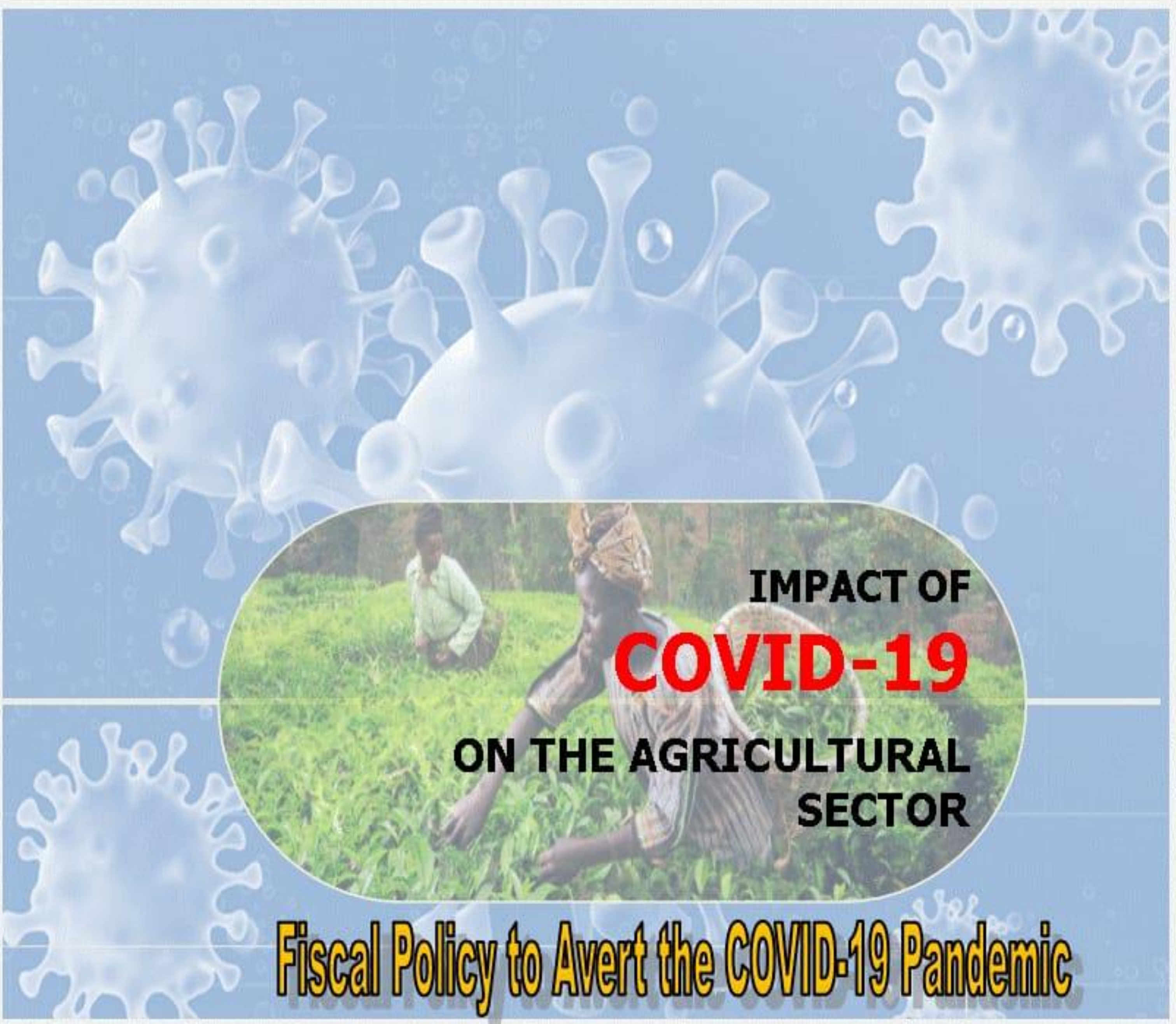
