Policy Monitor

Supporting Sustainable Development through Research and Capacity Building

ISSUE 12 No. 1 July - Sept 2020

LEVERAGING ON TECHNOLOGY FOR RESILIENCE IN THE WAKE OF COVID-19 AND OTHER PANDEMICS IN KENYA

POLICY *Monitor*

EDITORIAL TEAM

1. Charity Mbaka
2. Hellen Chemnyongoi
3. Jane Kenda
4. Mutuku Muleli
5. Nahashon Mwongera
6. Rodgers Musamali

CONTRIBUTORS

1. Benson Kiriga
2. Benson Senelwa
3. Charity Mbaka
4. Daniel Omanyo
5. Evelyne Kihiu
6. Humphrey Njogu
7. Hellen Chemnyongoi
8. James Gachanja
9. James Ochieng
10. Judy Kaaria
11. Muleli Mutuku
12. Rodgers Musamali

DESIGN & LAYOUT
Pixellent Creatives Ltd.

VISION
An international centre of excellence in public policy research and analysis

MISSION
To provide quality public policy advice to the Government of Kenya by conducting objective research and analysis and through capacity building in order to contribute to the achievement of national development goals

Contents

Editorial

Welcome to the KIPPRA Policy Monitor issue for the first quarter of 2020/21 financial year. This issue centres on "Leveraging on technology for resilience in the wake of COVID-19 and other pandemics in Kenya", which is informed by the unfolding challenges and opportunities brought by the COVID-19 pandemic. There are three articles written under this theme: The role and performance of fintechs in enhancing financial access in Kenya during the COVID-19 pandemic period; Leveraging technology to enhance food security in the midst of COVID-19 pandemic; and Cushioning airlines from the effects of COVID-19 pandemic: Global to local lessons.

The Policy Monitor has, in addition, an article on recent economic developments. It shows that the second quarter of the year felt a significant impact of the COVID-19 pandemic, which saw a contraction of GDP. Macroeconomic stability prevailed with inflation averaging 5.2 per cent in the April-June quarter and easing further to average of 4.3 per cent in the quarter July to September. The exchange rate depreciated to an average of 107.94, 126.05 and 139.13 against the US dollar, Euro and Sterling Pound, respectively, in July-September compared to an average of 106.5, 117.19 and 132.20 in April-June.

Additionally, this edition covers various activities and events undertaken by the Institute during the quarter. The key highlights include the 3rd KIPPRA Annual Regional Conference themed Enhancing Inclusivity Through Empowering Persons with Disabilities; the launch of the 47 County Budget Briefs, which examine how counties are currently planning and spending their budgets on children, youth and women sensitive programmes; and the launch of the Kenya Economic Report 2020 themed Creating an Enabling Environment for Inclusive Growth in Kenya. Finally, the Policy Monitor provides glimpses of policy news at domestic, regional and international levels; and legislative developments at the National Assembly and the Senate.

On behalf of the KIPPRA fraternity, we hope you will be enlightened as you enjoy reading this issue.

Keep safe

Recent Economic Developments

By Daniel Omanyo, James Ochieng', Benson Kiriga and Hellen Chemnyongoi

In analyzing the country's recent economic developments, the article focuses on four key areas: the growth of economic activities, monetary and financial policy, fiscal developments and the external sector. In addition, the article discusses the medium-term prospects where economic growth forecasts derived from the KIPPRA-Treasury Macroeconomic Model (KTMM) simulations are compared with those presented by the International Monetary Fund (IMF), World Bank and the National Treasury.

Growth of economic activities

The second quarter of 2020 was greatly affected by the COVID-19 pandemic but has also experienced some resilience, with prevailing macroeconomic stability. Compared to the first quarter that grew by 4.9 per cent, the second quarter contracted by 5.7 per cent attributable to the intensified effects of the pandemic on economic activity. In the quarter, the Government implemented several measures to control the pandemic, and these were effective but adversely affected economic activity of several sectors. A negative growth was registered by accommodation and restaurant (-83.3%), education (-56.2%), professional services (-15.7%), transport and storage (-11.6), other services (-8.5%), wholesale and retail trade (-6.9%), manufacturing (-3.9%) and electricity and water supply (-0.6%), as indicated in Figure 1. Some sectors though experienced a growth, which cushioned the country from a deeper contraction. The growth sectors included: health (10.3%), mining and quarrying (10.0%), agriculture (6.4%), public administration (5.7%), information and communication (4.3%), financial and insurance (4.2%), construction (3.9%) and real estate (2.2%).

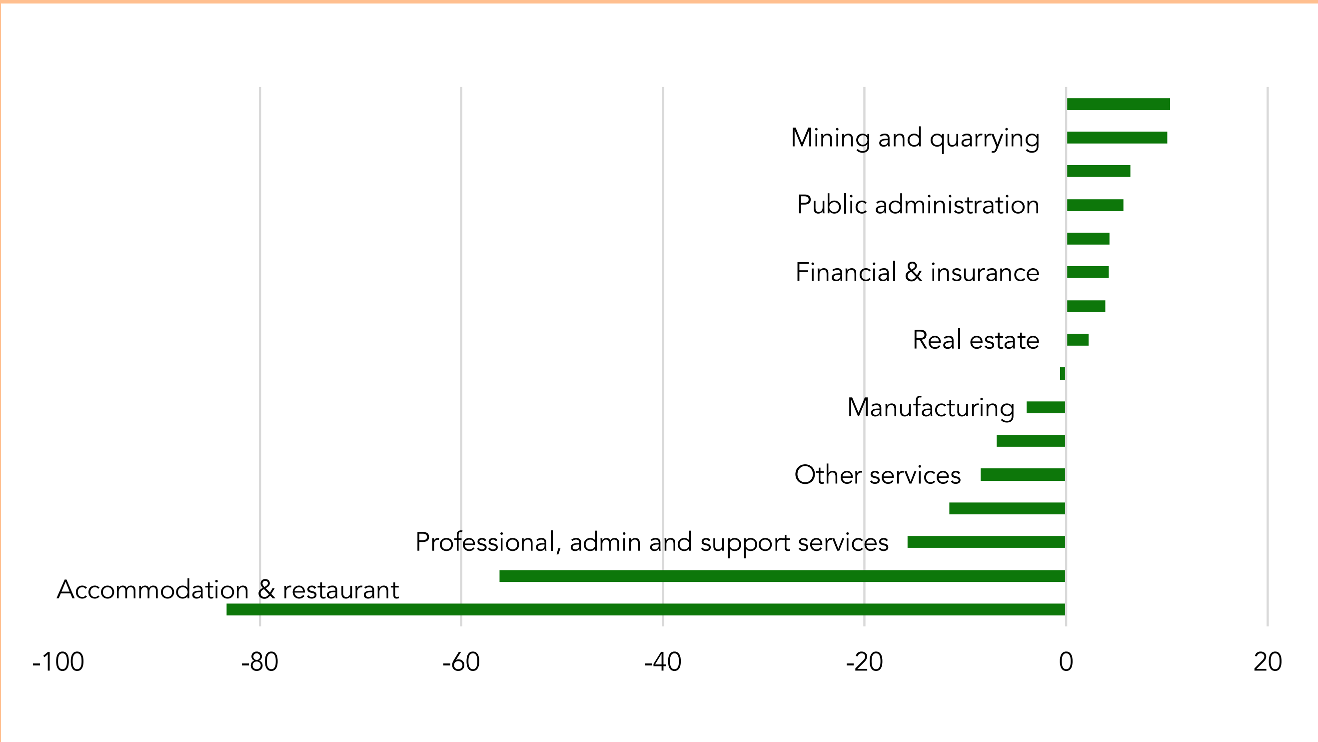
From the Kenya National Bureau of Statistics (KNBS) quarterly Labour Force Report (quarter 2-April to June 2020), unemployment rate, measured based on the strict definition, for second quarter 2020 increased to 10.4 per cent compared to 5.2 per cent in the first quarter of 2020 (Figure 1). Besides, this rate was also higher than the 4.7 per cent registered in the same quarter in 2019. It was noted that the highest proportion of the unemployed was recorded in the age groups of 20-24 and 25-29, each registering over 20 per cent. In terms of the proportion of population outside the labour force, there was a 3.5 percentage points' increase in that proportion during the second quarter of 2020 compared to what was recorded in the first quarter of 2020.

The average overall inflation from July to September 2020 averaged 4.3 per cent compared to 5.0 per cent during the same period in 2019 and 5.2 per cent in the April-June 2020 as indicated in Figure 2. This was driven by lower food prices following increased supply due to favourable weather conditions across the country. As a result, food inflation decreased from 6.6 per cent in July to 5.4 per cent in August and further to 5.2 per cent in September, offsetting the effect of the increase in fuel inflation from 8.7 per cent to 10.7 per cent during the same months. The prices of *sukuma wiki*, maize grain (loose), cabbage and fortified maize flour registered significant decreases of 6.9, per cent 6.5 per cent, 5.8 per cent and 1.1 per cent, respectively in September 2020 compared to July 2020. Further, the low core inflation, averaging 1.8 per cent during the two months, provided room for accommodative monetary policy needed to support growth during this pandemic.

Monetary and financial policy

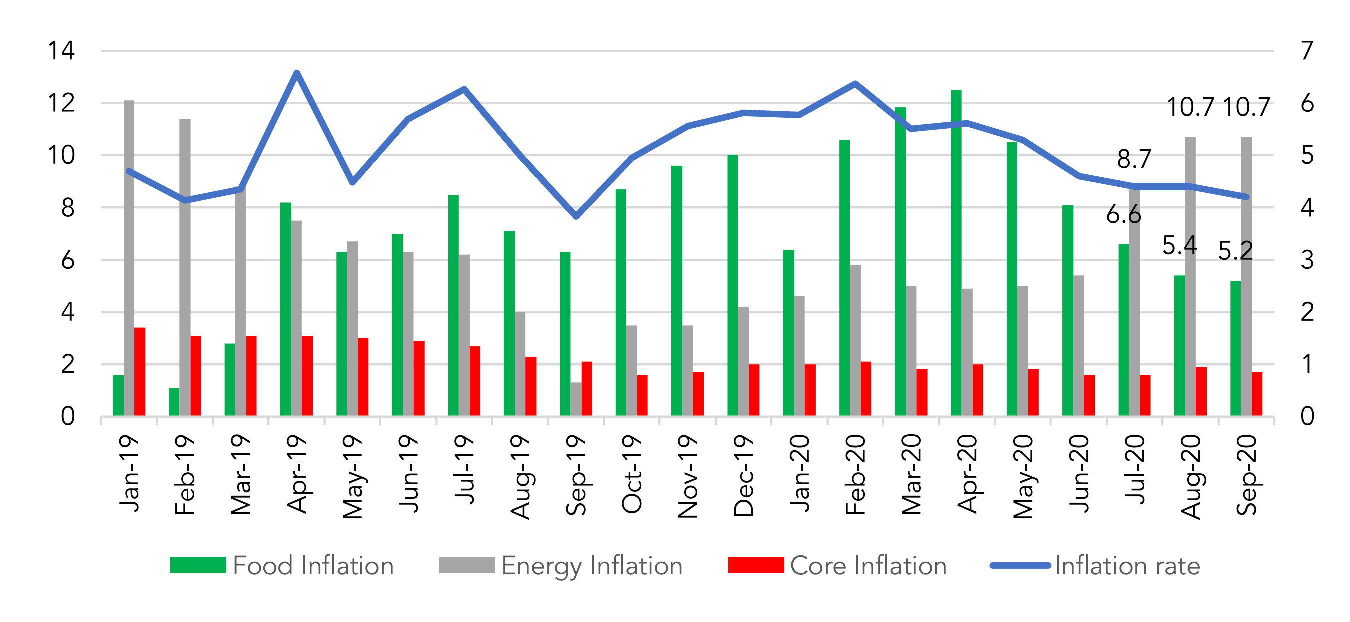
The financial sector remained stable and resilient following the interventions instituted by the Central Bank of Kenya (CBK). For example, the Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 7 per cent, continuing with the accommodative monetary policy stance adopted with the pandemic. Similarly, the MPC retained the CBR at 7 per cent during their meeting on 29th September 2020.

