda 4 and Climate Change); and
 - x) strengthen coordination of Government securities issuance with Central Bank's policy actions. For instance, sharing of information on the government's current and future liquidity needs.
- i) On debt issues negotiations to be considered on debt swaps to re-direct payments for funding operational and development activities in health and other sectors adversely affected by COVID-19.
- j) On transparency and accountability, the Committee recommends the strict enforcement of procurement rules as contained in the Public Procurement and Asset Disposal Act, as well as the various guidelines and protocols issued thereon.

- k) On support to women, the youth, persons with disability and other vulnerable groups, the Committee recommends the upscaling of skills training to enable these groups start and operate businesses efficiently. Additionally, that these groups be prioritised for award of business stimulus funding, and opportunities to supply goods and services to the national and county governments.
- l) That, where international markets have reopened in Europe and Asia, the government to support Kenya Airways in operating cargo flights to and from these destinations, to facilitate the import and export of goods to these destinations.
- m) Community level monitoring and evaluation frameworks be considered to ensure proper oversight of emergency COVID-19 funds at both the national and county levels.
- n) That when distributing money through cash transfer, proper targeting of beneficiaries be done by giving preferences to their identification using the existing structures and databases.

ANNEXES

- Annex 1:** Minutes of the 48th Sitting of the Ad Hoc Committee on the COVID-19 Situation
- Annex 2:** Presentation by the Cabinet Secretary for the National Treasury and Planning
- Annex 3:** Presentation by the Cabinet Secretary for Industrialization, Trade and Enterprise Development
- Annex 4:** Presentation by the Controller of Budget
- Annex 5:** Presentation by the Governor of the Central Bank of Kenya
- Annex 6:** Overview of private sector submissions on Thematic Area 2