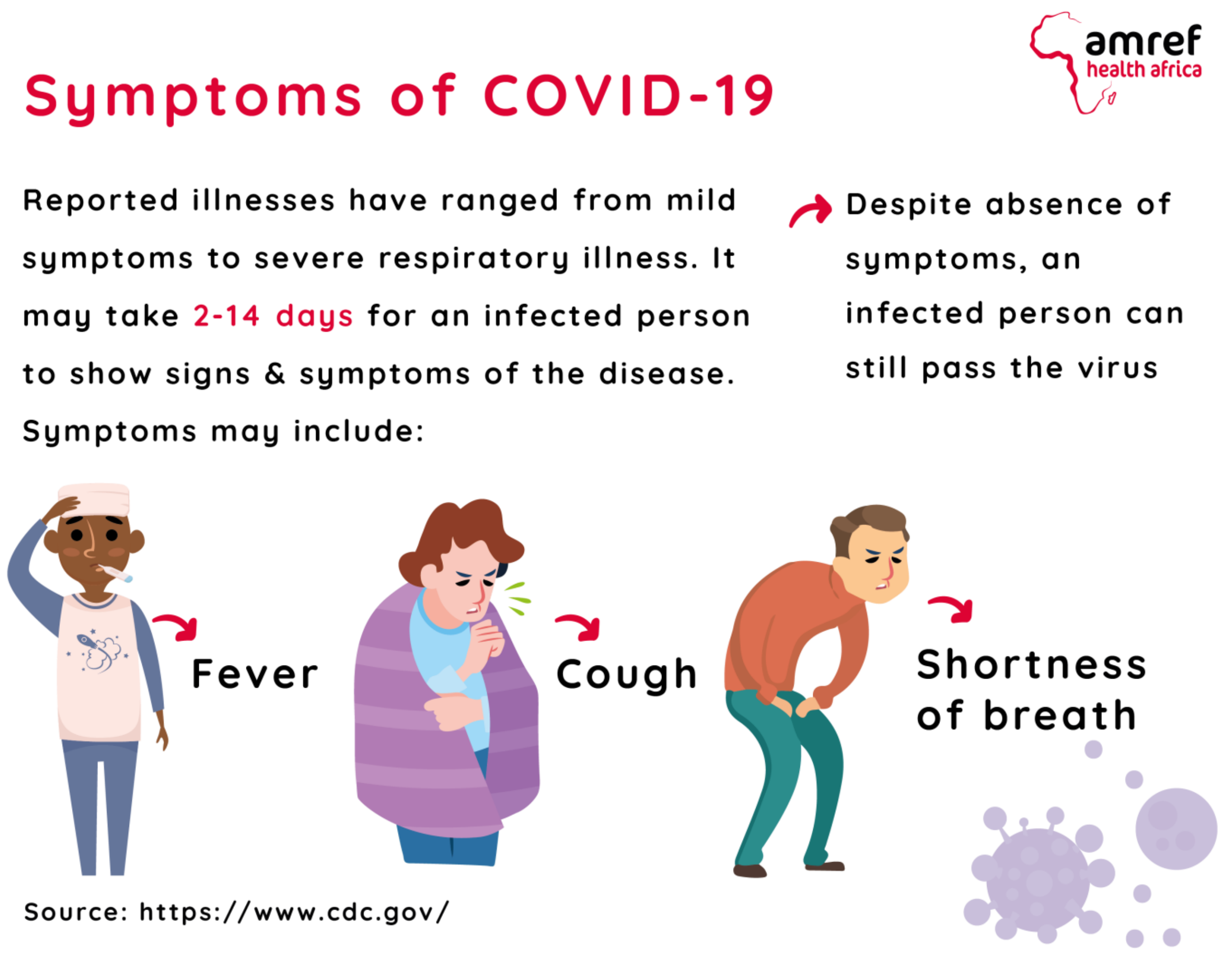
Our Crops, Our Wealth