Figure 1: Sectors growth rate



Computed from KNBS (2020), Economic Survey

Figure 2: Inflation rates (January 2019 to September 2020)



Source of data: KNBS and CBK (weekly bulletin 2nd October 2020 issue)

Further, pursuant to Regulation 43(2) of the National Payment System Regulations, 2014, the CBK extended the wallet and transactions limits that were announced on 16th March 2020 from 1st July 2020 to 31st December 2020. These include emergency measures taken such as zero charges for mobile money transactions of up to Ksh 1,000, retaining of prevailing tariff for transactions above Ksh 70,000 and zero charges on Payment Service Providers (PSPs) and commercial banks for transfers between mobile money wallets and bank accounts.

The financial sector experienced growth in private sector credit at 8.3 per cent in August, indicating a slight improvement from an average of 8.2 per cent growth registered in April-June period. The improved performance was supported by continued recovery in demand following the COVID-19-related disruptions and the accommodative monetary policy instituted.

Further, there was an increased uptake of the funds intended to support lending during the quarter compared to the last quarter. The uptake of Ksh 35.2 billion released by the lowering of the Cash Reserve Ratio (CRR) to support lending increased by 5.2 per cent from Ksh 30.8 billion registered in the last quarter to Ksh 32.4 billion realized during this quarter. The funds were intended to support the tourism, trade, transport and communication, real estate and manufacturing sectors during the pandemic. With the easing of COVID-19 restrictions, there was an increase in uptake of the funds by sectors, especially in tourism, to re-engineer and hasten the recovery process.

> "At the closure of the fiscal year 2019/20, the cumulative actual national revenue receipts as of 30th June 2020 totaled Ksh 2.58 trillion compared to Ksh 2.6 trillion in June 2019"

Despite the resilience experienced in the banking sector, increases in non-performing loans (NPLs) were noted in the real estate, personal and, transport and communication sectors, as a result of the subdued business environment. This led to increase in the ratio of gross NPLs to 13.6 per cent in August 2020 from an average of 13.1 per cent in the April-June 2020 period. During the quarter, the CBK lifted the suspension of listing of negative credit information with Credit Reference Bureaus (CRB) for borrowers whose loans were performing previously and had become non-performing after 1st April 2020. The six-months' suspension that was effected on 14th April 2020 expired on 30th September 2020, giving financial institutions powers to assess the performance of all loans.

Fiscal developments

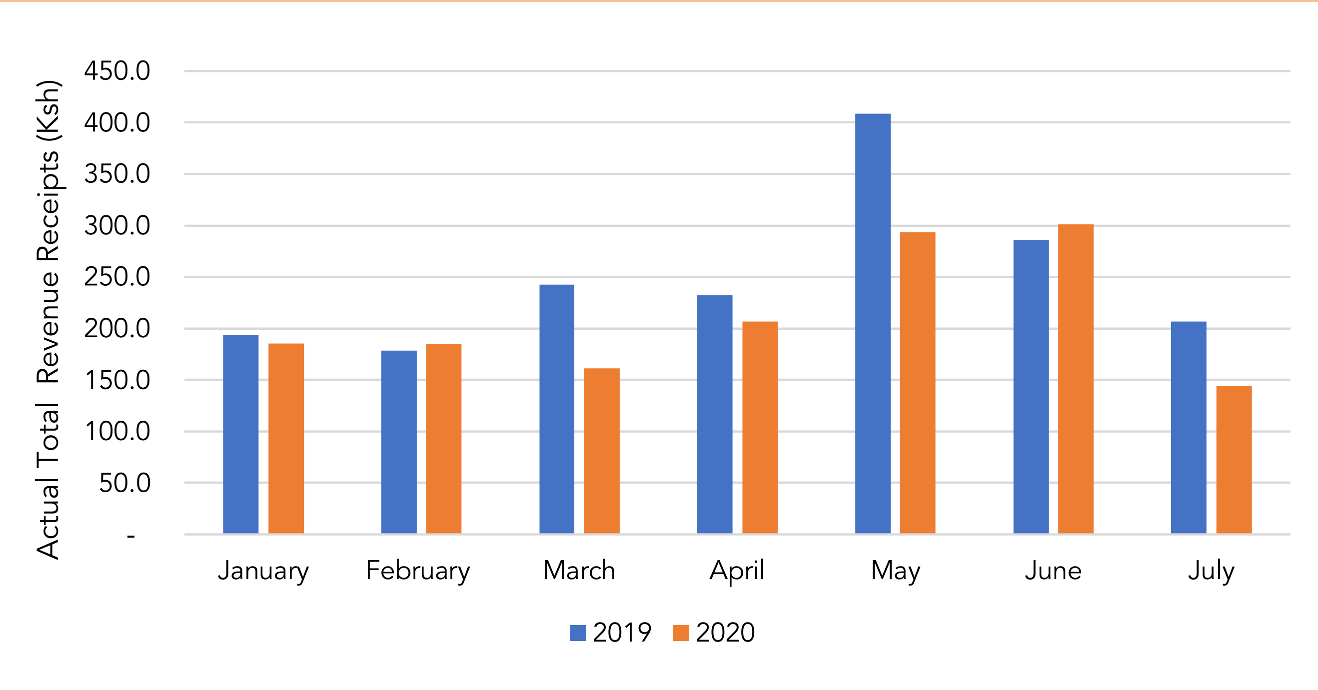
At the closure of the fiscal year 2019/20, the cumulative actual national revenue receipts as of 30th June 2020 totaled Ksh 2.58 trillion compared to Ksh 2.6 trillion in June 2019, representing a 0.8 per cent decline attributable to a slowdown in economic activity following the outbreak of COVID-19. This compares to the target of Ksh 2.74 trillion for the period, implying a 5.5 per cent shortfall.

For the financial year 2020/21, the actual revenue receipts in July 2020 amounted to Ksh 143.95 billion compared to Ksh 206.63 billion collected in July 2019, representing a 30.3 per cent decline. This can be attributed to the negative impacts of COVID-19 lockdown measures that hampered business activities, and tax measures to cushion families from the acute effects of the pandemic.

The 30.3 per cent decline in total revenue receipts was largely due to slowed receipts from total tax income while non-tax income performed relatively better compared to 2019 (see Figure 4 panel A and B).

Tax income receipts in July 2020 amounted to Ksh 94.5 billion. This was below achievement in 2019 when tax income amounted to Ksh 107.5 billion in July. This reflects slowed economic activity due to COVID-19 which affected businesses and individual ability to remit taxes. The tax measures effected to cushion families from the effects of COVID-19 also explain the declining tax income receipts.

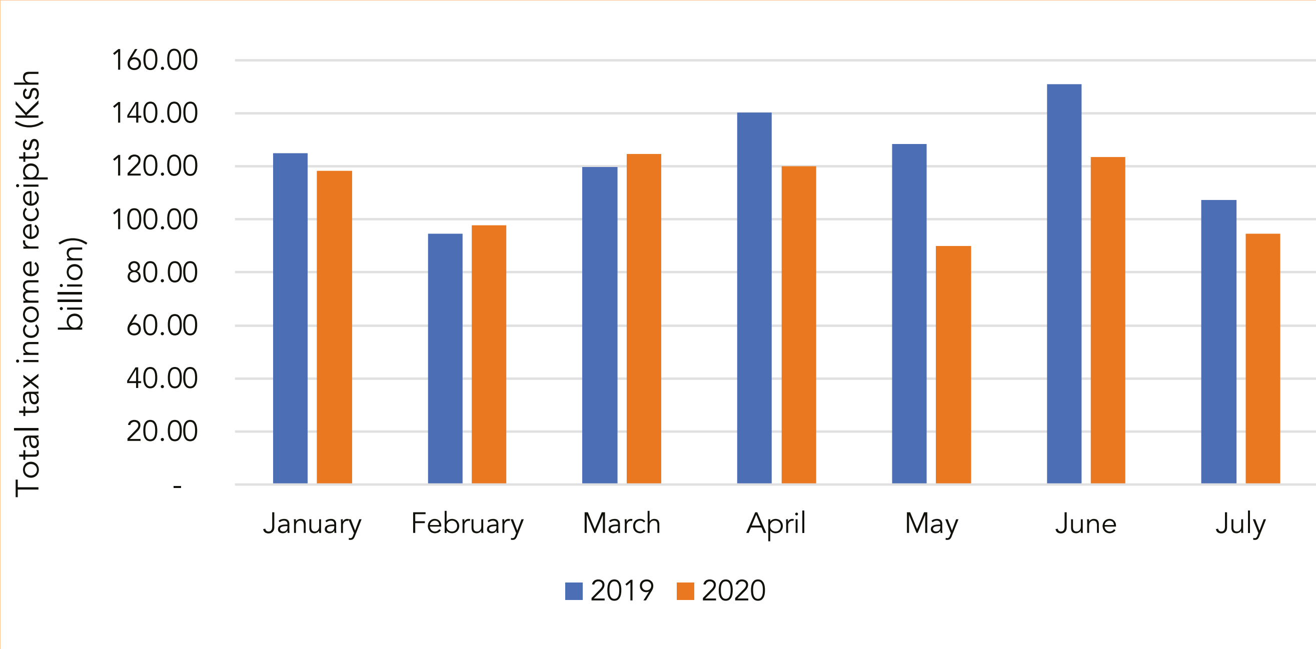
Figure 3: Performance of total revenue receipts in 2019 and 2020



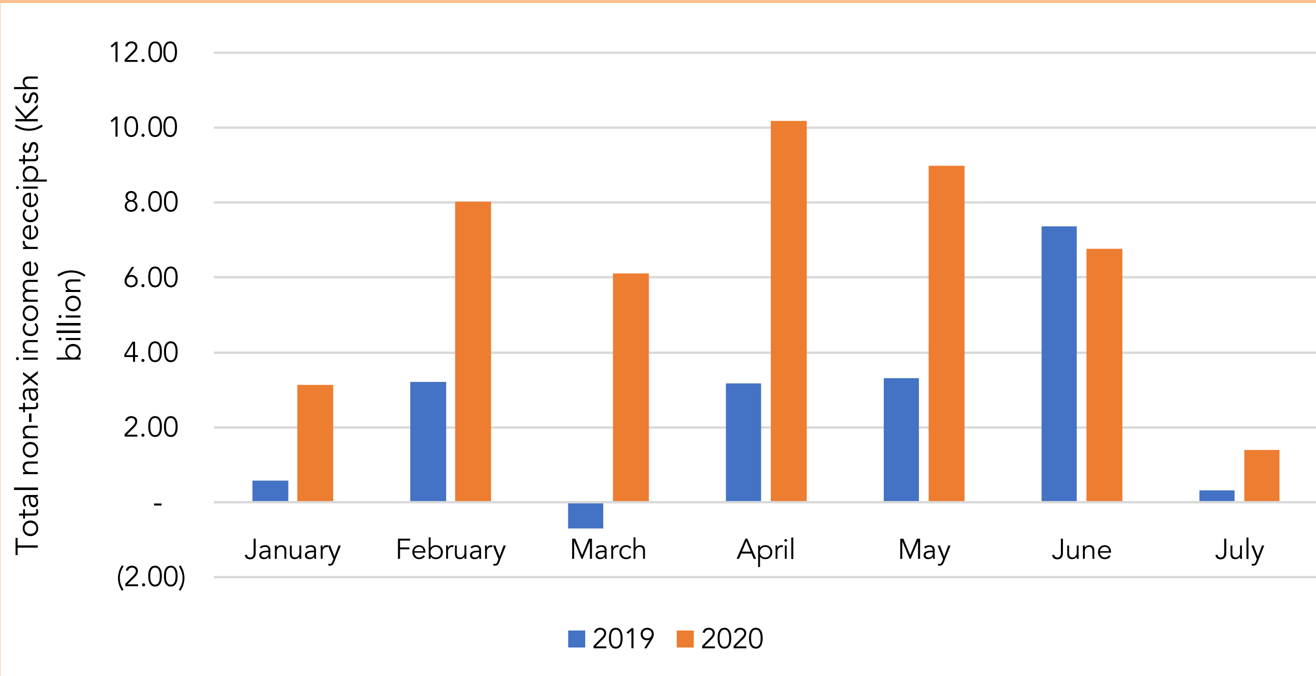
Source: Kenya Gazette Notices (Various)

Figure 4: Performance of tax and non-tax incomes in 2019 and 2020

A: Performance of tax income 2019 and 2020



B: Performance of non-tax income 2019 and 2020



Source: Kenya Gazette Notice (Various)

Expenditure demands by the end of June 2020 was higher than those recorded at the end of June 2019. Total cash issued to both National and County governments by the end of June 2020 grew by Ksh 28.37 billion. According to the National Treasury and Planning, the cash issues amounted to Ksh 2,529.9 billion as of June 2020, representing 92.5 per cent of the annual net estimated issues for the year set at Ksh 2,734.3 billion (Table 1). This level of cash disbursement also represents an increase of 1.1 per cent from June 2019 when the exchequer issues stood at Ksh 2,501.6 billion. This implies that with the outbreak of COVID-19, the exchequer increased the releases to Ministries, Departments

> For the financial year 2020/21, the actual revenue receipts in July 2020 amounted to Ksh 143.95 billion compared to Ksh 206.63 billion collected in July 2019, representing a 30.3 per cent decline.

and Agencies (MDAs) and counties. These numbers are expected to increase as counties and MDAs strengthen the preparedness of the country to handle any increased cases of COVID-19 contagion and as the economy reopens in phases.

