PRESS STATEMENT ISSUED BY THE FKE MANAGEMENT BOARD ON NOVEMBER 24TH, 2023.

Members of the Press,

Thank you for joining us this afternoon as we share some of the outcomes of the FKE Management Board meeting that took place this morning.

A. THE STATE OF BUSINESS

Cost of Doing Business

The cost of doing business has become unsustainable since the enactment and implementation of the Finance Act 2023. The employers' view is that the changes have had an overall negative impact on cash flows and the financial positions of enterprises in various ways:

- Direct impact on the payroll
- Impact on demand for General Wages review
- Risk of business closure and increased laying off employees.

The weakening of the shilling has aggravated the situation further and has adversely affected businesses that rely on imports, including imports of machinery and equipment necessary for our manufacturing industries.

The Kenya shilling **lost 21%** of its value between 13th September 2022 and 22nd November 2023. The exchange rate of

Kenya shilling against the USD has hit a high of **152.45** compared to **121.05** at the same time in 2022. This has been largely attributed to capital flight and reduced inflow of foreign currency due to the low value of exports.

The Impact on Jobs

The employment state is still very fragile. We are not yet back on track since COVID-19. Every day we receive notifications from employers on their intent to declare redundancy. We are also conducting a survey on employers to determine the impact of the increased costs on jobs. Preliminary results show that it is significant. It shows that between October 2022 and November 2023, we have lost 3% (70,000) of the jobs in the formal private sector and 40% of employers have reported that they are planning to reduce the number of employees to meet the increasing costs of operating in Kenya. We will be launching the full survey report on Jobs Trends in the month of December 2023.

Cost of Capital

The cost of capital in the country remains high making it hard for the private sector to operate.

The cost of capital is affected by various factors such as interest rates, inflation, market conditions, and government policies.

On 26th June 2023, the Central Bank of Kenya raised its benchmark rate by 100 basis points to 10.5% 2023, bringing borrowing costs to their highest since August 2016. This has made the cost of credit to businesses to go beyond reach thus affecting business growth.

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) **was 6.9 per cent, in October 2023.**

Credit risk remains elevated with Gross Non-Performing Loans (NPLs) to Gross Loans Ratio standing at 15 percent at the end of the third quarter of 2023, an increase from 13.3 percent recorded at the beginning of 2023.

Drivers of High Costs

The increase in business costs has largely been driven by tax measures, global geopolitical developments, and climate change. The country may not be able to have much control on global geopolitical developments and climate change, but we can work on our tax measures to reduce the cost of doing business in the country.

The government needs to put in place measures that improve the purchasing power of citizens and the cashflow in enterprises. This should specifically target reviewing at taxes that have high adverse impact on individuals and businesses. The key taxes that need to be reviewed are the VAT on Petrol, PAYE and Corporate tax. We propose that the VAT on petrol revert to 8% as it was before the enactment of the Finance Act 2023. The increase in VAT on petrol has a regressive effect on the economy.

We also appeal to policymakers to consider reducing the PAYE to a maximum of 25%. This is because food inflation remains the highest contributor to the cost of living. With households spending about 60% of their income on food, it is prudent that households are supported to increase their disposable income. If not, important basic needs like healthcare, education and savings for old age will grossly suffer. You cannot improve on the savings culture of your citizens and increase capital for investment if the people do not have adequate disposable income that enables them to cover their basic needs.

We are also requesting a review of corporation tax. Our desire is for the corporation tax to be reverted to 25%. This will help in attracting investment and allowing the corporates to have money to plough back into their business to create more employment. The additional investment will result into more tax revenue. In addition, we seek the removal of the minimum turnover tax. This tax is going to exacerbate informality and destroy microbusinesses that employ 84% of wage employees in Kenya.

On taxes, we lastly urge that the Affordable Housing Levy be capped at Ksh. 5000 per month as it was originally proposed. Businesses are closing down, and we are seeing employees increasingly becoming working poor.

We are currently in a situation where businesses are not able to meet their operational costs and at the same time employees are not able to make ends meet.

With the high energy costs, Kenya continues to lose its attractiveness as an investment destination leading to lower direct foreign investment inflows. Further, electricity cost being an input cost, Kenya's goods and services prices remain comparatively higher in the region pushing up the cost of living.

We can also see from the various reports that even the tax revenues are not being collected to the targeted level. A clear indicator of the situation of the economy.

Investor Flight

The country is experiencing a high outflow of investors from Kenya due to continued negative investor sentiment on emerging and frontier markets, high cost of doing business as well as depreciating Kenyan shilling against major world currencies.

Kenya's stock market recently suffered steep losses, making it the worst performing globally. The weak performance has persisted.

Market capitalization has declined by 5.1 percent, while equity turnover and total shares traded declined by 67.9 percent and 29.6 percent respectively.

B. REGULATORY ENVIRONMENT

Unpredictability in Regulatory Environment

1. It is becoming more expensive to operate in Kenya due to the frequent and unplanned introduction of taxes, fees, levies, and charges. The
2. Frequent changes in government policies and regulations create uncertainty for businesses.
3. The unpredictable fiscal and regulatory policies significantly threaten the Made in Kenya goal and give an upper hand to cheaper imports from other countries.
4. If private sector growth fails to happen, then economic development shall remain stunted because of the numerous taxes they have to pay. Kenya needs to focus on long-term prosperity, as opposed to short term ambitious revenue collection targets. As a country, it is critical that we stop gauging our revenue Authority's

performance and efficiency, based on their record-breaking rates of tax collection.

5. We call upon the government to stabilize the business environment through better coordination in the formulation, introduction, and implementation of new policies.

C. THE LABOUR SECTOR

Risk of Social Unrest

Kenya has enjoyed a relatively calm Labour environment, however if the high cost of living is not addressed, we see heightened agitation for wage increases. This will cripple the enterprises.

Dwindling Employee Productivity

Productivity and performance are key factors directly linked to the country's national goals.

A stressed worker cannot be productive. The current cost of living coupled with recent additional taxes on the employees has resulted in shrinking pay slips. This kind of environment compels workers to seek alternative sources of income and therefore leads to law productivity.

Kenya's productivity is not only low, (but) it is also decreasing while in Tanzania and Uganda, Labour productivity grew by 8.4 per cent and 13 per cent respectively, and that of Kenya stands at 6.77 %. We cannot effectively compete with this level and type of productivity.

Tripartism and social dialogue is under threat in Kenya.

a) We are losing the spirit of tripartism. Tripartism has been and is at the heart of the proper functioning of the Labour sector and is even protected by the International Labour Convention Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144). Kenya ratified this convention, and it came into force on 6th June 1990. These are gains that were even fought for by very prominent labour sector leaders like Tom Mboya. It is alarming that the current trend in the country is undermining this and even disregarding the international commitments we have made as a country. The law is clear, Constitution of Kenya Article 2(6) states "***any treaty or convention ratified by Kenya shall form part of the law of Kenya under this Constitution.***"

b) Employers play a significant role towards maintaining peaceful Labour relations and governance of tripartite boards. This should not be disrupted. There is need to respect the rights of Social Partners and strengthen tripartite institutions to play their role effectively. We are facing some challenges regarding our right to representation on tripartite boards arising.

c) The system of Labour administration should encourage consultation, co-operation, and social dialogue with the most representative organisations of employers and workers.

d) The changes in Law should not target weakening tripartism for example by removing employers from Tripartite boards, committees, and forums.

We thank you for your attention.

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