

28<sup>th</sup> May 2020

**PRESS STATEMENT DELIVERED BY THE FKE NATIONAL PRESIDENT AND THE  
EXECUTIVE DIRECTOR**

**EMPLOYERS DECRY THE SAD STATE OF INDUSTRIES**

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As the Voice of Employers, the Management Board of the Federation of Kenya Employers has had closed door discussions and wishes to highlight the following matters that are increasingly coming up in the public arena and have serious ramifications on enterprises.

**1. Business Regulatory Environment**

The pandemic thrust us into a period of uncertainty with many challenges that have adversely impacted enterprises.

In as much as these challenges continue to affect all sectors, we must appreciate the resilient nature of our industries and our people even in these tough times. The Labour sector has experienced a relatively calm period with few incidences of industrial strikes reported.

However, enterprises are suffering on so many levels be it financial, reduced demand and supplies, high cost of doing business, and regulatory uncertainties among others. On the financial front, Kenya's economy continues to shrink as the adverse effects of the containment measures to curb COVID-19 continue to be felt across all sectors. The Stanbic Bank Markit Report 2021 indicates a decline in new businesses and activity by 1.1%. However, the economic growth outlook is positive. The economy is projected to grow by 5.0% in 2021 and 5.9% in 2022. This is based on the assumption that economic activity will normalize due to a full reopening of the economy.

Nevertheless, the cost of doing business has gone up due to the rise in the cost of basic commodities which has pushed inflation from 5.78% in Feb to 5.9% in March 2021. The cost of production has gone up due to the rising cost of fuel and raw material.

The regulatory environment is becoming punitive and uncondusive for business operations. Businesses are grappling with tax obligations against shrinking incomes even as new regulatory changes are under discussion. In the same space job losses and unemployment still rocks the youthful population mostly employed in the informal sector that was been hardest hit. This portends doom for our young graduates and job seekers.

We note with concern the inhibitive tax regimes further compound the difficult economic conditions we are faced with. For instance, the Tax Law Amendments which introduce changes to the income tax and value added tax- Corporate tax from 25% to 30% and VAT from 14% to 16%. The Minimum Tax at 1% that has far reaching consequences on enterprise and whose implementation was halted by the High Court. Digital Tax Services will inhibit innovation by young Kenyans to create content online thus hamper our overall objective of job creation.

We must however recognize regulations that will support enterprise growth like the Finance Act which introduces Voluntary Tax disclosure and waiver of penalties for upto 3 years. The Unified Payroll will also ease doing business in Kenya. As a country we have focused more on revenue collection while disenfranchising employers, enterprises and livelihoods consequently increasing the cost of doing business. The recent, NHIF (Amendment) Bill that was introduced in Parliament has proposed changes that will make it more difficult to do business in Kenya. Still in the same sector Employers are also being asked to Finance the Unemployment Insurance Fund as well as the Social Security Work Injury Fund. All these are additional costs to doing business in Kenya.

We urge the government, policy makers and legislators to ensure wider and constructive public participation taking into account the views of the Business Community when it comes to passing laws that affects enterprise operations. Meaningful consultation with employers and other stakeholders is needed to find viable solutions to the challenges we face as a country. This requires a delicate but necessary balance, if we are to save enterprises and livelihoods.

## **2. COVID -19 Impact on Micro-enterprises**

- I. In August 2020, FKE conducted a survey on micro-enterprises in Kilifi, Busia, and Kitui to understand the impact of COVID -19 on employment in micro-enterprises which are largely informal. The results show that COVID-19 wiped out 34% of jobs in the micro enterprises. The 223 micro enterprises that participated indicated that they had a total of 561 employees at the beginning of March 2020. This reduced to 370 by August 2020. If this is extrapolated to the 15 million wage employment in the informal sector, it means that COVID-19 did not only stop the creation of jobs in the micro-enterprises, it also wiped off 5.1 million jobs in the informal sector.

We also looked at apprenticeships and the situation is worse. The total number of students on apprenticeships in the 223 enterprises reduced from 1048 to 541, a 48% reduction. This has a great implication on the future of youth in the country.

We appeal to the government to prioritize business recovery in its fiscal policy. The situation of households and enterprises at all levels is getting worse and active direct government intervention through accommodative tax policy will go a long way in getting the households and enterprises back on their feet.

### **II. COVID-19 and Social Protection**

The COVID-19 crisis has exposed gaps in the Social Protection coverage, adequacy, and comprehensiveness across most developing countries, regardless of their income level.

In view of this, the International Labour Organization (ILO) has promised to support Kenya in developing a Comprehensive Social Security System for Kenya. Further, the International Labour Conference (ILC 2021) in which Kenya is taking part will hold discussions on the impact of COVID – 19, ILO’s Response to it and also on the Strategic objective of Social Protection.

FKE is taking part in this conference on behalf of Employers and we look forward to the outcomes on international policies and standards that will be geared towards conducive business environment and decent work, strengthening intervention measures, and assist Kenya in designing the Social Protection System as a precondition for a sustainable inclusive growth of the economy.

### **3. Political Situation**

We are a year and a few months away from the General Elections and we expect that soon Kenya will be fully engaged in a campaign mode. We wish to remind our leaders to embrace dialogue in sorting out differences and, conduct peaceful campaigns.

As I conclude, we again call upon Kenyans to exercise caution and heed to the Government's calls to observe Covid-19 Protocols. We must not lower our guard. The Federation reiterates individual responsibility in keeping safe. Sanitize, wear a mask and maintain social distance.

Thank you and God bless you!



**DR. HABIL OLAKA,  
NATIONAL PRESIDENT**



**MRS. JACQUELINE MUGO  
EXECUTIVE DIRECTOR & CEO**

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