Table 2 shows the exchequer cash issues released as at end of July 2020. It is evident that compared to July 2019, expenditure issues slowed, with county government receipts remaining at zero due to the prolonged deliberations on Revenue Sharing Formula in the Senate to allow for flow of funds to counties. As at the end of July 2020, development expenditure by MDAs amounted to Ksh 1.5 billion, Ksh 36.8 billion towards MDAs recurrent expenditure, and Ksh 50.8 billion towards Consolidated Fund Services (CFS). Expenditure issues to the National Government amounted to Ksh 89.1 billion, representing 36 per cent of the original gross estimates. This is 0.5 per cent lower than actual expenditure issues during a similar period in 2019 when exchequer issues to the National Government amounted to Ksh 93.5 billion.

External sector

Between July 2020 and September 2020, the Kenya Shilling depreciated against three major currencies: the US Dollar, Euro and Sterling Pound. In July 2020, the Kenya Shilling exchanged at an average of Ksh 122.51 against the Euro and Ksh 135.30 against the Sterling Pound (Figure 5). This shifted to an average of Ksh 127.82 against the Euro and Ksh 140.24 against the Sterling Pound in September 2020, reflecting a depreciation rate of 4.3 and 3.7 per cent, respectively, against the two currencies. The depreciation was relatively lower against the US Dollar, from an average of Ksh 107.27 in July 2020 to an average of Ksh 108.40 in September 2020.

Table 1: Exchequer expenditure issues (Ksh billion) end of June

	Revised estimates as at June 2019	Actual Exchequer issues as at June 2019	Revised estimates as at June 2020	Actual Exchequer issues as at June 2020	Level of performance (2019)	Level of performance (2020)
Recurrent to MDAs	985.84	955.47	1,076.29	1,030.02	96.9	95.7
Consolidated Fund Services	935.39	897.01	870.48	798.19	95.9	91.7
Development to MDAs	346.80	306.52	439.66	385.75	88.4	87.7
Total Issues to National Government	2,268.03	2,159.00	2,386.43	2,213.96	95.2	92.8
Total Issues to County Governments	349.18	342.56	347.89	315.97	98.1	90.8
Grand total	2,617.21	2,501.56	2,734.32	2,529.93	95.6	92.5

Source National Treasury and Planning: Kenya Gazette

Table 2: Exchequer expenditure issues (Ksh billion) end of July 2020

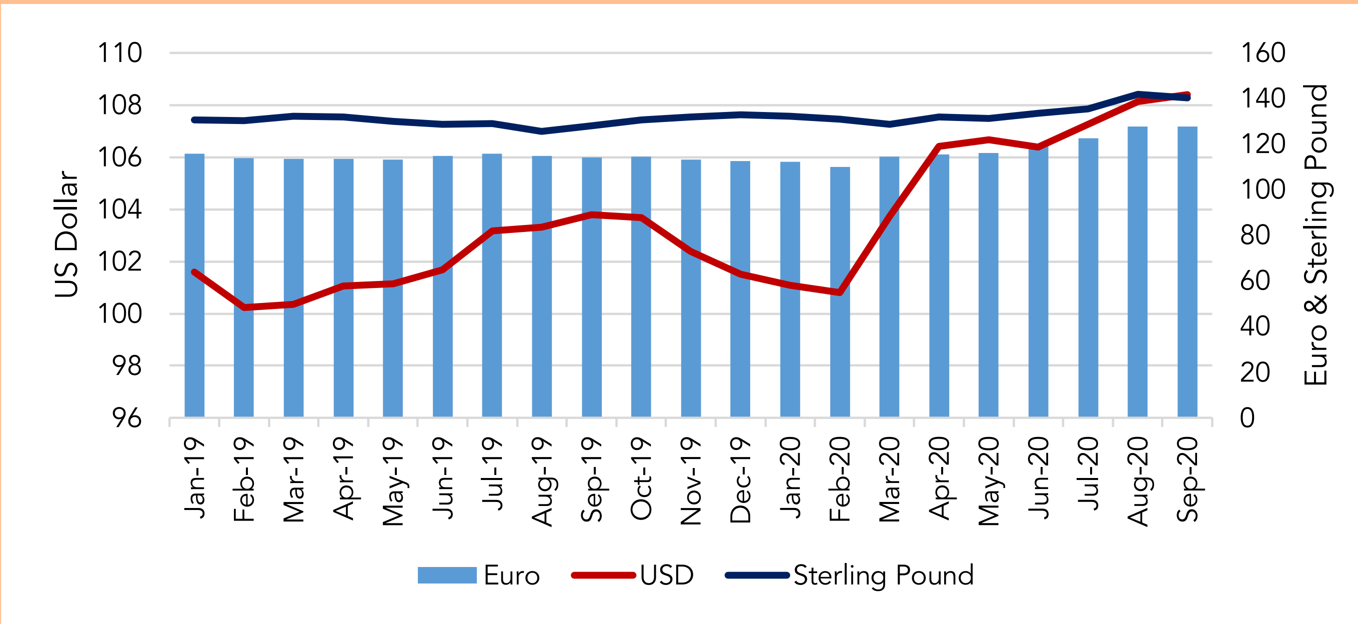
	Original estimates as at July 2019	Actual Exchequer issues as at July 2019	Original estimates as at July 2020	Actual Exchequer issues as at July 2020	Level of performance (2019)	Level of performance (2020)
Recurrent to MDAs	1,053.03	55.43	1,062.99	36.78	5.3	3.5
Consolidated Fund Services	805.78	36.89	1,028.06	50.77	4.6	4.9
Development to MDAs	422.30	1.16	355.72	1.50	0.3	0.4
Total Issues to National Government	2,281.12	93.48	2,446.78	89.05	4.1	3.6
Total Issues to County Governments	**310.00**	-	**353.93**	-	-	-
Grand total	**2,591.12**	**93.48**	**2,800.71**	**89.05**	**3.6**	**3.2**

Source National Treasury and Planning: Kenya Gazette

Kenya's holding of foreign exchange reserves remained stable and adequate between July and September 2020. The foreign reserves stood at US$ 9,606.50 million in July 2020, reflecting 5.8 months of import cover. In August 2020, the reserves stood at US$ 8,718.75 million, representing 5.3 months of import cover. This was mainly attributed to support from IMF under Rapid Credit Facility that saw Kenya receive US$ 739 million to mitigate the impact of the COVID-19 pandemic.

Total diaspora remittances grew by 7.3 per cent between May 2020 and July 2020 despite a slight

Figure 5: Average monthly exchange rate of Kenya shilling against major currencies



Data Source: Central Bank of Kenya

decrease of inflows from North America. Diaspora remittances grew from US$ 258.2 million in May 2020 to US$ 278.0 million in July 2020 (Figure 6). The growth was mainly from Europe and the rest of the world, which grew by 22.3 and 12.0 per cent, respectively, between May 2020 and July 2020. Remittances from North America dropped by 1.2 per cent from US$ 145.9 million in May 2020 to US$ 144.2 million in July 2020.

The value of Kenya's total exports grew by 11.2 per cent between April 2020 and June 2020. The growth was reflected in increase in the value of domestic exports and re-exports by 9.4 and 39.1 per cent, respectively, in a similar period. However, the value of cutflowers and tea exports dropped by 37.8 and 22.0 per cent, respectively, between April 2020 and June 2020, partly attributed to a decline in the volume of exports of the two products and a fall in price of processed tea. The value of horticultural exports dropped by 0.2 per cent, with cutflowers recording the highest decline of 37.8 per cent in the same period.

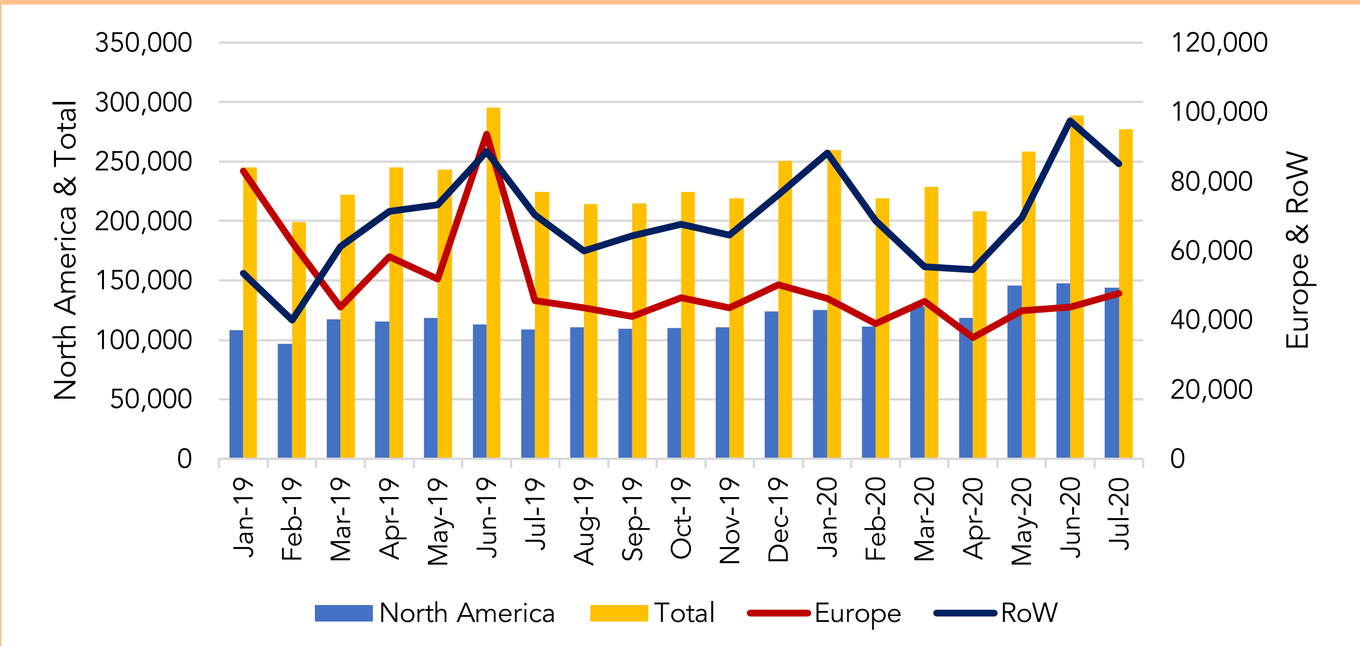
Despite the growth of exports witnessed between April and June 2020, Kenya's imports grew relatively slower, recording a 1.5 per cent growth during the same period. The overall volume of trade grew by 4.1 per cent from Ksh 163.0 billion in April 2020 to Ksh 169.7 billion in June 2020. In the period June and August 2020, the volume of trade grew by 13.1 per cent, partly reflected in the growth of exports and imports by 12.7 and 13.3 per cent, respectively.

The current account deficit improved as a ratio of Gross Domestic Product (GDP) as of June 2020 despite worsening in nominal terms. In June 2020, the current account deficit stood at 4.7 per cent of GDP compared to a deficit of 5.0 per cent recorded in June 2019. However, in nominal terms, the current account worsened from a deficit of US$ 4,737.4 million in June 2019 to a deficit of US$ 4,795.3 million in June 2020, attributed to a drop in net secondary income and net services. The overall balance of payment position improved from a deficit of US$ 492.7 million in June 2019 to a surplus of US$ 179.3 million (0.2 % of GDP) in June 2020.