QUARTERLY E-BULLETIN Q3 2019 / 20




amref
health africa
Symptoms of COVID-19
Reported illnesses have ranged from mild symptoms to severe respiratory illness. It may take 2-14 days for an infected person to show signs & symptoms of the disease. Symptoms may include:
Despite absence of symptoms, an infected person can still pass the virus
Fever
Cough
Shortness of breath
Source: https://www.cdc.gov/

IMPACT OF COVID 19 IN KENYA`S AGRICULTURAL SECTOR

While the country was grappling with the challenge of Desert Locust infestation, the Covid-19 global pandemic struck.

The first cases were reported in China in November 2019 and since then, the whole world has been ravaged. Kenya's first case was reported on 12th March 2020, the National tally rising to 158 by 6th April 2020. Through a Gazette Notice dated 27th March 2020, the Government ordered a curfew to run for 30 days starting from the 27th March 2020, every day from 7 pm to 5 am. Essential services (medical and health professionals, National security and administration officers, food dealers, distributors, wholesalers, transporters of farm produce, supermarkets and pharmacies) were exempted from this curfew. The current status on the impact on our economy is premature and speculative and will depend on how long the health emergency lasts and restrictive measures under the Government will remain in place before businesses can resume normal operations. While these restrictions are currently necessary to limit the spread of Covid-19, they often lead to disruption of market chains and trade of agricultural products, with significant potential impacts on the populations that depend on them for their livelihoods and their food and nutrition security.

Farmers and health workers are amongst those at the forefront of the fight against COVID-19. Regardless of the measures to enforce quarantine and social distancing, people will continue to demand for food just like they will demand medical supplies.

The United Nations Economic Commission for Africa UNECA estimates that if Covid– 19 is not contained in the short term, Africa will face an immediate decline in GDP growth from 3.2% to 1.8% in 2020. In the Kenyan export crops sector, the prediction of a decline in earnings is based on the following factors:

1) Our most important trading partners, including the EU, China, US and Pakistan, are undergoing simultaneous crises and will reduce imports, and

2) Disruption in supply chains - 51% of Kenya's exports go to countries highly impacted by Covid-19, while 53% of its imports originate from such highly impacted countries. Quarantines and movement restrictions further frustrate supply chains within these economies.

Other impacts include;

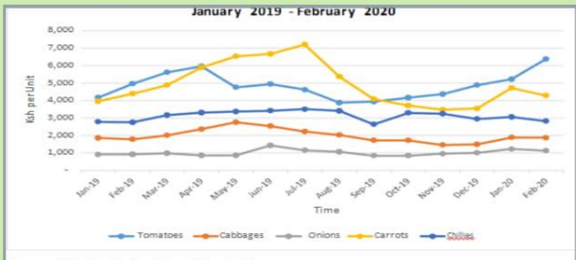
- **Export Crunch:** The floriculture and fresh produce markets have over the last few days shrunk significantly due to the lock down in Europe and suspension of transit flights.
- **Labor:** Whereas, the president's directive of working from home is welcome, the agricultural sector is a daily activity racing against time for quality at maturity of produce. Any delays in harvesting or any other farm operation results in heavy losses, however cost of labor vis-àvis the sales will not be a sustainable cost for the business to absorb.
- **Disruption of Supply Chains**: Seeds, fertilizers, animal health products and agrochemicals are mainly imported from China and Europe. Indeed, 60% of agrochemicals usually originate in China. With the lockdown in China and in Europe more challenges relating to scarcity and lead times of these commodities will be experienced.
- **Foreign Exchange:** With the growing number of cancellations of orders every day in the fresh produce industry, the lower the export value and hence foreign income.
- **Downsizing and closure of business:** The lack of sales will severely impact cash flow and will not meet fixed overhead costs. Farms will not be able to sustain their existing workforce. This situation is expected to persist for the next few months and businesses will be forced to either send workers on unpaid leave or radically lay off workers. This could trigger labour unrest and further destabilize the floriculture industry in Kenya.
- **Farmers' Health:** The average age of farmers is about 60years. Data from other countries that have done extensive testing suggest that COVID-19 has a much higher level of severity on those in their 60s and older, meaning that preventive and protective measures for farmer communities who are producers of some fresh produce, livestock and food crops need to be scaled up.