Medium term prospects

The impact of COVID-19 was greatly felt in the second and third quarter of 2020 and it is not yet known how long it will last. The curve seemed to be flattening in the month of September and hopefully the pandemic will be contained in the fourth quarter. However, considering all other risks facing the economic outlook, the KTMM projections reveal a gradual economic recovery from 1.7 per cent in 2020 to 3.1 per cent in 2021 and

Figure 6: Diaspora remittance flows



Data Source: Central Bank of Kenya

Table 3: GDP growth rates for Kenya

	2018	2019	2020	2021	2022
KTMM	6.3	5.4	1.7	3.1	4.2
BROPA 2020	6.3	5.4	2.6	5.3	5.9
IMF	6.3	5.4	1.0	6.1	6.1
WORLD BANK	6.3	5.4	1.5	5.2	5.7

Source: KTMM, IMF, National Treasury, World Bank

4.2 per cent in 2022 (Table 3). The general elections expected in 2022 is a key factor in the assumptions as anxiety starts to build up.

However, other projections for Kenya's outlook show a sharp V-shaped economic recovery. This is interesting given the domestic and external risks facing the country. One of the key assumptions of the sharp recovery is that Government fiscal interventions will be very effective to save the country out of the current recession through the Keynesian demand fixing policies. However, it is given that the development budget has been downsized by almost 27 per cent (BROPA, 2020). This makes the expected sharp recovery a big challenge.

A sharp economic recovery is desirable, but a lot of effort is required to support all the economic sectors in the recovery process. The economic stimulus package and the economic recovery strategy need to be geared towards stabilizing the key economic sectors and boosting investments and strengthening the supply chain systems.

The Role and Performance of Fintechs in Enhancing Financial Access in Kenya during the COVID-19 Pandemic Period

By Benson Senelwa, Rodgers Musamali and Mutuku Muleli

Introduction

Fintechs leverage on digital technology to extend financial inclusion, improve the daily lives of people and spur growth. Essentially, fintechs describe a variety of financial activities such as money transfers and deposit-making transactions, where with the aid of a digital device, one can apply for credit, mobilize savings for self or business start-up, or manage investments. Furthermore, the global response to the COVID-19 crisis demonstrates how digitization can be harnessed to support vulnerable people, reduce inequalities, sustain livelihoods and maintain the social fabric. Kenya is among the leading African countries in fintech utilization and innovations.

Fintech is not only essential in facilitating economic transaction but also in enhancing financial inclusivity, uplifting poor households and smoothening enterprises' transactions, especially in developing countries. The COVID-19 pandemic has seen expansion of services rendered using fintech, ranging from digital lending and mobile payment to insurance services. This has necessitated investment in new resources, including infrastructure to withstand the increased transaction volumes. Lending fintechs have been inundated with customer requests for forbearance and relief, and for help in securing the small business loans established by the guarantors. These actions could be challenging for fintechs that depend on transaction volumes for revenue but cash-starved during the pandemic. An increased wave of competition in fintech products has emerged based on cost and responsiveness in effectively addressing the ever-changing consumer demands.

Mobile phone technology has greatly contributed to development of fintech in providing financial services to the 'unbanked' population. Additionally, the solutions offered by fintech companies fill the gap of a financial need, sometimes at much lower costs than those offered by traditional providers such as banks and microfinance institutions. Some companies have leveraged on mobile technology to create mobile apps that reach out to a greater audience in their unique service provision. For instance, getting personal loans online in Kenya is now faster and easier than getting a traditional bank loan, according to the ABSA Africa Financial Markets Index Report of 2019. This fintech evolution and its utilization in the country has been the genesis of disruption for the old model on supply and demand of financial transactions.

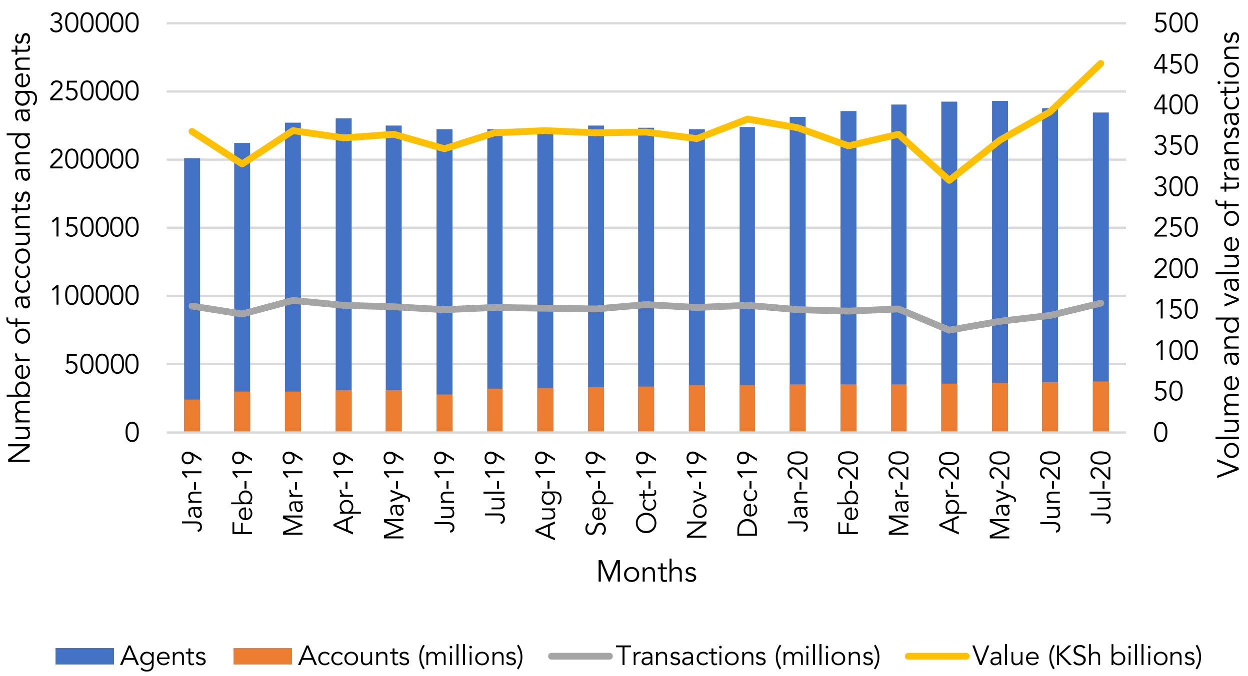
Performance of the fintech industry in Kenya during COVID-19

Mobile money and credit platforms dominate Kenya's fintech industry both in terms of subscription numbers and financial performance. The Communication Authority of Kenya estimates that as at end of March 2020, the penetration rate of mobile subscriptions in Kenya stood at 116 per cent, comprising about 55.2 million subscribers. Further, according to Central Bank of Kenya statistics, mobile money transactions are the most common form of payment in the country. Total mobile money transfers have grown by 69 per cent in the past five years, ranging from Ksh 267 billion in 2015/2016 to Ksh 450 billion in 2019/20 (Figure 7).

Currently, banking and telecommunication are the major fintech users in Kenya, based on the various banking digital applications and Safaricom's M-Pesa app used in the transactions. The growth in mobile phone transaction is attributed to the wider scope of merchant payments in the associated private sectors that might have initially under-utilized financial technology to complete their transactions. In April, the CBK announced various measures to promote cashless transactions in a bid to adhere to COVID-19 safety guidelines. As a result, digital payments saw an increasing trend from May 2020 as shown in Figure 7.

Further, digital payment services have fuelled digital lending as fintech companies accumulate users' data, which they use to develop new ways to determine creditworthiness. The CBK has denoted that online marketplace lending, which uses digital platforms to directly connect lenders

Figure 7: Mobile money transactions performance in Kenya



Source: CBK Reports (Various)

to borrowers, has grown significantly during this COVID-19 period considering the selected customer requests for forbearance and relief, and for help in securing the small business loans established by the Payroll Protection Programme (PPP) of the Coronavirus Aid and Relief.

According to the Kenya Population and Housing Census 2019, only 4.3 per cent of households participate in online e-commerce. In comparison, there exists a gender divide of 1.3 per cent, with more men participating in online e-commerce (5%) than women (3.7%). Equally, the gap between participation in urban (9.6%) and rural (1.7%) is 7.9 per cent. With introduction of stay-at-home protocols due to COVID-19, coupled with current market conditions and containment measures to ensure social-distancing practices, online trade is expected to thrive as a coping mechanism. This is as a result of high online sellers' concentration attracted by online market profits as perennial Peer-To-Peer (P2P) market transactions during this health crisis period remains unprofitable due to fewer buyers.

Policy and legislative interventions amid COVID-19 shaping fintech

In line with the CBK's announcement on the need to adopt cashless transactions to reduce the rate of COVID-19 infection, both the Government and the private sector have put in place measures to encourage the use of digital payments. These include the zero-rating of both M-Pesa transfers below Ksh 1,000 and all Pesalink (real-time bank account to bank account) transactions until December 2020. Additionally, transfers from M-Pesa to bank accounts, and from bank accounts to M-Pesa have similarly been zero-rated. Further, the withdrawal limit for mobile money transactions was increased from Ksh 70,000 to Ksh 150,000. These measures were to ensure that contactless business transactions can take place, subsequently upholding safety measures due to COVID-19. Further, transaction limits by Kenyans were increased from Ksh 140,000 to Ksh 300,000, allowing one to hold up to Ksh 300,000 in their M-Pesa wallets. These measures seem to be having the intended effect as shown by increased digital transactions and values by the end of June 2020. In fact, the Central Bank of Kenya indicates that most of the increased activities were in low-value transactions of Ksh1,000 or less, which account for over 80 per cent of mobile money transactions. Fintech companies have also supported this shift with measures such as lowering fees and increasing limits on mobile money transactions. These interventions are yielding direct and indirect impacts on the payments at the peer-to-peer payments (P2P) and merchant levels in the country.

> "Fintech is not only essential in facilitating economic transaction but also in enhancing financial inclusivity, uplifting poor households and smoothening enterprises' transactions, especially in developing countries."

Challenges in the industry amid COVID-19 interventions

Numerous challenges exist that risk the industry operations during this period. The challenges are institutional, legal and legislative. From a legislative point of view, the fintech industry is largely unregulated. Recently, the CBK tabled a Bill seeking to curb the steep digital lending rates that have plunged many borrowers into a debt trap.

The Bill also seeks to deal with predatory lending. Principally, the Bill intends to amend the Central Bank of Kenya Act, Cap 491, to regulate the conduct of providers of digital financial products and services.

Further, consumer issues arise out of fintech products, especially for those who access numerous products from different mobile lenders and fall into debt traps. Disclosure of the total cost of credit and terms and conditions of the loans are usually not clear to the digital borrowers who agree to them without necessarily reading and understanding. Therefore, consumers make uninformed decisions when applying for the loans and suffer the consequences associated with the burden of servicing the repayments. Many borrowers have been adversely listed in credit reference bureaus as a result, thus locking them out of future loans from other mobile lenders and more established financial institutions.

Additionally, accessibility to fintechs is still a bottleneck due to limited phone ownership, and poor network and internet coverage. For instance, internet coverage is about 71 per cent, meaning that not all subscribers have internet access. This, therefore, hinders access to fintech services that could easily provide much needed financial resources for business and livelihood continuity.

Conclusions and recommendations

The realities of COVID-19 pandemic have brought development of fintechs to the fore. For instance, it is feasible for users to access savings, credit and insurance, and make payments at the comfort of their homes hence upholding social distancing critical in dealing with the pandemic.

Narrowing the digital divide within the country remains paramount. This means developing the right policies, regulations and infrastructure that enable financial innovation, including addressing underlying risks. Consumer protection measures need to be adopted to cushion consumers from exploitation. Further, gaps in financial inclusion, and financial and digital literacy need to be bridged, with a focus on reengineering and recovering lives and livelihoods affected by COVID-19.

Leveraging Technology to Enhance Food Security During COVID-19 Pandemic

By Dr Evelyne Kihiu and Judy Kaaria

The unprecedented COVID-19 health crisis has exuberated pre-existing threats to food and nutrition security. The Food and Agriculture Organization (FAO) provides that a county is food secure when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life. COVID-19 has distorted food supply chains and trade flows, which has endangered livelihoods and constrained national budgets, thus diminishing the fiscal space.

In Kenya, the food value chain has not been spared from major disruptions due to the current pandemic. At the production level, while abundant seasonal rains benefitted farming activities over the pandemic period, there were certain limitations on what could be accessed. Movement restrictions hindered farmers' physical ability to access input markets, altering the demand and supply of agricultural inputs such as fertilizers, seeds, fuel, and machinery. Access to agricultural services such as those from agricultural extension workers through workshops and training field demonstrations were also adversely affected.

There was also a slowdown in food processing and value addition activities owing to the inability to access supplies from farmers and the access of processed foods to markets due to restrictions affecting seamless movement of food commodities. In addition, food processing and value addition plants are likely to have experienced challenges sourcing spare parts, and technical expertise from overseas. Further, county investment operations in food processing and value addition activities were affected with reallocation of funds to more pressing sectors such as health. Trade activities were also adversely affected.

At the international level, border restrictions and lockdowns issued as response strategies by governments to curb the pandemic constrained agricultural exports, particularly horticultural exports, leading to increased spoilage and post-harvest losses with accumulation of fresh produce at farms. As a result, most of horticultural exporting firms were unable to sustain their existing workforce and were forced to either send workers on unpaid leave or lay them off.

At the local level, farmers faced serious difficulties transporting their products, with transport costs rising. The containment strategies further deprived farmers access to key output markets, particularly open-air markets and institutions such as schools, restaurants, and other eateries, leading to considerable food wastage in the fish, milk, vegetables, and fruits value chains.

At the consumption level, households' ability to access markets/grocery stores to purchase food items was also affected. The May KNBS 2020 COVID-19 survey indicates that approximately 22.4 per cent of households reported having challenges in accessing the market/grocery store to purchase food items. The key reasons for the lack of access were closure of the markets/grocery stores (44.1%) and movement restrictions (30.9%). With restrictions affecting smooth movement of food commodities, 78.8 per cent of the households nationally indicated they experienced increased food prices due to the COVID-19 pandemic. To cope with the effects of the COVID-19 pandemic on food consumption, households have resorted to strategies such as relying on less preferred and less expensive foods; decreased buying some non-food products; limiting portion size at mealtimes; and purchasing food on credit or incurred debt.

With calls for immediate and widespread response in developing countries to combat food insecurity with the spread of the COVID-19 pandemic, digitalizing of agricultural-food value chains has emerged as important in helping counties alleviate the pandemic's effect on the food value chain. The Digitalization of African Agriculture Report 2018–2019 defines digitalizing of agri-food value chains as "the use of digital technologies, innovations, and data to transform business models and practices across the agricultural value chain and address bottlenecks in, inter alia, productivity, post-harvest handling, market access, finance, and supply chain management to achieve greater income for smallholder farmers, improve food and nutrition security, build climate resilience and expand inclusion of youth and women". While use of digital technologies in the agri-food sector has been in progress in the country for some time, the COVID-19 pandemic has presented opportunities of speeding up the uptake process and scaling it up for improved productivity, incomes and food security.

Opportunities in leveraging digital technologies

Data: Access to accurate data has emerged as an important strategic asset in helping the national and county governments ensure continued food security in what has proved to be a protracted global crisis. Amidst the containment measures, the two levels of government need to ensure that farmers and agriculture stakeholders continue with production while coordinating efforts to ensure timely availability of inputs and supportive services. Among the key opportunities presented by digital technologies that can be capitalized on during this pandemic period is strengthening agricultural data capacities. Digital data collection solutions of farmers' characteristics (e.g. farm area, location and crop type) have the capacity to provide timely, accurate and granular data, which is much needed in agricultural sectors. Such data coupled with technologies for data management, analysis and visualization are essential for better planning and provision of essential services and inputs such as access to targeted inputs and advice, credit and markets. For instance, use of remote sensing via satellites, weather technologies and drones have facilitated the precise capture of spatial temporal data from individual farms and fields, enabling farmers access tailored information and advice, which leads to increased productivity. In addition, technologies for data management, analytics, surveillance and forecasting tools are crucial for monitoring and intelligence insights in key indicators such as food and nutrition security and climate indicators during and post-COVID-19 pandemic.

Advisory and information services: On average, the ratio of extension workers to farmers is 1:1000 in Kenya today, which limits farmers' efficient access to extension services. Travel restrictions, social distancing and stay-at-home protocols associated with COVID-19 further hamper access to high-quality, affordable extension services to smallholder farmers. Thus, sustained and prompt investment in digital advisory and information solution platforms will facilitate the reach to farmers even with protocols and guidelines during the COVID-19 pandemic period. In addition, digital platforms such as value chain specific e-extension mobile apps, SMS messages, phone communication and WhatsApp groups facilitate the reach of farmers with advisory and information on: agronomic/livestock management good practices; market information (such as crop/livestock input and output prices); weather/climate advisory or pest/disease control; customized advice and information highly tailored to farms and farmer's needs; and participatory platforms that facilitate peer-to-peer farmers interactivity.

Financial access: Access to affordable, efficient and convenient financial support is important in mitigating disruptions in the food system in the face of the COVID-19 pandemic. Liquidity in the agri-food chain is necessary to maintain food productivity, trade and supply, thereby ensuring food security. Digital, data-driven and tech-enabled financial innovations and solutions can enable the agri-food systems emerge from this pandemic better funded and more secure. Digital technologies can assist in the provision of fast, traceable, and reliable payment, savings, and credit solutions along the agri-food chain while observing social distancing measures. Further, digital technologies can enhance access to insurance services such as weather-based index insurance at a broader scale and substantially lower costs, thereby protecting farmers' livelihoods during disasters.

Access to agricultural inputs and markets: Where markets are shut or difficult to access due to containment measures, ecommerce platforms are vibrant innovations that enable continued trade of agricultural inputs and output at low transaction costs while upholding COVID-19 control protocols and guidelines. Continued transactions among buyers and sellers in the agri-food chain mitigate food glut, wastage, perishability and shortages associated with the COVID-19 control protocols.

> "Access to accurate data has emerged as an important strategic asset in helping the national and county governments ensure continued food security in what has proved to be a protracted global crisis."

Further, digital tools and technologies provide solutions to challenges in agriculture, such as economic water scarcity challenges, thereby increasing agricultural productivity and community's resilience to climate change and disasters/pandemics such as COVID-19. For instance, SunCulture in Kenya provides innovative climate smart technologies such as intelligent solar-powered pumps and irrigation solutions. These intelligent solar technologies have the capacity to enable households to have steady water supplies for farming and household needs, thus providing coping mechanisms beyond the COVID-19 pandemic period. Digital tools and technologies can further help link farmers to inputs that would ordinarily be out of their reach due to limited resources. For instance, uber-like model machinery services (EM3 AgriServices) offered through digital platforms in India help farmers gain access to specialist (and inexpensive) equipment and machines. Under EM3, owners of Farm Machinery/Equipment (tractors, harvesters, etc) 'rent' out their assets to farmers with small holding and limited capital, facilitating their access to quality mechanical equipment and machinery on a pay-as-you-use basis. The owners earn additional income, thereby driving increased revenues in the sector.

Solutions for vulnerable populations: The COVID-19 pandemic has had significant labour force disruptions. Many workers have been forced on unpaid leave or have lost their jobs, resulting in rise of unemployment, and depressed incomes, hence increased vulnerability to poverty and food insecurity. In Kenya, for instance, 75 per cent of the agricultural sector employs women compared to 51 per cent of men and less than 10 per cent of the youth are directly engaged in agricultural activities. At least 10 per cent of Kenya's population lives with disabilities, with 66 per cent living in rural areas where agriculture is the primary source of livelihoods. Additionally, over 50 per cent and 35 per cent of Persons with Disabilities (PWDs) are women and youth, respectively, with an expected 40 per cent rise in PWDs aged between 0-14 years. With such overlaps in PWDs, youth and women, youth and women-led digitally-enabled technical and management training in extension services, farmer-facing SMEs (credit, agro-dealer, insurance), among other digitals solutions, can galvanize interest in the agri-food sector thus providing solutions to the high unemployment rates.

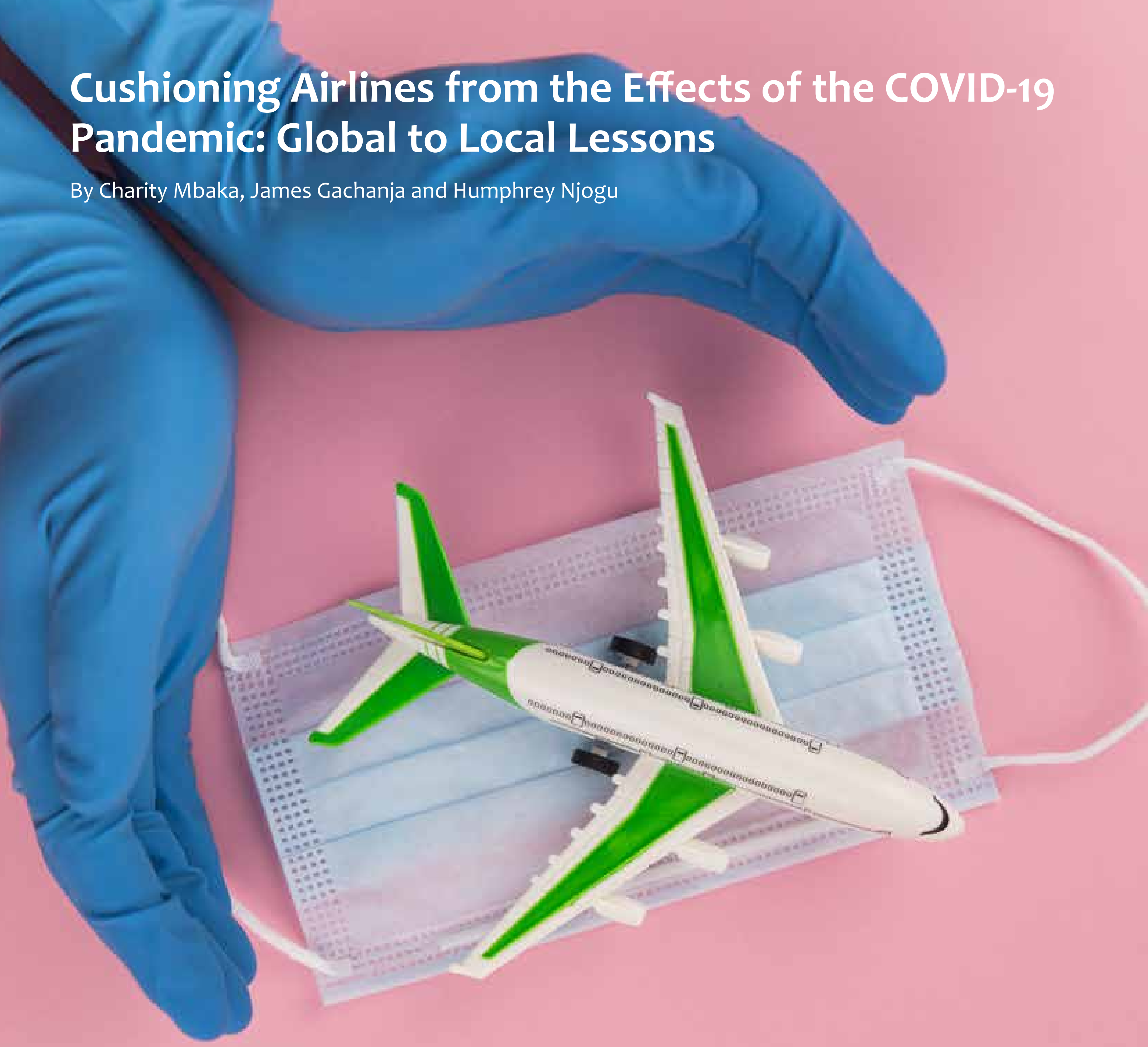
Food safety: While the FAO indicates that there is currently no evidence to support transmission of COVID-19 associated with food, the organization supports food safety efforts in the agriculture supply chain. Social distancing and work-from-home protocols to protect workers in Kenya calls for investment in digital platforms that remotely monitor agro-produce quality and assurance that is in many cases human-subjective. Opportunities in digital tools and technologies to reduce physical contact in food supply management include: traceability and certification solutions that assist in documenting compliance with standards and also trace produce across the food value chain; input quality assurance and anti-counterfeiting digital solutions necessary for validating authenticity and quality of received inputs; and digital logistics platforms that support the surveillance of agricultural products across the value chain from producers to markets. Human subjectivity in agro-produce quality and assurance may be insurmountable in developing countries, but blending with digital solutions such as image recognition technologies has the capacity of upgrading the capabilities of smallholder farmers to participate in high agricultural food value chains, particularly in regional markets and developed export markets.