Agriculture Performance for Scheduled Crops

1. Horticulture

A) Wholesale Prices

- *Trend in Vegetable Prices*



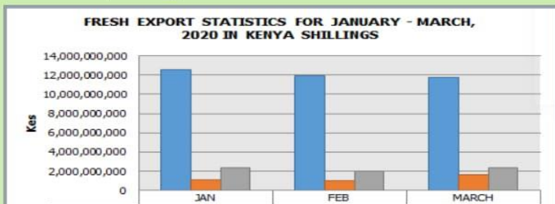
Source: AFA – Horticultural Crops Directorate

- *Trend in Fruit Prices*

Source: AFA – Horticultural Crops Directorate

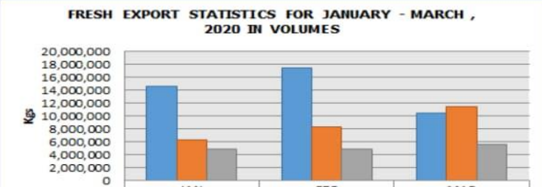
B) Fresh Export Data

- Values in Kenya Shillings



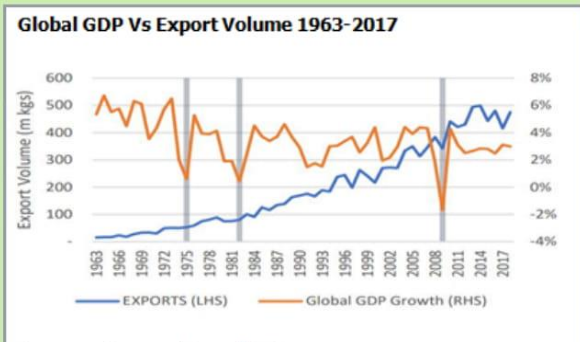
	JAN	FEB	MARCH
FLOWERS	12,601,393,344	11,905,954,847	11,767,552,502
FRUITS	1,075,996,387	1,044,264,535	1,679,921,566
VEGETABLES	2,355,885,219	1,982,721,260	2,339,015,864

- Values in Volumes



	JAN	FEB	MAR
FLOWERS	14,641,589	17,559,987	10,438,224
FRUITS	6,340,040	8,370,266	11,462,332
VEGETABLES	4,831,556.57	4,805,654.18	5,585,773.92

3. Tea



Source: eatta.com, data.worldbank.org

4. Sugar

Sugar Industry Performance Jan-March 2019 and 2020

ITEM	January	February	March	Jan - Mar 2020	Jan - Mar 2019
Sugar Production (Mt)	53,102	51,083	48,205	152,390	144,662
Sugar Sales (Mt)	49,335	46,213	48,604	144,152	144,145
Sugar Stocks at Factories (Mt)	15,036	19,883	9,559	9,559	8,982
Table Sugar Imports (Mt)	32,740	41,441	43,874	118,054	63,496
Refined White Sugar Imports (Mt)	14,056	9,982	10,772	34,810	50,020
Sugar Exports (Mt)	11	22	7	40	40
Ex-factory Sugar Prices (Kes/50kg bag)	4,235	4,294	4,215	4,248	3,954

Source: AFA Sugar Directorate

5. Coffee Exchange and Direct Sales

Performance of the Nairobi Coffee Exchange 2018/19 and 2019/20

	2018/19			2019/20		
MONTH	No Bags	Value ($)	AVG. Price	No Bags	Value ($)	AVG. Price
Oct	40,457	7.90	158.57	41,243	6.40	125.31
Nov	37,886	8.40	179.84	18,012	3.60	162.08
Dec	25,684	6.20	197.38	12,527	3.30	214.71
Jan	68,190	18.60	222.76	49,665	13.20	217.12
Feb	93,844	25.70	224.28	71,768	18.70	211.90
Mar	66,419	12.10	148.68	N/A	N/A	N/A
Grand Total	**332,480**	**78.90**		**193,215***	**45.20***	**190.23***

* Data to be adjusted in March 2020.