> "In Kenya, with the agricultural functions having been devolved, there is need for county governments to invest towards increased digital infrastructure in communities and at the sectoral level."

In summary, digital solutions in the agri-food sector present benefits beyond COVID-19 towards improving productivity, income and food and nutrition security. Advanced agricultural technologies need to be continually complemented by interventions to support users with relevant skills and technologies that are tailor-made to suit their needs. In Kenya, with the agricultural functions having been devolved, there is need for county governments to invest towards increased digital infrastructure in communities and at the sectoral level. Further, formalization of economic activities is key to the digital transformation of the agricultural sector. Thus, in addition to enhanced penetration, county governments need to present adequate incentives to agricultural players to formalize their activities. Lastly, there is need for agricultural policies that would help attract venture capitalists at the county level to support digital innovations in agriculture, and manage risks by protecting users' information from unauthorized access and hence uphold confidentiality and integrity of the digital environment.

Cushioning Airlines from the Effects of the COVID-19 Pandemic: Global to Local Lessons

By Charity Mbaka, James Gachanja and Humphrey Njogu



The COVID-19 pandemic has significantly affected all sectors, including the aviation sector which is a critical enabler for economic growth, job creation, and facilitation of international trade and tourism. The pandemic has increased the perception of health-related risks associated with travelling. Countries worldwide put stringent measures such as cancellation of commercial passenger flights to combat the spread of the pandemic. The temporary discontinuation of passenger operations across national and international borders resulted to a significant drop in aviation industry activities, making airlines incur huge losses.

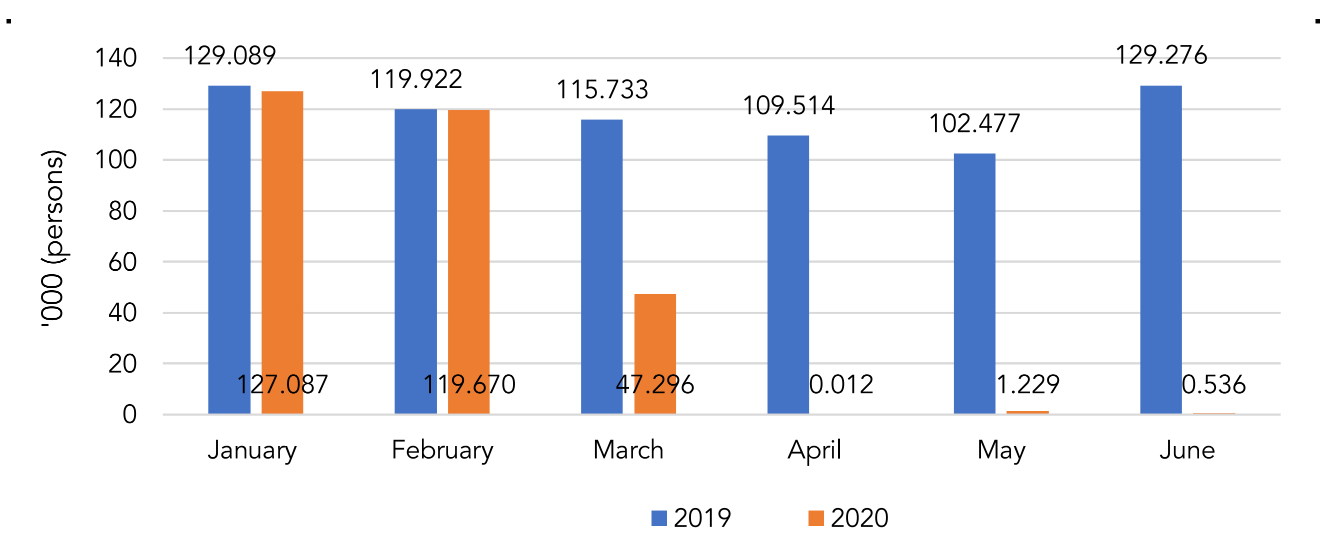
Globally, the revenue loss on scheduled passenger traffic compared to business as usual, originally planned, is estimated at between US$ 388 billion to US$ 400 billion by the end of 2020 (International Civil Aviation Organization, 2020). In Africa, International Air Transport Association (IATA) reports that job losses in aviation and related industries could increase by up to 3.5 million in 2020, which is more than half of the region's 6.2 million aviation-related employment. Full-year 2020 traffic is expected to plummet by 54 per cent (more than 80 million passenger journeys) compared to 2019. Further, GDP supported by aviation in the region could fall by up to US$ 35 billion. The economic impact of the pandemic on African economies, including Kenya, is worse. Based on data from IATA Economics (Table 4), there is a decline in passenger numbers, jobs at risk and GDP.

Table 4: Economic impacts of COVID-19 pandemic emergency in four key aviation markets in Africa (as at August 2020)

Country	June Pax Estimate (Millions)	August Pax Estimate (Millions)	June Jobs at Risk	August Jobs at Risk	April GDP	August GDP (US$ Billions)
South Africa	-15.6	-16.6	269,000	287,700	-5.1	-5.8
Nigeria	-5.3	-5.7	139,500	149,400	-0.9	-1.1
Kenya	-3.8	-4.0	207,800	223,600	-1.6	-1.8
Rwanda	**-0.47**	**-0.5**	**17,300**	**18,500**	**-0.06**	**-0.07**

Source: IATA Economics- https://www.iata.org/en/pressroom/pr/2020-08-13-03/

Figure 8: Visitor arrivals through Jomo Kenyatta International Airport and Moi International Airport



*Source: KNBS (2020); * Visitors arrivals exclude Kenyan Numbers*

The aviation sector in Kenya has been hard hit by the pandemic. According to the latest statistics from Kenya National Bureau of Statistics (KNBS), passenger traffic volumes declined significantly from 127,087 persons in January 2020 to 536 persons in June 2020 (Figure 8).

Besides the challenges occasioned by the COVID-19 pandemic, the national carrier, Kenya Airways (KQ), had reported net losses over the years. Financial reports indicate that the carrier registered the highest loss of Ksh 26.2 billion in 2016 and the lowest loss of Ksh 7.5 billion in 2018. In 2019, the airline registered Ksh 12.9 billion loss. The advent of the pandemic and its effects on the local aviation sector is anticipated to exacerbate the situation and cause further losses in 2020. On this account, Kenya Airways in August this year reported revised projected losses from Ksh 50 billion to Ksh 70 billion for the year 2020.

There were several attempts to mitigate the COVID-19-associated impacts on the national carrier, including introduction of pay cuts for management staff and unpaid leave for employees. In addition, the airline offered a waiver on change fees on all fares excluding travel within the country. The airline put in place safety, security and hygiene measures such as cleaning, production of Personal Protective Equipment (PPE) for passengers, creating a webpage on KQ COVID-19 information and established a crisis management protocol.

> Kenya Airways, the country's main carrier estimates that it is losing at least US$ 8 million every month due to grounding of its fleet.

The airline also retro-fitted passenger planes for cargo transport services, since cargo flight operations were likely to return to the levels seen pre-COVID-19 due to a growing demand for cargo deliveries.

The small airlines and private flights operating from local airports such as Wilson Airport and air strips were also affected by the cessation of movement order and curfew, leading to grounding of operations and loss of revenue.

The local aviation sector slowly opened up from July 2020 following the release of the government's Protocol for Air Travel Operations during the COVID-19 Public Health Crisis issued in June 2020 by the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. The protocol facilitated the resumption of domestic flights and international air passenger operations in July and August, respectively. The protocol provides guidelines to mitigate the spread of the virus during domestic and international flights. The public health mitigation measures put in place include physical distancing in terminals, mandatory use of face masks, departure and arrival temperature checks, COVID-19 testing, routine sanitization, and contact tracing.

Upon resumption of international flights on 1st August 2020, the KQ has recommenced flights to London, Dubai, Addis Ababa, Kigali, and Lusaka. The national carrier is yet to resume operations to the following destinations markets: Guanghzou, Bangkok, New York, Rome, Geneva, Khartoum, Djibouti, Malindi, Mogadishu, Bamako, Brazzaville, Bangui, Bujumbura, Blantyre, Luanda, Lubumbashi, Kinshasha, Seychelles, Entebbe, Juba, Lagos, Luanda, Maputo, Ndola and Mauritius. These constitute key destinations in Africa, Asia and Europe, which are marked as strategic investments and markets for the carrier's operations. This has affected the carrier's revenues adversely. According to KQ's half year results for the period ending July 2020, the carrier's total revenue reduced by 48 per cent to Ksh 30,214 million as a result of the cessation of scheduled operations due to COVID-19 measures.

IATA has warned that the global airline industry will require additional Government support because of COVID-19. Globally, governments have provided US$ 160 billion in support, including direct aid, wage subsidies, corporate tax relief, and specific industry tax relief, including fuel taxes to the industry by the end of September 2020.

Locally, the Kenya Civil Aviation Authority (KCAA) has cushioned airlines facing reduced bookings in the wake of the COVID-19 pandemic by extending the payment period for expired licenses. It is noted that some operators had suspended all their passenger flights due to reduced demand and, therefore, significantly reducing their revenues during the pandemic. To further cushion the domestic carriers, the Government has approached 12 local airlines to complement the efforts of KQ in keeping horticulture export business afloat.

The measures taken to address the effects of the pandemic affect both international and domestic carriers. According to IATA, majority of the regional airlines were struggling to fund their operations before the pandemic, and the effects of COVID-19 have worsened the financial crisis in the industry. For instance, KQ requested for Ksh 9 billion as a bailout package and was allocated Ksh 5 billion in January to support the aircraft maintenance. Further, according to the Kenya Association of Air Operators, the domestic carriers still require Ksh 3 billion for bailout to support the recovery of the industry. This will also reduce unnecessary job losses and salary cuts in the sector.

The Government is supporting key sectors, including tourism, real estate, trade and agriculture sectors, which in turn can accelerate the recovery of the air industry. This includes supporting hotel renovations through soft loans channeled through the Tourism Finance Corporation.

The Government, in collaboration with tourism stakeholders, has also developed protocols for reopening of the tourism sector. To attract more tourists in the country, passengers from countries with mild and limited transmissions or with a declining incidence are exempted from isolation. In addition, the Government is providing temporary support to enable horticultural farmer's access the international markets to cushion the economy from the effects of COVID-19. Further, the Government has implemented a waiver of landing and parking fees to facilitate movement of cargo, both air and sea.

As the world moves towards the recovery phase of the COVID-19 pandemic, it is expected that passengers will be more alert about health and, therefore, will increase their demands on safety precautions. This means that both airports and airlines will need to provide solutions and services that adhere to the most rigorous health and safety conditions to rebuild trust for passengers. The aviation industry in various countries has started adopting a range of solutions designed to prepare airlines and airports for the recovery phase. These solutions support every process and step of the passengers' journey through the airport and enable faster movement. Majority of airlines and airports are putting in place major digital transformation projects during the COVID-19 pandemic and beyond. The local industry has an opportunity to leverage on emerging technologies to transform their business models and achieve operational cost efficiencies during the pandemic and beyond.

While appreciating the policy measures introduced to cushion the domestic airlines, there are several gaps that require to be addressed. To develop resilience and recover from the effects of the pandemic, the local air industry should develop a comprehensive recovery strategy to ensure a coordinated restart of air travel. The industry should prioritize adopting new smart technology solutions as effective tools to reduce the spread of diseases, recover passenger traffic and bring back customer confidence. The industry should seek continued financial and regulatory support, particularly direct financial aid, and relief from taxes and charges. Finally, there is need for local airlines to evaluate and implement hedging practices on oil prices to reduce the fuel cost. Oil prices have fallen significantly (-US$ 13/barrel) since the beginning of the year and this could cut costs on the 2020 fuel expenditure.

PARLIAMENT OF KENYA

A. ACTS OF PARLIAMENT

1. **The County Governments (Amendment) (No. 2) Act, No. 10 of 2020** was enacted on 27th July 2020. It seeks to amend the County Governments Act to provide for the procedure for the disposal of a report of a Commission of Inquiry established under Article 192(2) of the Constitution and to provide for the suspension of a county government under Article 192(4) of the Constitution.

2. **The Office of The County Attorney Act, No. 14 of 2020** was enacted on 27th July 2020. Its objectives are to establish the Office of the County Attorney; provide for the functions and powers of the County Attorney; and provide for the discharge of duties.

3. **The Petition to County Assemblies (Procedure) Act, 2020** was enacted on 27th July 2020. Its objectives are to give effect to Article 37 of the Constitution on the right to petition a county assembly; and to provide the procedure for the exercise of that right.

B. NATIONAL ASSEMBLY BILLS

1. **The Pensions (Amendment) Bill, 2020** was gazetted for introduction into the National Assembly on 26th August 2020. The principal object of the Bill is to amend the Pensions Act (Cap. 189) to provide a timeline within which pension shall be payable to an officer. The Bill seeks to remedy the delays in payment of pension after the pension has become payable.

2. **The Sexual Offences (Amendment) Bill, 2020** was gazetted for introduction into the National Assembly on 14th August 2020. The main objective of this Bill is to amend the Sexual Offences Act, 2006 to provide for the manner of collection, analysis, tracking and access to forensic evidence relating to sexual assault. The amendments provide for contents and the preparation of sexual examination kits to allow for the collection of evidence of sexual assault from victims for possible submission for forensic analysis.

3. **The National Assembly Bill Public Finance Management (Amendment) (No. 2) Bill, 2020** was gazetted for introduction into the National Assembly on 9th July 2020. The objectives of the Bill are to amend the Public Finance Management Act, 2012 to provide for guarantees by the Cabinet Secretary for loans advanced to micro, small and medium enterprises.

4. **The Central Bank of Kenya (Amendment) Bill, 2020** was gazetted for introduction on 19th June 2020. The main objective of this Bill is to amend the Central Bank of Kenya Act to ensure that the Central Bank of Kenya regulates the conduct of providers of digital financial products and services and financial products and services.

5. **The National Assembly Bill Public Procurement and Asset Disposal (Amendment) Bill, 2020** was gazetted for introduction into the National Assembly on 19th June 2020. The Bill aims to amend the Public Procurement and Asset Disposal Act, 2015 to bring the local contractors at par with their foreign counterparts.

C. SENATE BILLS

1. **The Mung Beans Bill, 2020** was gazetted for introduction into the Senate on 24th July 2020. The objective of the Bill is to provide for the development, regulation and promotion of the mung bean sector in Kenya. It provides for the support of farmers of mung beans in each county in the production and marketing of their produce. The Bill also provides for the regulation of the production and sale of mung bean products by county governments and the Agriculture and Food Authority. It also encourages the use of mung beans as a food security item by the National and County Governments in their various feeding policies and programmes.

Endless crisis at Tuskys retail chain

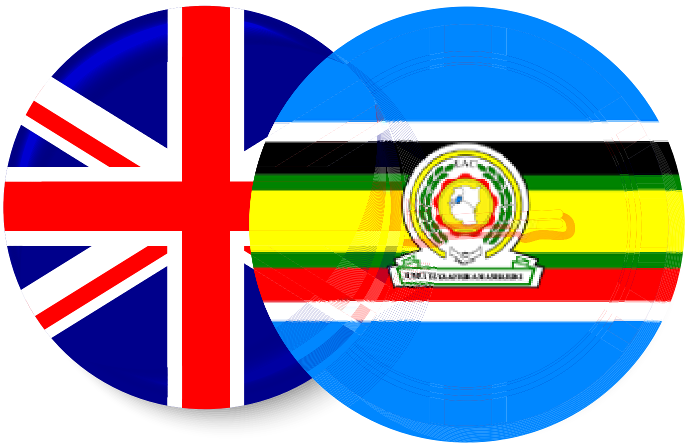
Tuskys supermarket is increasingly sinking deeper in the red as various strategies employed for its revival are hitting a snag. The trouble at the retailer emerged in February 2020 when it announced a restructuring programme to address poor performance, declining sales and diminishing customer numbers. The closure of three branches in Nairobi, Kitale and Mombasa in April this year was an indication that all was not well at the giant retail chain. An attempt of a bailout and a strategic investor to turn around its fortunes seems to have flopped. Moreover, negotiation with some of its suppliers with an aim to convert parts of the debts into equity has borne little fruit. Recent mass exit of senior managers and security officers, closures of more branches, suspension of stock deliveries by suppliers, workers' unrest and frequent power disconnection could be a sign that the troubled supermarket is teetering on collapse. Finding a lasting solution to challenges facing the retail market in Kenya would develop the supply chain improve the contribution of the sector to economic growth.

East African Community is weak in local production

The East African Community (EAC) Partner States rank poorly in production and export of locally-made goods, according to the Competitive Industrial Performance Index Report 2020. The report benchmarks the ability of countries to produce and export manufactured goods competitively. In other words, it provides a yardstick against which a country can compare its manufacturing competitiveness on a global level. Although Kenya tops the region, it ranks number 115 globally. The region's competitive performance needs to be improved to spur productivity, growth and development. South Africa and Egypt at positions 52 and 64, respectively, have ranked as Africa's top manufacturing hubs. Other EAC Partner States namely Tanzania, Uganda, Rwanda and Burundi are ranked 123, 128, 142 and 145, respectively. The production of PPEs, face masks, hand sanitizers and soap by local manufacturing firms and MSMEs during the COVID-19 pandemic is an indication that EAC countries have the potential to improve the manufacturing sector to be competitive in Africa and beyond.

UK-EAC Brexit trade pact

Kenya is likely to negotiate a new trade agreement alone with the United Kingdom (UK) after a regional meeting called to negotiate a collective agreement between the East African Community (EAC) and the UK failed to make substantive progress. The EAC has until 31st December to negotiate a trade deal that guarantees all Partner States tariff and quota-free access to the UK market. Nevertheless, the reluctance by other EAC states could be due to a window that allows them to continue accessing the UK market



beyond the 31st December deadline as they are categorized as Less Developed Countries. As a Lower Middle-Income Country, Kenya's goods to the UK market could be subjected to several tariffs and export quotas. In July, Tanzania rose to the rank of a Lower Middle-Income Country but under the World Trade Organization (WTO) rules, it will not be regarded as Lower Middle-Income economy in terms of global trade until it meets certain conditions that will be reviewed by the United Nations Development Committee in two years' time. Kenya has agreed with the UK, in principle, to carry on negotiations which other EAC Partner States can join when they are ready.

NEPAD rolls out training to MSMEs in Africa

The African Union Development Agency (AUDA) has launched a virtual business academy that is set to train micro, small and medium enterprises (MSMEs) in skills for financial and market access to build economic resilience in post-COVID-19 Africa. Established in 2018, AUDA is an arm of the New Partnership on Africa Development (NEPAD) tasked with addressing the development of human capital, technology and digitization. The virtual academy is to offer practical training and resources to 1.5 million business in Africa by the end of 2021 and 10 million by the end of 2024. The virtual academy will also help traders to build a digital presence for their business and help them adopt to new post-COVID-19 economic realities. The virtual business academy is a partnership between AUDA and regional development banks and financial institutions. The academy was launched in Kenya on 1st September 2020 and in Nigeria on 3rd September, 2020. The MSMEs that will be targeted include businesses in retail and food sectors, manufacturing and agri-businesses.

NEPAD
TRANSFORMING AFRICA

A joint EU and Africa COVID-19 strategy is timely

President Kenyatta called for the establishment of a joint European Union and Africa COVID-19 response strategy during a virtual conference of European and African leaders on the proposed establishment of the Africa-Mediterranean-Europe (AME) Foundation on 16th July 2020. The President said that the EU-Africa COVID-19 strategy should among other interventions pursue the cancelation of debts owed by African countries. The setting up of AME Foundation as a platform to enhance development discourse and interactions between Africa, the Mediterranean and Europe is being championed by the Former President of the European Commission Jean-Claude Juncker. President Kenyatta supported the proposal to establish the foundation, saying the initiative would help inject new ideas needed to scale up collaboration between the three regions.

The United Nations celebrates 75th Anniversary

The United Nations (UN) marks its 75th anniversary of existence. Founded in 1945, the UN is an international organization currently made up of 193 member states. The mission and work of the UN are guided by the purposes and principles contained in the UN Charter. The main organs of the UN include the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council, the International Court of Justice and the Secretariat.

UN75 2020 AND BEYOND

The UN was born out of the horrors of World War II with the main objective of saving humanity from atrocities of global war. Since its establishment, the UN has significantly addressed numerous global challenges including colonization, promotion of freedom, development of international law, multilateralism, global solidarity and international development. Through its organs, funds, programmes and specialized agencies, the UN addresses a range of global issues, including socio-economic development, trade, peace and conflict, climate and disaster, among others.

As a member of the UN, Kenya attaches great importance to a ruled-based multilateral diplomacy. Kenya has played a critical role in UN-sanctioned peacekeeping missions in several countries. Kenya has also supported various UN programmes and initiatives, including environment, human settlement, sustainable energy, education and training, humanitarian relief, science and technology, global trade, disarmament and non-proliferation of nuclear weapons. This year's theme for the UN General Assembly (75th Session); "The Future We Want, the UN We Need: Reaffirming our Collective Commitment to Multilateralism-Confronting COVID-19 through Effective Multilateral Action," resonates with Kenya's collaborative and multilateral approaches to contain the spread the COVID-19 pandemic and socio-economic recovery in post-COVID-19 world.

KENYA ECONOMIC REPORT 2020

Now Available

A. Demand Driven Projects

County COVID-19 Socio-Economic Recovery and Re-engineering Strategies

The Council of Governors (CoG) commissioned KIPPRA to develop County COVID-19 Socio-Economic Re-engineering and Recovery Strategies. This was in response to unfolding effects of the COVID-19 pandemic with the first confirmed case in Kenya reported on 13th March 2020. The scope of the work is to develop a comprehensive report with concrete proposals on county social economic recovery that will guide county governments in adapting, re-engineering and recovering from the impacts of COVID-19. This is necessitated by the need for a well-coordinated, demand-driven and county-specific needs-based response per sector.

Assessment of Structures and Profitability of Milk Distribution and Retailing in Kenya

The Kenya Dairy Board has commissioned KIPPRA to undertake an Assessment of Structures and Profitability of Milk Distribution and Retailing in Kenya. The study seeks to identify structures (pathways) and profitability margins for the various stakeholders involved in distribution and retailing of milk in Kenya. The main objective is to assess the structures and profitability in distribution and retailing of processed milk in Kenya. Additionally, the study will cover the distribution and retailing network between the factory and presentation of products to the consumer at retail level. This will cover UHT and pasteurized milk in major urban centres of Nairobi, Mombasa, Nakuru, Kisumu and Eldoret.

Impact of Power Outages on Industries in Kenya

KIPPRA is undertaking a study on "Impact of power outages on industries in Kenya" as a request from the Kenya Association of Manufacturers. The study focuses on power outages in industries and its impact on production cost and tracking production costs trends versus cost of goods at ex-factory price for the last five years. Access to reliable and modern energy sources is fundamental for growth of the industrial sector and is a key input for all goods produced or services. Currently, the project team is collecting data from various firms in the country. The results of the study will inform improvements towards reliable power by the manufacturing firms.

Designing and Development of an Integrated Demand Forecasting Tool for Petroleum Products

KIPPRA is developing an integrated demand-forecasting tool for petroleum products for Energy and Petroleum Regulatory Authority (EPRA). The tool will be expected to forecast the consumption of regulated petroleum products in Kenya in the short and long term, including that of Liquefied Petroleum

KIPPRA
The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Gas (LPG). KIPPRA aims to develop a universally accepted demand forecasting tool for petroleum products customized to the Kenyan petroleum sub-sector. The oil price forecasts will play an important role in assessing the future developments of pipelines, storage facilities, common user petroleum and gas facilities, among others, and also other economic activities in Kenya and its trading partners, with implications for country's terms of trade.