Direct Sales 2019/20

	2019/20		
EXPORTER	NO OF BAGS '000	NET WEIGHT '000 Kg	VALUE ($ Million)
African Coffee Roasters EPZ Ltd	9.26	555.47	3.09
Coffee Management Services Limited	41.67	2,499.90	16.66
Kenya Co-operative Coffee Exporters Limited	0.66	39.41	0.22
Rockbern Coffee Group Ltd	2.58	154.59	0.99
Sustainable Management Services Limited	0.61	36.42	0.30
Tropical Farm Management	38.87	2,332.17	7.87
GRAND TOTAL	**93.63**	**5,617.96**	**29.13**

Source: AFA Coffee Directorate

2. Sisal Exports and F.O.B Prices

Sisal Fibre Exports (value and volume), Jan – March 2020

MONTH	'000 Tons	Price FOB/ton US $ '000	Total value US $ Million	Total value Kes. Million
JAN	2.72	1.62	4.33	438.58
FEB	2.66	1.54	4.12	415.99
MAR	2.47	1.60	3.94	405.07
TOTALS	**7.85**		**12.39**	**1,259.64**

Source: AFA Fibre Crops Directorate

Average F.O.B PRICES OCT 2019 – MAR 2020

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Avg Price	1,603	1,616	1,627	1,616	1,542	1,602

Source: AFA Fibre Crops Directorate

Short term and Long Term recommendations to mitigate the effects of Covid -19

Short Term Recommendations

Government Support

1. Quick Fixes:

- Outstanding VAT refunds should be fast-tracked to enhance liquidity of agricultural firms (exporters, millers & producers).
- Allow the release of all pending bills to cereal millers
- Continuous flow of trucks to and from airport uninterrupted to facilitate fresh produce exports
- Speed up customs clearance; shorten quarantine and review times; and open green channel for agricultural products and food imports in key ports

2. Trade facilitation:

- Ease inter-county trade by suspending cess payments for six months
- Suspend IDF and RDL on all raw materials and staples for six months
- Suspend SGR movement of cargo from port to ICD to allow direct movement of goods to reduce logistics costs
- Enhance speedy clearance of cargo
- Direct embassies abroad to support in market information for current and alternative markets and provide real-time market information of key trading partners.
- Suspend PVoC & VAT requirement for live plants seeds, animal health products, fertilizers and agro-chemicals for six months
- KEPHIS, KAA and KEBS to facilitate staff presence/work to capacity at ports of entry for 24hrs, while providing them with safety gear

3. Taxation

- Zero rate staples products to enhance food security and allow VAT claims to be set off against other taxes e.g. PAYE, WHT and CT
- Allow food processing companies to claim VAT to reduce food prices
- Reduce VAT and CT and waive CT for small businesses
- Remove KEPHIS port fees and reduce bureaucracy
- Outstanding VAT refunds should be fast-tracked to enhance liquidity of agricultural firms
- Give tax breaks for companies not able to operate normally
- Removal of distribution licences and fees + advertising fees on trucks which companies pay for all 47 counties
- Reduction of PAYE in the flower industry
- Encourage the usage of single window platform

4. Regulations

- Suspend all ongoing regulatory investigations to offer businesses breathing space to operate unless investigations are of a nature which can cause direct and immediate public harm. These include but not limited to KEBS, KEPHIS, KRA and County governments
- Online renewal of permits from regulatory bodies with minimum requirements until such a time that site visits/training sessions are allowed
- Relaxation of Pharmacy and Poisons Board laws so importing medicines/test kits is easier and cheaper
- Withhold approval of current pending legislative Bills in the sector until the effects of COVID- 19 are assessed and considered e.g. Horticulture Crops regulation 2019 among others

5. Interest Rates:

- Reduction of borrowing rates for sectors/ businesses not able to operate normally
- Moratorium on commercial loans - repayment terms lengthened

6. Food Security:

- Relaxation of aflatoxin requirements from 10 to 20ppb. Rationale being to ensure that food supply from the region is supplemented due to low stocks in the country. We are currently rejecting 50-75% of trucks due to high level of aflatoxin
- Remove 10% duty on wheat imports to cushion both consumers and businesses who use wheat flour for processing. All c60s should be by passed at this time to minimize contact, costs and delays at port.

7. Miscellaneous cost reduction strategies:

- Reduction of price of fuel to reduce costs and drive economy necessitated by the reduction in crude oil worldwide
- Cheaper power rates at off-peak

Long run Interventions

- Expedite the conclusion of EPA with the EU and concretize Kenya- UK trade agreements.
- Set-up an agriculture and food security recovery fund alongside a recovery strategy.
- Lobby at EAC to zero rate farm inputs in the long run to promote sector recovery
- Policy reforms on manufacturing, imports, exports and value addition to diversify markets and de-risk the sector.