B. Collaborative Projects

Study on the Poverty Consequences of the COVID-19 Epidemic

KIPPRA, in partnership with the African Economic Research Consortium (AERC), is undertaking a study on the poverty consequences of the COVID-19 epidemic – induced lockdowns and the fiscal costs of offsetting these consequences. Preliminary findings of the study were presented in a special session of the AERC biennial gathering in June. Unlike most studies that use macroeconomic projections, the research is using detailed country-level household survey data to estimate the loss of income that these lockdowns cause across the income distribution; the increase in poverty brought about by the income losses; and an estimate of the Government expenditure that would be necessary to offset that increase in poverty.

Assessing the Scope of Industries without Smokestacks to Create Jobs in Kenya

KIPPRA, in partnership with the Brookings Institution (in the US), is undertaking a study titled: *'Assessing the scope of industries without smokestacks to create jobs: Kenya case study report'*. These emerging sectors include services such as tourism and information and communication technology, and horticulture and agro-processing. These sectors/sub-sectors are collectively referred to as industries without smokestacks (IWOSS) to differentiate them from manufacturing. This Kenya case study examines, in a comparative manner, the role of these IWOSS sectors in creating jobs for the youth.

Other KIPPRA Demand-driven Activities

Kenya National Leather Policy

KIPPRA is working with the Kenya Leather Development Council (KLDC) and the Ministry of Agriculture, Livestock, Fisheries and Cooperatives to develop the first Kenya National Leather Policy. The formulation of the policy is evidence-based, including review of past and existing interventions to appreciate historical developments of the sector with the aim of identifying constraints and opportunities. Insights to inform

the policy are also drawn from analysis of the sector's data and review of experiences from other countries that have successfully transformed the leather sector into a major source of employment, exports, and income generation. The analysis of policy actors and their roles will also guide in identifying constraints and opportunities, and clear responsibilities for implementation of the policy interventions once approved.

The analysis of challenges and policy interventions are undertaken along the sector's value chains, which are clustered into three inter-linked areas: Input level (livestock production and generation of quality hides and skins); value addition level (tanning of raw hides and skins and manufacture of leather and leather products) and market level (standards and branding, access to the local and export markets). Once approved, the policy will transform the leather value chain in the country from a raw material/semi-processed export-driven sector to a finished leather manufacturing industry in line with the "Big Four" agenda of the Government. It seeks to promote an integrated development of the leather sector in Kenya for inclusive and sustainable development of the economy through employment creation and income generation. The draft policy is currently at the stage of receiving stakeholder views in line with the public participation requirements of the Constitution. The draft policy can be accessed online from the websites of KLDC (www.leathercouncil.go.ke) and the Ministry of Agriculture, Livestock, Fisheries and Cooperatives (www.kilimo.go.ke).

Strategic Plan for Kenya Space Agency (2020-2025)

KIPPRA finalized the facilitation of the strategic plan (2020-2025) formulation for Kenya Space Agency in July 2020. The plan will guide Kenya Space Agency to coordinate, regulate and promote the development of the space sector, and to provide leadership and advisory in policy, legislation and programmes related to the space sector. The space sector is expected to play a catalytic role in the realization of the Kenya Vision 2030 and its medium-term plans, the "Big Four" agenda initiatives, and the aspirations of the Sustainable Development Goals and regional visions, including Africa and East Africa Community. The launch of the strategic plan is expected to take place before the end of the year.

KIPPRA EVENTS

The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

KIPPRA Annual Regional Conference Focusses on Inclusivity of PWDs

KIPPRA organized the 3rd Annual Regional Conference themed "Enhancing inclusivity through empowering persons with disabilities". The conference offered a platform for stakeholders to engage in policy dialogue on pertinent public policy issues, with this year's issue being inclusion of persons with disabilities (PWDs) in the development agenda. The conference took place between 28th and 30th July 2020 through a virtual platform and various stakeholders attended including: National and County Governments (ministries, departments and agencies); international and regional institutions; private sector; civil society and organizations mandated with disability issues; persons with disability; and other special interest groups, capacity building developers, policy makers, academia among other sector players.

Launch of KIPPRA Annual Flagship Report – Kenya Economic Report 2020

The Kenya Economic Report 2020 was virtually launched on 19th August 2020. The annual report is KIPPRA's flagship publication that assesses Kenya's economic performance and provides medium-term prospects for the next three-years. The theme of the report – *Creating an Enabling Environment for Inclusive Growth* *in Kenya* – was motivated by the Government's quest for a wide shared economic growth, as envisioned in the Constitution of Kenya, Kenya Vision 2030, Third Medium-Term Plan and the "Big Four" Agenda.

The virtual launch ceremony was attended by more than 100 participants from Government ministries, representatives from County Governments, development partners, KIPPRA Board of Directors and other participants. The ceremony was graced by the Principal Secretary, State Department for Planning, Mr Saitoti Torome who represented the Cabinet Secretary, National Treasury and Planning, Hon. Amb. Ukur Yatani. KIPPRA Board Chairperson, Dr Linda Musumba, gave an overview of the report and thanked all those who played a part in developing it. On her part, the KIPPRA Executive Director, Dr Rose Ngugi, presented the key highlights of the report. Hon. Amb. Ukur Yatani, through a speech delivered by Mr Torome, thanked KIPPRA for the comprehensive report, noting that the recommendations would help the country in its recovery process post the COVID-19 pandemic. The PS thanked all the stakeholders for their contribution to the report and thereafter officially launched the report.

Launch of 47 County Budget Briefs

KIPPRA launched 47 County Budget Briefs on 10th August 2020. The briefs examine how counties are currently planning and spending their budgets on children, youth and women sensitive programmes. The County Budget Briefs were produced by the Institute in collaboration with UNICEF, UN Women, UNDP and the National Treasury. The recommendations will guide County Governments in allocating resources to youth, women and children initiatives based on the evidence depicted in the briefs.

Among the keynote speakers during the successful virtual launch were: The Cabinet Secretary for Devolution and ASAL Mr Eugene Wamalwa; Cabinet Secretary for Public Services and Gender Prof. Margret Kobia; Kakamega County Governor and Chair to Council of Governors Hon. Wycliffe Oparanya; UN Resident Coordinator Dr Siddharth Chatterjee; UNICEF Kenya representative Ms Maniza Zaman; UN-Women representative Ms Anna Mutavati; and KNBS Director General Mr Zacharia Mwangi.

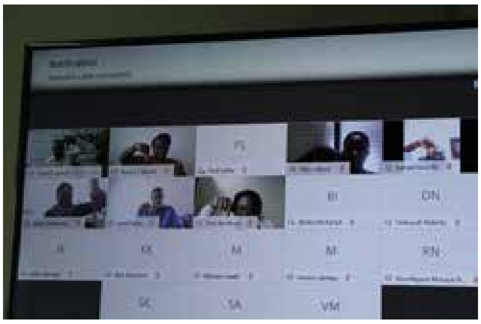
Moderating the first and second sessions of the launch were Principal Secretary, National Treasury and Planning Mr Saitoti Torome and Principal Secretary, State Department for Gender Prof. Collette Suda, respectively. KIPPRA Executive Director Dr Rose Ngugi presented a summary of the 47 County Budget Briefs, and the way forward. The reports were officially launched by the Cabinet Secretary, National Treasury and Planning Hon. Amb. Ukur Yatani.

The Global Think Tanks Virtual Meeting on COVID-19

KIPPRA participated in the virtual meetings organized by Think Tanks and Civil Societies Programme (TTCSP) represented by Dr Eliud Moyi. The Think Tanks and Civil Societies Programme (TTCSP) of the Lauder Institute of University of Pennsylvania organized a series of virtual meetings involving Think Tanks around the world to discuss the best way to address the issues brought up by the COVID-19 pandemic, between 30th June and 8th July 2020. The aim of the meeting was to obtain highlights of the work done by five (5) rapid response working groups, and their recommendations for dealing with the COVID-19 pandemic. The five working groups were as follows: (1) The COVID-19 public health crisis; (2) National and international economic recovery strategies; (3) Innovative and inclusive intervention public and private strategies to help vulnerable groups; (4) Creating rapid, responsive, and resilient systems to respond to future crisis; and (5) New operating models for think tanks research, communications and funding.

Staff Mark International Day of Sign Languages

KIPPRA staff marked the International Day of Sign Languages physically and virtually on Wednesday 23rd September 2020. The event was graced by the Executive Director Dr Rose Ngugi and a host of KIPPRA staff. Staff who had acquired basic knowledge during a three months training session facilitated by the Institute showcased their skills by singing the National Anthem in Kenya Sign Language. The International Day of Sign Languages is an opportunity to support and protect the linguistic identity and cultural diversity of all deaf people and other sign language users.



KIPPRA Executive Director Dr Rose Ngugi in her remarks noted that in fulfilling its mandate, the Institute continues to embrace the national values and principles of governance, including inclusivity and equality. She explained that in the 3rd KIPPRA Annual Conference, several resolutions were made and the communique shared with the relevant ministry for implementation to promote inclusion of PWDs in development. The event culminated in a short sign language learning session where other staff learnt the alphabet and a few common expressions.

New Directors Join KIPPRA Board

Two new directors have been appointed to the KIPPRA Board: Ms Phoebe Ann Nkaabu and Dr Chris Galgallo Ali.

Ms Nkaabu is a communications specialist with eleven (11) years' experience in the communication sector. Her expertise includes public relations, public speaking, creative writing, media relations, print media content development, personal and organizational branding, community mobilization and advocacy. She has previously served as the Meru County First Lady (2013-2017) and as a senior corporate affairs and communications expert at Kenya Nuclear Electricity Board (2011-2015). She holds a Bachelor of Arts in Communications (Public Relations) and a Diploma of Communications Arts (Print Media) both from Daystar University.

Dr Ali is an educationist with extensive experience in educational management, research and curriculum design, especially for the pastoralist communities. He has significant experience in documentation (publications) and leadership, ensuring flexible responses which adapt to the needs of people in complex dynamic lifestyles or environments.

He is a PhD holder in sociology of education from Jawaharlal Nehru University, India. He has previously served as a member of the Agricultural Industry and Wages Council and the Chairman of Educational Standards and Quality Assurance Council, National Council for Nomadic Education in Kenya and Community Wildlife Conservancy and Compensation Committee, Marsabit County. He has also served as a lecturer, administrator and counsellor at various teachers' training colleges and high schools. Dr Ali has also made various presentations at conferences and in research publications.

Dr Chris Galgallo Ali

Ms Phoebe Ann Nkaabu

KIPPRA Recruits Ten Staff

Applicants were sought to fill 24 vacant positions in line with the Institute's staff establishment. So far, ten candidates have been successfully recruited: A Deputy Finance Director, a Principal Finance Officer, two Senior Policy Analysts, a Senior Legal Officer, two Policy Analysts, an Accountant, a Corporate Communications Officer and a Customer Care Assistant. The recruitment process to fill remaining positions is ongoing.

ABOUT KIPPRA

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public and private sectors. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

KIPPRA acknowledges generous support from the Government of Kenya and the Think Tank Initiative (TTI) of IDRC. The TTI is a collaborative initiative of Hewlett Foundation, International Development Research Centre (IDRC) and other partners. Other organizations are welcome to contribute to KIPPRA research either as core support, or support to specific projects, by contacting the Executive Director, KIPPRA.

Send to us your comments on the articles published in this newsletter and any other aspects that may help to make the *KIPPRA Policy Monitor* useful to you. This may include policy issues you would like KIPPRA to prioritize.

KIPPRA
The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Bishops Garden Towers, Bishops Road
PO Box 56445, Nairobi, Kenya
Tel: +254 20 2719933/4; Fax: +254 20 2719951
Email: monitor@kippra.or.ke
Website: http://www.kippra.org
Twitter: @kipprakenya

ThinkTank Initiative | Initiative Thinktank

KENYA VISION 2030

Get your Copy from KIPPRA Now!

Maisha!
National AIDS Control Council