Kenya`s Fiscal Policy to avert the COVID 19 pandemic

The National Treasury released the Tax Amendment Bill 2020 necessitated by the presidential directive dated 25th March 2020, with regards to measures announced by the President to cushion the economy and Kenyans from the adverse effects of the Coronavirus pandemic. Some of the major amendments include;

- A reduction of the turnover tax rate from the current 3.0% to 1.0% for all Micro, Small and Medium Enterprises (MSMEs), and a further proposal to increase the threshold of the MSMEs qualifying for turnover tax from Kshs 5.0 million to Kshs 50.0 million,
- Reduction of the corporate tax deductions available to corporate bodies, the removal of the recently introduced 30.0% additional tax deductions on electricity costs available to manufacturers and a reduction on the tax incentives available to companies listed on the Nairobi Securities Exchange,
- Reduction of income tax exemptions, including, overtime, bonuses, the capital gains exception on the disposal of a private residence, transfer of private land by an individual which is not more than Kshs 3.0 million and agricultural property less than 50-acres, income from a registered home ownership savings plan, income from the National Social Security Firm, Monthly or lump sum pension granted to a person over 65 years of age, and investment income of a pooled fund which will reduce the benefits attributable to retirees.
- On withholding tax, tax on dividends payable to non-residents increased to 15.0% from 10.0%,
- On employment taxes, the resident personal relief was increased from the current Kshs 1,408 per month to Kshs 2,400 per month effectively increasing the average take home to Kshs 992 per month. Tax bands have been expanded and the marginal tax rate reduced from 30.0% to 25.0%, and,
- On Value Added Tax, there is a proposal to change the VAT status of various services and goods from exempt or zero-rated to standard rated. To change the VAT status of others such as bread and milk from zero-rated to exempt. The bill also proposes to abolish the exclusion of excise duty, fees and other charges from the taxable value of petroleum products, a change that will increase the taxable value of petroleum products resulting into an increase in the final price charged to the consumer.

According to Cytonn;

- The reduction in the turnover rate and increasing the threshold for businesses that qualify is a welcome move, as it will reduce the tax burden on MSMEs, which constitute 98.0% of all businesses in the country, employing 14.9 mn Kenyans. The government is showing clear commitment towards shielding the MSMEs from economic shocks that will result from the Coronavirus pandemic,
- The reduction in corporate tax deductions indicates that the National Treasury intends to increase collection of tax revenues. The reduction of tax incentives for the companies listed in the Nairobi Securities exchange may reduce the allure of listing on the NSE as the costs incurred during a listing, such as legal fees, can be significant,
- On reduction of income tax exemptions, the state may have to pay higher interest on infrastructure and green bonds to compensate for the tax levy in order to attract investors, as the tax exemption was the single most distinctive and attractive feature of these bonds. Taxation of overtime, bonuses and retirement benefits will lead to a reduction of disposable income especially for the low-income earners and impacting their ability to save for retirement,
- The increase in withholding tax on dividends payable to non-residents may reduce Kenya's attraction of Foreign Direct Investments (FDI) given the era of Africa Continental Free Trade, as foreigners will seek to set base in countries with more favorable Corporation tax regimes making Kenya less attractive for foreign investors,
- The change in employment taxes, once implemented will mean that persons earning under Kshs 24,000 will pay zero tax, those earning Kshs 35,000 will now pay a PAYE of Kshs 1,650 a Kshs 2,093 reduction from the previous Kshs 3,743 PAYE. This will go a long way in increasing their purchasing power, and,
- The change in VAT status may result in an increase in the cost of goods and services to the taxpayers. This includes the most basic such as milk and bread as the change in status from zero-rated to exempt will result in the inability of manufacturers to claim input VAT incurred in their operations with the potential of forcing them to pass the additional costs to consumers through price increases

The above-proposed amendments will be law once passed by parliament and assented by the President. In our view, the new VAT and Capital gains taxes introduced by the bill are to offset the series of measures like the various tax cuts, VAT refunds and faster repayment of pending bills to suppliers that were put in place by the president as a measure to cushion the economy against the effects of the Coronavirus.

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